



Participating Pacific Island Nations in Temporary Overseas Work Schemes; Facing Labor Market Disruptions and Productivity Opportunity Cost

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Abstract: Since 2007, Australia and New Zealand have employed workers on a temporary basis from a number of countries from the Pacific. This has been widely suggested to provide a triple benefit to the workers, the receiving economy and their home economies. For the period that the workers are employed under the temporary schemes, they are extracted out of their home economies. This creates an opportunity cost to their home economies for the period they are contributing to the labor force overseas. This is suggested to have labor market implications not only in the short-term but could potentially have a long term impact on the aggregate output. This report provides a review of the opportunity cost of labor force participation that is lost by the participating economies within the Pacific.

Key words: development impacts, opportunity cost, overseas labor force, temporary workers, triple benefit.

Introduction

Pacific Island economies compared to the rest of developing Asia, have produced weak economic growth and limited structural change. The distance from major economic centers, various unique and complex factors and density has contributed to the poor outcomes. One of the main solutions implemented in response to this is the bilateral arrangements between some of the economies with Australia and New Zealand that provides workers from participating economies the opportunity to work in higher-paying, more dynamic and diverse labor markets. The temporary overseas work schemes in the Pacific have been running for a few years now. The Pacific Island economies involvement with the New Zealand based Recognized Seasonal Employer Scheme (RSE) scheme commenced in April 2007, which allows for the temporary movement of labour for seasonal work. RSE is strictly for the horticulture and viticulture sectors and employment period for workers ranges from 3 to a maximum of 7 months. Furthermore, Samoa's involvement with the Australian based program commenced in July 2011 when it was referred to as the Pacific Seasonal Worker Pilot Scheme (PSWPS), and has continued on from its official launching as the Seasonal Workers Program (SWP) in July 2012. Other participating countries include: Fiji, Kiribati, Nauru, Papua New Guinea, Solomon Islands, Timor Leste, Tonga, Tuvalu and Vanuatu. Samoa has three main recruitment pathways which involve; a 'pool of workers' who have been screened to certain criteria and found ready for a suitable assignment, Recruitment is through Local Licensed Agents or Representative and the Direct Recruitment by overseas Employers (MCIL 2021).

Most economies have perfectly competitive labour markets where demand and supply of labor determines the wages paid to the various workers. The main demand for labor as a factor of

production is generally the government and her associated ministries in some economies whilst in others it is the private businesses. This is different in economies that subscribe to the temporary overseas employment scheme, as the labor market now includes overseas recruiters. The competition for workers is now expanded to include recruiters who have an advantage of higher wages. As such, the rational decision making free will choices of the workers for maximisation of wage utility, provides overseas recruiters preference in the labour market demand for workers. The participating economies engage in a collective effort to provide employment opportunities for their citizens under the Pacific Labour Scheme and Seasonal Worker Program. The COVID-19 pandemic affected the operation of movement of the workers across the countries due to the international ban of flights. With the resumption of flights and opening of borders, the operation of the scheme is expected to resume its operations and return to the levels it was pre-pandemic and to meet the growing demands for workers. Samoa, for example, has participated in the SWP Scheme in 2012 and the PLS in 2018. Workers are expected to return home upon completion of their seven (7) months under the SWP and three (3) years employment contracts under the PLS.

A great deal of research has been done into the Australian and New Zealand schemes. Much of them have been from the point of view of the economies receiving the workers including country focused synthesis (Richard and Charlotte Bedford, 2020). They have included employer surveys (Government of New Zealand 2022), remittances, the scheme's country impact. These have assisted with policy adjustments and improvements in the workers engagements, worker recruitments, remuneration, welfare and care of the workers. However, due to the limited time of its existence there has not been enough time lapse to assist in measuring the long term impact that the loss of workers from the informal and formal workforce could be having on the labor markets of these participating economies. Very little attention has so far been given to the short-term and long term opportunity cost to the labor markets by the participating economies. As such this report will serve as encouraging research into the opportunity costs of engaging a material number of the labor factor of production to depart the economy.

The labor market aggregate impact and the opportunity cost of the scheme on the participating economies Labour market

The unemployment levels and unskilled levels of the Pacific Island workers in the participating economies have been higher even before the covid pandemic. However the impact of the pandemic coupled with the already existing labour market has resulted in a higher number of people applying for the opportunity to go overseas to work on the seasonal workers scheme. According to the government of New Zealand, an administrative limit has been placed on the number of workers that are employed under the RSE scheme in any one year. Initially set up at 5,000 places in 2007, but has increased gradually over its lifetime due to the successes of the RSE and increased demand from employers. The cap was set at: 8,000 places in 2009, 9,000 in November 2014, 9,500 in December 2015, 10,500 in December 2016, 11,100 in December 2017, 12,850 in November 2018, 14,400 in October 2019, 14,400 for 2020/21, and 16,000 for 2021/22 (Government of New Zealand 2022). The SWP and PLS address labour shortages in Australia where there is an unmet demand, and support the economic and social development of the Pacific and Timor-Leste by offering Pacific workers short to medium-term employment in Australia.

The comparative remuneration available and being earned by the workers from the participating economies who gain employment under these schemes are far higher than their home economies. Whilst the scheme is helping the destination economies with their factors of production, it is contributing to the loss of skilled and unskilled workers from both formal and informal sectors of the economies. This is in line with the labor economics theory as workers are seeking for utility maximization and will act rationally and change employers especially if it raises their satisfaction from providing their services. Australia has up to 3 years contracts whilst New Zealand has 9 months contracts, all of which are renewable based on the quality of workers. Theoretically the good workers will end up being out of the workforce for years. For the period that they are absent from their home economy, an opportunity cost of their factor input to the productivity of their home economy is realised. With the increase in the number of workers employed under the cap, more and more

medically workers who could be contributing to the productivity of these nations are being extracted and not available in their own economies. So far, there are no records of material training or skills efforts being actively executed with the goal of filling the gap created by the increasing loss of workers.

The requirements of overseas employers under the temporary workers scheme are for healthy, medically and psychologically fit, English-speaking workers aged 21-40 with a clean police record and references from community leaders (MCIL 2021). These same qualities are the requirements that are necessary to be effective workers in the local aggregate production. Many employed workers are also being tempted as they meet the qualifying quality of workers and their ability to make their own rational decisions for utility maximisation from providing their labor to the highest paying employers lead them to opt for this work option. The resulting effect of this is the loss of material labor as a factor input. The increasing number of workers employed under the scheme is also a reflection of the impact it is potentially having on the participating economies. The cumulative loss of workers over the long run may have an impact on the productivity levels, on the industries that are losing workers to the scheme, the morale of local workers, the interest of the workers in working in their local economies after earning a much higher wage, the potential shift of focus from local productivity into overseas work, the total collapse of some businesses and the potential loss of some peculiar and vital skills from the participating Pacific Island economies.

The extent of this practice of losing workers depends on how critical and material the quality and quantity of workers who are being exported overseas are having on their home economies. The trend reflected in the employment limit of the workers being recruited under the scheme shows material increases. This suggests that over time and with time, a greater loss of productive workers have been lost from the workforce of the participating economies and will continue to be lost from the Pacific Island economies if the trend continues. The increase in the limit has been based on the successes of the scheme and the increase in demand by the recruiters (Government of New Zealand 2022). Also there has been an increased interest in suitable workers applying for the opportunity to work under the scheme, the policy makers behind the economies are also interested and keen on keeping their agreements in place.

The increase in workers made available through the scheme to the receiving economies will no doubt be impacting their productivity and economy. Understandably, they will be interested and keen on keeping the arrangements in place. The benefits recouped by the economies providing the labor inputs are also an important contributor to the interest in the scheme. In the study conducted by S Sok and C Yang, 2021, they noted that the vast majority of the migrant workers in South Korea sent their salaries back home by remittance, while those in Malaysia sent limited remittance back home. With the workers under the scheme operating in the Pacific, an average savings of AUD \$6,650 per worker are reportedly realized across the programme whilst the SWP scheme has employed 17,230 Pacific Islanders since 2012 and delivering approximately AUD \$144 million in net gains to the region (Doyle and Sharma 2017, 65–66).

Conclusion

In the Pacific region, the practice of engaging in seasonal work has only been in existence from the year 2007. The triple benefit for the workers, the receiving economies and associated remittances back to the participating economies means it has great financial benefits. The receiving economies are benefiting from solving the shortage in factors of production at comparatively and relatively cheaper cost. The workers who may be on a much lower wage structure at home are tempted and benefit from a much better wage. Australia and New Zealand are able to meet their short supply of unskilled labour, by recruiting labour from participating economies through the Seasonal Worker Programme (SWP) and the Pacific Labour Scheme (PLS). This raises a few questions like, if the economies have satisfied their own shortage of labour? For the number of people who temporarily exit the labour market for New Zealand and Australia, what labour replaces them as factor inputs. Many of the economies have a relatively higher informal sector where most of the workers are not properly documented and or properly captured with regards to the unemployment figures. From the inception of the scheme in the Pacific region, the increase trend suggests that the labor export and its

