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## xecutive Summary

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Migration is very significant in Pacific island states, especially in Polynesia, primarily as a response to uneven economic and social development. In many Pacific island countries, the remittances that flow from internal and international migrants to family members at home have been of growing importance, again especially in Polynesia where they often represent the single most prominent component of national incomes. They reach levels rarely found elsewhere in the world.

Very few detailed studies of this migration-remittance nexus have been statistically significant, and many are more than a decade old so may no longer be valid. Information in many areas is inadequate, hence further research would be valuable. Much of the available data concern Samoa and Tonga, where international migration and remittances have been of great importance and where this has been documented more substantially and credibly than elsewhere. To some extent, these two Polynesian states provide a template of a remittance-dependent economy that can be used as a good starting point for other small countries in the region. As long as serious economic challenges face island states, as population growth rates remain above world averages, and as expectations rise, the ability to migrate will be crucial where development prospects are few and where the possibilities of declining aid levels are becoming more apparent. In fact, many island governments actually promote international labor migration.

Remittances are bi-directional because social networks continue to be significant. As long as migrants and their kin build and maintain these networks, remittances are likely to be sustained beyond what economic principles might suggest. They respond to an implicit social contract, contribute to human capital formation, and can be seen as a form of intergenerational transfer. Remittances in the Pacific currently continue at high levels for very long periods except when close kin die or when families reunite in the host country. Second generation migrants, however, are likely to send smaller amounts only on demand. Maintaining remittance flows at high levels therefore requires a steady flow of new migrants.

There is no question that remittances have contributed to development in various contexts. They meet real needs especially on smaller islands, in remote regions, and in independent states. Remittances have tended to go

into consumption (including house construction) but are increasingly directed towards investment (especially in the service sector) despite limited opportunities. Remittances are used to create human capital for future migration and do not crowd out or disadvantage sectors of national economies. If this investment in human capital is treated as a legitimate and rational use of remittances, many apparent problems disappear and migration becomes more obviously beneficial. Cross-sectional data from recent studies show few signs of remittance decay with length of absence from the home country and that an increasingly significant motivating factor for migrants to remit is the accumulation of assets and investments at home. Both of these conclusions are contrary to many previous studies of migration and remittances in the Pacific and elsewhere.

International migration has had both positive and negative effects in the Pacific, but the positive effects of notably increased standards of living must be contrasted with the limited development potential of many countries and their failure to achieve significant, sustainable economic growth. Maximizing the benefits from international migration is crucial, but Pacific island states have not developed policies to do so though opportunities exist to stimulate and direct flows. The present conclusions suggest that remittance levels would be sensitive to policies affecting relative real interest rates but do not suggest that policies would stimulate more domestic investment or that the migrants or their families would necessarily make the best entrepreneurs. Policies should be geared more towards encouraging migrants to become more active in domestic capital markets as saver-rentiers. This raises the broader issue of the general investment climate. Migrants are unlikely to risk their capital in an investment in the home economy if safer alternatives exist elsewhere. Governments must offer savers competitive real interest rates in order to accumulate loan funds to invest either in domestic projects or to hold as overseas assets.