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**Working Paper**

## Should I stay or should I go now? Temporary migration: a survey and questions for New Zealand

NZ Trade Consortium Working Paper, No. 38

**Provided in Cooperation with:**

New Zealand Institute of Economic Research (NZIER), Wellington

*Suggested Citation:* Nixon, Chris; Nees, Chris (2005) : Should I stay or should I go now? Temporary migration: a survey and questions for New Zealand, NZ Trade Consortium Working Paper, No. 38, New Zealand Institute of Economic Research (NZIER), Wellington

This Version is available at:

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# **Should I stay or should I go now?**

## **Temporary migration: a survey and questions for New Zealand**

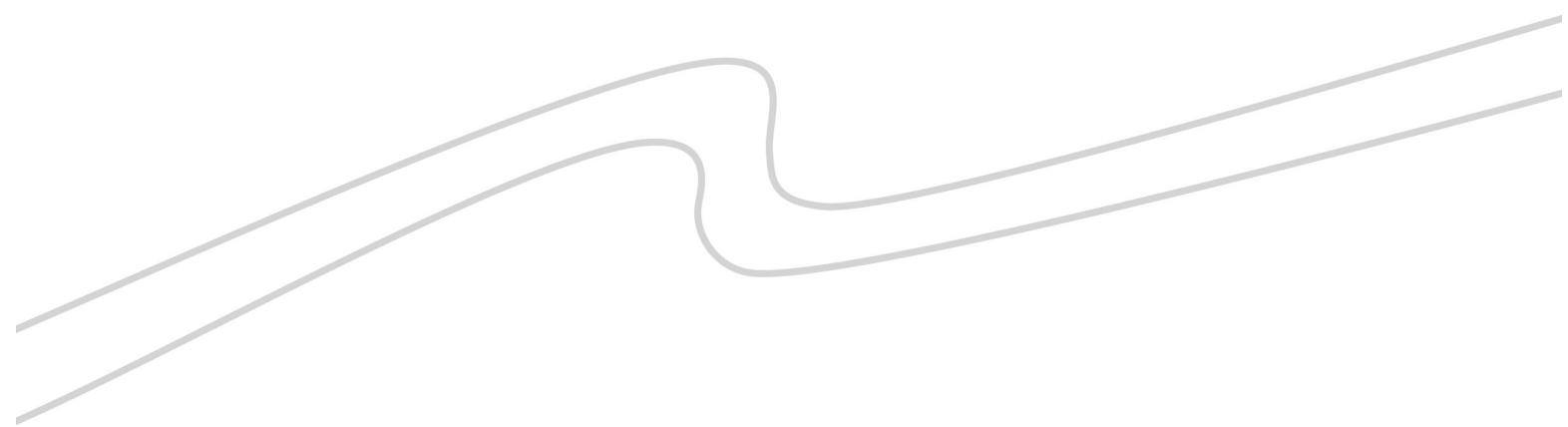
NZ Trade Consortium working paper no 38

September 2005

**The New Zealand Trade Consortium**

**in association with the**

**New Zealand Institute of Economic Research (Inc)**



## **Preface**

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## Executive Summary

In this paper we examine the issues and debates surrounding temporary migration. This is a critical issue, since to attract high quality human capital, New Zealand must compete in the global market place. By examining the economic context in which temporary migration takes place we will gain a clearer understanding of the factors which influence this form of migration and the reasons behind the changes in the composition of migration.

While we recognise that not all the motivations of migrants can be explained by economics, economics does have a major role in determining behaviour. In particular, factors that influence the supply of (e.g. home country economic conditions), and demand (e.g. wage rates in the receiving country) for migrants are likely to remain important features of future migration patterns.

Defining temporary migration is a difficult task given the complexities of international migrant flows and the dynamic nature of migration. However, some general classifications about temporary migrants can be made. These include migration for education and training, and skilled business migration.

Have we entered a new era of migrant behaviour, in particular has there been a paradigm shift in the way temporary migration behaviour occurs? This can not be supported by the data, since the flows have not changed dramatically. However, this does not tell the whole story since it is the composition of the flows rather than the numbers that are important. In the post World War Two period, there has been a marked increase in the number of regions involved in migration. While this phenomena is not as new as some writers suggest, the complexity, fuelled by increased global interconnectedness, government interventions, and other economic and demographic factors requires new thinking by policy makers to ensure New Zealand takes full benefit from immigrants settling in New Zealand.

The crucial economic issue is how well immigrants economically assimilate into the domestic economy. Successful economic assimilation improves the attitudes of both migrants towards their new country and the citizens of the host country towards these migrants. A positive contribution to society by migrants will clearly enhance the value of migration to both parties. Motives for returning migrants are an important part of the temporary migration debate. To understand this further, we briefly discuss the economic modelling used to rationalise migration decisions, and point out why some approaches are more powerful than others.

After a review of migration policies in OECD nations, a set of questions are posed that raise potential policy issues that may be considered when debating migration issues. They focus on temporary migration and reflect current topics in this area.

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# 1. Introduction

The aim of this paper is to examine the economic literature on temporary migration and develop questions that could be useful in understanding the economic impact of temporary migration on New Zealand. It is the first step in assessing the economic impact of temporary migration on the New Zealand economy and its implications for policymakers. The review covers both national and international literature, with emphasis on the empirical literature. Furthermore, the focus and emphasis is on literature that could partly explain or could be applied to the New Zealand situation. In particular, the review briefly examines:

- the background to migration in the later part of the 20<sup>th</sup> Century
- some of the economic drivers that could have potentially caused the changes in temporary migration
- the economic impact of migration patterns
- how OECD nations are approaching their immigration policies
- economic questions raised by temporary movements.

While it is extremely difficult to define what “temporary” migration is, we do know that it has the potential to have some marked economic consequences – although what motivates people to be involved in temporary migration may not be solely economic. Despite this lack of definition, policymakers need to understand more about the dynamics of temporary migration and how it fits into migration generally, so that they can make informed policy decisions.

This is a potentially very broad topic and it is beyond the scope of this current project to cover more than a fraction of the migration issues that have impacts on New Zealand.<sup>1</sup> But it is hoped that by examining the possible impacts of temporary migration that we will be able to focus on how temporary migration can have positive and negative impacts on the New Zealand economy.

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<sup>1</sup> It is beyond the scope of this report to cover the social and political context in which temporary migration takes place.

## 2. Background

### 2.1 Supply and demand factors

One of the major drivers of temporary migration is the different levels of economic development and different business development patterns that exist between regions.

There are obvious economic factors that can partially explain the dynamics of temporary migration. These can be examined further by looking at the changing supply (push) and demand (pull) factors that can motivate migration.

The supply side push factors include the lack of employment prospects, unemployment, or low income in the home region. The overwhelming push factor is to improve one's standard of living. This does not only apply between the movements of people from poor to rich countries but also between rich and rich countries. This is very important for a small country such as New Zealand, since a better understanding of migration dynamics may lead to better policy design that improves economic well-being.

Moreover, Bhagwati (2004) p210 suggests, that even when economic factors are not the primary cause for immigration it can still play a part in the choices made e.g. refugees, invariably will chose "*an economically more attractive final destination*".

On the demand side, pull factors include the prospect of higher pay and the availability of jobs in the destination region. An underlying "pull factor" is the demographic transition that is occurring in industrialised regions. Not only is the population aging but there is also a declining birth rate. This has created a demand for immigrants (both skilled and unskilled) to add to a diminishing labour force.<sup>2</sup> Important also, is the demand for immigrant skilled workers; as Bhagwati (2004) p213 puts it "*Software Engineers, Not Huddled Masses*".<sup>3</sup>

In New Zealand Layton (1983), Grimes (1981), Department of Statistics (1983), and Poot et al (1999) have all used different techniques to illustrate how push and pull factors impact on immigration and emigration. Layton (1983) and Poot et al (1999) examined trans-Tasman migration flows, showing how cross-pull effects are shaped by economic conditions in Australia. Grimes (1981) and the Department of Statistics constructed

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<sup>2</sup> It is somewhat ironic that the ideas advanced by Thomas Malthus on the threat of over population have been replaced by today's stark reality of shrinking populations in the industrialised world.

<sup>3</sup> This is important when examining the flows of temporary workers, particularly in the services sector, since proximity to clients and competitors can be a competitive edge e.g. it is no accident that large numbers of Taiwanese and India computer scientists and venture capitalists are located in Silicon Valley.



regression models that attempted to explain New Zealand's overall inflows and outflows of people.

## 2.2 Trends in migration

Massey et al (1998), divide modern international migration into four periods (see Table 1). In the first two periods Massey et al describe the outflow of migrants from Europe, the restricted migration of the third period, and the growing number of receiving and sending countries in the current period. Table 1 shows, in the current period, the increasing complexity of migration trends, which exhibits completely different patterns of migration than any of the preceding periods, as immigration has become a global phenomenon.

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**Table 1: Historical view of migration**

Period	Date	Characteristic
Mercantile	1500-1800	Dominated by flows out of Europe, and stemmed from the processes of colonialisation and economic growth under mercantilist economic systems
Industrial	1800-1925	Approximately 50 million people left Europe for the new world. 85% went to 5 destinations: Argentina, Australia, Canada, New Zealand, and USA.
Limited migration	1925-1960	Countries reacted to war and depression by restricting immigration, particularly the USA.
Post-industrial migration	1960-	The number and variety of sending and receiving countries has steadily increased. This period is completely different from past eras.

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Source: Adapted from Massey et al (1998)

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Historically, in the migration periods before 1925, migration faced very few barriers. While most migration was permanent, since transport was more difficult, there were many instances when migrants travelled backwards and forwards between the “old countries” and the “new world” on a temporary basis. In these cases, immigrants would try and make as much money as possible before returning to the “old country”.<sup>4</sup>

Trends in migration are extremely important to New Zealand. Countries such as New Zealand, Australia, Canada, and the United States were traditionally “new world” magnets for immigrants particularly in the

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<sup>4</sup> For example, Margaret Thatcher's husband, Dennis, was the son of a man who made his fortune in Taranaki before returning to England.

industrial period mentioned in Table 1.<sup>5</sup> Even in the post-industrial migration period, Chapple et al (1994), suggests that two-thirds of all migrants went to the US, Canada, and Australia. Europe, on the other hand, supplied the bulk of the immigrants.

Kritz and Zlotnik (1992) first alluded to the changing patterns of world migration noting the rise of temporary migration. For example, European nations started to admit large numbers of foreign workers on a temporary basis.

According to the OECD (2001), the number of foreign workers in Europe doubled between 1950 and 1970 from 5 to 10 million and by 1982 the number of foreign workers had reached 15 million. More recent data on entry of temporary workers in 1988 and 1998 appears in Table 2.

Table 2 shows that while the number of temporary workers has increased slightly in Europe over the timeframe, in fact, in some countries the numbers of temporary workers as a percentage of the workforce has dropped.

**Table 2: Growth comparison of foreign temporary labour in selected European countries**

Thousands of workers

Country	Workers (% of work force)	
	1988	1998
Austria	161 (5.4%)	327 (5.4%)
Belgium	291 (7.2%)	375 (8.8%)
France	1,557 (6.4%)	1,587 (6.1%)
Germany	1,911 (7.0%)	2,522 (9.1%)
Italy	285 (1.3%)	332 (1.7%)
Netherlands	176 (3.0%)	208 (2.9%)
United Kingdom	608 (16.7%)	691 (17.3%)
Switzerland	871 (3.4%)	1,039 (3.9%)

Source: OECD Employment Outlook (2001)

Despite this, researchers are pointing towards a major change in migration patterns (Kitz and Zlotnik, 1992, Overbeck, 2000, Hugo, 1999, Bedford et

<sup>5</sup> Of the 85% of migrants mentioned in Table 1, 60% settled in the USA, Massey et al (1998).

al, 2002). Part of this trend, according to these researchers, has been the increasing economic importance of temporary migration. Hugo (1999), further suggests that not only is temporary migration important part of this change but it is fundamentally changing the way migration is occurring. The nature of the issues involved means that:

- migration issues have become much more complex than ever before and require more innovative approaches to understand the dynamics involved (Hugo, 2001).
- a substantial body of migration literature still relates to permanent settlement therefore there is a mismatch between existing knowledge and contemporary migratory behaviour (Hugo 2001, Bedford 2001).
- temporary migration has been a significant factor in the transformation and development in all regions and its significance looks set to increase, Castles (2000).

Moreover, Bedford (2001) points to the misunderstandings that can occur over migration issues in New Zealand because of the outdated popular views of the inflows and outflows of people. For example, there is a popular misconception that all migration into New Zealand is for permanent settlement, that is, they stay a long time. The reality is that those who stay are only a very small minority of total people movement, with only a few fitting into a traditional settler pattern.

Much has been written about the impact of migration and immigration on various regions. The stylised facts from recent OECD (2001) work suggest that:

- the proportion of foreigners in the workforce has risen although the proportions vary widely between countries.
- while permanent entry for foreign workers is either dropping or stagnating, temporary employment in some OECD countries is growing (see Table 3).
- foreign workers are concentrated in a few industries, most notably in the households and services to business sectors.
- the employment of foreigners plays a buffer role in the adjustment to the fluctuations of the business cycle.
- the contribution to long term growth from migration is not only confined to its direct quantitative impact of increasing the workforce. There is also an impact on the individual worker whose human capital is also improved.
- The emphasis is also on the changing nature of migration patterns. Hugo (2001) points out that many European nations that had experienced net emigration for more than a century have now started to attract immigrants, so-much-so that they now are some of the world's major immigration receiving nations. Furthermore, no longer are markets

restricted to highly skilled transient elites - many skilled and semi-skilled and even unskilled workers have become part of global migration flows.

According to Massey (1999), the impact of increased global interconnectedness has occurred at a time when governments have enforced stricter immigration policies. Massey sees this as a paradox, which can not be easily reconciled, since increased interconnectedness unleashes economic and social forces that generate new impetus for further migration.

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**Table 3: Entries of temporary workers in selected OECD nations**

Thousands

	1992	1996	1998
Australia	40.5 (40.3)	72.0 (20.0)	92.9 (26.0)
Canada	..	60.0 (226.1)	65.1 (174.1)
France	18.1 (42.3)	13.6 (11.5)	11.8 (10.3)
Germany	332.6 (408.9)	272.5 (262.5)	237.6 (275.5)
Japan	..	124.1	146.1
Korea	8.3	81.4	75.4
Switzerland	127.8 (39.7)	63.4 (24.5)	40.3 (26.3)
United Kingdom	54.1	73.1	89.3
United States	143 (116.2)	191.2 (117.5)	342.7 (77.5)

Notes: Figures in brackets are the number of permanent workers.

Source: OECD (2001) p172

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### 3. Classifying ‘temporary’ migrants

One of the difficulties of discussing temporary migration is defining what we mean by “temporary”. This is because reasons for immigration and migration are extremely complex and change as the experiences of the migrant change. Classification problems arise because:

- receiving countries that pursue temporary migrant policies may permit migrants to claim permanent resident status
- “settlement” countries run temporary worker schemes in parallel permanent schemes
- migrants change their minds.

There is also an inter-temporal factor, since temporary can be a few months or five years. This does not sit well with the categories defined by various governments. Castles (2000) p271 and the Council of Europe provide some illumination by classifying temporary migration by the substance and form of moves made. For example:

- migrating for education. While not strictly done for immediate economic reasons, it is done as an investment in human capital that will bear dividends in the future. Migration for education involves movement of academics and higher education students. In New Zealand, the migrants for education are predominantly Asian, particularly Chinese. This has caused growing pains, since the influx has been dramatic since 1990.
- temporary labour migrants are allowed in on the understanding that they stay for a limited period. Usually these labourers are unskilled or semi-skilled and they are recruited to match a skill or job shortage that are project-specific, seasonal, or for some other short-fall reason. Remittances earned usually far out weigh what they can earn for a similar job in their home country. As the New Zealand economy grows labour shortages have occurred in unskilled jobs.
- skilled business migrants include people with higher levels of education or training whose skills are easily transferable. These are people who are managers, executives, professionals, technicians or similar who move within the internal labour markets of transnational corporations or international organisations, or seek employment through international labour markets for scarce skills. Professionals who move within companies usually have a specific assignment or perform a specific service. Their movement reflects the global nature of modern business and they have little impact on the cultural life of a region or country. The Council of Europe call them an “invisible” group, well off, and international citizens. They face few barriers to entry.
- migration for training occurs when trainees spend a short time in a more advanced country to acquire new skills or learn how to use new technology. It takes place through business and government networks.

- returning migrants are those that return to their home country after a period of time in other regions. These migrant often bring capital, skills, and experience useful for economic development. This is a significant group in the New Zealand context, with approximately 20,000 New Zealanders returning each year.
- there are also other groups of migrants who are not considered in great length in this paper. They include illegal migrants, refugees, and asylum seekers.

The general conclusions by the Council of Europe suggest that there is no definition that fits the temporary migrant description and the classifications described above may dictate the length of stay for temporary migrants.

There is also no clear cut delineation between temporary and permanent migration. A temporary migrant may turn into a permanent migrant if there are opportunities to stay on after the temporary visa runs out. Similarly, permanent migrants might only stay a short time. Despite this, the usual characteristic of temporary work is that it is limited in time and cannot involve the migrant worker settling permanently in the host country. This means that:

- workers have a fixed term contract which details the specific job to be carried out, the specific geographical area, and the name of the employer. This implies that they can not change employers, activities or geographical area.
- workers leave the country once the contract expires.
- the option of family reunion does not usually apply, however for the highly skilled it may.

## 4. Temporary migration: a new paradigm?

Whether or not a new paradigm is required to view migration has not been fully determined in the literature. Some writers are suggesting that temporary migration is on the rise; however, the official statistics suggest that the numbers of temporary migrants are not increasing to any substantial degree. Furthermore, temporary migrant flows are increasing in some regions and decreasing in others.

Taking into account the stages set out by Massey et al (1998), it is clear a major change in the composition regions involved in migration flows has produced marked changes. So-much-so that the current period requires completely different ways of looking at migration and how governments deal with it.

Hugo (2001) points to a number of different factors that have an impact on migration and in particular temporary migration:

- global interconnectedness
- changing economic and demographic factors
- government interventions

### 4.1 Global interconnectedness

Since the end of World War II changes in global interconnectedness and the international trading environment have been dramatic. The barriers to trade, the cost of transport and communication have all fallen (see Table 4), world trade has increased and changed in composition, and economies have become more open.

Increased global interconnectedness has been fuelled by the reduction in boarder protection (through various trade agreements), technology – particularly communication technologies, and has been helped by the unprecedented attempts by governments to internally deregulate their economies.

Before World War II only a small number of economies were affected by international migration. Economic interconnectedness has limited the ability of individual countries to engage in interventionist type policies that in the past have kept populations from moving off-shore. Policy makers have struggled to come to terms with these changes, which have combined with relentless technological advances to extend trade into areas of the domestic economy that have been hither to non-traded.

With world trade growing, the spotlight is firmly fixed on domestic policies that impact on competitiveness and a regions' comparative advantage,

therefore the ability to utilise migrant skills is potentially an important source of economic growth.

**Table 4: Cost of air transportation, telephone calls, & computers**

In 1990 US \$ unless otherwise specified

Year	Average air travel revenue per passenger mile	Cost of a Three Minute Call, New York to London	Computer Price Deflator (1000 = 1990)
1930	0.68	244.65	
1940	0.48	188.51	
1950	0.30	53.20	
1960	0.24	45.86	125,000
1970	0.16	31.58	19,474
1980	0.10	4.80	3,620
1990	0.11	3.32	1,000
2000	0.11	1.50	200

Source: Herring RJ & Litan RE, (1995) Financial Regulation in the Global Economy Washington: Brookings Institute, p 14 and NZIER estimates.

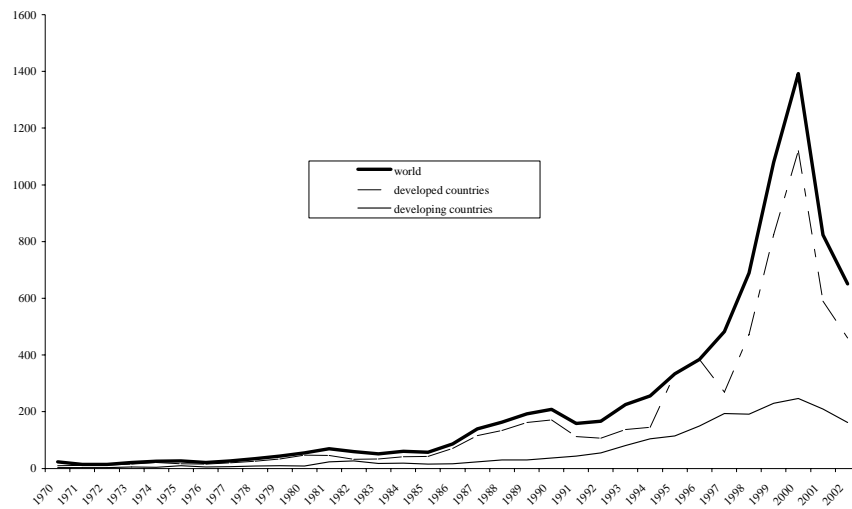
Global interconnectedness has added complexity to migration patterns both intensifying and diversifying the linkages between regions, (Hugo, 1999). So-much-so that migration is now seen as a feasible option by a larger proportion of the world's population, relative to the recent past.

Hugo (1999) identifies some of these linkages as the growth in trade and financial flows between nations. According to Guitian (1999), the trigger for increased financial flows has been the change in role of governments throughout the world. They have become relatively less involved in business and have been more concerned with providing the appropriate regulatory settings for private sector economic activity. Figure 1 shows the dramatic surge in Foreign Direct Investment (FDI) inflows over the past ten years. According UNCTAD, the decline in FDI after 2000 is due to the reduced merger and acquisitions activity.



**Figure 1: Foreign Direct Investment Inflows**

Billions of US \$



Source: UNCTAD

As FDI funds have flowed across borders, the numbers of temporary skilled workers has increased to oversee the management, exert control of funds invested, and ensure the investments are specifically targeted. This has been intensified by:

- the development of multinational corporations and intra firm trade. A fast developing part of international trade has been the development of trade between corporations and their affiliates (OECD 2002). Most of the intra firm trade revolves around close-to-market nearly finished goods destined for affiliate companies that are mainly involved in marketing and distribution with little additional manufacturing processing taking place. Roughly, a third of the trade between the US and Japan is intra-firm trade.
- the proliferation of global media. Technology along with deregulation has had two impacts:
  - the development of global commercial systems. In the 1970s and 1980s most news organisations were nationally based. Regulation and sometimes ownership were vested in governments. Today the media world is dominated by between 6-10 companies that provide most of the world's media content
  - the proliferation of small media outlets at the local level as the cost of technology is reduced. These media service particular niche markets which the larger media organisations are unable to do.

Both global and local media organisations are connected, therefore information about various countries and professions within those countries is available and is able to be accessed cheaply.

- cheaper international travel (see Table 4). While incomes have risen the cost of transport has remained relatively static for the past 20 years. This means that international travel has become far more accessible relative to past generations.

## 4.2 Changing economic and demographic factors

As economies have become more interconnected, people have become more aware of the different living and working conditions that exist in different regions. Moreover, as people have had more opportunity to migrate to regions, which are perceived to have a better standard of living, these regions have benefited further. This has led to a virtuous circle as economic improvements have acted as a magnet for further migration which in turn improves economic growth. The implications of this are:

- wider differentials in economic growth between regions. In most cases, the poorer regions have not become poorer but the richer regions have become richer. This is underpinned by the type of economic policies pursued by industrialised regions relative to developing regions.<sup>6</sup>
- the different timing of the demographic transitions occurring between regions leading to differences in workforce participation. While some developing nations' workforces are growing strongly (e.g. Indonesian) other industrialised nations (e.g. Italy and Japan) are experiencing a shrinking work-force. This is leading to marked labour shortages/surpluses in developing and developed nations, Golini et al, (1993). To complicate matter further, there are widely diverging demographic trends in developing countries depending on the types of policies adopted to control population growth.

From an economic perspective, Chapple et al (1994) p28 suggests that governments are interested in attracting immigrants for three reasons:

- economies of scale occurs: when the cost per unit falls as production increases in scale. Economies of scale impacts on competitiveness, productivity, and per capita income. Temporary immigration can impact on the size of the population, however the importance of immigration will depend on location and industry specific factors such as the type of industry, under utilisation of existing resources, and industry structure. This makes specific migrant impacts on economies of scale difficult to judge either in a positive or negative way since it depends on unique circumstances of each industry. For example, the Canadian experience suggests that scale economies only are required in 30% of the economy, Economic Council of Canada (1991). In New Zealand, Poot (1993)

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<sup>6</sup> The current Doha Round is supposed to be a development round and address the particular impediments to poverty reduction. While a WTO Round is the right thing to do, the main causes of poverty are mostly attributable to the sorts of policies developing countries themselves impose domestically e.g. tax exports, do not safeguard property rights, develop inward-looking industry policy etc., see Thompson, Lattimore, & Nixon (2003).

showed a significant positive relationship between total factor productivity and immigration.

- immigrants bring new methods and techniques which may result in lower costs of production of goods and services. Furthermore, immigrants have a higher propensity to innovate; this increases economic growth and generates new investment.
- immigrant entrepreneurs are seen as good for an economy because the business activities they become involved with complements (rather than substitutes) the host regions' existing pool of entrepreneurs.

It is well recognised in the case of New Zealand that immigration and migration can have a major impact on the economy. Poot et al (1988), using a General Equilibrium approach, illustrate how greater immigration to New Zealand would have positive spin-offs for the economy.<sup>7</sup>

### 4.3 Government interventions

Governments are presented with a difficult conundrum because of the asymmetries that exist in the development of immigration policies, Bhagwati (2004). The industrialised nations are designing policies that bias immigration policies towards the skilled workers, while poorer nations have an interest in unskilled workers migrating.<sup>8</sup>

The shortage of skills is one of the drivers of temporary immigration. Governments promote temporary migration to maintain access to migration flows deemed to be in the national interest, particularly in the business, investment, tourism, technical assistance or education fields (see Table 3). Furthermore, for practical reasons, governments want to admit temporary workers who have scarce expertise and specialised staff to improve economic performance. Temporary migration can also avoid the costs associated with permanent migration since it:

- may not involve family re-unions. The costs of social welfare, health, and education are therefore avoided.
- allows for better control of the numbers of migrants and helps mitigate illegal employment. This is particularly so for European countries where unemployment remains high and will do so for the foreseeable future.
- allows a government to meet its labour shortages without having to pay for the training and education of specialist workers.

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<sup>7</sup> When the framework allows for extra improvements through technical change and economies of scale.

<sup>8</sup> Most industrial economies also want to employ unskilled labour as well, however, politically it is very difficult to say this given the sensitivity associated with importing unskilled migrants.

### 4.3.1 Inflows

Governments have been a factor in the increase in temporary migration. Their policies have been a mixture of (attempted) careful targeting and responses to popular concerns. These policies have led to mixed results because of the conflicting objectives involved. The OECD (2001), in its survey of the employment of foreign workers suggests that governments have been trying to attract skilled foreign workers by:

- relaxing quantitative constraints that apply, e.g. the New Zealand Government introduced a point system for migrants in the early 1990s so that they can link migration to social and economic goals. The US has raised its annual quota of skilled workers by 70% since 2000.
- targeting areas where shortages have occurred through special programmes, this is particularly so in the ICT sector. For example, the German Government has developed a programme which encourages ICT specialists to apply for visas, OECD (2001).
- facilitating recruitment conditions by simplifying procedures and relaxing criteria for issuing employment visas for skilled workers. The French, United Kingdom, Australian, New Zealand, Japanese, and Korean Governments have all taken steps to simplify visa requirements for occupations where there are a shortage of skilled workers.
- increasing non wage incentives for skilled foreign workers. Companies are increasingly using other non monetary incentives to attract workers. This includes free access to transportation, accommodation, and welfare and recreational facilities.
- allowing foreign students to change status at the end of their course and thereby enter the labour market. OECD Government's are encouraging foreign students studying in areas where there are skill shortages to stay on after their studies. For example:
  - in the US the H1B visa is specifically geared towards retaining these graduates (see Table 5). However, as the economy has slowed the limits on foreign students have been reduced to 1990 levels by Congress.
  - in Germany and Switzerland students are not forced to leave at the end of their course and are able to apply for employment visas.
  - foreign students in Australia are exempt from normal work experience requirements if they apply for an employment visa within six months of finishing their course.

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**Table 5: H1B visa limits**

Excludes dependants

	Limit	Number issued
1992	65,000	48,645
1994	65,000	60,279
1996	65,000	55,141
1998	65,000	Reached in September
1999	115,000	Reached in June
2000	195,000	Reached in March
2001-03	195,000 per annum	
2004	65,000	

Source: Source OECD (2001)

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While these policies were designed to encourage migration of skilled labour and the reform of trade and financial arrangements, governments have also correspondingly attempted to tighten general immigration controls. Not only has this led to increased illegal people trafficking, it has also hampered attempts to bring skilled people to full domestic skill shortages. This is because the policies to encourage skilled immigrants do not always deliver the intended policy outcome.

#### 4.3.2 Outflows

Outflows of skilled workers/high income earners present a major challenge to a government, since it can be difficult for governments to change policies without compromising other objectives. This is particularly so for European nations that wish to maintain equity policy considerations by have high tax rates for high income earners. This makes it even more difficult for such countries to hold highly skilled workers. High income earners are also relatively mobile therefore; migration can be an easy option. This is compounded by other countries offering non-wage benefits and attractive tax regimes to attract skilled workers.

However, there are some benefits for regions that “export” labour (see Table 3). These include:

- alleviating unemployment pressures. The export of labour is one way of dealing with rising unemployment in the home market. This could also contribute to political/economic stability.

- remitting foreign exchange money back to the home country that would not have occurred otherwise.
- acquiring skills (training and/or educational) that could be useful when the migrant returned. Economic activity could be enhanced by returning migrants in a broad range of areas. This could include the range of products produced, methods of production, quality requirements, and the type of sales methods used.

Moreover, some countries used their contacts with migrant nationals to their advantage. Important, in this process, is the ability to maintain contact with those that have left. Evidence from Australia (Hugo 2001, 2003) points to major changes in emigration patterns as ever increasing numbers of Australians move overseas for short periods of time. This circulation of migrants could have major implications for further economic development as circulating migrants can add extra impetus to growth (e.g. they can bring home improved skills and specialisation, capital, and new methods of doing things or new products).

This also may have a down side. Hugo (2004), in a study of 2000 expatriate Australians found that many have trouble settling back into Australian life and feel undervalued and sometimes decided to leave again. Many returning, highly skilled Australians, find the job market limiting and salaries uncompetitive.

Examining the circular flow of migration patterns and understanding the needs of migrants requires a change in mindset by governments. Understanding how circulation of workers may be positive is difficult concept to get across to governments because of the lack of statistics and contact between governments and workers who leave and return.

#### **4.3.3 Benefits to companies and workers**

Table 3 also illustrates the benefits for workers and firms who are involved in the temporary migration process. For the worker it means:

- higher wages than could be earned in the home country.
- acquisition of knowledge and skill that would be unattainable in the home country.
- improved opportunities for work, particularly if the opportunity cost is lower pay or unemployment in the home country.
- added protection from exploitation. Temporary workers coming through legal channels often come for an officially sanctioned purpose. Therefore, the chances of exploitation, relative to those that work illegally, are much less.

For firms the benefits include:

- greater chances of an improved profit. If a worker can fill a gap that was previously part of a shortage then firms are better able to produce the goods and services required and make profits.
- recruiting workers that are able to “step into” the jobs that need filling. This allows for faster utilisation of labour and an improved matching of workers to tasks.

#### **4.3.4 Other issues**

Consideration must be given to the health, social, and cultural make-up of temporary migrants, particularly at the unskilled end of the market. Some of the issues that a host government may encounter include:

- increased risk of social and health problems for migrant workers. As their stay is restricted the incentives for the worker are to work overtime, and in difficult conditions. Coupled with living separately from family, often in cheap, cramped accommodation, this can mean increased use of social services such as health.
- competition with domestic workers and reduced wages. It is sometimes very difficult to police the use of temporary workers. Particularly, in a time of recession, despite the policy design, it can be comparatively easy for foreign temporary workers to compete directly with domestic workers. Furthermore, it can also be difficult to monitor the wages received by temporary workers, since frequently they are prepared to work at rates below that of domestic workers.
- the transactions costs involved in training mean that firms have an incentive to retain trained temporary workers rather go through the processing others. Furthermore, the shorter the stay and the more rigorously enforced the rotation principle, the more an employer will demand the lowest rate of pay. Therefore the incentive for the employer is to employ temporary migrants in jobs where skills are quickly learnt and the pay is the lowest.
- assuming that temporary permits for workers automatically reduces the incidents of illegal labour may be optimistic (Taran, 2003). More work needs to be done to understand who employs illegal workers and how policy interventions could be used to mitigate the problem.

## 5. Economic assimilation of migrants

An economically well integrated migrant community is one factor that leads to positive attitudes to future immigration. Those immigrants that are well integrated tend to have higher productivity rates or skills that are in high demand. By making a positive economic contribution (by paying taxes and not relying on the social welfare system) immigrants are more likely to positively contribute to the economy and improve integration whether they are temporary or permanent migrants. It follows, that the more economically integrated a migrant is, the more likely they are able to perform well in the labour market and meet their productive potential.

Articles on economic assimilation of migrants have concentrated on migrants from different regions using cross sectional and longitudinal data. Chiswick (1978) first stirred interest in the economic assimilation of migrants. His paper, using 1970 data, showed that immigrant labour in the United States earned 15% less than native born labour.

According to Dustmann (1999) most studies find that immigrant earnings gradually assimilate to those of native workers over the course of their migration history. The reasoning for this is the gradual accumulation of human capital associated with the host country labour market. Dustmann (1999) suggests however, that the behaviour of temporary workers is not addressed by most studies. He postulates that difference in expected length of a migrants' stay explains different earnings assimilation. As an example of this, Bojas (1984) shows that there are significant differences in earnings assimilation between Cubans and other Hispanics. Cubans have a higher degree of income assimilation because they are less likely to return to their country of origin.

Building-up language skills as part of human capital accumulation is also important. Chiswick & Miller (1993) show that Mexican migrants to the United States do worse on language acquisition skills than migrants from other origins because a much higher proportion of Mexican immigrants return home.

Some authors have postulated that migrants who are older at entry intend to spend less time in the host country; therefore they have less incentive to upgrade their human capital. Bojas (1995), for example suggests that increasing the age from 20 to 30 years decreases earnings for migrants by 5%.

Poot (1993), Zodgekar (1997), and Winkleman and Winkleman (1998) have provided empirical evidence on the situation of immigrants in the New Zealand labour market.



Poot (1993) uses 1981 and 1986 census data to construct group averages of foreign born workers. He shows that wages/salaries of workers from Australia and UK have no strong adaptation effect (since wages/salaries are similar to New Zealand born); however, workers from the Pacific have a strong adaptation effect which is approximately 35-40 years. Caution has to be taken with this analysis however, since the cross sectional data does not represent an individual, but rather the profile of migrants entering over different time periods. Those that entered New Zealand in the 1950s have different characteristics from those that entered in later decades (Poot 1993; Chapple et al 1994).

Zodgekar (1997) showed, using 1991 census data, that immigrant men earned approximately 7% more than New Zealand born men, however the wage disparities between the various sources of immigrants was high. Those from UK, Europe, and North America had much higher average incomes than those from Asia and the Pacific.

Winkleman & Winkleman (1998), use unit record data from the population censuses to examine the relative labour market position of immigrants. The key difference from other studies is that they compare immigrants with New Zealand born residence with similar socio economic characteristics and they identify factors that are associated with good and bad performance. They find that a typical immigrant had a 20% lower income than a New Zealand-born individual on arrival.

## 6. Motives for returning migrants

Why do people return to their home country despite higher wages in the host country? For a relatively low wage industrialised economy such as New Zealand this is important, since the ability to attract skilled workers with non wage factors is potentially very valuable.

Dustmann (2001), points out that in modern times most migrations have been temporary. For instance, labour migrations from Southern to Central Europe in the 1950-70's were predominantly temporary. Between two thirds and four fifths of workers returned home after work stints in Germany and Switzerland respectively, Bohning, (1987). Warren & Peck (1980) estimate that about one third of legal immigrants to the United States re-emigrated in the 1960's.

What motivates workers to behave in a way that simple economic models suggest is irrational? Bojas (1984) and Chiswick & Miller (1993) found that assimilation by migrant workers from different origins differs considerably. Dustmann (2001) suggests that if origin is correlated with different durations then this may explain the different assimilation profiles and also different costs for some origin countries.

Djajic (1989), Galor & Stark (1990, 1991), and Merkle & Zimmermann (1992) examine the effect of return plans on migrants' behaviour. Djajic (1989) shows that guest worker programmes impact on workers consumption and labour supply in the host nation. Galor & Stark (1990,1991) and Merkle & Zimmermann (1992) show that the probability of returning to the country of origin has a major impact on savings behaviour and on-the-job performance.

Dustmann (2001) p3, shows that numerous studies have been done on migrant behaviour; they assume that the returning time of the migrant is exogenous. Moreover, the return occurs in the face of "*persistently more favourable economic conditions*". Those models that assume a migrants' decision to return home is based on wage differentials between the host and country of origin usually fail to predict the motives for migrant return. This lack of predictive power has led to the development of models that attempt to explain migrant return in the face of persistent wage differentials.

Models have been developed to account for the likely behaviour of migrants usually have better predictive power. These include:

- using relative deprivation rates, Stark, (1992)
- capital market imperfections Mesnard, (2000)
- preference for consuming at home rather than abroad, Djajic and Milbourne, (1988)

- increased weighting for a specific region incorporated into a utility function, Raffelhuschen (1992)
- demonstrating that migration can be temporary and competitive if a migrant has a preference for certain locations, Hill (1987), and
- development of a life cycle model to explain optimal consumption and the optimal time to return to their country of origin, Dustmann (2001).

## 7. Conclusions

This report sets out to examine the development of migration over time and looks at the changing face of immigration and migration. Many writers point to the changes that are occurring in immigration and migration and ask whether or not there is a new paradigm shift in the way migration and immigration are occurring.

We certainly are in a new period of migration history, however its roots are not as new as some writers suggest. The “new” period of migration has its origins in the post World War II era and is closely linked to the advancements in technology and specific local factors, which draw in migrants or act as a source of migration. As technology has improved, so has a migrants’ ability to seek out opportunities in different parts of the world.

What this means for temporary migration is unclear; since the variety of sending and receiving countries has increased, and similar to permanent migration, specific local factors have a major influence on the number and make-up of migrants (i.e. where they are from and why have they come).

Therefore, when applying these broad trends to New Zealand we must be careful when extracting and applying overseas experience to New Zealand since temporary migration tends to focus on specific industries that have unique location-specific attributes.

This means that to make sensible remarks about how temporary migration is impacting on New Zealand, the data and experiences must be New Zealand specific. Furthermore, this reinforces the need for New Zealand focused work, rather than applying overseas studies to unique New Zealand conditions.

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## Appendix A: Selected migration policies in OECD nations

The aim of this section is to shed light on the structure of migration policies in selected OECD nations that may have similar issues to New Zealand and observe the broader migration trends that may have implications for New Zealand.

We have chosen a cross section of OECD nations that include New Zealand, Australia, Canada, USA, Germany, France, UK and Sweden. For each country:

- a short history of migration policy is outlined
- the purpose and implementation of current policy is shown; and
- the dynamic nature of migration policy in each country will be examined.

After examining each policy, the major economic factors driving immigration policies are analysed. Specifically, we are interested in the policy pattern and the underlying incentives that drive policy.

### A.1 New Zealand

New Zealand's first immigrants arrived nearly 1,000 years ago. The indigenous Maori can trace its ancestry to the trans-Pacific migrations of Polynesian peoples. Now Maori comprise roughly 15 percent of a population of 4 million.

In the 19<sup>th</sup> Century tens of thousands of colonists from Britain arrived, ending Maori control of New Zealand. Since that time, immigration has been a significant driver of economic and demographic change in New Zealand. At the time of the 2001 census, New Zealand had one of the highest proportions of overseas born populations relative to other OECD nations. The high proportion of immigrants means that politically and economically immigration has been a sensitive issue for New Zealand.

Since the signing of the Treaty of Waitangi (1840)<sup>9</sup> the New Zealand Government has followed a proactive immigration policy, so-much-so that it was one of the four traditional “lands of immigration”. Successive New Zealand governments have encouraged immigration policies that subsidised the costs of immigrants, particularly from the United Kingdom.

Since the 1970s these subsidies have stopped, however this has not stopped strong cyclical patterns developing for both immigration and emigration.

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<sup>9</sup> The Treaty of Waitangi brought into being the state of New Zealand. It was signed between the tribal chiefs of Aotearoa and the British Crown.

The ebb and flow of migration has accentuated the political interest/tension in migration and led to public concerns about the levels of immigration.

Between 1970 and 1975 the immigrant flows were mainly from the UK, Europe, Australia and the Pacific. The high levels of immigrants from the UK and the Pacific caused the New Zealand Government to tighten the entry restrictions for British citizens. It was also the time when draconian steps were taken against some Pacific overstayers.

The relationship between Australia and New Zealand has an extremely important impact on New Zealand migration flows. New Zealand and Australia citizens have enjoyed visa free entry into each others country since the 1960s. Prior to that time, migration favoured New Zealand.

However, since the 1960s the stronger economy in Australia has acted as a magnet for New Zealand emigration. According to Bedford (2003) this has caused political concern in Australia not because of the total numbers but because of the ethnic mix, particularly Maori, Pacific, and Asian migrants who were perceived to have been freeloading on the Australian welfare system.

In 2001, the Australian Government altered the basis on which New Zealand citizens would be entitled to welfare benefits while residing in Australia. If New Zealand emigrants now wish to obtain welfare support they must apply for Australian citizenship.

The biggest change to New Zealand immigration policy came in 1986. Traditionally, New Zealand had sourced its emigrants from selected countries: Australia, United States, Europe and United Kingdom. After the policy change was put in place the primary emigration targets had no specific source country preference.

In 1991 a points-based system was introduced. This sharply increased emigration from Asian countries. By 2001, the number of New Zealanders who identified themselves to be of Asian ethnicity was 6% of the population.

Today there is a public perception that immigration is often seen as being too high. Since 2002, the Government has moved to tighten regulations related to English language competency. However, there is still a consensus among the political parties that maintaining the actual level of immigration will have positive effects on the economy.

## **A.2 Australia**

Australia's immigration policies have been central to population and economic growth since Britain began colonising Australia in 1788. The

most striking statistic about Australia's population is that approximately one quarter of the population were born overseas.

In the post Second World War era, migrants from Europe were encouraged to come to Australia as part of the reconstruction effort and for strategic and defence purposes.

In modern Australian migration history the key turning point was the change from the "white Australia" policy to a non-discriminatory policy in 1972. This policy has been based on:

- family migration for relatives
- skill-based migration for those technically and professionally qualified, and
- humanitarian and refugee admissions.

Community and political concerns have led to a number of changes to the migration policy since the 1970s:

- the number of people admitted each year is decided after community consultation.
- New Zealanders have visa free status, however they have no access to social welfare and other benefits unless they become Australian citizens.
- the growth of the knowledge-based economy has encouraged the Australian Government to focus on workers with skills in these sectors.
- increased scrutiny has been placed on foreign qualifications. They now have to be recognised by an Australian trade or professional body.
- students from Foreign countries studying in Australia can now apply for immigrant status without leaving Australia.

### **A.3 Canada**

Canadian immigration policies have reflected the settler nature of the country. Policies were first devised at the start of the 19<sup>th</sup> Century providing free entry from 1867 to 1895. The 1910, 1919, and 1952 Migration Acts and the 1923 Act on Chinese Immigration restricted immigration to a "whites only policy". Not until 1976 was there an Act diminishing racist discrimination, which also regulated the admission of refugees. A major change took place in 2001 with the Immigration and Refugee Protection Act: it marked a shift from an occupation-based model to policy focusing on education, language, and flexibility.

Immigration policy is of great importance in Canada as this country has a low population growth rate and is therefore dependent on immigration. So in addition to the aims envisaged by the previously studied countries

Canada's policies have the purpose of attracting people in order to maintain sufficient population growth.

Due to the change in policies towards a higher focus on education, the pattern of flows has changed. Since 2000, the new policies have encouraged Asian migration. In fact, there are many more Asians relative to Europeans immigrating. Also as a result of these policies there is a large percentage of highly educated English or French speaking immigrants. These migrants are drawn to particular Canadian cities; therefore immigration tends to have a greater impact on specific cities, relative to the country as a whole.

## **A.4 USA**

The USA has been the most important immigrant receiving country for at least two and half centuries. In the USA, regulation of migration occurred as early as 1860. Other significant legislation included the 1924 National Origins Act and the 1952 Immigration and Nationality Act, all of which attempted to limit migration and at the same time give preference to Europeans.

The landmark legislation which shapes today's US immigration policy was the Immigration and Nationality Amendment Act of 1965. Its main thrust was to abolish the national origins system and introduce a seven category preference system with less focus on white immigrants, while at the same time increasing admission numbers. The net affect of this policy is that US immigration is characterised by large flows from Latin America and Asia.

Other legislation has brought the US in line with UN resolutions on refugees (Refugee Act of 1980), tightened controls on illegal immigrants (Immigration Reform and Control Act of 1986), and granted amnesty to those illegal immigrants who had resided in the US for a certain period of time.

Important issues for current US immigration policy are prevention of terrorism and the USA's relations with Mexico. The former has encouraged policies aiming at deterring terrorism and widening legal possibilities to view data on immigrants (US Patriot Act, Enhanced Border Security, Visa Entry reform Act) while the latter has the purpose of encouraging cross-border flows on one hand and on the other hand of restricting illegal immigration into the US more severely.

## **A.5 Japan**

Despite the perception that Japan has very strict immigration laws that allow few people to settle, in the past Japan has experienced large flows from China and Korea which had been colonised by Japan.

After World War II when Japan regained its independence, the Immigration Control Law (1952) was passed making it very difficult for immigration to take place. Further, it declared Chinese and Koreans already living in Japan, foreigners. This became the basis of Japanese immigration policy.

Unlike other countries, as the economic boom took place in the 1960s, Japan did not encourage immigration. Instead it substituted labour for capital and embarked upon automating its manufacturing production lines. Therefore, throughout this period there was low immigration.

In the 1980s, there was a change in policies as Japan became a global player. This led to a partial opening of the immigration door due to more open borders and more complex needs. In 1989, the Immigration Control Law was reformed which helped to facilitate immigration, however it still restricts admission of unskilled labour and introduced sanctions on employers who employed illegal workers.

A characteristic of Japanese immigration policy is that it is implemented on a local rather than national scale. Another important issue is the regulation of visa overstayers who are granted permanent visas in most cases.

The problem of an ageing and a shrinking population is an issue especially affecting Japan and has led to looser immigration policies with the aim of compensating this demographic deficiency. In terms of implementation further expansion of trainee and technical internship programs are the outcome.

## **A.6 Germany**

Traditionally, Germany was a country of emigration. In the 19th Century many German nationals immigrated, particularly to the United States and Canada. At the turn of the 20<sup>th</sup> Century this pattern changed as large numbers of Eastern Europeans were employed to work in the mines. The Second World War also saw large numbers of foreign workers forced to work in factories.

In the immediate post war period, immigration was mainly characterised by German refugees, ethnic Germans, and others who had been under German rule prior to 1945. There was also a strong move from East to West Germany.

In the late 1980s the numbers of ethnic German immigrants from Soviet Union increased markedly. This was accentuated with the fall of the Berlin Wall and reunification. While encouraging this process at first, the German Government soon began to limit numbers of immigrating ethnic Germans after they reached a peak of 400,000 in 1990. Between 1993 and 1999 the quota was set at 225,000. Numbers have dropped further to 73,000 in 2001.

While the numbers of ethnic Germans immigrating have been high, the political debates have focused on the inflows of workers with non-German ancestry. The immigration of “Guest Workers” began with the German economic boom of the 1950s. By 1960 over half a million workers or 1.2 percent of the German population were guest workers.

At first, most of the guest workers came from other European countries, particularly Italy. However, as time went on, the composition of guest workers changed with Turkey providing nearly a quarter of all workers. By the mid 1970s the number of guest workers peaked at over 2.5 million (6.7 percent of the workforce). With economic growth stalling as a result of the oil shocks in the 1970s, a ban was introduced on temporary migrants. However, most temporary migrants stayed since they had acquired permanent citizenship rights.

With the re-integration of Germany, temporary labour again became important to assist in the re-building the former East Germany. Labour was drawn mainly from Eastern Europe with over 50% coming from Poland.

A significant issue in terms of German immigration policy are the asylum seekers. Since 1980 there has been a large increase in such migrants causing a split in political and public opinion. In 1993, an inter-party agreement was reached, making asylum law more restrictive.

Recently there have been significant changes in citizenship laws:

- In 2000, citizenship laws changed giving German citizenship to children of foreigners by birth. The change meant that these children no longer appeared as foreigners in German immigration statistics, and
- To encourage more highly qualified information technology experts into Germany through a green card system. The groups to benefit have been Indians, Russians and Romanians.

As with the previously studied countries, Germany’s immigration policies aim to compensate for the effects of an ageing population and the growing shortages of qualified personnel. These policies are a current issue in German political debate and immigration is an important factor in German economic performance.

## **A.7 France**

French immigration policy has had two aims since the mid 19<sup>th</sup> Century. These are to meet the needs of the labour market and to resolve demographic issues such as a low birth rate. At the same time it is also important to integrate immigrants into the national body.

These policies encouraged unregulated entry of North Africans, particularly Algerians after the war of independence finished in 1962. However, for

France, the 1960s and 1970s were a period of turmoil and change. The baby-boom generation arrived on the job market, women entered the work-force in large numbers, and the oil shocks weakened economic performance. In 1974, immigration was restricted with legislation that had provisions for sanctions on employers that hired illegal workers.

Despite this, immigration continued and its sources diversified over many different countries over the following decades. This led to a backlash which came to a head in the anti-immigration atmosphere of the 1990s when Le Pen's anti-immigration party gained popularity. Also during that time the 1993 Pasqua laws aiming at zero (illegal) immigration were discussed.

By 1997 the Socialist Government had re-thought immigration policy. This culminated in a package of laws (in 1998) that relaxed immigration laws to allow for an increased inflow of skilled workers, while at the same time introducing measures to combat illegal immigration.

Today immigration policy is a difficult issue in France and actions have to be seen in the light of the existence of Le Pen and his 15% support. Just like in Germany, French immigration policies have been aimed at meeting the needs of the labour market and compensating demographic deficits since mid 19<sup>th</sup> century.

## **A.8 United Kingdom**

The UK's first real attempt to restrict immigration was the Commonwealth Immigration Act of 1962. It was designed to halt coloured immigration, however it had the opposite impact and spurred immigration from South Asia. In 1971, an Immigration Act was ratified favouring individuals of British heritage from former colonies, white immigration was preferred. Ten years later the British Nationality Act narrowed down immigration even further. The 1990s saw a rise in asylum seekers and unauthorized immigration which brought into being three Asylum Acts of 1993, 1996 and 1999. To attract skilled migrants, in 2002, the Highly Skilled Migrant Program was started.

## **A.9 Sweden**

In the 1930s Sweden switched from emigration to immigration country. It is predominantly refugees who are immigrating. This was especially the case after the Second World War as Sweden felt it had an obligation to admit refugees. In 1947, a Labour Force Commission began recruiting workers from Italy, Hungary and Austria. During the 1960s, commissions were set up in order to formulate integration and immigration policies. Because of sluggish economic growth in the mid 1960s, the first steps were made towards regulating immigration through stricter rules; however there is still an open policy towards refugees.

## **Appendix B: Questions on migration**

### **B.1 New Zealand in a globalised world**

Where does New Zealand fit in the international flow of migrants?

What are the things that attract temporary workers to New Zealand?

What are reasons why New Zealand born residents leave on a temporary basis?

### **B.2 Is a new paradigm called for?**

What data supports the call for a new paradigm?

If the numbers do not support a new paradigm, what is new about migration flows, particularly temporary migration flows?

How is the composition of temporary migrants changing?

How can policy be developed to take advantage of migration flows?

### **B.3 Specific lessons**

Can migration policy be successfully designed in such a way as to meet labour market needs? What policies would support this?

How can we take advantage of the New Zealand diaspora? Is this possible and cost effective?

What can New Zealand learn from other countries migration policies to make itself competitive in attracting skilled workers?

Are their generic lessons or are the lessons specific to a particular industry?