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III. The economic impact of migration

Introduction

International migration is a phenomenon that touches a very high proportion of New Zealanders: about 20 per cent of New Zealand's resident population of some 4 million were born abroad, and it is thought that over half a million citizens are resident in other countries. Unusually for an OECD country, issues relate to both immigration and emigration, as the causes and consequences of both these phenomena are important for NZ policymakers.

Over the past 30 years, immigration has been largely balanced by emigration, with no substantial net impact on population change. But the net flow has been variable, with periods of large net immigration alternating with net emigration. Most recently there has been a rapid shift from net emigration (as recently as 1999-2000) to very high levels of net immigration. Issues for policy include whether – and how – policy might seek to moderate this variability, the extent to which immigration policy should be linked to the labour market situation or other factors, and whether emigration of New Zealanders should be seen as a problem or an advantage.

This chapter first outlines the main elements in the history of migration flows in New Zealand and describes the main elements of migration policy. The main part of the chapter is devoted to a discussion of the experience of migrants in the labour market and their impact on economic developments.

The final section concludes that the recent emphasis on policies to improve labour market outcomes is appropriate. What form a more “active” recruitment policy may take is unclear, and it remains to be seen whether the new mechanism for managing skilled migrant inflows introduced in response to the recent surge in applications will prove sufficiently flexible if applications decline in the future. It is noted that, despite the successful integration of many groups, employment and earnings outcomes for immigrants of Pacific Island origin and their offspring remain inferior. More generally, given the wider diversity of regional and ethnic origin of immigrants over the past 20 years, successful integration will depend both on successfully selecting immigrants who will “fit in” economically and on flexible attitudes among local employers. While emigration occasionally

arouses concerns about a “brain drain”, it seems likely that immigration flows replace any “lost” human capital, and that New Zealanders who return (it seems that most do so) bring considerable benefits with them; there is little role for active policy in this area, other than providing an attractive economic environment. Fluctuations in net migration flows may be influenced by the economic cycle, and may help to cope with it by buffering variations in labour demand. The possibility that fluctuations also have short-term pro-cyclical consequences does not, on the evidence available, seem to justify systematic short-term intervention to control migration flows on these grounds.

History and recent developments in migration flows

Although the current population owes its origins largely to migration over the past century or so, the history of migration in New Zealand is different in some important ways from that of other traditional immigration countries such as Australia and Canada. As in Australia, immigration was for a long time dominated by inflows from the British Isles. This domination continued for longer than in Australia, with no substantial inflows from other European countries (apart from the Netherlands) in the 1950s and 1960s (though significant numbers of Pacific Islanders did arrive in this period). Australia, meanwhile, was attracting numerous immigrants from countries such as Greece and Italy. Until 1974 migrants from the United Kingdom and Ireland were admitted freely. The range of source countries has since broadened (Figure 20).

The more important difference is in the mobility of the NZ-born and in the (related) variability of net migration flows. New Zealanders themselves are quite mobile within the country – over half the population will change address in a five-year period. But they also have a high propensity to emigrate – usually temporarily but for periods of several years. While the pattern of country origin of inflows has changed quite substantially over the last 20 years, that for outflows has changed less.

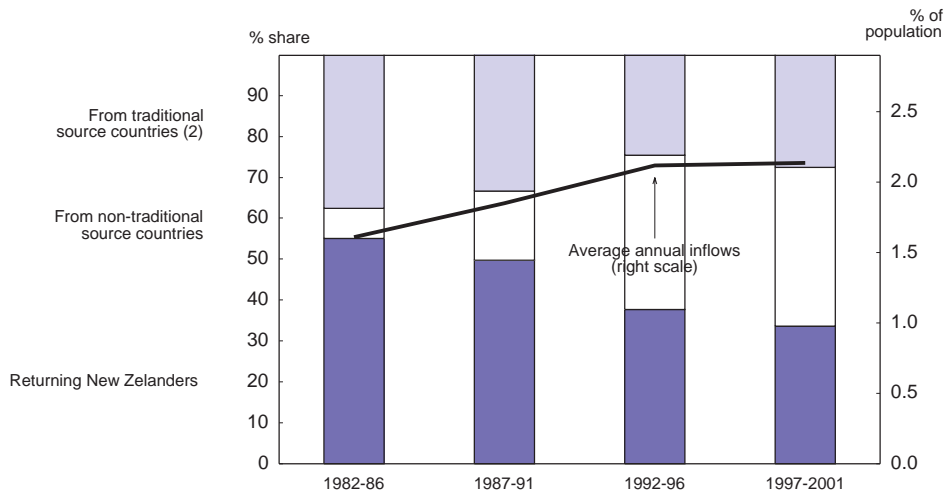
It is also the case that both inflows and outflows are quite variable, so net immigration often swings from significantly positive to significantly negative (Figure 21) with fluctuations being higher than in most OECD countries (Figure 22). These variations are reflected in population growth, whereas the contribution of natural increase to population growth shows little variation, though is declining steadily (Figure 23). The age distribution of the stock of immigrants to New Zealand shows much higher concentrations of people over the age of 30 (including the elderly) (Figure 24).

This variability makes it difficult to predict population growth both in the short and long term; it is not clear whether the recent strong net inflows suggest an increase in the underlying trend or are, as some suggest, a short-term response to a combination of significant global uncertainty and buoyant economic conditions

Figure 20. Country shares of migrant flows

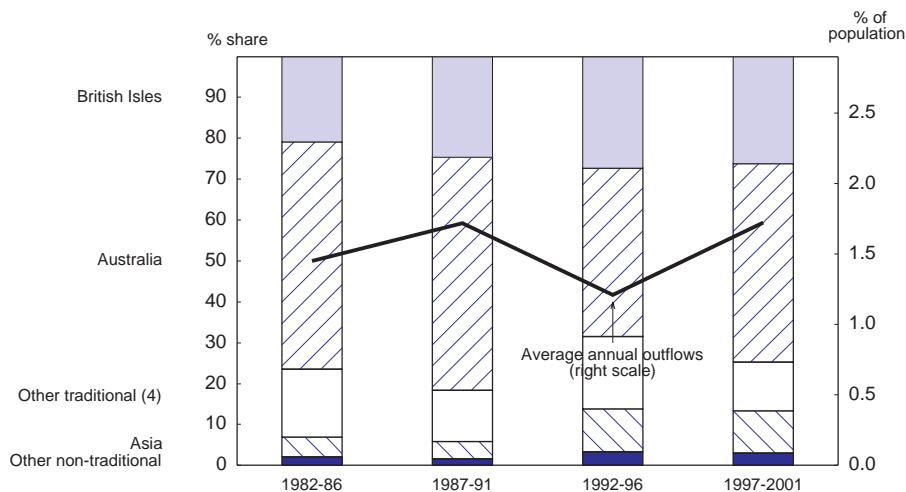
A. Changing pattern of origin of inflows

Permanent and long-term arrivals (1)



B. Destinations for outflows

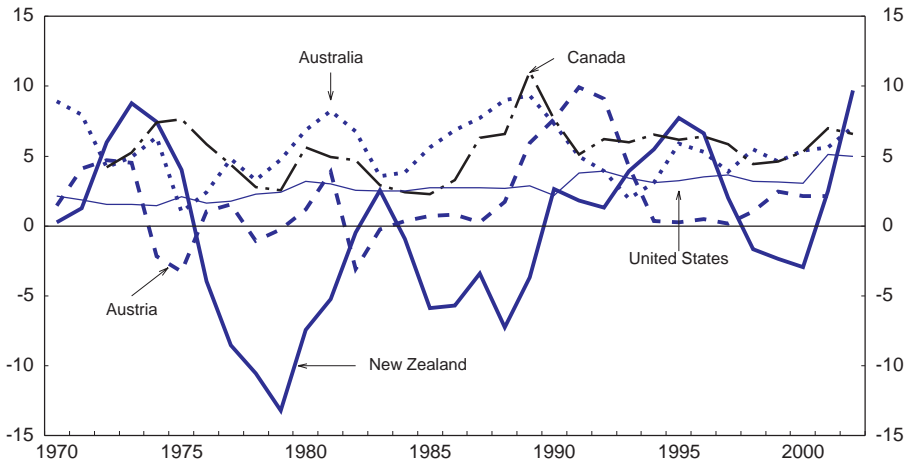
Permanent and long-term departures (3)



1. People stating their intention to stay for one year or more.
2. Australia, Pacific Islands, British Isles, North and Western Europe, North America.
3. People stating their intention to remain abroad for one year or more.
4. Pacific Islands, North and Western Europe, North America.

Source: Bedford *et al.* (2002).

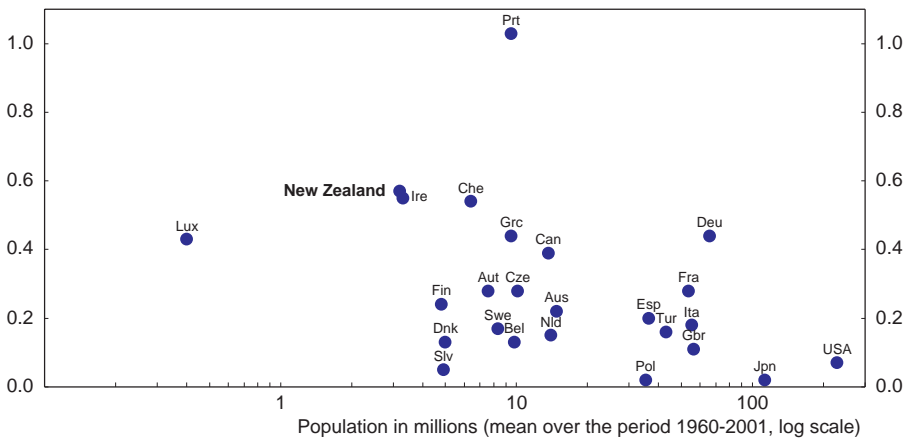
Figure 21. Net migration rates, New Zealand and selected OECD countries¹



1. Net migration per 1 000 inhabitants.
 Source: OECD, *Labour Force Statistics*.

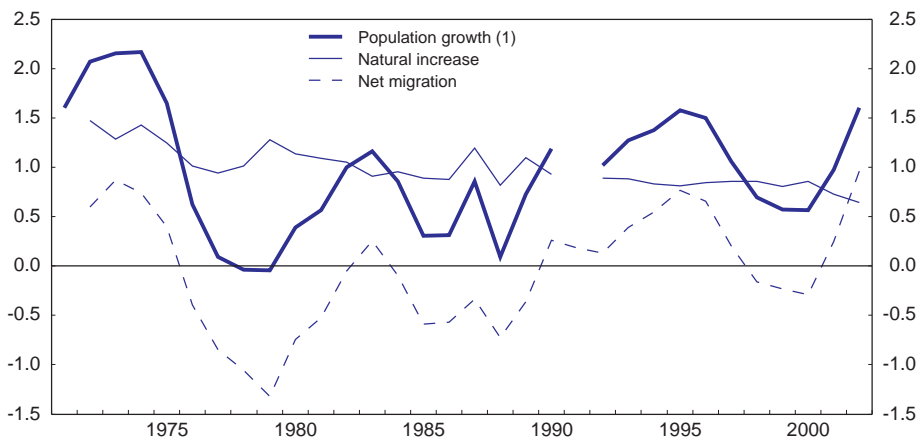
Figure 22. Migration variability since 1960 versus population size

Standard deviation of net migration (% of population)



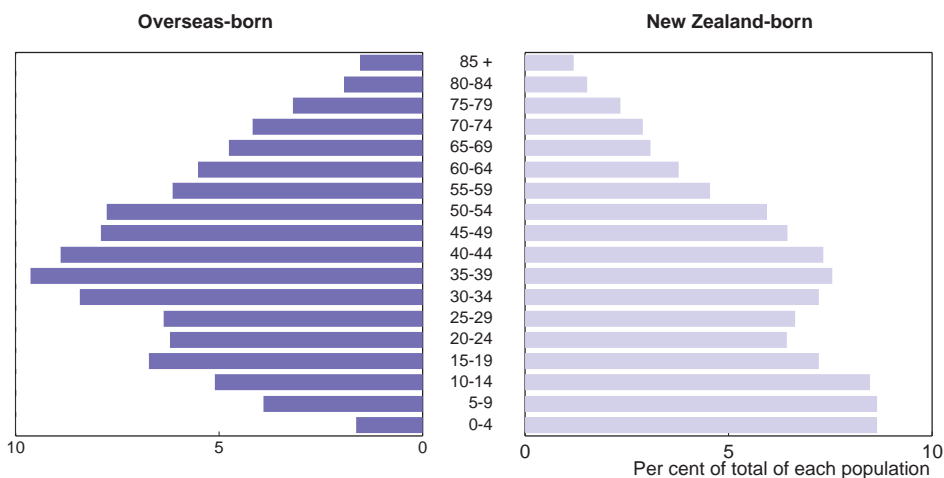
Source: OECD.

Figure 23. **Contributions of net migration and natural increase to population growth 1971-2002, per cent**



1. Before 1991: estimated *de facto* population; estimated resident population thereafter.
 Source: Statistics New Zealand.

Figure 24. **Population age structure: New Zealand- and foreign-born**
 For the Census Usually Resident Population Count, 2001

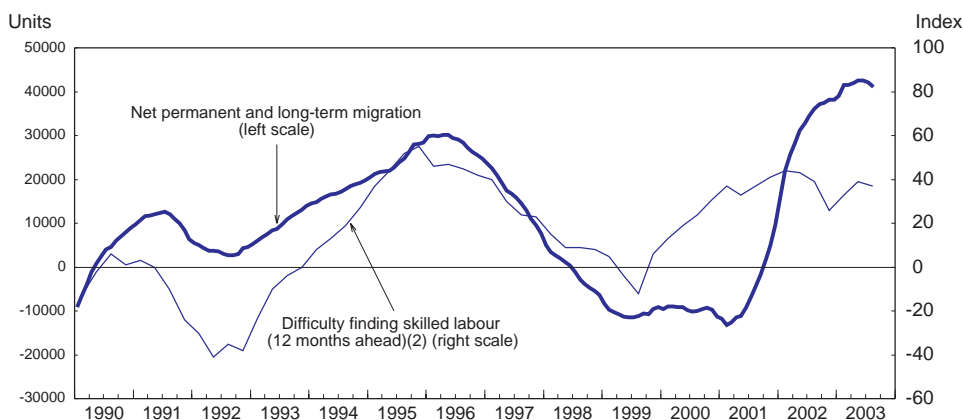


Source: Statistics New Zealand.

Table 7. Correlation between output gaps and New Zealand migration flows

| | Same year | | | Previous year | | | Following year | | |
|--------------------|-------------|-------------|--------------|---------------|-------------|--------------|----------------|--------------|--------------|
| | Arrivals | Departures | Net | Arrivals | Departures | Net | Arrivals | Departures | Net |
| New Zealand | 0.03 | 0.09 | -0.04 | -0.02 | 0.21 | -0.21 | -0.12 | -0.04 | -0.09 |
| Australia | 0.17 | 0.70 | -0.41 | 0.16 | 0.59 | -0.34 | 0.20 | 0.58 | -0.32 |
| OECD total | 0.19 | 0.59 | -0.29 | 0.30 | 0.50 | -0.11 | 0.24 | 0.46 | -0.17 |

Note: Simple correlation coefficients for the period 1980-2002, for permanent and long-term flows of people aged 25-64.
Source: Statistics New Zealand and OECD calculations.

Figure 25. Migration flows and skilled labour demand¹

1. This chart is based on one published in the Small Business Monitor of the National Bank of New Zealand (July 2003).
2. From NZIER Quarterly Survey of Business Opinion. The observation plotted in the figure for 2003 q3 is thus from the NZIER survey for 2002 q3.

Source: Statistics New Zealand and NZIER.

in New Zealand; indeed, net inflows diminished noticeably in the second half of 2003. Unpredictability may not be a problem in itself, though it has been argued that, as well as responding to the economic cycle, migration may itself influence the cycle. Although correlations with broad cyclical indicators are not high (Table 7), especially compared with Australia, there may be links with demand for skilled labour (Figure 25). Many factors enter into migration decisions, so it is unlikely that a simple model of the economic aspects of this decision will explain aggregate migration flows well. Table 7 in fact suggests that the economic situation

Table 8. **Permanent and long-term arrivals and departures**
Financial years ending in June of the year shown

| | Arrivals | Departures | Net |
|-----------------|----------|------------|---------|
| 1980-89 average | 43 069 | 56 806 | -13 737 |
| 1990-99 average | 61 242 | 51 022 | 10 220 |
| 1995 | 69 572 | 46 843 | 22 729 |
| 1996 | 81 965 | 52 459 | 29 506 |
| 1997 | 74 492 | 57 722 | 16 770 |
| 1998 | 61 246 | 60 794 | 452 |
| 1999 | 56 250 | 67 620 | -11 370 |
| 2000 | 61 280 | 71 040 | -9 760 |
| 2001 | 69 490 | 78 760 | -9 270 |
| 2002 | 92 660 | 59 850 | 32 820 |
| 2003 | 97 250 | 54 730 | 42 520 |

Note: Immigrants intending to stay in New Zealand for 12 months or more or permanently, plus New Zealand residents returning after an absence of 12 months or more, or emigrants departing permanently or intending to be away for 12 months or more, plus overseas visitors departing after a stay of 12 months or longer. Total migration data for the years 1979-1996 are sampled data. Actual counts of passengers are available from the month of September 1997 onwards. Total migration data for 1997 consist of sampled data up to August 1997 and actual counts from September 1997 onwards.

From 1998 onwards total migration data represent actual counts of passengers.

Source: Statistics New Zealand.

abroad may affect migration decisions more than that in New Zealand, and that its effect is felt more on departures than on arrivals.

Most immigrants settle in Auckland, New Zealand's largest city, with the next most popular destination being the capital, Wellington. Both regions also tend to be destinations for internal migrants of working age, but there are distinct net outflows of people over 45 from both regions, especially from Auckland to sunnier climes. These two areas contain a large proportion of the total population and have significantly higher proportions of migrants than average.

Net immigration has increased considerably since the trough in 1999-2000, partly due to a large and unusual fall in departures since 2001 (Figure 23).⁴¹ In 2001-02 net inflows were higher as a proportion of the population than the previous post-war peak of 1973-74 and the inflow in 2002-03 – some 1.1 per cent of the population – was even higher (Table 8), although the planning total for residence approvals in 2002-03 was the same as that for 2001-02.⁴² A total of 52 856 people, equivalent to about 1.3 per cent of the population, were approved for settlement in 2001-02, compared with the planning level of 45 000; the excess was accounted for by migrants in skilled and business categories. In the second half of 2003, net inflows declined, mainly due to an increase in departures.

The most important destination for outflows is Australia. Partly due to (relative) proximity, it is also facilitated by the Trans-Tasman Travel Arrangement on the free movement of labour. Citizens of each country have the right to work and settle in the other. In both countries, some have questioned whether some “immigrants” to New Zealand might be using it as an indirect way into Australia, given New Zealand’s policy of granting citizenship after three years of residence.⁴³ In July 1999-June 2002, over 30 per cent of about 95 000 NZ citizens who arrived in Australia declaring their intention to settle there, were not born in New Zealand.⁴⁴ The high figure for the share of non-NZ-born among settlers in Australia may suggest that New Zealand is a route to Australia for some migrants, though recent NZ data show that in 2003 the proportion of non-NZ-born people in permanent and long-term flows from New Zealand to Australia was practically identical to their share in the New Zealand population. In any case, migrants might be expected to be more mobile on average than non-migrants, so it could be expected that the share for foreign-born would be higher than for that of the NZ-born. These figures do not necessarily mean that an eventual move to Australia is pre-planned by the migrants; for example, information on how long they had been living in New Zealand is not available.⁴⁵

There is some suggestion that NZ emigrants are staying abroad longer than they used to, and that they represent a significant proportion of the highly skilled. A recent survey of NZ expatriates⁴⁶ found that young people going abroad to get overseas experience (half of New Zealanders aged 20-29 consider doing this) are staying longer than they used to, and the main reasons that keep them abroad concern incomes and career prospects.

Policy

From the 1950s to the 1990s

From the Second World War until the late 1980s, immigration policy had mainly been focused on migrants as a means of meeting labour-market shortages. Apart from refugees (mostly from eastern Europe but also from the other continents), early post-war migration was largely restricted to targeting British migrants with specific skills under an assisted passages scheme, but this was not felt sufficient and was extended; from 1951 onwards it was further expanded to include migrants from the Netherlands. In the post-war period many Polynesians also moved to New Zealand under various special arrangements, with the largest number coming from Samoa.

Immigration reached a post-war peak in 1973-74, and in the subsequent recession it was decided to end the assisted passage schemes and the open-door policy for British citizens and to widen the range of countries of origin. Similar policy changes were occurring in Australia. The share of traditional source countries in

Table 9. Birthplace of foreign-born residents, 1996 and 2001

| Birthplace | Per cent of all foreign-born | |
|---------------------------------|------------------------------|------|
| | 1996 | 2001 |
| United Kingdom and Ireland | 38.0 | 32.2 |
| Asia | 19.5 | 23.7 |
| Pacific Islands | 16.4 | 16.9 |
| Other Europe | 9.2 | 8.5 |
| Australia | 9.0 | 8.1 |
| North America | 3.2 | 3.0 |
| Africa (excluding North Africa) | 2.9 | 5.2 |
| Middle East and North Africa | 1.2 | 1.7 |
| Other America and Caribbean | 0.6 | 0.6 |

Source: Statistics New Zealand.

migration had diminished considerably by the 1990s, although their historical importance can still be seen in the stock of resident foreign-born (Table 9). Since 1979, an average of about 800 refugees per year have also been admitted, mainly from South-East Asia but also from East Africa and the Middle East.

By the 1980s policy was explicitly non-discriminatory in terms of country of origin and ethnicity. This was formalised in the 1987 Immigration Act, which saw four categories of migrant: occupational, business, family and humanitarian. But the occupational and business programmes continued to be oriented towards meeting what were seen as the current needs of the labour market. In 1991 the focus moved towards potential migrants' human capital, and a points test was introduced for this purpose. Initially the English language requirement was that potential migrants should have the level of comprehension expected of an 11-year old English-speaking child; in the absence of a certificate to this effect, the immigration officer conducted a test, sometimes by telephone. The balance of points available under different headings has been modified from time to time, but without major changes in structure (Table 10). A review of policy in the mid-1990s resulted in the introduction of an explicit requirement for English language ability based on the IELTS⁴⁷ tests. A requirement was also introduced for professional qualifications used to acquire points for entry to be complemented by registration with the relevant NZ professional body, when necessary to practise in New Zealand, before the points could be awarded.

The current programme

At the beginning of this decade, the immigration programme maintained the same broad structure that had been in place since 1991. It distinguishes three main streams of immigrant: Skilled/Business; Family Sponsored; and International Humanitarian (Table 11). Close family members of NZ citizens (dependent children,

Table 10. The evolution of the New Zealand General Skills points test¹

| | November 1991 to October 1995 | November 1995 to January 1999 | February 1999 to October 1999 | November 1999 to June 2002 | July 2002 to June 2003 | Interim ² (July to November 2003) |
|---|-------------------------------------|-------------------------------------|-------------------------------------|----------------------------------|---------------------------|---|
| Qualifications and employability | | | | | | |
| Qualifications ³ | 15 | 12 | 12 | 12 | 12 | 12 |
| New Zealand qualifications ³ | – | – | 1 | 2 | 2 | 2 |
| Work experience ³ | 10 | 10 | 10 | 10 | 10 | 10 |
| Job offer | 3 | 5 | 5 | 5 | – | – |
| Job offer – relevant | – | – | – | – | 5-8 | 5-8 |
| Age | 10 | 10 | 10 | 10 | 10 | 10 |
| Settlement factors⁴ | | | | | | |
| Settlement funds | 2 | 2 | 2 | 2 | 2 | 2 |
| Qualified spouse/partner | – | 2 | 2 | 2 | 2 | 2 |
| NZ family sponsor | 2 | 3 | 3 | 3 | 3 | 3 |
| Investment funds | 3 | – | – | – | – | – |
| NZ work experience | – | 2 | 2 | 2 | 2 | 2 |
| Job offer – not relevant | – | – | – | – | 2 | – |
| Total | 43 | 44 | 45 | 46 | 46-49 | 46-49 |
| Pass-mark | 20-31 | 25-26 | 25 | 24-5 | 28-30 | 29 |

Note: Changes to the General Skills Category since 1991 can be summarised thus: in 1995, the government shifted some emphasis from qualifications as a sign of employability to a job offer, and introduced points for new settlement factors (a qualified partner and New Zealand work experience). Points for investment funds were scrapped. In 1999, an extra point was introduced for those who gained their qualifications in New Zealand and these people were exempted from the requirement for work experience. Later that year, the government made two points available to New Zealand graduates. In 2002, the government introduced a points premium for relevant job offers. How many points an applicant can score for a job offer relevant to his or her qualifications or work experience depends on the pass-mark.

1. The points indicated are the maximum available for each criterion.
2. Following changes announced in July 2003 the points test will not play quite the same role as before, though it will still provide a minimum standard for entry under the Skilled Migrant Category. Additional points will be available for jobs in certain sectors and for settlement outside Auckland. See text and Table 12 for more details.
3. Since 1995, applicants have had to score at least 10 points for qualifications and 1 point for work experience.
4. From 1991 to 1995, applicants could score a maximum of five points for settlement factors. Since 1995, applicants have been able to score a maximum of seven points for settlement factors.

Source: New Zealand Immigration Service.

spouses, *de facto* partners – same or opposite sex – as well as, in some cases, parents, adult children and adult siblings)⁴⁸ are entitled to settle without quantitative restrictions, though subject to certain policy requirements. Much of the International Humanitarian stream covers Pacific Islanders who enter under quotas;⁴⁹ most of the rest is accounted for by the Refugee Quota and successful asylum seekers.

The planning total for 2002-03 was for some 45 000 immigrants in all three streams taken together (equivalent to about 1.1 per cent of the population), with a margin of error of 5 000. This level was maintained for 2003-04 and is expected to be continued for the next three years.⁵⁰ The government argues that this is not a target,

Table 11. **The immigration programme, 2003-04**

| Stream | Skilled/Business | Family sponsored | International/ Humanitarian |
|-------------------------|--|--|--|
| Categories | General Skills Category Business categories Entrepreneur Investor Employees of relocating businesses Residence from work categories | Spouses/partners Dependent children Parents Adult children/siblings Family Quota | Convention Refugee Refugee Quota Refugee Family Category Pacific Access Category Samoan Quota Pitcairn Islanders Domestic Violence Ministerial Exceptions to Policy |
| Proportion of approvals | 60 per cent (27 000 ± 3 000) | 30 per cent (13 500 ± 1 500) | 10 per cent (4 500 ± 500) |

Source: New Zealand Immigration Service.

although the fact that the threshold for entry under the General Skills Category has been raised several times in recent years, given the very large number of applicants implies that there is at least a broad view of some maximum acceptable inflow.

New Zealand tries to approve applications rapidly, and one of the reasons for the margin of error built into the planning total was to avoid having to refuse entry to too many well-qualified applicants if numbers turn out higher than expected.⁵¹ Processing times averaged around four to five months in 2001 and 2002, but rose considerably to around 8-10 months in the General Skills category by the first half of 2003. By March 2003 a backlog of 20 000 applications (compared with a “normal” level of some 12 000 applications) had built up in the General Skills Category. Most had accumulated in the New Delhi office as a result of increased applications. Much of this backlog was eliminated by the changes announced in July 2003, discussed further below.

More than half of immigrants currently enter in the General Skills Category, which is based on the points test (provided applicants fulfil health, character and language skills requirements).⁵² The bulk of points is awarded on the basis of qualifications, work experience, age and whether the applicant already has a job offer; factors such as spouse's qualifications and settlement funds available can attract additional points. Certain vocational qualifications attract as many points as an academic degree, though the maximum is one point below that from post-graduate qualifications. (See below, and Table 12, for changes to the points system effective from the end of 2003.)

In March 2000 it was made possible for those who failed to get the minimum number of points under the General Skills Category – but who would get the required points if they had a relevant job offer – to enter with a temporary work

permit. If they could find suitable employment, they could then apply onshore for permanent residence. These Job Search Visas as such were abolished in July 2003, to be replaced by the provisions of the new Skilled Migrant Category as they relate to applicants without a job offer at the time they apply. In addition to the categories already mentioned, people whose occupations are on the Priority Occupations List may be admitted if they have a job offer, and a small number of "Talent" visas are given to people who are recruited by accredited employers or have an international reputation in the arts, sport or a cultural field.

Business immigration policy includes an investor category where the main criterion is investing sufficient funds in New Zealand. Up to now, in most cases it has been sufficient (in addition to meeting the health and character requirements common to all categories) to deposit NZ\$ 1 million in an interest-bearing local bank account to qualify under this heading. It also includes an Entrepreneur Category open to people already running a NZ business that is "benefiting New Zealand".⁵³ Entrepreneurs wishing to set up a business can apply for a temporary visa ("Long Term Business Visa") which allows them to stay for up to three years to gain the experience necessary to qualify for permanent residence. Only small numbers gained residence under the Entrepreneurial category. In 2001-02, 97 per cent of around 4 500 Business visas were awarded under the Investor Category, which is currently under review.

In November 2002 business immigration policy was tightened, with more attention paid to how business plans were being put into operation. The Long Term Business Visas were made valid for only nine months, renewable up to three years. Renewals are conditional on immigrants having set up and operated a business and remaining in the industry they specified.

Changes announced in July 2003

In July the government announced a change to skilled immigration policy and the management of applications under that policy. The General Skills Category is to be replaced by the Skilled Migrant Category in late 2003 or early 2004. The changes are a continuation of the move towards trying to ensure high participation and low unemployment rates among immigrants. The government also argues that it will be better able to attract those migrants it judges New Zealand needs. Although the points system will be retained, entry will not be automatic. Instead, all initial applications (to be known as expressions of interest) meeting a minimum points threshold will be put into a pool (the others being eliminated), and those at the top of the list ranking highly (in terms of points) will be "invited to apply" for residence.⁵⁴ Previously, if large numbers of applicants met the announced conditions, the only way to smooth the numbers being admitted was through letting a queue build up. In future, the number of people "invited to apply" from the pool will be limited to those meeting the minimum requirements

and the number it is intended to admit. The pool will be cleared periodically (about once every three months). Applicants may immediately re-register if they wish. People selected from the pool are expected to be admitted almost automatically if they have a relevant job offer or if they have already worked or studied in New Zealand. If not, they may be put in a work-to-residence programme, with a two-year work permit; if they are successful in finding and maintaining skilled employment, applicants could expect to be admitted permanently. More thorough interviews are likely to be used as a way to try to ensure potential migrants have realistic expectations about what they can expect. Accompanying these procedural changes are some changes in the points system which will give additional points for certain skills that “match New Zealand’s skill shortages” (employment, qualifications and work experience in identified growth areas or clusters, or in areas of absolute skill shortage) and for applicants with job offers outside Auckland. Points will no longer be given for job offers not corresponding to the applicant’s skills.

To a certain extent, these changes amount to varying the required number of points continuously as a function of the level of demand, although the announced minimum number of points required to register an expression of interest will remain constant. In periods of excess demand for skilled immigration it will therefore be much easier to smooth the inflow. It is not clear what would occur if there were no excess demand (*i.e.* if the number of expressions of interest that meet the minimum points requirement is lower than the planned intake of skilled migrants). The choice would be between lowering the points threshold (though minimum requirements to get into the pool in the new system are less stringent than implicit in the pass mark under the previous General Skills Category) or a lower intake.

The new system is not yet (November 2003) in operation. In the transition period applications under the previous rules were dealt with as normal, with one major change – that those with no “relevant” job offer were automatically rejected. Application fees are being refunded to rejected applicants who applied before the changes were announced and who would have been successful under the previous rules. The interim General Skills Category closed on 12 November 2003 as the first step in implementing the new Skilled Migrant Category. A summary of the points allocation table that will be used to assess employability and capacity building (in order to enter the pool of potential applicants) is provided in Table 12 below.

Temporary entry

A range of permits are available for temporary entry (Box 1). Increasingly this has been seen by the government as an opportunity to allow the labour market to test a potential settler’s ability to integrate successfully, as well as to allow entry to migrants who require only temporary residence in any case. The July 2003 changes can be thought of as integrating some of this experience into the mainstream settlement policy.

Table 12. **The new Skilled Migrant Category: points allocation table**

| Factors | Points |
|--|--------|
| Skilled employment: | |
| Current ongoing skilled employment in New Zealand for 12 months or more | 60 |
| Offer of ongoing skilled employment in New Zealand or current ongoing skilled employment in New Zealand for at least three months, but less than 12 months | 50 |
| <i>Bonus points for employment or offer of employment in:</i> | |
| An identified future growth area, identified cluster, area of absolute skills shortage | 5 |
| Region outside Auckland | 10 |
| Partner employment or offer of employment | 10 |
| Work experience: | |
| 2 years | 10 |
| 4 years | 15 |
| 6 years | 20 |
| 8 years | 25 |
| 10 years | 30 |
| <i>Additional bonus points if work experience in New Zealand:</i> | |
| 2 years | 5 |
| 4 years | 10 |
| 6 years or more | 15 |
| <i>Additional bonus points for work experience in an identified future growth area, identified cluster or area of absolute skills shortage:</i> | |
| 2 to 5 years | 5 |
| 6 years or more | 10 |
| Qualifications: | |
| Recognised basic qualification (e.g. trade qualification, diploma, bachelors degree, bachelors degree with Honours) | 50 |
| Recognised post-graduate qualification (Masters degree, Doctorate) | 55 |
| <i>Bonus points for:</i> | |
| Recognised NZ qualification (and at least two years study in New Zealand) | 10 |
| Qualification in an identified future growth area, cluster or area of absolute skill shortage | 5 |
| Partner qualifications | 10 |
| Age (20 to 55 years) | |
| 20-29 | 30 |
| 30-39 | 25 |
| 40-44 | 20 |
| 45-49 | 10 |
| 50-55 | 5 |

Note: This table applies to applications as from December 2003. A minimum of 100 points is required for applications to be put into the pool from which selections will be made.

Source: New Zealand Immigration Service.

Migration policy aims

The New Zealand Immigration Service (NZIS) mission statement says that its purpose “is to contribute to New Zealand’s economic and social wellbeing. This is done by developing and implementing immigration legislation and policies to

Box 1. Temporary entry

Work permits that do not carry permanent residence rights can be applied for under separate arrangements, and these are now frequently used as a route to acquisition of a settlement visa. Most of these focus on people with relatively high skills: permits issued under the Talent policy require applicants to have a job offer with a minimum base salary of NZ\$ 45 000 (the average production worker earned NZ\$ 39 400 in 2002); the job must be with an accredited employer, or on the Priority Occupations List,¹ or in an area of Arts, Culture or Sports. After two years, holders of Talent Visas are eligible for permanent residence if they have an offer of ongoing employment meeting the same requirements. Skill Shortage permits are issued on the basis that no suitable New Zealanders are available for the jobs that they are filling; if the job is on the Occupational Shortages List applicants are deemed to pass this test, otherwise a specific assessment is undertaken.^{2, 3}

In recent years, twice as many work permits have been issued each year as permanent residence visas. Holders of work permits may subsequently apply for permanent residence, and in 2001-02 about 8 000 principal applicants (out of a total of 25 000) had recently held a temporary work permit; nearly 5 000 principal applicants had most recently held a visitor permit.⁴ Those holding a Long Term Business Visa (LTBV) represent much smaller numbers; of 8 316 people granted an LTBV between March 1999 and June 2002 (over 5 000 of which were issued in the last year of that period), 457 had gone on to become residents, and only 65 of these were approved through the Entrepreneur Category; most used the General Skills and Investor Categories.

Eight thousand student permits were granted in 1997-98; this grew to almost 74 000 by 2001-02, of which over 40 per cent went to students from China and nearly 20 per cent to those from Korea.⁵ The number of permits is thought to exceed the number of students because permits are given for the period for which fees have been paid, not the total length of the course. Nevertheless, this is extremely rapid growth. Of students who had a permit in 1997-98, a cumulative total of 17 per cent had been approved for permanent residence four years later. Between 1997-98 and 2001-02 the number of temporary work permits issued also rose rapidly: from 26 000 to 59 000. These lead more frequently, or at least more rapidly, to residence. Of those given work permits in 1997-98, 33 per cent had residence within four years. Working holiday permits are also numerically quite important. They entitle holders to work in New Zealand for up to 12 months, with conditions that may differ according to the country of origin but which often preclude working for the same employer for the entire period. In recent years over 20 per cent of all work permits issued were for working holidays, about half to UK citizens and a quarter to Japanese. For the most part, students and working holidaymakers are not counted in the arrivals statistics discussed earlier, since their permits are usually for less than one year, and the numbers present in the country are lower than the number of permits issued in any one year.⁶

1. Occupations on that list are defined to be in persistent nationwide shortage. Those on the Occupational Shortages List (see next footnote) may be in shortage in some areas of New Zealand but not in others.

Box 1. **Temporary entry** (*cont.*)

2. The Occupational Shortages List, updated twice a year, ranges (in June 2003) from Aircraft Engineers, Apiarists and Appliance Service Technicians (Refrigeration and Cooling) to Vineyard Workers, Welders and Yacht Riggers. The Priority List is much shorter, including only secondary school teachers, food technologists, many medical professions, IT specialists and veterinarians.
3. Other temporary visas and permits are issued, for example, to spouses and partners of NZ residents while awaiting permanent residence, to working holiday makers, to refugee claimants, to some students and to the spouses and partners of Skill Shortage work permit holders.
4. This figure does not include people who visited New Zealand for up to three months (or up to six months for UK citizens) from countries with which New Zealand has visa-waiver agreements. It is likely that, if people from such countries were included in the analysis, then visitor permits would have been the most common temporary permit type held prior to being approved for residence.
5. Some of these are also accounted for by children of work-permit holders, including refugee claimants, who are classed as domestic students.
6. Even where students are attending a course that lasts for more than 12 months, their permits are valid for the period for which they have paid their fees, which is usually less than 12 months, and are renewed as necessary.

facilitate the entry of visitors, workers and migrants, while minimising risks and maximising the contribution to growth and enhancement of New Zealand's economy and culture". This does not place any explicit weight on population *per se*, and by referring to the wellbeing of "New Zealand" leaves ambiguous precisely whose wellbeing is intended (only current residents, current citizens – of whom one in eight do not live in New Zealand, or also future residents). Although policymakers – in New Zealand and in many other OECD countries – often refer to the fact that they are competing in some sense to attract highly skilled migrants, there has not so far been a definite strategy to promote this. The government intends to find ways to explicitly market New Zealand as an attractive destination for skilled migrants, however, and hopes to use expatriate networks for this purpose.

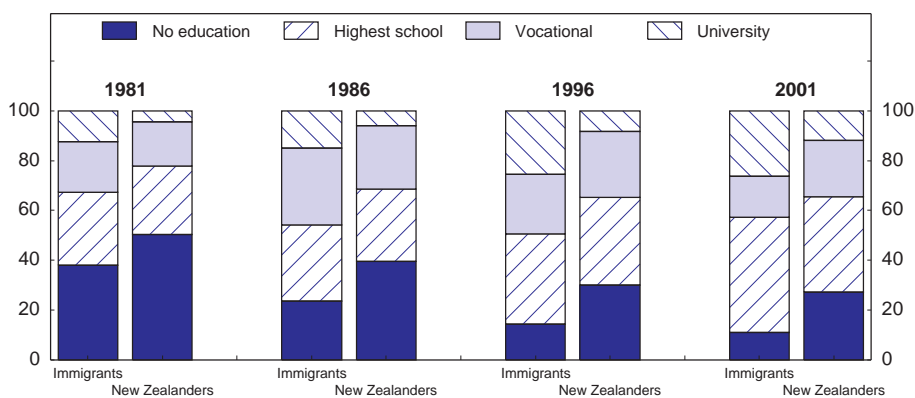
The authorities have focused on two observations in their recent policy initiatives. One is that many of the highly skilled people whom several governments are trying to attract, and probably an increasing proportion of all potential migrants in many countries, are long-term but temporary migrants. The other is the relatively high rates of unemployment among recent migrants during the 1990s (see below), even those who had been selected under the newly introduced points scheme for their potential to increase average productivity. The first observation has led the government to place more emphasis on short-term gains to

New Zealand. The second draws attention to the fact that no economic benefit is likely from immigrants while they are unemployed. Although it would be hard to specify how to *maximise* the contribution of immigration to New Zealand's economy, improving short-term employment outcomes for migrants should at least *increase* it, provided selection is not so narrow as to reduce the flexibility of the workforce in the face of structural changes.

Recent policy changes have therefore been directed towards raising the short-term employability of immigrants. Even before the July 2003 changes, these included the increase in the number of points granted on the basis of a relevant job offer and the advent of the short-term Job Search visa. Poor employment outcomes are also thought to have been partly related to inadequate screening for English-language ability, hence the tighter requirements introduced in the second half of the decade and further tightening in 2002.

The points scheme has ensured a highly skilled intake in the General Skills Category, since it is impossible to get the required number of points without a formal qualification. When the educational level of recent immigrants of all categories is compared with that of the working-age population, however, the change between the 1986 and 2001 censuses is as significant for the reduction in the number with no qualifications as it is for the increase in tertiary qualifications (Figure 26). The share of immigrants with a university degree doubled from 1986 to 24 per cent in 2001;

Figure 26. **Educational attainment of recent immigrants and New Zealanders**
Per cent composition, people of working age¹



1. Recent immigrants are defined as those who arrived in New Zealand in the five-year period prior to each census. Excludes those not fitting into any of these categories.

Source: Winkelmann and Winkelmann (1998) and Boyd (2003).

although the share of the university-educated NZ-born more than doubled, it did so from a much lower level, widening the gap between the two.

Attracting migrants?

A recent report (L.E.K. Consulting, 2001) argues that New Zealand should compete more actively to attract talent (a concept that is close to “highly skilled”) and has several recommendations that normally lie outside the range of action by central governments. Notably, it argues that highly skilled migrants are attracted by “lifestyle” as well as by material standards of living, and suggests that the lifestyle sought by the highly mobile can only be found in large dynamic cities. Sydney is cited as the only example in the Australasian region, and indeed Sydney has been attracting certain activities away from Auckland and Wellington in recent years, especially company head offices. To compete, argues the report, Auckland should become a “Global Lifestyle City”, though this may not be something that government action can do much about.

One activity which is probably already attracting future migrants is the education industry. The provision of education services to foreigners is a growing activity in many OECD countries (Larsen and Vincent-Laurin, 2002). Growth in New Zealand has been considerable, although less rapid than in Australia, with numbers doubling between 1990 and 1999, and tripling since 1980. Growth has continued since 1999. Now quite significant in terms of export earnings,⁵⁵ this growth can influence immigration in two ways. *First*, it introduces large numbers of potential immigrants to the country⁵⁶ and, assuming that this introduction is successful, may well generate interest in migration. *Secondly*, since NZ qualifications are more highly valued by local employers than foreign qualifications, it may increase the speed with which immigrants who enter this way integrate in the labour market. The role of providing education services to foreign students in integrating immigrants may be more important than in attracting them, since anecdotal evidence suggests that in many cases the education decision is linked with an idea of migrating anyway. About 30 per cent of the students are Chinese, reflecting the increasing tendency of students from that country to look for an English-language education abroad.⁵⁷ New Zealand now allows foreign students to apply under the General Skills Category onshore.⁵⁸

Education exports are not restricted to the tertiary sector. Since 1990, state-sector schools may take fee-paying foreign students. The decision is delegated to school governing boards, so there is no national policy other than the requirement that foreign students are not subsidised by their national counterparts.⁵⁹ Provided that the schools charge adequate fees, scale effects allow schools to augment the range of services available to other students. The same is true for tertiary institutions, which may also benefit from wider international connections, perhaps enhancing their ability to attract foreign teaching and research staff.

A factor that may already be, or has the potential to be, important in attracting migrants is the development of Immigration Consultants. They sometimes have a bad reputation; for example, there are suggestions that they provide potential migrants with little information that could not be obtained from official sources, or they devote their time to finding loopholes in legislation. An NZIS report concludes that the main problems were related to making inappropriate claims for refugee status and giving poor advice on the immigration process and other aspects of migration, but it was unable to quantify the importance of these issues (NZIS, 2001). Immigration agents have also recently acted as a kind of pressure group for potential migrants: the New Zealand Association for Migration and Investment, an umbrella group for migration agents, recently took the government to court over November 2002 changes to the English-language standard required for a Job Search Visa. Standards were tightened without notice, so a number of applicants who would have qualified when they applied under the General Skills Category faced a stiffer test than they expected. The High Court ruled in favour of the Association in May 2003, and though the government signalled that it wished to appeal, events were overtaken by the July 2003 policy changes.

The economic impact of migration

Various sources, principally the census but also NZIS records and other government agencies, provide a considerable amount of information on the experience of immigrants and comparisons can be made across groups. While there are comprehensive surveys of the labour market experience of immigrants, and studies of their direct contribution to public sector finances, few studies have attempted empirical modelling of the overall and longer-term impact of migration on the labour market or its consequences for the economy. This section considers evidence on the labour market experiences of immigrants, the possible consequences of migration for labour market behaviour, its fiscal effects, and finally discusses the overall impact.

Labour market experience

Even when net inflows are not great, the gross inflows and outflows can be large. The number of new immigrants to the labour force is similar to the approximately 50 000 residents who enter the labour force each year.⁶⁰ But for the most part they would be unlikely to compete directly with new entrants.

Evidence on the labour market experience of immigrants comes from a study of census data (Winkelmann and Winkelmann, 1998) covering the years 1986, 1991 and 1996, with some updating following the 2001 census. One of the most important issues is how well migrants integrate into the labour market over time. Since census figures are “snapshot” data, without any means of linking observations on individuals in one census year to what they were doing in earlier years, indications on how immigrants’

positions change over time have to be treated carefully. Longitudinal surveys are necessary to be sure about such questions, but none have yet been undertaken in New Zealand.⁶¹

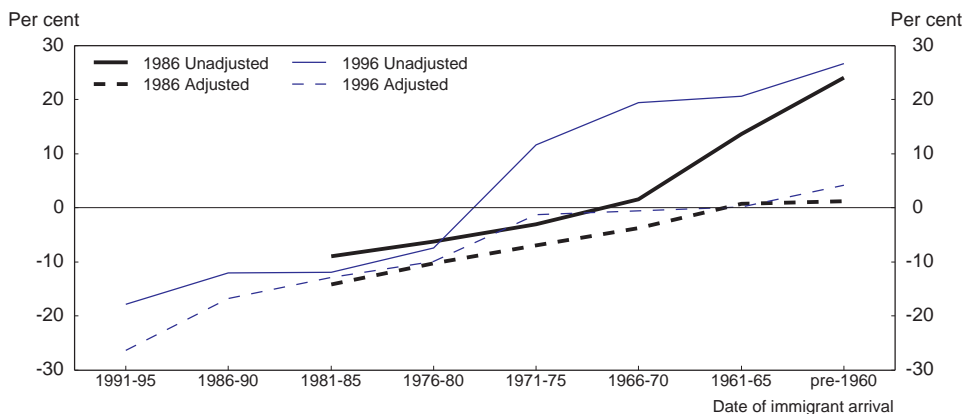
As in Australia and the other traditional countries of settlement, labour-market outcomes for immigrants in New Zealand tend to converge over time towards those of the locally-born, though with the rate of convergence varying according to what measure is used. Considering annual income of immigrants compared with those of the NZ-born, this convergence appears to be rather slow, with parity being reached after between 15 and 25 years. When census data are used to compare the simple average of the incomes of migrants who arrived a certain number of years earlier, convergence appears to occur after around 15-20 years. Thus, in the 1986 census, average incomes of immigrants who arrived 15-20 years earlier (in the 1966-70 period) were 2 per cent higher than the average for NZ-born, while those who arrived 10-15 years earlier (in 1971-75) had incomes about 3 per cent lower. By 1996, average incomes of those arriving 15-20 years earlier were still about 8 per cent lower, while those from the 1971-75 period, now in the country for 20-25 years, were 12 per cent higher.⁶²

Winkelmann and Winkelmann (1998) take account of variations in certain immigrant characteristics – age, education and gender – by estimating a regression model for earnings as a function of these variables. They find that the implied catch-up period is actually longer than obtained when using unadjusted data. In the 1996 census, immigrants who had been in the country for 15-20 years were still earning incomes below those of NZ-born people of similar socio-economic profile (Figure 27).

Although this looks like convergence, whether after 15 or 25 years, the picture is not one of immigrants from diverse backgrounds converging equally quickly. The experience of immigrants seems to vary substantially according to their country of origin. Employed immigrants from the United Kingdom and Ireland, for example, start with average incomes well above those of the NZ-born, while those from the Pacific Islands have very low relative incomes (Figure 28).⁶³ In the case of the first group, this appears to be explained largely by such immigrants being more highly skilled than the NZ-born, but according to estimates in Winkelmann and Winkelmann (1998) to take account of age, gender and education, such differences do not explain much of the very large income gap for Pacific Island immigrants. On the other hand, a process of catch-up is evident for Pacific Islanders and Asians.

The catch-up shown in Figure 28 for Pacific Islanders is in terms of their position corrected for the influence of age, gender and education. It does not show that they converge on average economy-wide incomes, since their educational level is low. More importantly, it seems that low educational achievement and low participation in post-compulsory education are also characteristic of the *children* of immigrants of Pacific Island origin. In the year 2000, 47 per cent of the working-age population of Pacific Island origin had at least an upper secondary

Figure 27. **Income differentials between immigrants and New Zealand-born, 1986 and 1996¹**

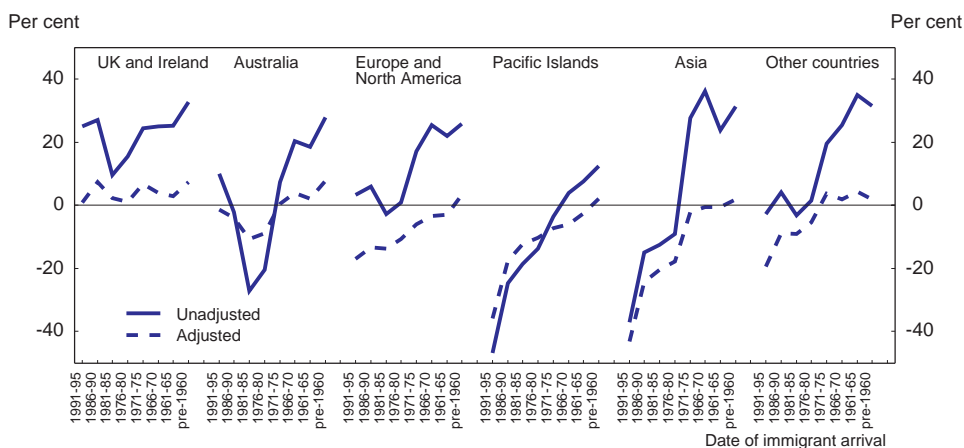


Note: Adjusted figures take account of the age, education level and gender of the immigrants relative to the average New Zealand-born.

1. Figures cover only those in employment at the time of the census.

Source: Winkelmann and Winkelmann (1998), Table 37.

Figure 28. **Income differentials between immigrants and New Zealand-born, by region of origin, 1996¹**



1. Figures cover only those in employment at the time of the census. Adjusted figures take account of the age, education level and gender of the immigrants relative to the average New Zealand-born.

Source: Winkelmann and Winkelmann (1998), Table 39.

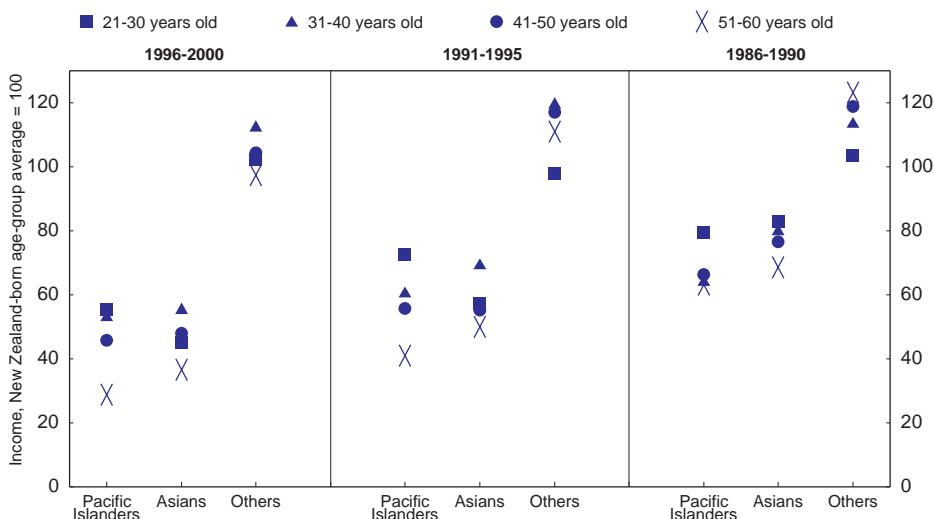
level of qualification, compared with 71 per cent for the population as a whole, and only 4.1 per cent had a tertiary level qualification (12.6 per cent for the population as a whole). Although these figures remain low, there are some signs of considerable improvement recently.⁶⁴ The OECD PISA comparative study of educational performance at secondary level (testing children at age 15) showed that New Zealand has very high levels of performance overall, and that the gap between native-born children and foreign-born children, or NZ-born to foreign-born parents, is quite small and among the lowest in OECD countries (with only in Australia and Canada being lower). There is, however, a significant gap between children who speak English at home and those who do not; this gap is much greater than in Australia and Canada and is comparable with other countries such as France and the United Kingdom (OECD, 2001c).

A further impression from Figure 27 is that the average recent immigrant in 1996 fared less well in the labour market than corresponding immigrants a decade earlier. A similar phenomenon appears in Canada, where “economic” immigrants (who are admitted on the basis of a points test) had incomes comparable with those of average Canadians on entry in the early 1980s, but significantly lower initial incomes during the 1990s (OECD, 20038e).⁶⁵

Notable income disparities by region of origin among recent immigrants were still visible in the 2001 census. Data adjusted in the same way as those in Figures 27 and 28 are not available, but comparison of age-specific gaps shows that differences in average age of migrants compared with the NZ-born cannot explain more than a small part of the income gaps, which exist for all age groups (Figure 29). Pacific Island-origin immigrants aged 21-30 seem to have a smaller income gap than the older age groups, regardless of in which period they arrived, whereas for other groups this is not the case, and for those of European origin the reverse seems to be true, at least for established immigrants.

These comparisons of income concern only the employed. Recent immigrants tend to have lower participation rates and higher unemployment rates than the NZ-born, and an important measure of immigration outcomes and the performance of labour-market institutions is how big this initial disadvantage is and how quickly it is reduced. The most important period is the first few months and years. Preliminary results from the pilot Longitudinal Immigration Survey of New Zealand (LisNZ) have recently become available.⁶⁶ The pattern is similar to Australia’s data,⁶⁷ with increases in employment rates of 9 percentage points (Table 13). But these increases are small compared with the variation between categories of immigrant, and the importance of English-language skills is clear (both phenomena also appear in the Australian longitudinal survey). Sample sizes are small, however, and these data are from a pilot study, so it is probably not wise to draw conclusions from – for example – the apparent low level of and small increases in employment rates among family and humanitarian immigrants (shown in the last

Figure 29. Relative immigrant incomes in 2001 by age and date of arrival



Source: Boyd (2003).

Table 13. Employment rates among certain categories of immigrant: LisNZ¹ pilot data
Percentage in work or self-employed

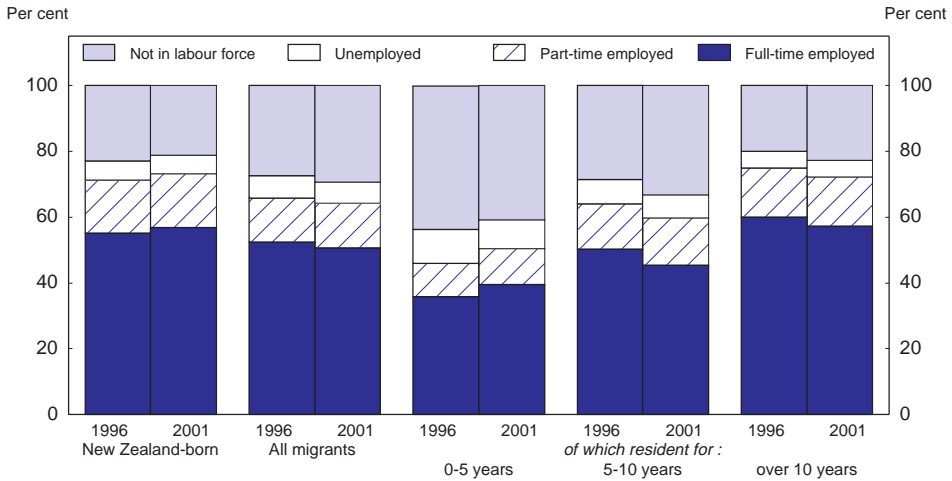
| Time since arrival | All immigrants | Skilled/business | | Non-skilled/business, English as second language ² | |
|--------------------------|----------------|----------------------|----------------------|---|---------------------|
| | | Principal applicants | Secondary applicants | Good English skills | Poor English skills |
| 6 months | 53 | 76 | 43 | 51 | 22 ⁴ |
| 18 months | 62 | 84 | 51 | 50 | 27 ⁵ |
| Sample size ³ | 690/546 | 246/186 | 147/120 | 99/81 | 102/75 |

1. Longitudinal Immigrant Survey: New Zealand. The pilot survey interviewed a sample of immigrants who arrived, or whose application was approved, in late 2000 or early 2001.
2. This includes both principal and secondary applicants from Family and Humanitarian, including Pacific Access, categories.
3. Denotes sample sizes at 6 and 18 months.
4. Sampling error +/- 8.
5. Sampling error +/- 10.

Source: New Zealand Immigration Service.

two columns).⁶⁸ Improvements in outcomes are observed using census data, with employment rates rising and unemployment and inactivity rates declining with length of residence (Figure 30).⁶⁹

Figure 30. **Labour force status of New Zealand-born and immigrants**
Age 15-64



Source: Statistics New Zealand.

Figure 30 also shows, however, that overall participation rates for immigrants were lower in 2001 than in 1996, even though the unemployment rate had fallen slightly, and that in both years immigrant participation was lower than for the NZ-born. This is a reversal of the historical pattern. In 1981, for example, the average participation rate among immigrants was 74 per cent, rising to 76 per cent in 1986, higher than the figures for the NZ-born of 71 and 75 per cent, respectively. This pattern of relatively high participation (and relatively low unemployment) among immigrants had often been taken as corroboration of the idea that immigrants are naturally more enterprising than average, and its reversal may call this into question or reflect some problems of labour-market function. The story is not simple, however. For example, participation rates vary considerably according to regional origin: in 2001 about 19 per cent of migrants from the United Kingdom and Ireland were not in employment compared with 29 per cent of those from Western Europe and America and 62 per cent of those from North-East Asia. Furthermore, between 1996 and 2001, participation and employment rates increased for migrants from nearly all regions and almost irrespective of their length of residence in New Zealand. This suggests that the decline in overall immigrant participation and employment rates shown in Figure 30 is due to the changing pattern of regions of origin of migrants (or other characteristics correlated with this), and that labour-market functioning improved when allowance is made for this.

Fiscal impact

One study, which has some limitations⁷⁰ (BERL, 2003), shows that the net per capita contribution of immigrants to the fiscal balance is positive, indeed more positive than that of the average NZ-born person (Table 14). “New” migrants (those resident for less than five years) have a less positive contribution than those resident for more than five years, since the latter tend to have much higher incomes and therefore pay more taxes, but do not make much more of a claim on public expenditures.

Table 14. **The fiscal contribution of immigrants**

| \$ per capita in 2000-01 prices | New Zealand-born | Overseas-born | | | |
|-------------------------------------|------------------|---------------|------------------------------|-------|---------|
| | | Total | Length of residence in years | | |
| | | | 0-5 | 5-10 | Over 10 |
| Government revenue | | | | | |
| Income tax | 5 136 | 5 561 | 3 677 | 5 134 | 6 910 |
| GST | 1 495 | 1 630 | 1 333 | 1 490 | 1 883 |
| Petrol, alcohol and tobacco excises | 555 | 603 | 493 | 551 | 697 |
| Government expenditure | | | | | |
| Early childhood education | 112 | 21 | 76 | 1 | 0 |
| Primary and secondary schools | 860 | 534 | 988 | 925 | 50 |
| Tertiary institutions | 331 | 355 | 478 | 456 | 228 |
| Health | 1 709 | 1 968 | 1 364 | 1 415 | 2 630 |
| New Zealand Superannuation (NZS) | 1 371 | 1 707 | 0 | 225 | 3 535 |
| Unemployment benefit | 252 | 241 | 245 | 297 | 208 |
| Domestic purposes benefit | 345 | 229 | 128 | 274 | 264 |
| Sickness benefit | 69 | 75 | 45 | 86 | 88 |
| Invalids benefit | 121 | 86 | 22 | 51 | 144 |
| Supplementary benefits | 166 | 177 | 178 | 208 | 160 |
| Student allowances | 99 | 132 | 162 | 228 | 62 |
| Net impact¹ | 1 749 | 2 266 | 1 817 | 3 007 | 2 121 |
| Population (in hundred thousands) | 3 053 | 741 | 204 | 191 | 346 |

1. Allowing for impacts on revenue and expenditure categories as explicitly identified in the table only.

Source: BERL (2003).

Impact on output and growth

Despite the lack of formal modelling to assess the overall consequences of immigration, the generally accepted view is that immigration is beneficial for the economy.⁷¹ This may result from economies of scale, though there is doubt about whether economies of scale exist at the level of the New Zealand economy as a whole (see NZIER, 1998),⁷² even if they exist for individual plants, or if cluster effects may manifest themselves in certain areas. Although arguments that large

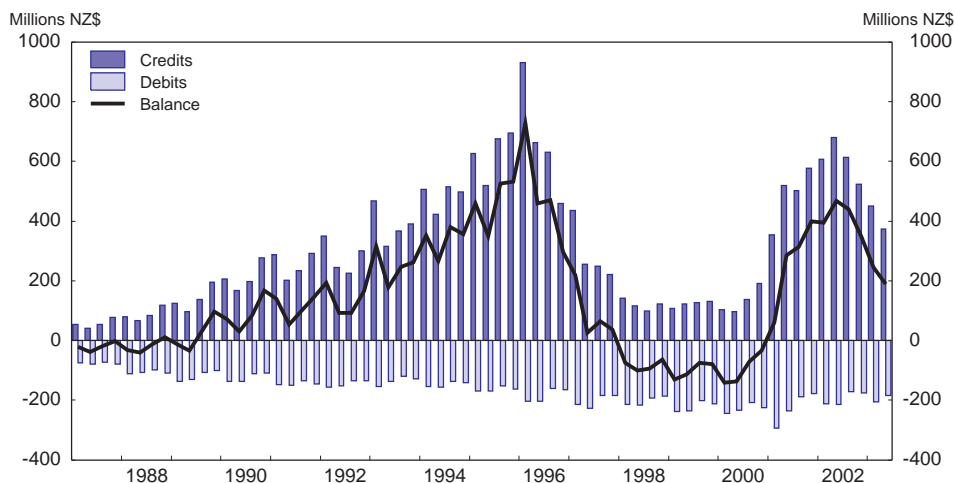
cities and a cosmopolitan lifestyle attract migrants, and that associated clustering effects might raise productivity may be plausible, the empirical evidence is far from conclusive.⁷³ Existing empirical literature for other countries (see Antweiler and Treffler, 2002 for a cross-country study and Perkins *et al.*, 1990 for a study on Australia) might suggest that an estimated scale elasticity would be no more than 1.2: a net immigration flow that increased population growth by 1 percentage point would increase per capita output growth by 0.2 per cent. Such figures are highly speculative, rather than a basis for policy-making, though they would imply that migration could have a significant impact on the economy.

Another aspect of this growth is that migrants tend to concentrate in Auckland. This has resulted in rapid expansion of the city so that both congestion and rising real estate prices have become issues. While congestion costs are real, rising real estate prices are partly a distributional issue, benefiting property owners at the expense of others. To the extent that population pressures are behind rising property prices in Auckland, rapid expansion of the education industry may be as much a culprit as immigration, since overseas arrivals are as likely to be students as long-term migrants.

Migration movements affect aggregate demand as well as aggregate supply, and the balance between the two effects may be different in the short run from that in the long run. The short-run macroeconomic effects receive more attention in New Zealand than in most countries, perhaps because there can be significant variations in annual net inflows and because some of these variations are themselves related to economic developments. Most immigrants are either highly skilled, many of whom probably arrive with some financial assets, or have some close family connections; the family connections may not be wealthy, but they are likely to be willing to help with installation. It has been argued that high net immigration in the mid-1990s contributed to rising house prices to such an extent that it threatened to have wider consequences for inflation, and the current high levels of net inflows have also been accompanied by rising property prices.⁷⁴

There is not sufficient or detailed enough data on the behaviour of the NZ economy to give clear answers on the overall effects on per capita incomes of existing residents. One assessment concludes that recent net immigration has been expansionary in the short term⁷⁵ in the sense that it expands demand more than supply (Goh and Downing, 2002). Although net migration inflows have been large, the study notes that an increasing proportion have been under 24 years old, generating relatively greater demand for education expenditures, for example. On the other hand, the large wave of immigration in the mid-1990s may have been more inflationary, partly because of the large balance of payments inflows that accompanied it (Figure 31).⁷⁶ If net migration inflows into New Zealand were responsive to the economic situation with little lag, there could be a potential tendency for these flows actually to amplify the cycle, rather than play the damping

Figure 31. **Immigrants' capital transfers in the balance of payments**
Quarterly rates, not seasonally adjusted



Source: Statistics New Zealand.

role that one might expect. Apart from this, the implications of high net immigration flows for macroeconomic balance are perhaps not very different from those of an increase in exports, given that a considerable proportion of the increase in demand due to immigration is financed from external capital flows, except that the inflow itself generates increased supply. In the longer run, migrant participation rates increase and unemployment rates decline over time, so the contribution to supply must increase relative to the effect on demand. However, precise control of net migration is difficult, since the government cannot reasonably control either returning New Zealanders or departures of any nationalities. The annual planning totals for settlement visas are, however, set after discussion with economic ministries. This probably influenced, for example, the decision to maintain the planning total for 2003-04 and subsequent years at about the same level as 2002-03, despite the availability of many highly qualified potential applicants at the moment.

Immigrant employment reflects the economic structure

Since the economy has been built on, or with, migrants, looking for an impact of migration on the industrial structure is difficult. Census data show that the distribution of overseas-born employment across broad industry groups is similar⁷⁷ to that of the NZ-born, apart from construction and agriculture. Otherwise,

the similarity in the patterns of employment by industry is likely to be a reflection of the fact that, despite the changing geographical origins of migrants, they are relatively similar to the existing population in their balance of skills and aptitudes.

Construction and the primary sector each employ around 4 per cent of the foreign-born but 6 and 9 per cent, respectively, of the NZ-born. This is a marked contrast to some European countries⁷⁸ and to the United States where one or both of these industries, as well as hotels and catering, often employ large numbers of immigrants. The difference is that in those countries there is a rather higher proportion of unskilled migrants, often illegal and perhaps not speaking the local language. In the case of agriculture, it is often argued that employment of unskilled and/or illegal immigrants is itself partly due to the protective trade regime that governs agriculture in many countries.

The impact of emigration

Very little is known with any certainty about the impact of emigration – emigrants rarely figure in national datasets while they are away, and little is recorded about them when they leave. Discussion of their impact is therefore a little speculative. The main issues are the extent to which they constitute a “brain drain” (and whether this is a problem anyway), how their activities abroad may affect New Zealand, how many of them eventually return and what benefits they bring if and when they do.

A large proportion of New Zealanders in their twenties travel abroad to work. Most go to Australia (at least as their first declared destination) and many to Europe, particularly the United Kingdom. They are relatively highly qualified, compared with the NZ average. Since the inflows are also relatively highly qualified, it can be argued that there is no significant net loss of human capital. But this may not be the appropriate comparison unless it is thought that the immigration would not occur (or would not be permitted) if emigrants were not leaving. In practice, it can be argued that economic activity in New Zealand is reduced in the short term by emigration and that per capita incomes are also lower as a result, given emigrants’ relatively high levels of human capital. However, since it may be presumed that emigrants themselves are better off than if they stayed,⁷⁹ economic activity attributable to New Zealanders, irrespective of where they live, is probably increased.⁸⁰ There is some evidence that New Zealanders in Australia, at least, are relatively industrious – their participation rates are higher than average in Australia and their recourse to social welfare lower, though this is largely accounted for by their relative youth (NZIER, 2000).

Some studies find a relation between the presence of immigrants and trade patterns, as the presence of groups of immigrants from particular countries may encourage both imports from and exports to these countries. This appears to be relevant in Canada for example (Head and Ries, 1998). No information on this

is available for New Zealand. Yet it can be presumed that the presence of large numbers of foreign born in New Zealand and of New Zealanders working abroad does facilitate international trade and investment links for a country that is otherwise extremely geographically isolated, even if the size of this effect is unclear.

It is thought that most New Zealanders who emigrate eventually return. There is some suggestion that average stays have been lengthening, though there is no statistical series on which to base this conjecture. A survey of expatriate New Zealanders (L.E.K. Consulting, 2001)⁸¹ does suggest that they stay abroad for longer than originally intended. Of those who had been away for up to two years, two-thirds had already been away longer than they intended, and one third of those who had been away for between three and five years. Initially, the intention appears to be to stay away for up to five years (this covers two thirds of the sample), with about one in six expecting to stay more than 10 years or indefinitely.

The fact that there is a well-established name for the period of time that New Zealanders spend abroad before returning home – “OE”, for Overseas Experience – already suggests that they have in mind something more than simply seeing the world; acquiring human capital that would be useful on their return is an explicit aim for many. How important this really is, either in terms of intention or outcomes is impossible to judge. One piece of research on temporary emigrants from Ireland (Barrett and O’Connell, 2001) suggests that there can be a measurable effect of overseas experience on incomes,⁸² but this is not yet a well-established phenomenon, since it is difficult to control for a number of factors, notably the possibility that emigrants may be self-selected from among the more dynamic individuals for any given initial qualification level.

Integration (“settlement”) policy

In the 1990s there were no active policy measures to follow immigrants’ progress or provide specific assistance or information to improve their employment prospects, once they had arrived in the country. Towards the end of the decade, when unemployment problems among recent skilled immigrants were observed,⁸³ attention turned to this issue. A number of programmes have been launched or piloted, including research into the process of integration itself.⁸⁴ Some of these programmes are focused on employment outcomes; implementation, which usually follows pilot studies, is generally decentralised to particular areas and is often sub-contracted (*e.g.* to Chambers of Commerce or Citizens Advice Bureaux) or in the form of joint projects between government and private-sector or non-profit agencies.

One of the characteristics of the economy that may be relevant in analysing employment outcomes is average firm size. It is argued that small firm size implies that employees cannot, for the most part, be highly specialised within firms, that people have to be willing to “lend a hand” to tasks that are not their direct responsibility, and that in order for this to work smoothly, communication

skills are especially important. It might be expected that those with poor English-language ability would be at a disadvantage in this kind of labour market. Australian companies are, on average, of a similar size to NZ firms, and studies there show the importance of English-language skills for successful labour-market integration.⁸⁵ This is one of the reasons behind the progressive tightening of the English-language requirements.

Firm size is therefore likely to be part of the reason for the difficult labour-market experience of some immigrant groups in the 1990s. However, there is some evidence that part of the explanation may also be discrimination by employers; for example, people with good English but the wrong accent are said to be discriminated against (Equal Employment Opportunities Trust, 2000). According to Oliver (2000), the main barrier was not English competence, but degrees of employer discrimination and stereotyping, together with inadequacies in the ESOL (English language tuition for Speakers of Other Languages) courses available. Furthermore, an NZIS survey showed that very few employers who actually took on an immigrant found that English-language problems adversely affected employee performance; 93 per cent said they would willingly accept an immigrant employee again.⁸⁶

Some employer organisations have argued that aspects of labour law may also be partly responsible for integration difficulties, by making it difficult for employers to hire “risky” employees. In the 1990s it had become easier for employers to engage new staff with a probationary period. The Employment Relations Act (2000) allows for these contracts, but according to some employer organisations specifies such tight conditions on procedures – for example, explicit expectations on productivity/performance must be established in advance – that it is rarely worthwhile employing people on this basis (See the next Chapter).

Initiatives aimed at improving labour-market outcomes among immigrants may be useful regardless of whether difficulties for immigrants are due to unjustified discrimination or to real difficulties for some immigrants in “fitting in” in NZ firms. Two programmes in Auckland illustrate this. The “New Kiwis” programme and the “Hi-Q” (for highly qualified) are both online job-matching services.⁸⁷ New Kiwis provides a database of around 4 000 CVs skilled immigrants, which can be searched by employers looking for candidates, and also has information on job vacancies that can be looked at by migrants. Maintained by the Auckland Chamber of Commerce and supported by finance from NZIS, this programme aims to reduce the information gap for both employers and immigrants⁸⁸ but does not provide much active intervention. Another Chamber of Commerce programme, also funded by NZIS, founded on the observation that a key inhibitor to business growth is difficulties employers have in hiring skilled staff, promotes skilled migrants’ potential to employers more actively. Auckland New Ventures, a joint venture set up in 1988 by NZIS and local government in Auckland, runs Hi-Q. It has

some similarities to the New Kiwis programme but is more “hands on”, involving counselling of new immigrants regarding the kind of jobs they can expect to get, along with other information such as how best to apply. NZIS and Department of Labour funding also supports a wide range of other programmes, often selected from competing bids from various providers and in different parts of the country. These are generally related either to improving information flows or certain job-specific training to improve employability for immigrants. The availability of facilities such as telephone translators for a suitable range of foreign languages is also being improved.

Conclusions

New Zealand's immigration policy has evolved considerably over the past two decades or so, towards its current aim of selecting two-thirds of its non-humanitarian permanent immigrants on the basis of their skills and the rest on the basis of family connections. There are signs that the government was right to interpret the early versions of this policy (which concentrated on bringing in human capital as measured by level of qualifications but without sufficient attention paid to language skills) as generating poor labour-market outcomes among some migrants, despite their high level of skills. It increased the minimum level of language ability required for Skilled/Business migrants several times. Most recently it modified selection policy to try to ensure skilled migrants enter the labour market successfully as soon as they arrive and also to give some weight to applicants who wish to work in specific sectors of activity. These changes are unlikely to reduce overall immigration inflows at the moment, given the current level of applications, which suggests that the supply of potential migrants will remain high for some time.

Improving labour-market outcomes among skilled migrants will bring economic benefits. Results from a pilot for the longitudinal survey suggest that skilled immigrants already have high employment rates within 18 months of arrival; improving overall labour-market outcomes among immigrants will require attention being paid to the labour-market experience of other migrant categories as well.

Fluctuations in net migration flows are considerable. It is possible that this generates some cyclical “amplification” effect, as recent arrivals add more to demand than to supply in the short term. This does not show up systematically in correlations between broad cyclical indicators and migration flows, however. Recent policy changes improve the ability to regulate inflows in periods of high demand, although it may turn out to be similar to a queuing system with overall numbers not very different from the current one. The increased use of temporary entry as a qualifying period may put pressure on the annual quota in the future if large numbers of temporary entrants successfully prove themselves.

The government recognises that some problems of integration may be related to employer discrimination, direct or indirect, on the basis of perceived

language problems such as those associated with unfamiliar accents or cultures, rather than objective or demonstrated language difficulties. Given that immigrants' regional, linguistic and ethnic origins are now much wider than they were for the first three-quarters of the twentieth century, improved integration will depend both on successfully selecting immigrants who will "fit in" and on flexible attitudes among New Zealand employers. Some programmes have been initiated that may improve these outcomes for any given immigrant intake; they are promising and should be followed up with careful analysis of their effectiveness.

The government should also bear in mind that selecting for particular sectors of immigrant employment is subject to the same risks as the discredited industrial policy of "picking winners": any skills that are currently only narrowly applicable in certain fields risk becoming much less valuable than more general skills. Offering incentives to migrants willing to settle outside Auckland may reduce the pressure on that area, but probably not by any noticeable amount, unless it alters the underlying relative attraction of central and peripheral regions.

Aggregate data suggest that immigrants tend to converge on NZ levels of incomes and labour-market participation, controlling for age, sex and education levels, even if after a longish period which may be up to 20 years for some groups. However, this appears to be the result of very different outcomes for groups with different countries or regions of origin. Immigrants from the United Kingdom start with income levels comparable or higher than that of comparable New Zealanders, whereas those of Pacific Island origin have very low incomes in the first years after arrival, though catching up subsequently (after taking account of their low skill levels).

Although analyses of successive census datasets show Pacific Islanders catch up with NZ residents of similar skill levels, even the educational and skill levels achieved by their offspring do not seem sufficient for this group to give the result – observed in many OECD countries – that second-generation immigrants from unskilled backgrounds do relatively much better than their parents. This is probably not an issue specific to their immigrant status, since it is also observed that NZ-born people of Maori ethnic origin are not, as a group, converging very rapidly on the educational or skill levels of the European-origin population. These phenomena deserve further investigation, and the proposed longitudinal survey of migrants should eventually provide useful information; an accompanying new parallel survey of the income and expenditure dynamics of the NZ population as a whole (Survey of Household Income and Expenditure) will make it easier to draw conclusions about the process of integration.

Although immigrants' labour-market experience is fairly well documented through analysis of census data, there is no work on the specific impact of migrants on the labour market – in particular their influence on wages and unemployment levels. Current immigration policy settings, with the important weight attached to skills and labour-market testing, and the significant capital inflows that tend to

accompany immigration, make it unlikely that there are significant short-term negative impacts, such as depressing wages or employment among the existing residents; potentially, some of this could be hidden by the response of emigration flows to these same effects, but there is no evidence to support this.

Emigration is as important as immigration to New Zealand. But its implications are even harder to establish empirically. Given that most of those who leave New Zealand to acquire “OE” appear to return, that most people appear to feel that they have acquired valuable experience while abroad, and that the current outflow of skilled people seems to be broadly matched by inflows of people to replace those skills, there is no obvious reason to fear a brain drain. However, the pattern of country origins of immigration does mean that changes in the ethnic make-up of the New Zealand population will continue.

Notes

1. Unless otherwise noted, “average” in this *Survey* refers to unweighted averages of the relevant countries.
2. In 1991, output is estimated to have been 6 per cent below potential. Hence, at least 6 percentage points of the growth since then can be attributed to a cyclical bounce-back. However, if potential output fell more sharply than current estimates suggest, perhaps because a significant portion of the capital stock became obsolete, then more of the growth since 1991 could be attributable to a recovery in the sustainable growth rate rather than being cyclical.
3. Several studies using a variety of approaches also confirm that a pickup in the trend rate of productivity growth occurred around the middle of the 1990s. See Razzak (2002), Black *et al.* (2003a) and Buckle *et al.* (2002). Downing *et al.* (2002) provide a range of estimates of potential output growth that are broadly consistent with the Secretariat’s estimates.
4. This projection assumes that the participation rate of each age group remains unchanged at its 2002 level, and implicitly also assumes either zero migration or that migrants have the same participation rates and age composition as the New Zealand-born.
5. In the OECD there are 18 agglomerations in 11 countries that are bigger than Sydney (population 4 million), and 30 that are larger than Melbourne (3.2 million) (www.xist.org/charts/city_million.php).
6. For example, see McCallum (1995).
7. For most of the 1990s, around one-third of school leavers left with no qualifications or with School Certificate only (Ministry of Education Briefing to the OECD, December 2001).
8. For example, the reading performance of 10 year-olds in the PIRLS (2001) study was equal to the average of the 17 OECD countries that took part, but had the largest variance.
9. For every ten new entrants to high-decile (most advantaged) schools who are competent or expert in maths, seven new entrants to low-decile schools meet the same standards. By senior secondary school, for every ten students from high-decile schools who qualify to enter university, only three from low-decile schools have comparable grades (Ministry of Education, 1999).
10. The inter-quartile range of PISA’s school mean index of economic, social and cultural status is below the mean and median of the OECD. See Table 8.4 of OECD (2001a).
11. Children from the top 5 per cent of Maori and Pacific families as measured by the PISA *International Socio-economic Index of Occupational Status* scored around 500 on the PISA combined literacy scale. That is approximately the same score as children from the bottom 5 per cent of Pakeha families. See Figure 6.1B of Sturrock and May (2002).
12. In terms of gross flows, 1.35 million New Zealanders have left since 1970 with the intention of staying away for at least a year, while 0.7 million have returned (although a

small number of these would have been people who left before 1970). Around 1.1 million foreigners arrived over that period, and 0.5 million left. Note that these figures refer to NZ citizens rather than the New Zealand-born population. Therefore, some of the NZ citizens who emigrated over that period were people born overseas but who later gained NZ citizenship while they were there.

13. Fabling and Grimes (2003) use NZ firm-level questionnaire-based data and find that business performance is strongly correlated with the purchase of external technology and having fully up-to-date core equipment. IT-related factors were found to be considerably more important for small and medium-sized firms than for their larger counterparts.
14. As a rough approximation, road use expands at the same rate as income, so investment levels need to keep pace with GDP (Ingram and Zhi, 1997). In New Zealand, annual investment levels are currently insufficient to cover depreciation and growth in demand. Over the next ten years, expenditure on road building is budgeted to grow by an average 3.3 per cent per annum, well short of the forecast 5 per cent nominal GDP growth (NBNZ, 2003). That projected level of investment could be sufficient to reduce congestion only if those funds get channelled primarily to bottleneck areas by not fully maintaining the under-utilised parts of the road network.
15. The FDI β can be measured by regressing the (log) change of New Zealand's FDI on the (log) change of world FDI. The resulting β coefficient is 0.51 (with a t-value of 1.1) over the period 1980-2001.
16. See, for example, "Red tape worry as firms cut investment", INL Newspapers, 5 May 2003, and "New Zealand rules forcing investors overseas, say fish farmers", INL Newspapers, 30 June 2003.
17. This refers to the OBERAC, or operating balance of the Core Crown (central government) excluding revaluation effects and accounting changes.
18. By contrast, New Zealand has the highest proportion of graduates in life sciences among OECD countries.
19. A Design Industry Taskforce was also set up and has produced its report (2003), which however makes it clear that rather than an industry *per se*, design represents a capability, and design-led firms are present in a variety of different sectors.
20. The tax break resulted from a tax loophole that the government closed in 1998, but which could still be exploited by films which began production before that date. The film producers were allowed to claim an up-front tax deduction for the entire cost of the film trilogy.
21. The average bound tariff (simple average across all lines) is 13.8 per cent, compared with an average of 4.2 per cent in the Quad countries (United States, the European Union and Canada). However, the average applied MFN tariff is much lower, 4.1 per cent (WTO, 2003).
22. Thus, indicators of FDI restrictions that disregard screening requirements put New Zealand's FDI regime among the least restrictive in the OECD. On the other hand, given the difficulty of taking into account the way a screening system is actually implemented, if the very presence of a screening requirement is considered as a restrictive element, New Zealand's regime would be regarded as more restrictive than the OECD average (Golub, 2003).
23. For example, even though Ireland had a corporate tax rate of 10 per cent (12.5 per cent since 2003) against New Zealand's 33 per cent, in 2001 the average effective tax rate on an investment from the United States to Ireland was only 1 percentage point lower

than that of a comparable investment to New Zealand (Yoo, 2003).

24. It has even been suggested (Simmons, 2002) that New Zealand may be functioning as a “nursery economy”, nurturing innovative ideas and small businesses that, however, can only be fully exploited by offshore firms.
25. For residential consumers, one additional factor is that the price of access to low-speed Internet access is maintained artificially low, because under its “kiwi share” agreement with the government, Telecom is obliged to provide a free (unmetered) local calling option, which includes both voice traffic and normal (low-speed) Internet access. Moreover, given that Telecom was offering only metered broadband access, many consumers were probably reluctant to move from unmetered to metered access.
26. There is no general capital gains taxation in New Zealand. Capital gains from equity participations arising in the context of certain arrangements are taxed, while others are not. The key factor is whether holding and trading securities are normal part of an entity’s business: for example, a mutual fund is considered to hold its security portfolio on revenue account and is taxed on any resulting capital gains, while a small investor is not. However, this criterion leaves significant room for interpretation, particularly when new financial arrangements emerge.
27. A survey by the Auckland Chamber of Commerce found that the smallest firms (those with 1-5 employees) devote up to 30 times as much of their resources per employee to compliance as those with 100 employees or more.
28. The Environment Court already has the power to award costs against frivolous objectors.
29. In addition to financing for research projects on a contestable basis, each CRI receives from the FRST a “non-specific” funding top-up equal to 10 per cent of the previous year’s total allocation, whose purpose is to support longer-term capability enhancement. In some cases, CRIs can also bid for government funding for large capital expenditures that they cannot finance out of their own budget.
30. The CRI Act states that each CRI “shall, in fulfilling its purpose, operate in a financially responsible manner so that it maintains financial viability”. This is interpreted to mean that it should recover the full cost of the research performed, including the cost of capital employed (see CCMAU, 2002).
31. Comparable data on tertiary education expenditure exist only for 2001, and for New Zealand they refer only to the public sector component, which is 0.9 per cent of GDP, against an OECD average of 1 per cent of GDP (OECD, 2003d). However, public spending on tertiary education has risen by over 30 per cent between 2001 and 2003, and is probably now above the OECD average.
32. In order to have access to public funding a tertiary education organisation must submit a charter and an annual profile indicating strategic plans, proposed activities and performance targets, which are then assessed by the TEC and have to be found consistent with the objectives of the TES.
33. A review of the course classification system used to set funding categories has been recently undertaken to address some distortions in funding rates that may affect the behaviour of providers and students. However, the government has not taken up the suggestion made by the Tertiary Education Advisory Commission in its fourth report (TEAC, 2001) to differentiate the proportion of public funding across courses and disciplines according to national strategic goals.

34. In addition to this financing managed by the TEC universities, as already mentioned earlier in this chapter, are also eligible for funding allocated by the FRST for specific research projects on a contestable basis.
35. In 2001, foreign students represented 6.2 per cent of all tertiary students enrolled in New Zealand, a proportion above the OECD average, with students from Asia and Oceania representing 80 per cent of the total. The number of NZ tertiary students enrolled abroad was equivalent to 3.5 per cent of domestic enrolment, below the OECD average of 4 per cent; three-fourths of them were studying in Australia and most of the remainder in the United States and the United Kingdom (OECD, 2003d).
36. Another dry weather episode occurred in 1992.
37. In a recent study (Energy Link, 2002), the elasticity of demand for electricity was found to be virtually nil at relatively low prices, and to start rising (in absolute terms) gradually only above a price of 10 cents/kWh (which is about twice the historical average price). Even then, demand would fall by only 2 per cent at 20 cents/kWh and by 6 per cent at 40 cents/kWh.
38. The net cost of contracting for and operating the reserve has been estimated at about NZ\$ 60 million a year, which represents a little over 2 per cent of what New Zealanders spend annually on electricity (at retail prices). Thus, the amount of the levy would not need to be very large.
39. According to the government's recently released *Energy Outlook to 2025* (Ministry of Economic Development, 2003b), new generating capacity for a total of 3 350 MW (relative to a present capacity of 8 700 MW) will be needed by 2025, partly to replace old plants (especially in the years 2006-10) and partly to meet increasing demand. The latter is projected to grow at an annual rate of 1.2 per cent, assuming GDP growth of 2.5 per cent (rather modest relative to both recent experience and official objectives) and gains in energy efficiency exceeding those realised in the recent past. Thus, investment needs could be significantly larger if economic growth is higher and/or the government's National Energy and Conservation Strategy is less successful than projected.
40. Passenger transport was discontinued in the 1990s, except for commuter train services in Wellington and Auckland.
41. Some of this fall is likely to be explained by the change in Australia's welfare policies for NZ citizens in early 2001. Another factor may have been the increased insecurity worldwide following the terrorist attacks of September 2001.
42. The main data on net migration flows concern so-called "Permanent and long-term" migrants. These are people who, on arrival in or departure from New Zealand, declare their intention to remain in their country of destination for more than one year. Such inflows thus include many people with temporary work permits and returning New Zealanders, in addition to those who have obtained a settlement visa, while it is only the latter who are included in the planning totals. Outflows include people emigrating definitively or for "overseas experience" as well as people who have been in New Zealand temporarily.
43. Resident spouses of NZ citizens can apply for citizenship after two years of residence.
44. About 30 000 intended to stay longer than one year, but not permanently (this distinction – that between "permanent" and "long-term temporary" – can be made in the Australian statistics, but not in New Zealand's) and around 17 per cent of these were not NZ-born. In this three-year period, China, Hong Kong, Taiwan and South Korea together provided one in four of the non-NZ-born settlers, one in six of the long-term

- temporary; Pacific Islanders constituted about 20 per cent of the non-NZ-born total flow, and the United Kingdom some 13 per cent.
45. Furthermore, since the changes in Australian welfare arrangements for NZ citizens, arrivals in Australia of NZ citizens born in Asia have fallen much more than those of NZ-born. But no obvious fall in applications to enter New Zealand from Asia has occurred, as would be expected if this were a significant factor.
 46. See L.E.K. Consulting (2001). Although the sample was quite large (1 500 people), it may not be representative of New Zealanders abroad. Little other concrete information is available, however.
 47. International English Language Testing System. This rates English language ability on a scale of 1 to 9 with 1 being a non-user and 9 being an expert user. Principal applicants under the General Skills or business categories are required to take the test if they cannot demonstrate that they have an English-speaking background (*e.g.* by coming from an English-speaking country or having an academic or professional qualification from an English-speaking country); since November 2002 General Skills applicants are required to score a minimum of 6.5 (between “competent” and “good” user), whereas 5 (“modest” user) is required of Business skills applicants, increased from 5 and 4, respectively. Average scores in 2001-02 for successful applicants from various countries were: South Africa 7.0; Philippines 6.6; India 6.4; Romania 6.2; Russia 5.8; China 5.7; Japan 5.6; South Korea 5.5.
 48. Parents, children and adult siblings are admitted subject to various additional conditions. These include requiring the “centre of gravity” of the family to be in New Zealand or, for adult children and siblings, a suitable job offer. NZ residents can also “sponsor” family members not otherwise eligible for entry, guaranteeing them accommodation and financial support for the first two years; this is subject to an annual quota, currently set at 250.
 49. The Pacific Access Category (PAC) includes a quota of 1 100 Samoans a year, allowed entry if they have a job offer and are aged 18-45. Smaller quotas exist for Tonga (250 people), Tuvalu (75) and Kiribati (50, increased to 75 in July 2003); in July 2003, a quota of 250 was introduced for Fiji nationals, not previously eligible under the PAC. Apart from asylum seekers decided on a case-by-case basis, there is a quota of up to 750 people per year for refugees nominated by the United Nations High Commission for Refugees.
 50. This total is the sum of the three streams, but the government intends to treat each stream independently and not compensate for over- or under-runs in one stream by varying admittances under other streams.
 51. The NZ government fears that moves to restrict entry to well-qualified applicants will have an adverse effect on the quality of future applicants, though it is not clear whether empirical evidence supports this. Some research shows that rapid processing times for applications can have an impact on choice of destination country for some migrants. Oliver (2000) finds that Chinese emigrants tend to be indifferent *ex ante* between Canada, Australia and New Zealand, looking basically for physically and politically congenial destinations. New Zealand’s rapidity in processing applications was taken by many as meaning that the country was keen to admit people because it needed them; hence, potential migrants assumed, jobs would be easy to get.
 52. Onshore applicants already working in New Zealand may be exempted from this requirement if they pre-pay for English language tuition, on a scale that varies inversely with their IELTS test score. The partners and adult children of skilled and

- business migrants must also meet English language requirement, a little less strict than for the principal applicant, or else pre-purchase English language tuition.
53. According to Stuart (2000), (Asian) business migrants found that the business plan they submit to the New Zealand Immigration Service is irrelevant and is ignored in New Zealand.
 54. A thorough investigation of applicants' qualifications and work experience will be undertaken only when they apply from the pool.
 55. Larsen and Vincent-Laurin (2002) estimate that revenues due to foreign students were around US\$ 200 million in the year 2000, 4.7 per cent of total NZ services exports. Australia earned ten times as much, almost 12 per cent of services exports, and the United Kingdom and the United States were even bigger earners in absolute terms, but in terms of the importance of such revenue in exports of services, New Zealand was thought to be second only to Australia.
 56. One of the growing areas in education exports is distance learning, the modern version of correspondence courses, where students do not actually leave their home country; direct familiarity with the exporting country is obviously not a by-product in this case.
 57. Seven per cent of all foreign tertiary students in OECD countries in 1999 were from China, and 5 per cent were from Korea. Concerning China, the latest "wave" of student movement from there, and inflows of business oriented migration, contrast with a previous significant movement in the late 19th century, when inflows of unskilled Chinese labour were important in a number of countries – this was the origin of a long-established community of Chinese in New Zealand whose ancestors were involved in New Zealand's gold rush.
 58. In the past, students would often have had to return to their home country and apply from there; this restriction now applies only to students benefiting from scholarships offered under New Zealand's development aid programme.
 59. This instruction may not have been sufficiently clear. There are suggestions that in some cases schools took account only of current operating costs in calculating fees to be charged overseas students and may therefore have overburdened their investment budgets. This practice does not seem to be widespread, however.
 60. One might also compare immigrant arrivals with turnover in the labour force, but it is hard to know what measure is appropriate. For example, in 2001, an average of about 85 000 people obtained jobs in each quarter who had not been working in the previous quarter, compared with an average of 10 to 15 000 immigrants arriving each quarter. This still takes no account of those who change jobs or of higher frequency movements into and out of employment.
 61. A pilot project has been undertaken to set up a longitudinal survey of immigrants ("LisNZ") similar to that which already exists in Australia. Useful results will not be available for several years, although some preliminary results are discussed below. For research purposes it would be helpful to have a parallel longitudinal survey of the NZ-born – one of the limitations of the otherwise extremely valuable Longitudinal Survey of Immigrants in Australia is the lack of directly comparable information on the Australian-born.
 62. As indicators of how well New Zealand integrates its immigrants, these figures do not take into account variations in the characteristics of successive cohorts of immigrants and natives, nor of how each cohort changes through time (notably, it gets older and gains experience on the job relative to the population average), however.

63. Note that these data concern employed people. Since the Pacific Islanders also have relatively high unemployment early on, as discussed in later sections, the relative income of the average recent Pacific Island immigrant will be even lower.
64. In 1991, only 28 per cent of Pacific Island origin people had an upper secondary qualification (62 per cent overall), and the Household Labour Force Survey was not able to report a figure for tertiary education since it was too small compared with the sampling error (see Ministry of Social Policy, 2001).
65. This is consistent with the finding (discussed in Chapter I) that differences in proficiency at school are related to a large extent to ethnic background. Pacific Island immigrants and their NZ-born descendents, who with Maori are the most disadvantaged groups, probably represent a larger percentage of the non-English speaking children than of total immigrant children of NZ-born children of immigrant parents.
66. This survey interviewed a sample of immigrants who arrived or whose application was approved in late 2000 or early 2001; they were interviewed 6 and 18 months after arrival (or after approval in the case of on-shore applications).
67. Information from the Australian longitudinal survey shows that while 63 per cent of immigrants arriving in 1993-95 (principal applicants only) were unemployed or out of the labour force 4-5 months after arrival, this figure falls to 48 and 42 per cent after 1½ and 3½ years, respectively. These figures for Australia varied enormously according to the immigrant category. For skilled migrants the figures were 33, 15 and 11 per cent, respectively, for preferential family migrants (which would include many spouses) they were 69, 56 and 51 per cent.
68. These data have been produced from a LisNZ pilot test and are restricted to a small sample of migrants settling in specific areas, speaking a given set of languages and arriving in New Zealand over a particular two month period (December 2000 and January 2001). Wave 1 of the pilot consisted of 690 migrants and Wave 2 of 540 migrants. Data from this test are indicative only, as they are derived from a sample designed to evaluate the LisNZ methodology, not to produce reliable statistics. The data should therefore be treated with caution.
69. Again, as these are not longitudinal data, the improvements with length of stay are a function of time but also of other possible differences in the characteristics of the different cohorts of immigrants.
70. BERL (2003) uses data from the 2001 census to look at fiscal receipts and public expenditures accounted for by immigrants, distinguishing them principally by length of residence and region of origin, and compares their contribution with that of the NZ-born. Being based on census data, it is not able to look at immigrants according to the programme under which they were admitted, unlike recent work for Australia (Access Economics, 2002). It cannot take direct account of how the contribution varies through time, notably as immigrants age and become likely recipients of greater amounts of pension and health expenditure, and some expenditure estimates for migrants are based on the assumption that they have similar behaviour to NZ-born with similar age and incomes. The authors further note that the results cannot necessarily be seen as the fiscal *impact* of immigrants, since some of these impacts would show up through the effects on revenues and expenditures accounted for by enterprises and by NZ-born people whose position had been affected by migration. Other aspects of the methodology include the assumption that expenditure items not mentioned in Table 14 are invariant with respect to population size. Many items are calculated by applying, for example, statutory tax rates applicable to people as a function of their incomes, in the absence of census data on actual tax payments. For each kind of tax and expenditure item, the

amounts calculated in this way for each population group identified are grossed up in equal proportions so that the overall totals match actual budgetary expenditures and revenues.

71. This view is shared in other traditional “settlement” countries – Australia and Canada, for example – and is based partly on the fact that these populations and societies would not exist in anything like their current form without the substantial and consistent (albeit fluctuating) immigration flows that have continued for more than a century. It is also partly based on the observation that certain “agglomerations” tend to have higher productivity growth rates, with this growth appearing to be associated with high research and development activity. If successful research and development activity itself depends on geographical concentrations – or “critical masses” – of researchers in particular fields, then larger populations are likely to generate higher per capita income growth.
72. For example, a recent empirical study on economies of scale at the whole economy level (Ades and Glaeser, 1999) restricted itself “to the poorer economies where increasing returns seem to operate”.
73. Eaton and Eckstein (1997) suggest little relation between city size and growth in a study of France and Japan. Wheeler (2002) showed a similar result for city data in the United States, but found a U-shaped relationship between population and growth using data on counties.
74. Many immigrants – recent policy measures are likely to make this an increasing proportion – arrive with jobs already set up for them, and thus add to supply almost immediately; the share with jobs of course increases with time since arrival. Once people have jobs, however, they become more creditworthy. If they were credit-constrained before finding employment, they could potentially do even more dis-saving than before, and add more to demand than to supply, even as output rises as immigrants move into employment.
75. The study does not specify precisely what is meant by the short term, though it is less than one year.
76. Some of these inflows were probably accounted for by business immigrants who subsequently placed their “investment” funds on deposit, rather than adding directly to demand. These inflows may also contribute to a rise in the exchange rate, which occurred in the mid-1990s and signs of which have recurred of late. The close link between the fluctuations in these inflows and in migration flows is partly artificial, since the data are estimated on the basis of a link between migration flows and transfers; the transfers are not observed directly. Estimates of current account transfers due to migrants (“workers’ remittances”) are not separately available in the balance of payments data, as the methodology is thought insufficiently reliable to allow their separation from other current flows. They seem to be much less important than the capital flows, however.
77. The differences in share between the two populations are negligible except for construction and agriculture. A survey by NZIS of migrants who arrived in 2000-01 shows larger, but still small, differences for nearly all industries, with the same exceptions of construction and agriculture.
78. See, for example, the 2003 OECD Economic Surveys of Spain and Luxembourg. NZ agriculture employs a number of working holiday makers for seasonal jobs, however. These would not show up in the labour force survey data quoted in the text.

79. New Zealanders abroad are well-known for their use of networks for information; it is unlikely that many of them who move abroad and remain there did not have fairly good information about what to expect when they left. They can therefore be expected to have made a “rational” decision.
80. Or at least their welfare is increased. Many abroad may choose low-skilled or part-time work to benefit from greater leisure but perhaps lower incomes, for part of their stay.
81. This was a non-representative sample of some 1 600 expatriates, contacted, for example, through university alumni associations, employers organisations or New Zealand consulates.
82. The research covered a group of people who graduated from Irish universities in 1992 and were resident in Ireland in 1998. Males who had worked abroad between the two dates had incomes some 10 per cent higher than those who had not. No difference was found for females.
83. The study by Winkelmann and Winkelmann (1998) was commissioned by the government in 1997 to investigate this issue.
84. This includes the planned longitudinal survey of immigrants mentioned earlier.
85. See *e.g.* Chiswick *et al.* (2002), and, for similar results for the United Kingdom, Shields and Wheatley Price (2001).
86. Since this survey did not cover employers who had the ability to take on immigrants but did not, it will be biased towards favourable outcomes if employers select successfully. It was based on a study of 387 employers in 2000-01.
87. See www.newkiwis.co.nz and www.hi-q.org.nz/main/index.html
88. The Auckland Chamber of Commerce believes that as many of 70 per cent of vacancies are not normally advertised but filled through word of mouth, an obvious disadvantage for newly arrived immigrants.
89. Of those who received the unemployment benefit continuously for the two years from October 1997 to September 1999, half stayed on the benefit for the following 12 months, while a little over a quarter left and remained independent. Gobbi and Rea (2002) looked at a cohort of both short-term and long-term unemployed who left the unemployment register in 1993. Half were back on the benefit within a year and 70 per cent were back within four years.
90. In 2003, 83 per cent of long-term (more than one year) unemployment benefit recipients had no dependent children. The proportion is roughly the same for the sickness benefit.
91. See Tables 3.2 and 3.5 of OECD (2002f). The paragraph refers to net (after tax) replacement rates relative to a job paying two-thirds of the average wage (as the majority of beneficiaries who are able to find work are likely to be in a low-paying job).
92. See OECD (2003f) and Blundell (2002) for a more thorough discussion.
93. See OECD (2001d) and Fredriksson and Holmlund (2003) for reviews of the theory and evidence.
94. In June 2003, 4.1 per cent of the population aged 15-64 receiving either a Sickness or an Invalids benefit. This is similar to levels in Germany and Canada, but is well below the OECD average of 5.8 per cent (in 1999). Some countries, such as Poland, Norway, the Netherlands and Sweden have disability rates above 8 per cent of the working-age population. See OECD (2003h).
95. This is based on a University of Auckland Business School survey released in June 2003.

96. In a sample of around 1000 collective agreements struck under the ERA, the Department of Labour (2003) reports that three-quarters of agreements covering two-thirds of employees contained clauses dealing with the sale or transfer of all or part of the business (by law it should be 100 per cent, but there are no penalties for non-compliance). The vast majority of these say that workers that remain employed with the new owner on the same terms and conditions will have no entitlement to redundancy compensation.
97. Germany is the only OECD country where a worker who voluntarily quits in such circumstances would be entitled to redundancy compensation. An EU Directive specifies that staff will continue to be employed on the same terms and conditions, but leaves it up to member states to decide what should happen when someone voluntarily decides not to work for the new owner. In Denmark, severance payments can be received if a worker quits because the change in ownership results in a serious deterioration of his position. See Blanpain and Engels (1998), IPD (1995) and Watson Wyatt (1997) for details on labour law at the EU level and in its member states. The EU Directive referred to is number 77/187 as amended by Directive 98/50. Practice in Australia varies across states, with some providing neither continuity of employment nor the automatic transfer of accrued benefits.
98. Unless otherwise noted, GDP refers to the production-based measure which is regarded as more reliable than the expenditure-based measure.
99. In raw form the surplus was only NZ\$ 2.0 billion (1.5 per cent of GDP), which was slightly below both the previous year's outcome and the Budget forecast, despite much higher revenue growth than expected: a reduction in the assumed discount rate led to a large reduction in the balance because of its effect on the valuation of the government's unfunded pension liability for its employees (NZ\$ 10.7 billion) and of outstanding accident insurance claims (NZ\$ 9.2 billion in gross terms and NZ\$ 4.3 billion in net terms). Higher estimates of long-term labour-cost increases also contributed to the rise in estimated accident insurance claims, as did investment losses and asset devaluations in defence and electricity. Full funding of the accident claims liability is targeted for 2014.
100. Statistics New Zealand has not published any accounts for general government since those for 1997. All such statistics in the text below are OECD estimates.
101. The full government contribution is nearly NZ\$ 1½ billion per year. The Fund is expected to start investing in the final quarter of this calendar year. At mid-year it had assets of NZ\$ 1.9 billion.
102. This figure differs from the government's published net debt estimate as it subtracts off the financial assets of the NZ Superannuation fund.
103. Indeed, if the analysis went further out into the 21st century, the estimated gap would get much larger as the operating balance would deteriorate at an accelerating rate and net debt would rise explosively. Some other countries (such as Denmark) are trying to ensure that their public finances are balanced over a much longer horizon than 50 years.
104. This would go so far as including demographically driven changes, settlements of legal claims and estimated student loan losses. Some pre-specified volatile items will be excluded and covered only in end-of-year assessments. While capital spending will of course be included, it is to be hoped that the revised approach will allow a clearer trade-off between current and capital initiatives.
105. The impact of the latter will need to be limited and largely net out over time, or else the credibility of the process will be at risk.

106. The priority areas for change identified by that review were: "i) Achieving better integrated, people focused, service delivery;... ii) Addressing fragmentation and improving alignment;... [and] iii) Enhancing the people and culture of the state sector..." (Briefing for Parliament, Public Finance (State Sector Management, Bill, p. 4).
107. Crown entities number around 2 780 of which some 2 600 are School Boards of Trustees. The remainder have various forms: some are statutory bodies (the ACC, for example), others are companies (such as the nine Crown Research Institutes) and a few are single-member entities, like the Commissioner for Children.
108. Such a proposal was also made by the State Services Commission (2003).
109. On current prices, without the emission charge, coal-fired plants have a slight economic advantage and would make up 31 per cent of the new 2 200MW to be installed, against 14 per cent for combined cycle gas turbines (Ministry of Commerce, 2000). Even at low levels, the emissions charge could substantially change that balance, as a tax of NZ\$ 13 per tonne (about US\$ 8) of CO₂ would lift the price of coal relative to gas by 9 per cent. This could encourage further exploration efforts as gas fields run out.
110. Leaving the farm sector aside indeed means less emission reductions than what a first-best tax would bring. New Zealand will hence have fewer permits to sell on the international market, which generates negative effects on the terms of trade and on national income. The estimated economic loss is very small, however, at 0.1 per cent of household consumption, because the forecast for the price of permits (NZ\$ 13 per tonne of CO₂) is very low, in line with the current consensus (see IEA, 2002 and NZIER, 2001a).
111. OECD calculation based on data reported in NZIER (2001b). The NZ\$ 40 figure is drawn from the equalisation of net present values at a discount rate of 10 per cent as indicated in NZIER (2001b). Though NZIER (2001b) mentions a 10 per cent discount rate, it finds a different figure for the threshold because it equalises the respective internal rates of return, a methodology which is not appropriate.
112. Recent national data are not comparable with the previous report on the subject (Ministry of the Environment, 1997). A national update on water quality, which should identify trends over time, is due for public release in early 2004. Such a long interval since 1997 hinders the public from being able to follow the evolution of water quality nationwide. Regional councils, however, issue public reports with comparable data more regularly, which allow some trends to be identified.
113. Having increased by 51 per cent to 3.9 million cows between 1990 and 2002, the dairy herd generates effluent equivalent to that from 52 million people (Poore, 2003).
114. An average of 7 839 such bacteria per litre was found in surface water samples taken at 465 stations in the period 1995-2001, a level suitable for livestock watering but well above the swimmability threshold of 2 000 per litre.
115. *Campylobacter* was found in 60 per cent of water samples taken at 25 sites in a study carried out for the Ministry of Health (2002).
116. Under the RMA of 1991, all discharges of contaminants must have a resource consent from the relevant regional council or be authorised by a rule in a regional plan.
117. This remark is based on conclusions in Statistics New Zealand (2002b), but no data have been reported to the OECD to substantiate it.
118. This estimate includes capital expenditure on sewage collection and treatment but also on drinking water supply and stormwater collection.
119. At the 6-digit Harmonised System level.

120. The Quad countries comprise the United States, the European Union, Japan and Canada.
121. Tariff rates now in the range 17-19 per cent, such as those on textile, footwear and clothing, will decrease to 10 per cent by July 2009. Other rates will fall to 5 per cent by July 2008.
122. New Zealand imports no fresh eggs or poultry and bans all non-pasteurised cheese apart from a closed list of specific cheeses made in Switzerland. Some WTO members have officially expressed their criticism of the requirements that New Zealand imposes on the import of dairy products (WTO, 2003).

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BASIC STATISTICS OF NEW ZEALAND

THE LAND

| | | | |
|---|-------|--|---------|
| Area (1 000 sq. km) | 268.0 | Urban population, ¹ percentage of total (June 2003) | 78.6 |
| Percentage of total pasture and arable land, 1996 | 49.5 | Population of major urban areas (June 2003, 1 000 persons): | |
| | | Auckland | 1 199.3 |
| | | Wellington | 363.4 |
| | | Christchurch | 358.0 |

THE PEOPLE

| | | | |
|--|---------|--|---------|
| Resident population, June 2003 (1 000) | 4 009.5 | Civilian employment, 2002 (1 000) | 1 876.8 |
| Inhabitant per sq. km | 15.0 | <i>of which:</i> | |
| | | Agriculture, forestry and fishing | 159.8 |
| | | Manufacturing | 289.9 |
| | | Trade (wholesale and retail) | 420.5 |
| | | Education, health and community services | 310.5 |

PARLIAMENT AND GOVERNMENT

| | | | |
|------------------------------------|----|-----------------------------------|--|
| Present composition of Parliament: | | | |
| Labour Party | 52 | Present Government : Labour Party | |
| National Party | 27 | Next general election: July 2005 | |
| New Zealand First | 13 | | |
| ACT New Zealand | 9 | | |
| Green Party | 9 | | |
| United Future | 8 | | |
| Progressive Coalition | 2 | | |

PRODUCTION (2002)

| | | | |
|--|---------|-----------------------|--------|
| Gross Domestic Product (NZ\$ millions) | 125 428 | GDP per capita (NZ\$) | 31 842 |
|--|---------|-----------------------|--------|

FOREIGN TRADE (2002)

| | | | |
|-------------------------------------|------|---------------------------------------|------|
| Main exports (percentage of total): | | Main imports (percentage of total): | |
| Fish and seafood | 22.1 | Machinery and transport equipment | 40.6 |
| Manufactures | 20.0 | Manufactures | 18.7 |
| Dairy produce | 16.7 | Mineral, chemicals, plastic materials | 25.6 |
| Meat | 13.8 | <i>of which:</i> | |
| Wood and wood products | 11.5 | Mineral fuels, lubricants, etc. | 9.3 |

THE CURRENCY

| | | | |
|-----------------------------------|--|--|--------|
| Monetary unit: New Zealand dollar | | Currency unit per US dollar, average of daily figures: | |
| | | Year 2002 | 2.1633 |
| | | November 2003 | 1.5915 |

1. Defined as the population in the 30 main and secondary urban areas.

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The economic situation and policies of New Zealand were reviewed by the Committee on 17 November 2003. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 26 November 2003.

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The Secretariat's draft report was prepared for the Committee by Pietro Catte, David Rae, Paul O'Brien and Boris Cournede under the supervision of Peter Jarrett.

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