Remittances in the Pacific
An Overview

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Foreword

The research for this report was initiated by Andrea Iffland, who rendered technical support and guidance during the ensuing phases of in-depth reviews. John Connell, School of Geosciences, University of Sydney and Richard P. C. Brown, School of Economics, University of Queensland prepared the report based on an extensive literature review. Judy Goldman provided editorial support and much appreciated advice.

The report provides an overview of labor migration from Pacific island countries and the remittances that follow. Remittances have always been and continue to be a major feature of the Pacific island economies. They ensure a balance of payment surplus in most receiving countries. The dependence on remittances, particularly of Polynesian countries, is controversial. Some economists consider reliance on these private flows of funds critical as it leaves economies vulnerable to fluctuations outside the control of governments. There is also very little understanding about the reciprocity triggered by remittances and its impact on the balance of payments and on the gross national product. The lack of reliable and accurate data on remittances renders it difficult to address these concerns. The situation is further aggravated as remittances are underestimated due to informal unrecorded flows. Governments recognize the need for better data but are also aware of the sensitivity of these flows to official monitoring.

Remittances constitute a major part of household cash income for many families. They are considered a safety net for the population at large. Remittances are mainly used for consumption while investment purposes are of lesser importance. With private sector development a priority of most Pacific island countries, it is essential to understand the remittance flows—their vulnerability, sources, and volume—and how best to harness them for development purposes.

Executive Summary

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.

1 Introduction

In many Pacific island countries, the remittances that flow from internal and international migrants to family members at home are a prominent feature of the national economy. Internal rural-urban migration produces some flows of goods and money, but international migration yields substantially greater ones. There have, however, been few studies of this migration-remittance nexus and even fewer are both detailed and statistically significant. Many are now more than a decade old and may no longer be valid. Information is therefore somewhat limited on the current use of remittances, on their real and potential contribution to domestic incomes and economic development, on their social influence, and on how they function as a safety net against hardship and poverty. Furthermore, many additional questions have not been thoroughly investigated including the extent to which remittances are sensitive to variables like foreign exchange rates, relative rates of interest and inflation, and the extent to which migration and remittances contribute to inequality. Remittances have raised living standards in the islands, they have contributed to employment especially in the service and construction sectors, and they have eased balance of payment problems despite contributing to inflation especially in the larger Polynesian countries. However, it has been argued that remittances have not generally been invested in economic growth, so increased demand for improved consumer goods can usually be met only by further migration. This particular issue is the principal theme of this overview.

In the Pacific island microstates, the prospects for economic growth are unusually limited compared with other regions of the world. Consequently, the now widely perceived disparities in economic development and welfare between them, especially the smallest states of Polynesia and Micronesia, and neighboring developed nations have contributed not only to substantial migration but also to increasing pressures for further migration. Almost all international migration has occurred since the 1960s, but it has become so extensive that some of the greatest concentrations of Pacific islanders are in cities such as Auckland, Honolulu, and Los Angeles rather than in the island Pacific. Already there are second and third generations of islanders for whom “home” is sometimes an uncertain and ambivalent concept.

As migration continues, small, vulnerable Pacific states have become a peripheral and dependent part of a wider world. Contemporary patterns of migration have diversified, demographic structures have changed, and global and island economies present different development contexts. Essentially, the lives of island people are increasingly international. Some small Polynesian states like Cook Islands and Niue have more than half their populations living overseas. The largest migratory streams have been from Polynesia though there is now increasingly rapid migration from the independent Micronesian states that were once American colonies. Migration has been particularly substantial and better documented from Samoa (formerly Western Samoa) and Tonga—the two largest independent Polynesian states. In contrast, for American Samoa, Palau, Tokelau, Wallis and Futuna, and others, there is very little contemporary information despite the significance of migration and remittances.

Migration in the Pacific is primarily a response to real and perceived inequalities in socioeconomic opportunities that have resulted from uneven development. Social influences on migration are important especially in terms of access to education and health services but also as one element of the transition to adulthood; such social influences are in turn often a function of economic issues.

Basically, migration is a time-honored strategy of moving from a poor area to a richer one in search of social and economic mobility. In most of independent Polynesia and Micronesia there is a powerful and almost universal recognition that the best social and economic opportunities lie overseas. In fact, the desire to migrate overseas is now regarded as normal though most moves began only half a century ago. Thus in Tonga, quite simply, "…overall there are few opportunities for socioeconomic advancement in Tonga and migration is perceived as the only solution" (Morton Lee 2004). Much the same might be said of smaller states. What is also true everywhere is that while rural-urban migration produces remittances, international migration produces substantially greater flows and is therefore more attractive.

Radical changes in perceptions of satisfactory standards of living, desirable occupations, and adequate services and amenities have encouraged migration. Aspirations have almost always included imported food and other goods (such as clothes and vehicles) and access to schools, hospitals, and modern entertainment, all of which demand some cash income (Bedford 1980). At the same time, agricultural work throughout the Pacific has been losing prestige, and young men have been less willing to participate. Changing aspirations have not only been the province of young men. In Tonga, "… one often hears parents expressing the wish that their children work at something better than agriculture even though they themselves are farmers. This something better invariably refers to white collar jobs which carry with them a lot of prestige" (Sevele 1973). In the past 25 years, these trends have become well established throughout the region.

Changes in values following increased educational opportunities and the growth of bureaucratic (largely urban) employment in the region in the 1970s, especially during the prelude to independence in many states, further encouraged migration as local employment opportunities did not keep pace with population growth. This situation continued through the 1990s, another a period of both rising formal unemployment and restructuring in much of the region. This widened the gap in many places between rising expectations for consumer goods and travel and the reality of limited domestic employment and incomes.

In terms of international migration, what has distinguished most Pacific islanders is that they intend to stay in the host country even though they may have expressed an intention to return home (Macpherson 1994). This is particularly true of most migrants from Samoa and Tonga. It is also true of migrants from Cook Islands and Niue despite the fact that they are citizens of New Zealand and can move freely between countries. Because of this tendency, remittances from Pacific islanders are particularly substantial. Other than for Kiribati and Tuvalu, direct comparisons with other states with a migration-remittance nexus such as Pakistan or the Philippines are limited because most of their migrants are on short-term contracts and must return home. In contrast, until quite recently when significant migration from Tuvalu to New Zealand began, almost all migration from Kiribati and Tuvalu was either as laborers to nearby Nauru or as contract workers on shipping lines. Workers were specifically trained for these activities, their remittances were and are both obligatory and institutionalized, and they were required to return home.

Remittances play an important role especially when migration is from small island states such as Tuvalu or from small islands (such as Ponam or Ware) in larger Pacific states like Papua New Guinea. Otherwise remittances within countries, especially in Melanesia, are of limited economic significance though they may be of considerable social significance (Mecartney 2000). However, even for remote parts of such large islands as Tanna, Vanuatu, remittances from urban migrants are the single largest source of income in several villages (Winthorpe 2004). Nonetheless, in many places there is inadequate information on remittances and their use and hence on their real and potential contribution to domestic incomes and economic development, their influence on social change or continuity, and their ability to constitute a safety net.

Because of the continued significance of remittances, the sustainability of remittance-dependent development is particularly important and somewhat uncertain especially if in the home countries the need for remittances grows faster than the supply (Forsyth 1992; Macpherson 1992). The rate of migration to major destinations, namely New Zealand, Australia, and the United States, has declined in recent years due to economic recessions in those countries and to the restructuring of migration regulations such that return migration has sometimes been considerable (Maron 2001). At the same time, migration policies in host countries have increasingly favored those with skills (Liki 2001; Brown and Connell 2004). Furthermore, as families reunite overseas and as migrants integrate into host communities, their ability and willingness to remit are expected to decline over time (e.g. Macpherson 1994). If that is so, unless other sources of income can be developed and unless remittance incomes can be used and invested more productively, the future of the economies of remittance-dependent Pacific countries is uncertain.

Several states in the region actually have an outflow of remittances. More than half the population of the Commonwealth of the Northern Marianas is nonresident workers. Their remittances, mainly to the Philippines and to a lesser extent to China, totalled about US$80 million in 2003. Workers on Nauru also remit to their home countries including Kiribati and Tuvalu though there are no data on these or other flows, and there is a significant flow of remittances from New Caledonia to Wallis and Futuna. Remarkably there is also a flow from Niue because of extremely high levels of aid, the assistance that Niueans provide to those resettling in New Zealand, and perceptions that the community will not remain so it is useless to remit to Niue (Cohn 2003; Heyn 2003). These rather exceptional cases are not discussed here though that of Niue has important implications.

2 The Importance of Remittances

There is considerable evidence in many countries, at least in past years, that migrants' remittances are a significant part of disposable income especially in Samoa, Tonga, and smaller states such as Cook Islands, Kiribati, Tuvalu, and Wallis and Futuna. In fact, the smaller island countries (specifically Cook Islands, Kiribati, Tokelau, and Tuvalu) were dubbed MIRAB states, where migration, remittances, aid and the resulting, largely urban bureaucracy are central to the socioeconomic system (Bertram and Watters 1985). It quickly became evident that this acronym had wider relevance (Connell 1988). While the term is disliked in the Pacific because it implies a handout mentality, it nonetheless suggests the centrality of migration and remittances and has been largely unchallenged for two decades (Bertram 1999a). On the other hand, it has been recognized quite correctly that the term appears to deny the initiative of Pacific islanders other than as migrants in spite of a range of activities such as the 1990s boom in squash cultivation in Tonga (van der Grijp 1999; cf. Hooper 1993). Moreover,

> Islanders in their homelands are not the parasites on their relatives abroad that misinterpreters of 'remittances' would have us believe. Economist do not take account of the social centrality of the ancient practice of reciprocity. ... They overlook the fact that for everything homeland relatives receive they reciprocate with goods they themselves produce, by maintaining ancestral roots and lands for everyone. ... This is not dependence but interdependence (Hau'ofa 1984)

At the very least, remittances have complex and important social and economic dimensions.

The original acronym has spawned others. MURAB places extra and appropriate emphasis on urbanization in island states such as Tuvalu (Munro 1990), and ARAB applies to French Polynesia where there is virtually no migration because of high wage levels and other forms of state support but where atomic rent produced similar outcomes (Poirine 1994). Finally there have also been MIAB countries where migration has not stimulated a significant flow of remittances (Ogden 1994).

MIAB describes some parts of Micronesia including the Marshall Islands and the Yapese (Federated States of Micronesia) outer island of Woleai (Ogden 1994; Karakita 1997). Indeed more remittances flow from the Marshall Islands to migrants in the United States than into the islands. This is a function of relatively high incomes because of American aid, high education expenses in the United States (Hess 2004), and the fact that Marshallese have exceptionally low-paying jobs in the United States. This situation is also true for some parts of the Federated States of Micronesia (FSM). Migrants from the atoll of Namoluk do not send remittances home on a regular basis since the cost of living in California, Hawaii, and Guam is such that they have nothing to send. Moreover, with few exceptions they work in notoriously poorly paid, largely forgotten jobs (Marshall 2004). However, as Micronesians acquire superior education and better jobs, it is probable that the migration-remittance system will eventually move towards the more standard form. In fact, the largest survey of remittances of migrants from FSM to Guam and Hawaii in the late 1990s demonstrated that more than a third of households did send them (Grieco 2003). The proportions were lower than those of first generation Polynesian migrants and the sums were also smaller, but it is clear that remittances are of growing significance. Connell's observations on the atoll of Woleai in the early 1990s suggest that this transition was also occurring there as other sources of cash income were both few and declining.

Remittances are even more important in the more remote parts of small Pacific island states whether as international or national flows. On the tiny coral atoll of Manihiki in Cook Islands, migration and remittances constituted nothing less than a socioeconomic strategy for collective survival (Underhill 1989). In Nanumea in Tuvalu, remittances grew from half the island's income in the 1970s and 1980s to 75% in the 1990s in large part because of the collapse of copra marketing as world prices slumped (Chambers and Chambers 2001). Similar situations occur in other small islands and island states.

In Tonga and elsewhere, migrants have been seen as part of a "transnational corporation of kin" that may seek to maximize extended household incomes across different continents (Marcus 1981). Similarly for households in Samoa, "…having young wage earners abroad diversified families' earning streams and reduced their dependence on high-risk activities. Having family members in several locations abroad diversified earning sources and reduced risk levels still further" (Macpherson 2004). Moreover Macpherson went on to argue that, "Families, using intelligence from migrants abroad, periodically surveyed risks and returns in various enclaves and encouraged others abroad to relocate in places in which returns were found to be higher and risks lower." In this way Samoans were encouraged to join the United States military because jobs were assured, wages were higher, and education could be obtained without loss of earnings. "If this analysis depicts Samoans as calculative and instrumental, it is because in relation to risk and return they are necessarily so... [as] risks and returns available in various places were formally canvassed and modeled by families" (ibid).

It has been argued, however, that applying the same kind of model in Tonga tends to portray families as in agreement about their economic aims and functions whereas there are often conflicts and tensions within them (Morton Lee 2004). Moreover, over a decade ago, James argued that in many Tongan villages remittances were becoming individualized and that the idea of a transnational community of kin was becoming increasingly invalid (James 1993b; Morton Lee 2003). In Kiribati and Tuvalu where seafarers send remittances to wives and parents, there are frequent disagreements about their allocation and use (Dennis 2003). Evans has pointed out that since remittances necessarily tend to be received by a single person, their use remains more complex than just meeting certain household goals (2001). In the absence of detailed studies in the Pacific in the last decade, the extent to which there has been greater individualization is impossible to determine. Such conflicts over use emphasize, rather than downplay, the role of remittances.

Only recently have second and third generations of Pacific islanders grown up outside their island homes, hence the extent to which these people will remit and even whether they can be described as islanders or migrants is not well known. Already there is some evidence that the links between second generation Samoans in New Zealand and Tongans in Australia with their kin on home islands are declining though in the latter case links are maintained with migrant Tongans elsewhere (Muliaina 2001; Morton Lee 2003; 2004a). These new generations are more likely to act as individuals rather than to perceive themselves as members of wider transnational social groupings.

Until the 1990s, there was a degree of consensus about migration and remittances in the Pacific centered on their high volume, their social significance, and their relatively conservative use for consumption and social events. While it is generally accepted that remittances are an important benefit of migration, at the same time they have been perceived as both central to and an element of distortion and dependence in island economies. Charges have been laid that remittances fuel conspicuous consumption of imported goods of little real value, that they fail to transform or rejuvenate languishing rural economies, and that they discourage local effort. Pacific islanders, on the other hand, have often viewed remittances more positively. In 1992 Malama Meleisea wrote,

> In less than twenty years Samoan villages have been rebuilt with permanent material houses, shiny glass and concrete churches.

> Many rural families own smart new Japanese or American made pick-up trucks and young people wear jeans and shorts instead of lavalava – all this has been due mainly to the remittance dollar.

Similarly in Tonga,

> The consequences of having a relative overseas were often conspicuous in daily life in the early 1980s. New store bought outfits. A household appliance, or frequent trips to the village shop were local signs that a letter or package had come from overseas. A house in the village with a sink or bath-tub, sometimes sitting uninstalled on the property, was an indication that a husband working overseas would soon be returning (Small 1997).

Though incomes from outside the islands (whether remittances or aid) have tended to contribute to inflation, to raise the opportunity cost of labor, and possibly to depress some local development, they have nonetheless produced higher material standards of living where the local resource bases, fragmentation, and isolation would otherwise have impeded development. In many circumstances, remittances are very high proportions of national, village, and household incomes. For the Samoan economy, for example, remittances are a crucial element in national development plans. Even as early as 1962, Pirie and Barrett predicted that migration and remittances would become central to Samoan economic planning. Forty years ago, Pirie observed that Samoans in New Zealand had remitted US$15 million and that this was, "...of major assistance to Western Samoa in meeting its overseas payments" (1960). At much the same time, Shankman recorded that, "…in 1974, 20 percent of the Western Samoan population was overseas and remitting over 50 percent of the national income" (1976). This situation was broadly similar in Tonga where remittances were the single most important source of national income at least by 1973 (Connell 1983) although these early trends were less well documented (see Campbell 1992). In Cook Islands, high proportions were also recorded though aid played a greater role (Loomis 1990; Mataio 1991). In each of these states, for more than a quarter of a century since, remittances have remained at similarly high proportions or have increased.

The overall data on remittances as gross private transfer receipts (see following table) though under-recorded indicate the very considerable long-term significance of remittances in Samoa and Tonga and their recent growing importance in Fiji Islands.

Gross Private Transfer Receipts [a] in US$ million 1990–2002

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Cook Islands [b]	-	-	-	-	1.2	1.3	1.4	1.4	1.2	1.1	1.1		
Fiji Islands [c]	-	-	-16.3	-11.1	-23.8	-26.5	-30.4	-11.4	-7.0	-10.7	-12.3	40.4	53.0
Kiribati [d]	-	-	-	-	4.0	5.2	6.0	6.8	6.7	7.1	6.0	5.7	6.0
Marshall Islands	-	-	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6
Micronesia, Federated States of	-	-	-	-	1.1	1.2	1.4	1.7	1.9	2.2	2.2	2.2	2.3
Papua New Guinea	-	-	-	-	59.4	66.5	51.7	70.3	83.0	61.8	13.0	26.0	18.0
Samoa [e]	-	-	-	31.3	33.1	35.3	36.8	42.0	37.3	41.6	43.7	41.8	57.9
Solomon Islands	-	-	-	-	-	22.1	18.6	17.5	11.9	24.9	16.5	23.9	15.9
Tonga [f]	-	35.5	32.5	41.7	42.5	46.9	44.9	44.4	44.2	40.2	48.0	54.2	65.2
Tuvalu [g]	-	1.7	1.7	1.7	2.0	2.0	2.0	4.0	4.0	4.0	4.0	4.9	
Vanuatu	6.9	6.0	5.4	4.9	5.8	6.1	12.5	13.8	15.6	18.7	27.3	39.5	30.6

[a] Private transfer receipts in the Balance of Payments account are current transfer payments received by private persons and nonofficial organizations of the reporting country from the rest of the world that carry no provisions for repayment. In addition to workers ‘ remittances, private transfer receipts would include current transfers by migrants; gifts, dowries, and inheritances; and alimony and other support remittances.

[b] Private remittance receipts only

[c] Net Private sector transfers

[d] Refers to seamen’s remittances which are classified by Kiribati authorities in the Balance of Payments as factor income receipts rather than transfer receipts.

[e] Excludes earnings remitted by residents working on short-term contracts overseas (this would be defined as factor income from abroad).

[f] In fiscal year ending 30 June.

[g] Estimates for the early 1990s, 1997 to 2000, and 2001 from the Central Statistics Division and the TTF Advisory Committee 2001 report as cited in the Tuvalu 2002 Economic and Public Sector Review, ADB Manila, page 9.

Sources: Treasury of Samoa Quarterly Review, various issues; National Reserve Bank of Tonga Quarterly Bulletin; Cook Islands Quarterly Statistical Bulletin; Reserve Bank of Fiji Quarterly Review, Fiji Islands; Bureau of Statistics Key Statistics; Reserve Bank of Vanuatu Quarterly Economic Review; Central Bank of Solomon Islands Quarterly Review; Pacific Island Economic Reports; International Monetary Fund.

In 1998–99, remittances to Tonga amounted to P$63 million, more than three times the value of exports and very much the largest component of the economy; since then they have increased by about 50%. Data from Samoa reveal a very similar situation. The recent growth in Fiji is remarkable and represents both domestic economic problems and still rapid but relatively recent overseas migration. Current reports indicate that remittances in Fiji have now reached US$140 million and are still rising. This is a function of the declining national economy, rising numbers (more than 2000) in the British army, a rise in the number of nurses and caregivers overseas, and a new migration into security services in Iraq (Radio New Zealand International 13 October 2004). In Kiribati too remittances from seafarers grew almost tenfold between 1979 and 1998 (Borovnik 2004) though national data suggest that there was a parallel decline in remittances from Nauru. The situation may well have been similar in Tuvalu. What little macro evidence there is suggests that these kinds of levels, proportions, and rates of growth are also broadly similar elsewhere but are clearly larger in Samoa and Tonga than in other, partially remittance-dependent economies such as Cook Islands, Kiribati, and Tuvalu.

In countries where remittances are of great national significance they are, not surprisingly, important throughout the country. For example, a series of studies in Tonga in the 1980s and 1990s recorded that remittances constituted anywhere between 15% (a very low figure) and over 50% of the income of various villages (Hardaker et al 1987; Faeamani 1995; Sudo 1997; Evans 2001). Similarly, in Fusi, Samoa some 90% of households received remittances (Muliaina 2001) while 86% did so in Nukunuku, Tonga (Halatuituia 2001) though both villages had a range of other sources of income including nearby urban employment. In more remote villages such as Ha'ano in Tonga, almost all households received remittances (Evans 2001).

Fewer households receive remittances in countries like Kiribati where a relatively small proportion of the national population is overseas at any one time. Though the volume may not be large, the limited availability of alternative income sources means that demands on recipients may be great. In Kiribati almost all remittance recipients gave money to those who asked for it, and although there was an expectation of reciprocity, some recipients were actually worse off financially by the time their remittances arrived (Clark 2004). While this situation is unusual and probably rare outside Kiribati, it indicates the extreme dependence on remittances and the limited contribution they may actually make to development.

A large number of mainly anthropological studies of one or two villages over brief periods of time have documented how migrants' remittances maintain social ties and act as insurance schemes. They are principally used, at least initially, to repay debts, to finance migration of kin, and to purchase consumer goods including housing. They often reinforce a traditional set of values that emphasizes the prevailing social hierarchy and strengthens established social organization. Remittances tend to go to senior family members who use them in traditional ways instead of for structural changes such as land tenure reform. Overseas migrants invariably retain land rights even after long periods of absence and may also discourage spending remittances in nontraditional ways.

Through these social ties, remittances play a critical role within extended Pacific kinship groups. The transnational corporation of kin not only helps to maintain family and communal networks but may even enlarge networks of support and empowerment. Despite occasional conflicts within households about economic and social strategies, migrants might also be seen as acting as a family firm in terms of both consumption and investment in different geographical locations (Bertram 1999). Poirine has suggested that remittances may even be seen as informal loan agreements (1997; Brown and Poirine 2005).

Marcus emphasized over a decade ago that, "…the capacity to call on international resources has become a crucial factor in influencing a family's local economic conditions. The lowest stratum in contemporary Tonga are [sic] those totally dependent on the nation state framework, and the limited resources it embodies, without any overseas options at all" (1993). It is increasingly argued as in Tonga that, "…every family needs to have someone overseas. Otherwise the family is to be pitied" (quoted in Small 1997). Hence, in contrast to western societies, it is often female-headed households that survive most effectively (Gailey 1992a).

Remittances have raised living standards in the islands (Faeamani 1995), have contributed to employment especially in the service and construction sectors, and have eased balance of payment problems (despite contributing to inflation) especially in the larger Polynesian countries. However, increased demand for improved consumer goods can usually only be met by further migration, and it has generally been argued that little of the remittance income has been invested in economic growth.

In some countries, international migration has been viewed as a kind of safety valve reducing pressures on governments to provide employment and welfare especially when the rate of population growth is high and that of economic growth is low. Thus in virtually all the home countries in the Pacific, there is little concern over international migration though there are concerns about specific issues such as absolute population loss, brain drain, and the use of remittances for development. Nevertheless, none of these concerns has ever been translated into policy. Rather, throughout the region, the safety-valve effect, limited economic growth, and priorities given to freedom of movement have resulted in steady, unimpeded migration though bonds have been imposed on many of those receiving higher education abroad to reduce the skill drain. In both Samoa and Tonga, the size of the domestic population has therefore remained unchanged for much more than a decade despite relatively high rates of natural increase.

In Tuvalu, where international migration to Nauru declined and reversed following the closure of the phosphate mine and where there have been concerns over rising sea levels, there has been pressure on Australia since 1994 to increase migration opportunities. The potential impact of the greenhouse effect in other atoll states has also resulted in increased interest in international migration (Connell and Lea 1992; Connell 1999, 2003a). In FSM and the Marshall Islands, the possibility of migration to the United States was written into the Compact of Free Association when the two states moved towards independence (Connell 1986). The possibility of restrictions on international migration, on the other hand, has discouraged independence in the Cook Islands, Wallis and Futuna, and American Samoa.

There is little evidence so far that the safety valve of international migration has enabled home countries to significantly reduce their populations and/or to use remittances to restructure their economies. Migration has tended to be viewed rather as a substitute for development or even as development itself instead of as short term support for national efforts. The use of remittances is therefore of greater significance.

Overall, the available evidence on international migration in the Pacific islands demonstrates that in the short run a number of distinct benefits accrues to individual migrants and their families and to home countries. Despite rising unemployment and recession in host countries, this appears to remain true although there are many poor migrant families. Migration has reduced the level of open and disguised unemployment although it has also contributed to a loss of skilled human resources. In the case of migration of Samoans and Tongans to the United States alone, "Emigration results in the permanent loss of young educated skilled labor from the Pacific island nations. Skilled labor is in short supply and emigration probably hinders development" (Ahlburg and Levin 1990). This is certainly true in the health sector where more costly (and less skilled) replacements have been required (Brown and Connell 2004a; Connell 2004) and is widely true in the government sector in Samoa (Liki 1994) and almost certainly true elsewhere. Exceptions occur where wages and salary levels are more comparable with those in the main migrant destinations. Thus in Cook Islands, the extensive migration of skilled personnel is balanced by a considerable degree of return migration (Hooker and Varcoe 1999).

Despite the benefits of international migration, there are indications that in the long term it may impose considerable costs. Governments have not been able to control or to direct the use of remittances nor have they generally sought to do so when migration generates increased demand for consumer goods. This demand can usually only be satisfied by further migration if other sources of national income are difficult to develop. Inequalities may increase, and establishing population and migration policies may be postponed.

The available data on remittances in the Pacific are fragmented and limited, hence many questions have not been thoroughly investigated. Those include the extent to which remittances are sensitive to variables like foreign exchange rates, relative rates of interest and inflation and the extent to which migration and remittances contribute to inequality. Are demographic characteristics (age, gender, duration of stay, residential status), economic characteristics (employment status, income levels, etc.), and conditions of migrants in home countries good predictors of remittance levels? How do family reunification and the potential for returning home affect propensities to remit? In the absence of adequate data, answers may be inaccurate or may apply only to specific locations and times.

3 The Composition of Remittances

Since remittances take many forms (including goods and commodities) and pass through many channels, there are obstacles to definitively assessing their value. Recorded remittances are sometimes a poor measure and definitely an underestimate of the actual total. Much of the analysis of migration and remittances has been based on two suppositions. The first is that remittances pass through the official banking system. These are most often recorded in banking statistics and in the home country's balance of payments current account as "unrequited transfers." Conclusions about the magnitudes and long-term trends in remittance flows are based on such data even though it is well known that a considerable and possibly increasing proportion of remittances enters through other channels and in different forms (Ahlburg 1991). In recent years, Western Union and ATMs have been destinations for remittances, but how significant electronic transfers have become is unknown.

A very substantial amount of cash is sent informally with people travelling to the Pacific islands especially during the Christmas period. Thus, the overall flow of income into the islands is substantially higher than most formal estimates suggest and is not noted in official records of capital transfers. Brown (1995) has estimated that unrecorded remittances from Australia amounted to as much as 34–41% of the total from Tongans and 42–60% from Samoans. The way money is sent varies according to the purpose, the amount, the urgency, and the availability of a reliable carrier. In the case of Tongans in Auckland, about 65% claimed to have sent cash through formal channels while smaller sums for subsistence needs were often enclosed in letters (Fuka 1985). In Fusi, Samoa, remittances were commonly sent in letters in the past but are now more likely to be hand carried by relatives because of numerous thefts from the postal system (Muliaina 2001).

The use of channels other than the banking system seems to be partly a result of underdeveloped national financial systems in Samoa and Tonga and in remote regions. Charges on remittances have also resulted in disincentives to use banks and have encouraged hand carrying. In both Samoa and Tonga, foreign exchange agents operate openly (Ahlburg 1991). Though the informal rate of exchange is rarely very different from the official rate, this system is very convenient.

The second supposition is that remittances are usually cash, postal orders, or checks.

Actually, most also include various kinds of goods. Early movements, especially in Melanesia, found migrants returning almost entirely with goods because of the limited utility (and low prestige) of money in many remote areas and the fact that they received goods as wages. Remittances from early migrants from Polynesia to New Zealand were also mainly goods. In the late 1970s some 60% of remittances from Polynesians in Wellington were gifts, goods, and also services. Consumer items were (and are) more costly in Pacific island states, hence it was rational to convert earnings into goods. Subsequently cash became more important, but goods have remained significant, especially in Tonga. Thus in the early 1980s, remittances from Tongans in Auckland were 76% cash and 24% goods (Fuka 1985), and in the Samoan village of Vaega, goods constituted 40% of remittances in the 1980s (O'Meara 1990). In both cases, most of the goods were food and second-hand clothes, but household items such as blankets, sheets, and utensils were also sent. Other estimates of the proportion of remittances in kind are similar (Ahlburg 1991) although there has again been an increase in recent years.

From the mid-1980s, there was an important transition in Nuku'alofa, the capital of Tonga, as goods that were initially sent for individual household use became the basis of a very substantial flea market and were thus transformed into investments (Brown and Connell 1993a). Cars, which often became taxis, were also remitted to Tonga (Ahlburg 1991) especially from America. In 1999 in the village of Nukunuku not far from Nuku'alofa, no more than 34% of all remittances was cash; the remainder was goods especially food though vehicles represented 16% of the total (Halatuituia 2001). In the village of Fusi, which is about the same distance from Apia, the capital of Samoa, there was a similar transition from cash to goods; most were luxury items, but food and second-hand clothes were also common. Food mainly came from nearby American Samoa, and other goods came from New Zealand. There has also been a significant increase in the number of street sellers in Apia, though the growth of market trading has been much more substantial in Nuku'alofa. Recently, two thirds of Samoan remitters in New Zealand sent only goods (Muliaina 2001) while two thirds of remittances from Tuvaluans were in cash mainly because of the very considerable expense and difficulty in getting goods to the islands, though migrants would have preferred to send them (Simati and Gibson 2001).

In almost every case, remittances flow in both directions. Those sent from home countries are most likely to be food and handicrafts, and little is known about them. In some cases they are examples of traditional reciprocity; in others they are an attempt to elicit more remittances. Other than in the exceptional case of parts of formerly American Micronesia, the formal market value of remittances from home is rarely comparable to that from migrants. Alexeyeff describes them as, "…a micro-example of the economic dependency that is seen to characterise the Cook Islands diaspora" (2004). In reality, however, these offerings have extraordinary symbolic and nostalgic value (Alexeyeff 2004). In Rotuma, Fiji Islands and almost certainly elsewhere, migrants preferred to receive goods from home since they represented time and effort and signified caring in a tangible form (Rensel 1993). Some Samoans in Auckland even claimed that they sent remittances in order to receive traditional goods including food (Muliaina 2001). Tongan women have sent substantial quantities of traditional wealth (*koloa*), mainly handicrafts, to migrant communities; in return migrant communities provide hospitality and significant cash payments (James 1997; Small 1995, 1997). Though the role of women in the production of handicraft goods for exchange is relegated to "the economy of affection," it is nevertheless an important component of small business enterprises and other commercial transactions (James 1997).

Groups from several countries, including Cook Islands and Samoa, regularly make travelling visits (*malaga*) to relatives overseas taking kava, mats, and food items. Rotumans (Rensel 1993) and other Fijians (Stanwix and Connell 1995; Scott 2003) also travel to migrant communities overseas to generate remittances or cash donations for domestic activities. These travelling cultural groups often give musical performances for financial benefit (James 1993). In recent years, the increased volume of goods remitted from Samoa and Tonga may represent both payments for goods sent from host countries and exports to be sold in host markets (Besnier 2004; Brown and Connell 1993). The extent to which remittances in kind from the Pacific island states are merely symbolic transfers, are stimuli for further remittances, or are part of an import-export system varies and is largely unknown.

4 The Rationale for Remittances

Though there have been many studies of the rationale for migration, there have been virtually no studies on the specific rationale for sending remittances. Decisions to migrate are often made by families and rarely by individuals. Migrants leave to meet certain family expectations the key one of which is remittances. Indeed to some extent there is an implicit contract that they will be sent, and the costs of not doing so may be high. Future family solidarity; rights to inherit family assets, especially land; and prestige in the village community may be at stake (Ahlburg 1991; Macpherson 1994).

There is a general expectation that migration will benefit extended households and sometimes even whole clans or villages as it did in the early years of migration in Papua New Guinea and that it may continue to do so through support for village organizations. Overall, migration is expected to improve both the living standards of those who remain at home and the life styles and incomes of the migrants. More specifically, in rural areas and home islands as in Tonga, "…migration and remittances …are perceived solely as a means for improving family incomes and welfare rather than for direct or indirect national economic development" (Morton Lee 2004; Tongamoa 1987). In Samoa migrating was simply, "Cto seek wealth for all" (Muliaina 2001).

The underlying economic rationale for migration and for its benefits extends beyond the households in the Pacific islands so that the, "...international scale of family operations, still tied to kin at home… would equal or exceed in value the Tongan national product" (Marcus 1981). Developing this notion, Bertram has suggested that Tongan and other similar households are characterized, "…by remittance transfers among various component parts of the transnational corporations of kin which direct the allocation of each island's family labour around the regional economy" (1986). Consequently, "…families deliberate carefully about which members would be most likely to do well overseas and be reliable in sending remittances" (Gailey 1992b; Cowling 1990).

Not surprisingly, the significance of remittances at the household and national levels has led to concern over the possibility of future declines due to changing migration rates, recessions in host states, or other factors (Miles *et al.* 1992; Marcus 1993; James 1991; Campbell 1992). Though remittances are driven by family and community needs and to some extent by the savings and investment objectives of migrants and their families, they are strongly affected by income levels in host countries and are thus vulnerable to recessions. There is little that can be done about such fluctuations except to be aware of their existence and to make some provision for their occurrence. One strategy is to attract and retain migrant savings to invest in businesses in such periods.

The most detailed accounts of the intended purposes of remittances (which were not necessarily the ultimate uses) were conducted among Tongans in Auckland and Sydney (Fuka 1985; Tongamoa 1987). Both these studies found four principal intended uses for cash. The first was for subsistence which covered daily grocery needs and minor church, school, village and family obligations. Some 79% of remitters in Auckland and about 85% in Sydney sent money for these expenses. Subsistence money was especially important in households of elderly couples and teenage girls with no one to grow food crops. These basic needs have become less significant over time.

The second purpose was for church donations. In Tonga, regular donations are expected from and allocated to church members, and substantial donations bring considerable respect and status. This category is likely, therefore, to be significantly higher for Tongans than for other migrant groups. Approximately half of Tongan remitters in Auckland and 76% in Sydney sent remittances for church donations. The third intended purpose was for school fees matching the significance attached to formal education in the Pacific, and the fourth was for major family occasions such as funerals, birthdays, and weddings. Such remittances are obviously intermittent although they are often large. Beyond these four principal objectives, there were a variety of other intentions including the building or purchase of houses, the establishment of a local business, or the purchase of a vehicle.

Samoans in Auckland saw themselves as having a series of remittance targets to achieve: repayment of a family loan, building a family house, contributing to a wedding, bestowing chiefly titles, and contributing to funeral expenses (Muliaina 2001). Purchasing airfares is also a common use. Building a European-style house has always been a key goal of most migrants since it is a symbol of achievement. Many apparently permanent migrants remit money for the construction of permanent houses for themselves that are used by kin or rented out in their absence. Migrants also frequently send remittances to cover the needs that follow crises. Cyclones have been the single most important trigger as was evident in Samoa in 1991 and 1992 (Muliaina 2001), after Cyclone Heta in Niue in 2004, and in Tonga in 1982 and 1983 after the widespread damage caused by Cyclone Isaac (Fuka 1985).

Remittances for investment in or purchase of local businesses have become increasingly significant especially for corner stores, for fishing (including boats and gear), and for taxis. Those who sent remittances to invest in shops stated that this was a means of ensuring that the recipients had a ready supply of cash. In due course they may also benefit the remitter if he or she returns. Although both shops and vehicles absorbed a very small proportion of all remittances sent from Auckland and were non-existent in Sydney in the early and mid-1980s (Fuka 1985; Tongamoa 1987), in later years their significance grew considerably (Faeamani 1995; Small 1997) as consumption shifted to investment. Moreover while Samoan migrants believed that their remittances were used mainly for consumption (Walker and Brown 1995), in reality a significant proportion was used for investment as recipients were anxious for long-term benefits.

Migrants have also contributed to various collective endeavors in response to visiting groups' fund-raising activities such as dances organized by football teams or home villages to generate funds for equipment, water systems, or church roofs (Fuka 1985). In this institutional context there is probably a particularly high correlation between the intention of the remitters and the eventual use of the remittances.

Over the years, remitters have been more likely to respond to specific requests from home. Senders' intentions may therefore increasingly match those of the recipients. About 63% of Tongans in Auckland remitting in 1984 claimed to send money or goods *only* when kin in the islands requested it; in contrast 20% set aside a regular sum, and the remainder stated that they did both. Those who responded only to requests had their families mainly in Auckland whereas those who regularly set aside money had most of their families in Tonga (Fuka 1985). On balance, the evidence suggests that remitters respond rather than initiate and that the probability of migrants initiating rapidly declines over time.

The intentions of Tongan remitters in Sydney correlated closely with the uses specified by Tongans on the main island of Tongatapu. Remitters intended more to be used for ceremonials, and recipients intended to use more for agricultural development once again demonstrating recipients' interest in long-term benefits, but otherwise intentions and reality were very closely linked (Tongamoa 1987). Similarly, Tongans on Ha'ano requested remittances for specific purposes and senders responded rather than sending regular sums without a specific purpose (Evans 2001; Muliaina 2001). Both these cases suggest that other sources of income are not diverted from their usual purpose by remittance flows.

In the case of Cook Islanders in New Zealand, remittances have not simply been an automatic response to customary obligations, material circumstances, or ceremonial requirements. Remitters have consciously weighed their own financial situations against ongoing (and new) obligations, life crises, and the changing circumstances of their relatives in the islands. Overseas migrants often maintain contact by letter, telephone, and visiting friends and are knowledgeable enough about the material circumstances of island kin to change their remitting practices to meet their perceptions of their kin's needs (Loomis 1990; Underhill, 1989). Thus migrant intentions have largely been determined by the needs of those at home. Although there appears to be a transition towards remittances on demand, again much more needs to be known before such a conclusion can be reached.

Finally, migrants actually transfer income for their own later use to finance retirement or to acquire assets such as real estate. In some instances, income is accumulated overseas and transferred as a lump sum at the time of the migrant's return (Ahlburg and Brown 1997). Whether such transfers can actually be defined as remittances is doubtful.

Perhaps surprisingly, but also significantly, some two-thirds of Tongans in Auckland were indifferent to how their remittances were actually used, and less than 1% was concerned about their specific use. Of this very small group, some complained that the use was different from what they had intended while others feared permanent demands for remittances. Only in Port Vila, Vanuatu, were strong sentiments expressed over the intended use of remittances. Migrants from outer islands preferred to send food rather than cash unless it was needed for something such as school fees or wedding expenses (Haberkorn 1989). Similarly skilled workers in Honiara, Solomon Islands, were more likely to contribute to rural education expenses (Bellam 1964).

Such statements and attitudes often indicate migrants' feelings that kin at home waste some of the remittances they are sent whereas other evidence suggests they are more likely to invest it. In the mid-1990s, Tongans in America complained that village people were eating remittances sent for public projects by redirecting the money to private consumption (Small 1997). Samoans in New Zealand complained of mismanagement and corruption (Macpherson, 1994) and for Tongans in Melbourne there was an, "…undercurrent of resentment for both receivers and remitters" (Morton Lee 2004). For the vast majority, however, doing one's duty was sufficient in and of itself and was the basis for the migration-remittances system. At the same time, doing one's duty disguises and inflates very valid reasons for maintaining contacts with home areas: remittances are a powerful element of social insurance for possible return.

Unfortunately, there are not enough good studies of the intended and actual use of remittances or their impact on other expenditures to draw parallels between the detailed case of overseas Tongans and groups elsewhere.

However, the correlation between intentions and actuality in these cases and the similarity between the intended and actual use in various circumstances suggests that these cases are fairly typical.

The proportion of income remitted by international migrants is usually high. In Auckland in 1984, Tongans were remitting on average some 12.8% of their net though the range was considerable (Fuka 1995). In Sydney in 1986, the amounts sent by Tongan migrants also varied substantially and were sometimes more than 50% of their incomes (Tongamoa 1987). These figures are unusually high, and suggest that migrants may have exaggerated their capacity to remit. Using survey data for Samoa and Tonga from both the remitting and receiving ends, it has been estimated that the average Tongan migrant in 1994 remitted US$2,043 per annum, and the average Samoan migrant remitted US$789. These represented 13.1 and 5.3% of average migrant income respectively (Brown 1995). Disproportionately fewer Tuvaluans in New Zealand remitted at all, and the average totals were much lower. Tuvaluans were, however, mainly concentrated in very low-paying jobs and had spent little time in the country (Simati and Gibson 2001).

Most studies of remittances have pointed to the sacrifices that migrants make and to the goods they forgo to support distant extended families. For Samoans,

> As a result of the remittance economy immigrants to New Zealand may find it difficult to save the funds necessary for mortgages, hire-purchases and other financial transactions. Helen told me, 'You have this wonderful budget that works until someone dies the next week.' (Wurtzburg 2004)

For Tonga, it has been said that, "…overseas Tongans who continue to play the patron role to their relatives often bankrupt themselves in the process and to avoid this must either give to fewer relatives, give more intermittently or give less than is needed or wanted" (Small 1997).

In the particular case of migrants from Kiribati and Tuvalu working on international shipping lines, the amount of money to be remitted is negotiated between the seafarer and his dependents prior to departure and is written into the contract. In most cases this is usually around 70–80% of earnings leaving the rest for the seafarer to spend or save during his contract. Those high percentages are not always reached, however, because of deductions for over-expenditure on personal interests (often alcohol and the company of other women) and because of fluctuating exchange rates (Clark 2004). Seafarers also sometimes take advances on wages and spend money at stopovers on the way home thus decreasing the total (Dennis 2003).

In many cases individuals and households transfer remittances between organizations or to organizations in the home country. In these transactions, expectations are very likely to match outcomes. This institutional remitting has been well described for Tongans in Sydney. It is particularly evident in religious donations, for football teams of various kinds, for brass bands, for women's groups, and for various development projects. Fundraising is carried out at social functions such as concerts, kava parties, and dances (Tongamoa 1987; Connell 1991; Macpherson 1994). Even migrants who do not otherwise send money or goods tend to contribute to these collective efforts (Morton Lee 2004). Although a substantial amount of money and goods flows through institutional channels, the less regular nature of these transfers has meant that there are few if any estimates of their significance.

5 The Duration of Remittances

Almost every study of remittances and their rural-urban and international links suggests they will decline over time although few studies have evaluated to what extent or over what time period this might occur (Connell 1991). More recent studies have, however, shown that this generalization may not necessarily be true and that the period of sending remittances may actually be very long. Many studies have also not taken into account the significance of new electronic media that have transformed the nature of links and perhaps of remittance practices.

A decline in the level of remittances over time would nonetheless scarcely be surprising. Social ties and distant perceptions of needs and wants are likely to fade, successful migrants may be followed by others from the same family, initial targets (where they existed) will have been met, and local investment and expenditure will be more rewarding and necessary as the probability of return declines. Although migrants face a life cycle of obligations to their home areas, those obligations are likely to lose their immediacy, to compete with new obligations, and to be increasingly ignored (Fuka 1985).

Remittances are sustained over longer periods when the probability of return is greatest. The highest proportions of incomes remitted by Tongans in New Zealand were from those who had been there for fewer than 4 years, indicating that specific goals were expected of migrants and that new migrants were more likely to perceive migration as temporary (Fuka 1985). Similarly, in the village of Sa'asi in Samoa, temporary migrants comprised only 16% of the village's remitters but supplied almost one third of all remittance income.

Temporary migrants remitted more partly because many of their expenses were met by permanent migrants and partly because their temporary visas ensured that their return was imminent. Migrants permanently overseas were under less immediate pressure to remit, and they had also acquired financial commitments in New Zealand, hence their village commitments were less intense and less significant (Shankman 1976).

In one group of Samoans in Auckland, two thirds had decreased their remittances over time and a third had increased them (though the time period was not stated). Those who had decreased their remittances said the reasons included a reduction in take-home pay, increases in the cost of living, the birth of additional children, the death of parents or close relatives on the home island, family reunification, and a change in marital status. Several of those who had remitted substantial sums as single women now saw their spouses and children absorbing their incomes. In contrast, those who increased their remittances saw this as responding to a greater number of requests from Samoa. Furthermore, if the remitter's children were adults, their demands were fewer so they could add to their remittances. For the whole of this group, some 95% were emphatic that they would continue to send remittances for the rest of their lives though they recognized that their children were already questioning their personal gains from the practice (Muliaiana 2001). In the context of long-term household migration such a pattern now appears relatively typical.

Two relatively detailed studies of remittance flows over time were conducted on overseas Tongans. The first was in Auckland and concluded that after 15 years, non-remitters became as numerous as remitters and that after 20 years, more than two thirds no longer remitted (Fuka 1985). However, the results are more complicated in that remittances tended to drop after 4 years of residence in New Zealand but rose again after a decade while those who were still remitting after 15-19 years actually sent the greatest amounts. However, the proportion of income sent showed a slightly more consistent decline from 19.6% for a residence period of fewer than 5 years to 12.9% after 20 years (Fuka 1985). The same pattern was found among Tongans in Sydney: the amount increased up to around 7 years but then began to decline although migrants who had been in Australia for more than 18 years still remitted (Tongamoa 1987).

Thus, for Tongans overseas, remittances did decline over time, but the manner in which this occurred, for whom, and why, is far from clear. A broadly similar pattern was reported for Tuvaluans in New Zealand where remittances were initially low (as migrants sought to get established and initially had low-paying jobs) and rose after 4 years. They appear to have been sustained for as long as 30 years (Simati and Gibson 2001) though few Tuvaluans have been in New Zealand that long. What was striking and was well documented for Cook Islanders and for Tongans (Loomis 1990) was the considerable time and high level at which remittances were maintained with only slight evidence of the anticipated decay though the number of migrants studied was too small to be statistically reliable. Nonetheless all suggest that time itself is certainly not the key variable.

These studies and others suggest that the two key variables that do influence the sustainability of remittances are permanent residence status of remitters in the host country and whether recipients had joined their relatives in the host country or had died. Where these events have occurred remittances are virtually non-existent (Fuka 1995; Grieco 2003, 2004). In the case of Tuvaluans in New Zealand, not only was the presence of at least one parent in Tuvalu the principal factor influencing remittances, but remittances increased as family size in New Zealand increased (Simati and Gibson 2001) demonstrating both that households with higher disposable incomes remitted more and that remittances increased with the ability to remit. Generally, as in the case of Tongans in New Zealand and Fijians in Sydney (Fuka 1985; Stanwix and Connell 1995), the volume and regularity of remittances is a function of intent to return, though this seemed not to be the case for Tuvaluans (Simati and Gibson 2001).

Few studies of remittances have had large enough samples to be statistically valid. One of the only two large surveys of migrants from Pacific island states was carried out in Australia in the mid-1990s. Econometric analysis of cross-sectional data from a survey of Samoan and Tongan migrants in Brisbane and Sydney found that while the propensity to remit was negatively related to the age of the migrant, it was positively related to the migrant's length of absence from home (Walker and Brown 1995). More importantly there was little evidence of remittance decay to the extent that, "…none of the assumptions about migrants' remittance behaviour on which the doomsday, remittance-decay scenario is based, is valid [and] there is also much less cause for pessimism concerning the sustainability of remittance levels" (Brown 1998). As long as there was no change in the size of the migrant community, the aggregate level of remittances did not fall. In other words, migrants were highly likely to continue to meet the needs of those at home.

In contrast, Grieco's analysis of survey data on Micronesians (from FSM) in Guam and Hawaii demonstrates that there was remittance decay in terms of both the probability of remitting and the volume remitted. Remittance volumes were strongly correlated with household incomes and with family unification in the host country; households that participated heavily in migrant social networks and were less assimilated as measured by language choice were most likely to remit while those that had reunited in the host country or whose relatives at home had died were least likely (Grieco 2003). The conclusions were similar for Samoans and Tongans in Australia.

A further econometric analysis of the data on Samoan and Tongan migrant households in Australia in which one of the members was a nurse demonstrated that they sustained remittances at a very high level over a long period of time. Indeed a significantly higher proportion of households containing nurses both sent remittances and remitted more than average households while remittances from households without nurses showed a tendency to decline with time when all other characteristics were constant (Brown and Connell 2004). On the other hand, households with nurses were ultimately less generous than other households in terms of the proportion of income that they remitted though the amounts were in excess of the cost of their training, and the proportion fell steadily as their income increased (Connell and Brown 2004). This suggests that after achieving a target, remittances no longer rise. There is no other data that disaggregates remittances by occupational group other than for seamen in Kiribati though there are various references to the inability of the most poorly paid to remit (Grieco 2003, Simati and Gibson 2001). Consequently the extent to which nurses are distinct from other groups is not clear.

Most remittances have primarily been given to parents or children and secondarily to brothers and sisters (Tongamoa 1987; James 1991; Fuka 1985; Rensel 1993). However in the distinct case of seafarers from Kiribati and Tuvalu, all of whom are male contract workers, a higher proportion goes to wives than to parents (Clark 2004; Borovnik 2003, 2004; Dennis 2003). Where migrants have children on the home island, as is often the case, then remittances are likely to be both substantial and sustained (Underhill 1989). Again, in the case of Tongans in New Zealand, those who remitted the most had close relatives in Tonga—wives, children, and parents. For Tongans in Sydney, parents were the major recipients, but brothers and sisters also received substantial sums whereas other kin received relatively little (Tongamoa 1987). In one Tongan village in Ha'apai, over 60% of remittances went from children to their parents and 10% went from husbands to their wives (Evans 1996; 2001). This kind of situation has been particularly well described in Tonga where the ideology of sacrifice and service due to parents is supported both by the traditional structure of Tongan culture and by Christian teaching (James 1997). Much the same is true in Samoa where Macpherson emphasizes that remittances are likely to dry up when parents die or join their kin overseas (1994). Remitting to the nuclear family is probably even more evident elsewhere, especially outside Polynesia where the volume is smaller.

The location of household members is thus highly critical for the flow of remittances. For Tongans in New Zealand there was a correlation between the number of dependents in Tonga and the size of remittances (Fuka 1995). Correspondingly, the larger the number of dependents in the host country, the less likely the migrant was to remit. Those who sent little from Auckland tended to have their parents in New Zealand, and those who sent nothing at all tended to comment, "We no longer remit because none of us are in Tonga." Similarly, while remittances to parents were, … "whenever I have some spare money," those to siblings and grandparents were, … "when they write and ask" (Fuka 1985). While this conflicts with the Tuvaluan case, the difference may be a function of overall time spent in New Zealand.

Younger overseas residents were less likely to remit. Amongst Tongans in Melbourne, very few under the age of 30 sent money or goods directly to Tonga, and even older migrants said that they sent goods only infrequently and intermittently. Few migrants sent remittances regularly; most preferred to wait until they received requests for money or goods for particular purposes while those who sent nothing stated that they had no family left in Tonga (Morton Lee 2004). Samoans in Auckland were even more blunt. None of the adult children who had been born in New Zealand or who had arrived as small children had been asked directly for remittances, but their parents had asked them to send some. Though they had not declined the requests, they, "...all admitted to the feeling of resentment to the remittance practice and said they would like to escape this obligation." Sixty percent of them had visited Samoa and believed there were development opportunities there, "…in the form of land and marine resources which their relatives appeared not to have noticed," and that too much of their remittances went into conspicuous consumption (Muliaina 2001). Tongans in Sydney had somewhat similar perspectives.

Generally in Tonga, it has been argued that the lack of close relatives at home is more likely to be the principal reason for low remittance levels rather than any loss of traditional customs among the second generation (Fuka, 1985). The limited available evidence on the remittance patterns of second generations indicates that, as Morton Lee (2003, 2004a,b) and Muliaina (2001) have emphasized, they respond only indirectly through the urgings of their parents and their sense of family, and they therefore contribute very limited sums. This is particularly significant as migration opportunities decline and the number of overseas born "islanders" becomes the majority. Thus overseas-born Tongans in New Zealand and in Melbourne (Morton Lee 2004b) along with Cook Islanders, Niueans, and others in New Zealand are now a majority rather than a minority. Not only does this probably mean that for all these groups their remittances are limited, but their social and economic ties are likely to increasingly be with each other rather than with home. Morton Lee has thus concluded that,

> Unless there are profound changes in the relationship of the younger generations with the Tongan 'homeland' and in their sense of 'belonging,' the prospect of maintaining current levels of remittances is remote, which gives serious concern for Tonga's economic situation (2004b).

She further warned against the complacency of many people in Tonga and of institutions outside that remittances will continue into the indefinite future (ibid). As overseas generations lose language and cultural skills, their sense of belonging must decline, and furthermore, there is no certainty that migrants' economic status will always improve.

The probability of remitting is related to attitudes to the needs of kin remaining at home, the number and location of kin and dependents, the attitude of migrants to overseas commitments, and the ability—in terms of employment status and income—to send remittances. It is apparent that, in some cases, migrants may respond so strongly to the perceived need for remittances that they defer purchasing a house as appears to have been the case for Tongans in the northern suburbs of Sydney (Faiva 1989). A range of household goods may also be foregone (Fuka 1995) and even retirement may be postponed (Muliaina 2001) to the extent that there is some degree of sacrifice. Indeed, 28% of Samoans in Auckland claimed that they had experienced financial stress because of remittances though none had ever avoided them. Moreover, all second generation Samoans in Auckland claimed that on at least one occasion meeting remittance requests had put them in arrears with mortgage payments (Muliaina 2001).

One of the inevitable outcomes of migration is marriage outside the ethnic group; around half of all marriages of Tongans in Australia involve partners who are not Tongan. In such circumstances the probability of sending remittances declines significantly as such couples are more likely to purchase homes and save money (Morton Lee 2004a, 2004b).

Gender plays an important role in remittances. Virtually without exception (where there are data) women tend to be more frequent remitters although they may lack the earning capacity to send the same amounts as men. Samoan and Tuvaluan women in New Zealand were specifically referred to as the most reliable remitters (Shankman 1976; Simati and Gibson 2001). Among Auckland Tongans, nonremitters were much more likely to be males. Although the average sum sent by men was higher than that of women, the latter sent 15% of their net incomes compared with 11% for men (Fuka 1985). The same situation occurs in other Polynesian countries and has been attributed to their social structures in which women have greater responsibility for maintaining the household. Women in general have a much better understanding of household needs throughout the Pacific (Stanwix and Connell 1995) and are more likely to respond to them. In Auckland it was women particularly who stressed that they had been selected by families to be migrants because they would more reliably remit large proportions of their incomes than untitled men would (Muliaina 2001). Tongan women are more likely to remit to sisters and daughters after the needs of parents have been satisfied (Gailey 1992a). Both female recipients and dispensers of remittances take responsibility for their investment decisions and their management acumen appears to be strengthened as time passes (Fuka 1985; Latailakepa 1997).

Income levels as such appear not to be a significant determinant of the probability that migrants will remit, though more poorly paid (often more recent) migrants are less likely to do so. Though there is some relationship between income levels and the amount of remittances (Walker and Brown 1995; cf. Brown 1998), other factors, particularly employment status, appear to be more important. Similarly, the relationship between remittance flows and broadly defined development or need in home areas is unknown. Though it is apparent that remittances are often sent in response to requests, these may not necessarily reflect need, though they are often substantial in the wake of natural disasters.

Overall, for Tongans in Auckland, the strongest influences on remittance flows were residential status, frequency of return trips (which may reflect both social ties and perceptions of need) and whether migrants expected to remain in New Zealand or return to Tonga (Fuka 1985). As in the case of Tongans and Samoans in Australia, there was also a correlation between the intent to return and the level of remittances, while intending returnees also accumulated more financial capital at home (Ahlburg and Brown 1998). In this context as in most others, migrant remittances displayed components of both altruism and self-interest. At least for Tonga, James (1997) prefers to see all remittances as the outcome of a "contract" rather than altruism, while Brown and Poirine (2004) argue somewhat similarly that remittances are neither a function of pure altruism or pure self-interest but are better explained as "impure altruism."

The bulk of studies of long-term migration point to shifts in remittances that increasingly favor the interests of the remitters. Initially remittances are sent to parents which is clearly the case in the Pacific, and in an economic sense can be seen as repayment for their past investment in the human capital of the migrant. In a social sense, this is usually expressed as duty, loyalty, and maintenance of family ties. A second wave of remittances is subsequently more likely to be dominated by brothers and sisters and by children; this phase may also correspond with a decline in volume. Indeed, decline following the death of parents seems ubiquitous (e.g. Muliaina 2001). That phase can be seen as an investment in the human capital of the next generation (Brown and Poirine 2004). The third and final phase represents payments to spouses and indirectly (via investment) to the remitters themselves, as return migration and/or retirement approach. In Kiribati (and probably Tuvalu), this takes a different form as the actual distribution of remittances from seafarers to wives or parents is relatively unchanged over time, but greater sums are placed in the seafarers' personal accounts to be used for investment, usually in houses or land, rather than for immediate spending (Borovnik 2004).

6 The Use and Impact of Remittances

The majority of studies of remittance use in the Pacific suggest that despite considerable diversity they primarily are spent on consumption. A World Bank report on Tonga stated that, "Large private remittances and official grant inflows have enhanced consumption and resulted in negative gross domestic savings equivalent to nearly a quarter of gross domestic product" (World Bank 1993). Prasad similarly argued that, "The strategy (or non-strategy) of depending on remittances provides crucial revenue and contributes to the balance of payments in small countries, but creates a consumption society, where productive economic activities hardly exist" (2003). There are, however, alternative perceptions. It is not easy to assess the extent to which higher household incomes as a result of remittances affect patterns of consumption and savings at the margin, and only one study has sought to address this issue in any detail (Walker and Brown 1995). The use of remittances is also a function of volume and a variety of other factors. The remainder of this section therefore discusses migrants' expressed or perceived uses for their remittances rather than analyzing actual uses.

DEBT REPAYMENT

It is not surprising that remittances are primarily used for consumption given the range of barriers to using them for investment (Ahlburg 1991; Connell 1980), yet in reality, they have different and distinct uses. Migration can be costly hence remittances are often first used to repay debts that migrants (and their families) incurred in moving (Tongamoa 1987). This use emphasizes social obligations. In this sense at least the first wave of remittances constitutes informal loan arrangements within families (Poirine 1997; Brown and Poirine 2004) and is far from being an incidental or random by product of migration.

In parts of Papua New Guinea, migrants even repay their parents for the money they spent educating them (Morauta 1985). Elsewhere in Papua New Guinea, Boyd has argued that, "Parents and older siblings stake their claims on the responsibility they shouldered in rearing a future migrant to adulthood (1990). Even more precisely,

> Ponam [island] is not a society passively allowing or suffering the migration of its members. Rather it is a society which actively regulates this migration, and it does so in a way which helps secure a substantial remittance income [hence people say] 'Children are our garden and we survive by eating the fruit' (Carrier 1984).

On Ponam and on other islands like Nanumea in Tuvalu, control of both migration and population growth thus has a conscious economic rationality equating an economic return (remittances) with an economic investment (child rearing for migration). This is more appropriately labor export rather than merely migration.

CONSUMPTION

Food

Most studies suggest that food is one of the main items purchased with remittances. Expenditure on food, much of which is imported, has in fact become so extensive that the cost of food imports is considerable in some island states. Nowhere is this more evident than on the small island of Ware, Papua New Guinea where households spent fully 88% of all remittance income on food (Hayes 1993). A similar situation was true on the outlying Fijian island of Rotuma (Rensel 1993). In Tuvalu, two thirds of respondents claimed that food was the most important use and about half of all remittance income was spent on it with additional expenditures for electricity for the refrigerators that were consequently necessary (Clark 2004). Much the same is true in Kiribati where almost all remittances are used for basic needs, including food and clothes, and what is left is saved for almost obligatory community feasts (Borovnik 2004). In both Kiribati and Tuvalu, expenditure on processed food, especially tinned fish and rice, increases immediately after the arrival of remittances (Dennis 2003). In each of these cases, the strong focus on basic needs, especially food, is due in part to poverty on outer islands and in part to the exceptionally limited alternatives for using remittances. National estimates for Tonga suggested that about 70% of remittances was spent on imported tinned and preserved foods, beverages, and tobacco (Tongamoa 1987).

Goods

There has been a transition from using remittances to purchase basics such as food, to spending them on items such as outboard motors and construction materials. More recent studies have demonstrated not only that remittances are more likely to be used for modern goods such as sound systems rather than for basic needs, but that as in the case of Fijians in the United States these goods include telephones, televisions, and video systems. Indeed in this case and probably others, migrants have been instrumental in connecting their families in Fiji to themselves and the wider world by financing the installation of telephone services (Scott 2003). Despite the massive growth of the Internet and e-mail in the Pacific islands, there is no evidence yet that remittances have been used to purchase computer systems, but this too may be due to the lack of recent studies.

HOUSING

The construction or purchase of improved housing is sometimes perceived as a form of consumption rather than as an investment or a welfare gain. Overall, expenditure on improved housing contributes to welfare, security, prestige, and income generation. Moreover, to a greater extent than other forms of expenditure, it has a multiplier effect as it provides employment and expands other local industries and services. Using remittances for housing is so widespread in some countries such as Tonga that casual inspection of a village shows which households have migrants overseas. In the outer island of Falahola, the largest and most regular remittances were spent on construction materials (James 1991). In Samoa, housing improvements along with small-scale luxury consumption and church donations represent an investment in security (Shankman 1976). In several places including the Cook Islands (Loomis 1990), houses built with remittances are rented out and become real investments.

SAVINGS

To date there has been very little evidence of remittances directly contributing to savings or to other financial investments (Ahlburg 1991; Brown and Connell 1993). However, in the case of Tuvaluan seafarers where actual use is more transparent and where return migration is necessary, as much as 37% of remittances went into personal bank accounts rather than to partners or families (Dennis 2003). In Fusi, Samoa, villagers argued that the amount remitted was too small to meet anything other than its immediate purpose and that any surplus was absorbed by life crises (Muliaina 2001). In Falahola, Tonga, however, "…in remitting to their wives, who bank most of the funds for the family's future, the young husbands are sending money to themselves" (James 1991). Kiribati seafarers may also hold remittances for investment instead of spending them immediately (Borovnik 2003). These kinds of situations are probably more common than is otherwise recorded, though in general, savings rates are low in the Pacific islands.

Households in Tonga that received remittances saved more than those that did not, but as would be expected, the inclination to save remittances was no different than the inclination to save total income since remittances are just one source of income among several (Walker and Brown 1995). There is also growing evidence that money that might have been remitted is saved in the host countries for use at a later date. Moreover, for at least Samoa and Tonga, remittances and savings are both linked to interest rates (Foster 1995). Thus, despite the focus that much of the existing literature gives to the social context and impact of remittances, there are clear indications that both senders and recipients behave in an economically rational manner.

AIR FARES AND EDUCATION

In a different sense, remittances are invested in the future in two ways. On one hand, they are used to purchase airline tickets for other family members. Some two thirds of Tongan remitters in Auckland claimed to have paid for at least one airfare for a relative, and some migrants had paid for up to ten. Similarly, 75% of Samoan and 33% of Tongan households had had airfares paid by a migrant family member during 1992 (Brown 1995). The recipients of airfares were broadly similar to the recipients of remittances (Fuka 1985; Morton Lee 2004a).

Remittances for school fees are also important and tend to have a standard value. Migrants without younger siblings in school do not usually send any. After food, education was the most important use of remittances in Tuvalu and probably in Kiribati since education is specifically regarded as an investment in the future (Clark 2004; Borovnik 2003). In these ways and in others, remittances support the migration-remittance nexus by ensuring that other family members have the opportunity to benefit from education and migration.

INVESTMENT

Remittances are used for various forms of investment sometimes in agriculture but more frequently in the service sector especially for shops and transport businesses. Nevertheless, there is still a general belief that, as in Samoa, "…remittances were not used for capital investment or, to be more specific, for speculative capital investment" (Shankman 1976). Shankman went on to observe that, "…migration was a far more lucrative investment than anything available in the village" (1976), hence the conservative use of remittances reflected limited investment opportunities especially in productive sectors. Since that early study there is, however, evidence there and elsewhere that remittances have constituted the start-up money for many shopkeepers and other small entrepreneurs. Half of all market vendors in Apia, Samoa, all of whom received remittances, claimed that some had been used as capital for the purchase of seeds, fertilizer, and tools to produce food to sell (Muliaina 2001). Walker and Brown (1995) found that a significant proportion of remittances received by Samoan and Tongan households was used for business and farm investments. Apart from this, there is limited evidence that any investment of remittance money has had a lasting impact on future income generation and employment, but this may be because many of the studies were done in relatively remote locations.

In most places, attempts have been made to invest remittances. Even on a small outer island like Falahola (Tonga), remittances were used for economic ventures ranging from agriculture to tourism, though remoteness limited their success (James 1991). Here at least and no doubt elsewhere, remittances were, "...highly individual and many are concerned with capital accumulation" (James 1993b). Throughout Tonga, the increased use of remittances for investment in fishing, agriculture, shops, and transport businesses attests to the shift from consumption to investment (Faeamani 1995; Walker and Brown 1995) that has occurred in part as consumption goals have been satisfied. This transition has also occurred in parts of rural Papua New Guinea (Boyd 1990) and Pakistan (Helweg 1983) and in several parts of the eastern Caribbean in similar small island environments (Connell and Conway 2000). While the transition may benefit economic development, at least one anthropologist (Small 1997) has raised concerns that it might also further emphasize intra-village (and country) economic inequalities and hamper social development.

Where there are opportunities and where consumption goals have been satisfied, remittances are used for investment, to stimulate entrepreneurial and trading activity, to increase formal sector employment, and to produce multiplier effects. The expansion of the Nuku'alofa flea market in Tonga since the mid-1980s is an example. Many households used remittances in kind as investments in their market stalls, and these stalls sometimes enabled economic diversification. (Significantly, the flea market was forced to move three times within a few years partly because of opposition from the private sector which felt that a "black economy" of this kind might undermine the formal sector). This indicates a shift away from using remittances for immediate consumption toward increasing their returns through entrepreneurial activity (Brown and Connell 1993). Moreover, James noted from a parallel perspective that, "It has been argued that remittances take away the motivation of locals to produce, but the facts of local entrepreneurship seem to contradict this since large consignments of local products. . . are sent to relatives overseas for sale among the Polynesian population" (1991).

In certain contexts there is also an urban bias in the use of remittances. In both Kiribati and Tuvalu, though overseas jobs are rotated among islands so that residents of outer islands have access, one outcome is that the immediate families of some of the migrants move into the capital. Moreover, when seafarers return, a substantial proportion of their income is spent either in South Tarawa or Funafuti rather than on the outer islands. In Kiribati at least the majority is spent in South Tarawa (Clark 2004; Borovnik 2003). Indeed in certain circumstances relatives migrate into town with the specific objective of laying claim to some of the overseas earnings.

COMMUNITY USE

A proportion of remittances is invariably used for community objectives such as support for social organizations and institutions, usually churches. Both in Samoa and Tonga (Shankman 1976), substantial sums have been remitted directly or indirectly for church construction and maintenance, pastors' incomes, and related activities. This also appears to be the most important goal for remittances sent by Fijians in the United States (Scott 2003). Brown (1995) found that 41 and 18% of Samoan and Tongan migrants' remittances, respectively, were sent to nonhousehold institutions including the high schools and primary schools run by the churches (Tongamoa 1987; Faeamani 1995; James 1997; Sudo, 1997). On the Tongan island of Ha'ano, the most significant correlation between remittances and other factors was with church expenditure (Evans 2001). In Tonga, most gifts to the church are sent to parents or close relatives to be given in the annual, highly competitive "free-gifting" ceremony, the *misinale*. The amount of the donation is announced in church and the whole family derives prestige (or, alternatively, notoriety and shame) from the extremely visible public presentation.

Remittances are also directed to local sporting associations, women's groups, specific local development projects, scholarships and so on, which in many cases point to wider social gains. In a sense therefore, Tongans overseas support Tonga by sending money for various, usually village projects like schools or water systems and public occasions. "Overseas Tongans might repair the local island church, or contribute to the centennial celebration of their high school, or pay for the school fees of a relative who has passed her exams for the next grade level" (Small 1997). Samoans have similarly contributed to a range of village facilities including schools, dispensaries, fish traps, access roads, and electricity generating plants (Macpherson 2004). However, in Tonga at least, sending money through the family for public presentation emphasized that part of the rationale was to give the family status in the community as pious, generous, prosperous and "properly Tongan" and only secondarily to support the social group (James 1997). In Tuvalu, remittance recipients are expected to support the relevant community island fund, and women contributed to this as a matter of pride even when they lived on the capital island of Funafuti. There were, however, household benefits to this since it demonstrated that the seafarer acknowledged the people who were taking care of his land until he retired from the sea (Clark 2004).

SOCIAL USES

Remittances are used for a variety of social purposes including meeting the high costs of weddings, funerals, and other ceremonies but also for the costs of education that may lead to long-term economic gains. In most countries, contributions to significant life-cycle events are essential for migrants to retain a basic stake in home society, and requests are very often specifically for such functions. Samoan migrants have also contributed to families' and parents' attempts to enhance their status by supporting their bids to obtain chiefly titles and parliamentary seats (So'o 1998). It is particularly through these kinds of social expenditures that migrants emphasize their continued stake in and commitment to the home society.

Unequivocally, investment in flexible human capital is a most important and highly valued use of remittances, especially in circumstances where the lack of skilled individuals is a constraint to development. Indeed, much of the literature on migration has neglected the massive social significance of remittances by emphasizing their more obvious economic effects. Walker and Brown (1995) stated that for Samoa and Tonga, social uses predominated in 63 and 79% of households, respectively. Overall, nearly 10% was used for such purposes.

In places where remittances constitute an important part of total household income, it can be expected that they will also have a significant impact on its distribution though there is no consensus on how remittances actually affect distribution. This is not altogether surprising given the variety of forms, channels, and uses of remittances, both formal and informal, and the lack of good data on household income and expenditure. However, until relatively recently, the dominant view was that remittances were likely to reinforce income inequality by enhancing the capacity of recipient households to invest in additional migration, education, and other income-generating assets

(Connell 1980; Shankman, 1976). Some village studies have demonstrated considerable income inequality (Hardaker *et al.* 1987) and have suggested that this is partly a result of remittance flows (Gailey 1992a; Small 1997). However, more recent empirical studies based on survey data have tended to challenge this view. From independent data sources, Ahlburg (1991, 1995) and Brown (1995) found that distribution of household income with remittances was less skewed than the distribution without remittances. Furthermore, other recent studies have indicated that inequality is a function of many factors of which the migration-remittance nexus may be an unimportant or tiny part (Evans 2001; Muliaina 2001; Halatuituia 2001).

7 The Disincentives of Remittances?

Despite evidence of the growing significance of investment, it has often been argued that remittances (and aid) are not conducive to some forms of private sector development and thus keep the economy in a state of limited productivity. This is broadly what Ahlburg (1995) has called the "disincentive effect." Indeed the MIRAB model implies that a strong bureaucracy may stifle rather than increase productivity. This perspective was stressed by a series of authors in the 1990s (MacMaster 1993; Browne 1995; Duncan 1994; Pollard 1995; La Plagne et al 2001). They also drew parallels to the manner in which a booming sector like mining in Papua New Guinea produced the Dutch disease by driving up wage rates (Auty 1993). In the case of Tonga, Sturton argued that," The Tongan economy displays all the characteristic markings of the 'Dutch disease' where a dominant export activity attracts a disproportionate command over resources, pushes up domestic production costs, and reduces international competitiveness. In the Tongan case the 'booming' sector has become development assistance and migrants' remittances" (1992). Similarly Faeamani argued that through the combination of the loss of young adults and an inflow of cash in the form of remittances and goods, "…there is a consequent reduction in garden size and production" (1995, see Fairbairn 1993). More generally, several authors have stressed the wide-ranging notions of dependency that remittances appear to create.

Several authors have specifically stressed that the crowding-out effect of remittances combined with notions of an easy subsistence lifestyle once characterised as "subsistence affluence" (Fisk 1995) together discourage productivity. Thus MacMaster suggested that in the Cook Islands, Samoa, and Tonga, remittances are, "…a mixed blessing as they undermine the incentive to work and are rarely spent on productive investment. They are normally used for unproductive ceremonial purposes or on imported luxury consumption items" (1993). The World Bank argued that, "…remittance inflows have had an adverse effect upon labor supply leading to higher reservation wages and a corresponding reduction in the production of traditional export crops" (1990). These and other similar statements and conclusions (e.g. Ahlburg 1991, Finau 1994) have overall suggested that, "...it is not clear that the net effect of remittances and aid is conducive to long term economic viability and prosperity" (Cuthbertson and Cole 1995) if they reduce the benefits from investments and drive out private capital. Few of these studies, however, present data that justify these assumptions and conclusions.

A number of the more extreme critics of aid and remittances may be placed among the subsistence affluence school of Pacific paradise dreaming where, as Scott has argued, “It is all too easy and a serious mistake to romanticise the social arrangements that distinguish much of peasant society” (1976; Connell 2003b). It simply cannot be assumed that there is no desire to maximize or even improve incomes and that islanders are somewhat irrational or even lazy. In fact, subsistence activity is only exceptionally abandoned or reduced despite receipt of remittances. More significantly, where there are undeniable possibilities for production, participation is considerable. The development of new cash crops such as coffee in the Papua New Guinea highlands, kava in Vanuatu and Fiji Islands, and vanilla and squash in Tonga sparked enormous spontaneous interest and the rapid growth of these agricultural industries. The rise of squash in Tonga occurred during times when remittance levels were high. The principle participants in the industry had a secondary or tertiary education, overseas experience, and a history of employment with the government, but also had some traditional attitudes. Moreover the growth of the industry was, at least initially, stimulated by government involvement (van der Grijp 1997, 1999). An inverse relationship between squash export earnings and the level of remittances followed (Overton *et al* 1999) again emphasizing the particular economic significance of remittances and also the manner in which remitters respond to needs. Thus where the conditions are appropriate, even if remittances have reached high levels, the private sector may flourish and be stimulated.

The crowding out argument was prominent in the initial formulation of the MIRAB model by Bertram and Watters who argued that with additional sources of income from remittances (and indirectly from aid) people, “...can be expected to evaluate the return on [agricultural] investments relative to the alternatives. On this basis it would be expected that as the alternatives to commercially oriented agriculture would improve, so a reallocation of household effort away from agriculture would take place” (1985). As noted above, there is not a great deal of evidence that this is what happens in most places. Faeamani’s (1995) observations of declining production in Tongan villages may be exceptional and indeed may more likely be a function of labor shortages (Evans 1996, 2001). In circumstances where both remittances (and wages) are high and there has been substantial migration, middle aged and elderly residents may abandon full-time agriculture and become more dependent on remittances or other sources of income as has long been the situation in the Cook Islands (Curson 1979) and in Niue (Cohn 2003), but in both these countries populations are absolutely declining. Such situations are rare and probably much less common than those where remittances have been used for investment in agricultural projects (Connell 1980). Even so, if this is what has occurred as populations in the Cook Islands and Niue fall, it is nonetheless exactly, "…what is required for efficient economic behaviour: that the family allocates its resources to the highest productive use, even if it happens that this particular use is not 'productive' in the 'domestic' economy, but rather in a 'foreign' economy" (Poirine 1998).

In contrast, even those who have criticized remittances as brakes on independent development and causes of accelerated dependency noted that high levels of dependence on remittances may not affect farmers' responses to price incentives or their interest in new crops (Shankman 1976). O'Meara reached similar conclusions in Samoa while also observing that levels of production were tied to the rate of return. If levels of return were low and falling, villagers reasonably sought to diversify their incomes away from agriculture towards a range of sources including remittances (1990). More recently it has been noted that food production has been less enthusiastically pursued in Samoa but, despite an expected correlation, there was no evidence to link this with remittances. The principal reasons were labor shortages and taro blight (Muliaina 2001). Much the same conclusions were true in Tonga (Evans 2001). In both cases, however, labor shortages were linked to migration.

Most studies of remittances have observed that a significant proportion support traditional customs and obligations. As Evans has stressed, this is at least in some part because economic opportunities are few, so investing in custom avoids what would amount to, "…intensive self-exploitation in agricultural activity" and gives villagers both respect and autonomy (2001). Similarly, sellers in the Nuku'alofa flea market whose goods mostly arrived as remittances and who might be seen to be involved in trade, investment, and market capitalism preferred instead to see themselves as part of complex reciprocal exchange systems that, "…maintained the social integrity of Tongan society despite diasporic fragmentation" (Besnier 2004). It is simply more appropriate to engage in exchange and gift giving rather than sales and purchases. Commercial practices are therefore downplayed in favor of social obligations. Alexeyeff stated many local and overseas Cook Islanders, "...considered economic transactions as emotion-driven actions" (2004). The social and the economic cannot be disentangled.

International migration in the quest for remittance incomes is a conscious strategy for households and even for countries like Kiribati and Tuvalu that makes economic sense in small and open economies. Moreover, as almost every study of remittances has revealed, even in the most difficult circumstances recipients make efforts to invest where they can. In the outer islands of Kiribati where most remittances provide basic needs and the custom of *bubuti* (a request that cannot be refused) makes savings let alone business almost impossible, all recipients nevertheless sought to retain some income to invest in land, doughnut bakeries, stores, or even in sewing material for blouses that might later be sold (Borovnik 2004). Here as elsewhere, there is no evidence that any part of the economy is abandoned or neglected but rather that remittances enable some form of diversification and investment even in the most difficult circumstances.

8 The Policy Context

The erroneous supposition that remittances are used primarily for the consumption of imported consumer goods (World Bank 1991, Fairbairn 1991a, 1991b) has increased concern among policy makers and international donors that they have little or no impact on domestic investment and thus do little to enhance the longer-term economic sustainability of island economies (Forsyth 1992; Cuthbertson and Cole 1995). Though many studies demonstrated, sometimes in considerable detail, that consumption is of considerable importance (e.g. Faeamani 1995), they also showed that higher levels of consumption were a major welfare gain and contributed to meeting basic needs that were otherwise sometimes poorly satisfied (Tongamoa 1987). They also showed that remittances have been increasingly important for both investment and savings (Walker and Brown 1995) as the entrepreneurial behavior of Nuku'alofa market vendors attests. Further support for this transition from consumption to investment comes from Foster's (1995) econometric analysis of secondary Tongan and Samoan data which suggests that remittances are sensitive to interest rates because of the desire of migrants to hold assets. There is, however, varied support for the view that as migrant income grows, remittances also grow, and that they will grow much faster if interest rates are favorable. The scant evidence that exists does suggest that using remittances for investment and for savings increases over time, even though in small, isolated island states there are very substantial constraints to such productive use. Remittances are also invested in economic activities, in human capital, and in the well being of others. Some of this perpetuates the migration remittance nexus and increases the flow of funds.

Other important findings have emerged from studies of migration and remittances in the region. It has become apparent that the official, aggregate data on remittances, income, and savings provide a highly misleading picture of the actual extent, form, and use of remittances. Remittances appear to be making a substantial contribution toward savings, but this is not reflected in the official data because of the form in which savings are often held and because of the inadequate, inconsistent, and sometimes quite inappropriate manner in which aggregate savings rates are calculated and treated in most macroeconomic analyses. Cross-sectional data from recent studies strongly indicate that remittance levels do not appear to decline 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 investment there. Both of these conclusions are contrary to many previous studies of migration and remittances in the island Pacific and in many other parts of the world.

Several recent studies have demonstrated that the remittance decay hypothesis has limited validity, at least as far as the remittance behavior of individual migrants is concerned. Although Tongamoa (1987) found some evidence of support for this among Tongan migrants in Sydney, other studies have found that decay was minimal for Cook Islanders, Fijians, Samoans, Tongans, and Tuvaluans in various cities in Australia and New Zealand (Fuka 1985; Loomis 1990; Stanwix and Connell 1995; Simati and Gibson 2001). While these were the results of relatively small sample surveys, similar and more statistically reliable results were derived from a more detailed study of Samoans and Tongans in Brisbane (Walker and Brown 1995; Brown 1998). These data show few signs of the remittance decay that in other studies may have been confused with the effect of slowing income growth among individuals and households in host countries. In fact, remittances did not appear to decay despite higher levels of unemployment and lower average real wage levels, offering evidence of the sacrifices made by some migrants. As income rises, saving appears to become more important in determining remittances in both host and home countries.

Consequently, it is neither the availability of savings nor the unwillingness of recipients to invest that explains the relatively poor performance of small Pacific island economies. The development problem is as much one of resource use and investment allocation as it is of generating savings. This suggests that there are areas where public policy interventions would be appropriate as they have previously been in Asia (Brown 1994, 1995; Russell 1986, 1992). Generally in the Pacific, there have been very few attempts to intervene in the, "…normal laissez-faire structure of migration; those that have been made have been limited in their extent, effectiveness and applicability" (Connell l987). Even attempts to influence the structure of international migration other than to promote it, let alone to direct and benefit from the flow of remittances, have been conspicuous by their absence.

Three key policy contexts exist. The first is accommodating measures designed to remove or minimize problems with migration. In an international context, these measures have included employment agreements with host governments and some of the Polynesian countries. For some time, Tonga had such a relationship with New Zealand (Connell 1983), but it is now of limited significance. The labor migration to Nauru from Kiribati and Tuvalu is of greater contemporary importance, though this has virtually ended. Kiribati and Tuvalu and to a lesser extent the Marshall Islands, Wallis and Futuna (and perhaps Samoa and Tonga), are the only countries in the region that have actively encouraged international labor migration although others, like Cook Islands, have not usually sought to discourage the flow. (Since the 1990s, Niue has discouraged migration, encouraged return, and rewarded immigration with very high per capita aid because the population has fallen below 2000 and may not be sustainable. This pressure increased after Cyclone Heta in 2004). Pacific island states overall have therefore effectively sought to achieve accommodation through increased migration. Indeed in situations where remittances are rather more stable and sustainable over time than receipts from agricultural exports or tourism, as is the recent experience of Cook Islands, Samoa, and Tonga, it is probably an optimal policy to specialize in labor export (Poirine 1998).

Only two national development plans, Samoa's Third National Development Plan of 1975 and to a lesser extent Tonga's Sixth Development Plan of 1991, have commented on the negative impact of international migration, and hence the need to minimize it, though Tonga's plan noted that the only real negative feature of international migration was the failure to maximize its benefits.

A large proportion of Tongan migrant remittances is spent on consumer goods and not channelled into investment for the development of the productive capacity. Savings bonds denominated in foreign currency could be issued and offered to non-residents. This development would imply that returns on domestic securities be consistent with those offered to Tongan migrants, as Tongan residents would otherwise be encouraged to seek access to non-residents' instruments (Tonga 1991).

There is no evidence that any of the proposed policy interventions were seriously considered, let alone implemented despite their perceived urgency. Concerns over the loss of skills were also stressed in the 1980 and 1992 Samoa Development Plans but have not been subsequently repeated. Elsewhere in the region they have rarely if ever been discussed because of the economic benefits from migration. Generally, in fact, there have been few attempts to direct or influence the structure of international migration in the South Pacific due to official respect for the rights of individuals to move freely.

Secondly, there is a range of development policies that might increase the gains from international migration that could be initiated by home countries with the cooperation of host countries. Schemes where groups of labor migrants from a number of countries travel overseas for several months to generate funds from donations or employment for specific local social or economic development projects might make better use of remittances. This possibility is under consideration in Australia (Australia 2003).

Thirdly, there are policies that might influence the productive use of remittances, yet it is also clear that existing financial systems and related policies do not attract remittances into financial assets in the home economies. Real interest rates have been negative or very low. This has encouraged recipient families to invest in noninterest bearing assets such as housing or consumer durables. Migrants may, quite rationally, choose to hold their savings abroad, perhaps to be remitted home and invested at some point in the future.

POLICIES TO FOSTER REMITTING THROUGH OFFICIAL CHANNELS

It is generally accepted, at least informally, that policies are needed to encourage the use of remittances to promote longer-term growth and income security in home economies. Pacific island countries have yet to develop policies that (i) send more remittances through official rather than informal channels; (ii) increase the levels of remittances by encouraging migrants to hold their savings in financial assets in the home country rather than keeping them abroad (or spending their savings on consumer goods); or (iii) encourage migrants to become investors in productive assets in the home economies.

Governments of labor-exporting countries elsewhere in the world have introduced a variety of schemes with these policy objectives in mind, namely (i) repatriable foreign exchange accounts to encourage the greater use of official channels, (ii) foreign currency denominated bonds to encourage more use of financial assets in the home country, and (iii) self-employment investment schemes to stimulate more direct investment in productive assets. Athukorala (1993) reviewed policies in seven major labor-exporting countries in Asia. All except Indonesia provided temporary and permanent migrant workers with the incentive to remit to repatriable foreign currency accounts in domestic banks which effectively means that the migrant is not subject to foreign exchange controls in current account transactions and capital transfers. In addition, India and Pakistan offered premiums over the interest rates available in the international financial market. Bangladesh offered additional incentives through a preferential exchange rate on conversions of foreign exchange from the repatriable foreign currency account to local currency and a wage earners' scheme that enabled migrants to sell their foreign exchange to importers at daily auctions (Mahmud 1989). In Pakistan, there was the added advantage that the Habib Bank was allowed to open branches in many of the labor importing Arabian Gulf countries to facilitate migrants' use of official channels (Abella 1989). Sri Lanka also offered its migrants duty free domestic shopping (Saith 1989). Since most migrants from Pacific island states are settlers rather than labor migrants some of these provisions are not relevant.

In other instances, governments have resorted to mandatory remittance ratios. For instance, the Philippines introduced a decree in 1983 that required migrants to remit a given percentage of their foreign earnings through official channels to be converted to domestic currency at the official exchange rate. This proved both unpopular and impossible to implement and was scrapped in 1986. A mandatory remittance scheme was also adopted by Thailand but with little success (Quibria 1986, Quibria and Thant 1988).

In order to encourage migrants to hold their savings in financial assets in their home rather than host countries, many governments have introduced foreign currency denominated bonds. Athukorala (1993) pointed out that these have an added advantage over RFCAs in that they guarantee anonymity of the asset holder who is still entitled to repatriate the funds when the bond is redeemed. For instance, Bangladesh has a wage earner development bond offering interest rates above those on domestic bonds as well as an insurance scheme based on a one-off premium in foreign currency. Pakistan has for some time had Khaas deposit certificates denominated in local currency and issued to migrants on payment of foreign exchange that upon redemption can be converted back to foreign currency at the official exchange rate (Kazi 1989). Somewhat more recently, Pakistan introduced foreign exchange bearer certificates that carry an interest rate above the Euro rate (Kazi 1989), and a dollar bearer certificate offering a return linked to the London interbank offered rate (Kardar 1992; Athukorala 1993). India has a similar scheme (Gordon and Gupta 2004).

The third policy area concerns schemes to encourage migrants themselves to become investors. The first country to introduce such measures was Turkey through the formation of village development cooperatives whose members then gained preference for migration (Swamy 1981, Russell 1986). Pakistan has a scheme that allows migrants to import machinery at concessional rates of duty and to invest in export processing zones (Kazi 1989). In Bangladesh too, migrants have been offered special fiscal incentives to invest domestically (World Bank 1981).

Despite very different socioeconomic conditions in the labor-exporting Asian countries, their experience cannot be ignored. The findings of the most recent studies in the Pacific indicate that there is substantial scope for government policy interventions to increase flows of remittances to their economies, yet there has been virtually no concerted effort by any government to offer incentives for migrants to remit more through official channels. All the evidence suggests that migrants' remittances would be responsive to financial incentives of the sort that have been adopted in Asia (Foster 1995).

While it needs to be acknowledged that this runs counter to the conclusions from econometric analysis of secondary data in other remittance receiving countries (Swamy 1981, Straubhaar 1986), it also needs to be stressed that these studies relied exclusively on secondary macroeconomic data.

Policy makers must therefore regard remittance levels as potentially responsive to policy interventions and the provision of special incentives. Until such time as the financial authorities in the South Pacific offer internationally competitive real interest rates to savers, migrants may choose, quite rationally, to hold their savings elsewhere. Indeed there is some evidence that although extended families are behaving to some extent as transnational investment institutions (Marcus 1981), the countries of the Pacific are unwilling to develop policies that may be seen to favor those who have, through international migration, achieved a greater degree of success than those who either chose to remain at home or were unable to migrate.

There is scope for a careful consideration of policies, such as the transfer of pension rights, to maximize the benefits of international migration in most countries in the region. This is true even though migrants from Pacific states are more likely to be permanent residents. One strategy that might be of value is attracting and retaining stocks of migrant savings for investment. In host country recessions, it is likely that remittances for saving and investment will be reduced instead of those for family consumption. Channelling migrant savings to home country assets can provide security in such situations.

POLICIES TO FOSTER SAVINGS AND INVESTMENT

It is generally recognized that policies to promote remittances and to channel them into more productive investments have not met with tremendous success. One of the most cited studies in this regard is Swamy's (1981) study for the World Bank. Using pooled time series data on official remittances from three countries (Greece, Turkey, and Yugoslavia) over 18 years, she found that policy measures such as relative interest rate schemes and premium exchange rates were unsuccessful in increasing remittance flows. Another study using secondary time series data from Turkey showed that, "…neither variations in exchange rates (reflecting government intention to attract remittances by premium exchange rates) nor changes in the real return on investments (reflecting government intention to attract remittances by foreign exchange deposits with higher returns) turned out to affect the flows of remittances (Straubhaar 1986). Investment schemes like the village cooperatives attempted in Turkey also had little success (Swamy 1981; Russell 1986). In Asia too, Saith (1989) pointed to the high failure rate of the self-employment schemes attempted by governments of labor-sending countries to convert return migrants into small entrepreneurs.

In the Pacific, there have been virtually no concerted efforts by governments to offer incentives for migrants themselves to invest remittances in productive activities. It has not therefore been possible to assess policy interventions from an *ex post* perspective. The limited success of policies adopted in Asia suggests that it would not make good sense to replicate them, but on the other hand, it is not necessary to dismiss them. Much can be gained not only in the Pacific from analysis and assessment of the potential of the policy environment. First, the conditions under which policies would be effective must be identified, and second, the extent to which such conditions exist must be ascertained.

It is useful to begin by identifying the assumptions underlying policies to stimulate a greater flow of remittances into sustainable investments that have been adopted elsewhere.

(i) Investment is limited by savings and/or the availability of foreign exchange. (If this were not the case there would be no reason to believe that increasing the inflow of migrants' remittances would induce, or at least, enable, additional investment).
(ii) Investment in the economy of the home country is necessary if the long-term income security of the population is to be sustained.
(iii) Migrants themselves are the appropriate agents for investing their remittances; they are all, in effect, latent entrepreneurs.
(iv) If remittances are to be channelled into productive investments in the home economy, they must be transferred through official channels.
(v) Migrants' savings in the home country and their remittance levels are sensitive to relative real interest rates. This, in turn, implies that migrants are motivated to remit for reasons of self interest (financial gain) and not only to meet the needs of nuclear and extended families.

The most recent economic studies provide considerable information on these assumptions. First, it is now evident that migrants' remittances are potentially responsive to financial incentives since they remit not only for family support and that a significant proportion of their remittances appears to be motivated mainly by investment. Second, the fact that a significant part of unofficial remittances goes into investment goods suggests that remittances have a greater impact on domestic investment than is generally thought and that they need not be transferred through formal banking channels for this purpose. Third, from surveys of both migrants and recipients, it is evident that some are saver rentiers, others are saver investors, and some, like the Tongan flea market vendors have evolved into full scale entrepreneurs with investment links with other sectors of the economy (Brown and Connell 1993).

From the micro survey data available, it is not possible to assess the extent to which suitable avenues and opportunities for investment in the domestic economies of Pacific island states exist and the extent to which they are limited by savings and foreign exchange. Foster's (1995) econometric analysis of secondary data on savings and remittances in Samoa and Tonga questioned assumptions that investment was limited by saving levels, that the most appropriate use of migrants' savings was domestic investment, and that migrants would necessarily make the best entrepreneurs. In practice, real interest rates in Samoa and Tonga (and probably elsewhere) have been negative or very low which could account for the shortage of loan funds. These findings led Foster (1995) to conclude that attractive interest rates are likely to attract greater savings.

It is therefore reasonable to conclude that it is neither the availability of savings nor an unwillingness to invest on the part of recipients of private remittances that explains the relatively low growth performance of the Samoan, Tongan, and other home economies. Where this is the case, it appears that the problem is more one of resource use and investment allocation than of savings. In this context, the role of financial institutions becomes very relevant. One possibility that warrants further investigation is the scope for links between remittances and microfinance institutions as an alternative to state and commercial banks.

Financial institutions could play a more active role in mobilizing investment funds by providing stronger incentives to individual savers through more attractive real interest rates. However, family security and development priorities should, wherever possible, be kept separate. Economic development projects should, as now, be funded mainly through foreign aid and kept quite distinct from commercial lending for normal purposes. It is inappropriate to substitute migrant funds for aid flows in development.

None of the recent studies concludes that remittances should be directed towards domestic investment and that the migrants (or their families) would necessarily make the best entrepreneurs though some have indeed become entrepreneurs. Where opportunities arise, remittances can be motivated by and used for investment (Faeamani 1995; Walker and Brown 1995; Brown and Connell 1993). Yet even where migrants possess the necessary entrepreneurial potential, if the general investment climate in the home economy is not conducive it cannot normally be expected that migrants will risk their savings when safer alternatives exist elsewhere.

In several Asian countries, Saith (1989) questioned the wisdom of adopting policies to convert migrant-savers into migrant-investors. It would instead make better sense for policy to be geared more towards the majority of migrants to encourage them to become more active in domestic capital markets as saver rentiers. As suggested previously, this would necessitate Pacific island economies offering savers competitive real interest rates. The loan funds accumulated in this way could then be invested either in larger domestic projects, or, where no suitable opportunities exist, they could be held as overseas assets denominated in foreign currency at the best possible rate of return. The accumulation and disbursement of loan funds into viable investment projects has been hampered by past government development and monetary policies. Fostering investment requires the formation of an independent financial institution that uses best practices to attract funds from migrants and to lend them domestically and internationally.

Direct financial incentives might be provided for investing remittances such as national development bonds from national development banks. This has never been seriously contemplated in the region although there were attempts in Samoa at the start of the 1980s to encourage skilled migrants to invest in housing and thus increase their commitment to the country. The Bank of Tonga has designed saving instruments specifically for migrants that include an international interest differential (the Bank of Tonga target savers' rate minus the Australian fixed deposit rate). In 1991, it also offered a "return to Tonga" savings account, but was on the point of discontinuing the scheme in 1995 because it had not attracted much capital (P700, 000) possibly because it was unable to maintain the confidentiality of the accounts. These policies raise questions of equity and preferential treatment for return migrants or overseas residents, and Pacific island states have hitherto not chosen to move in that direction. Moreover, some countries may even wish to oppose special provisions for migrants in circumstances where limited development and investment opportunities exist.

The accumulation of financial assets abroad could provide income security for migrant households and a buffer against adverse developments like cyclones in the home country and recessions and rising unemployment in the host country. Indeed, Kiribati and Tuvalu have such buffers in place, and the northern Micronesian states are moving towards similar schemes. Kiribati set up a Revenue Equalisation Reserve Fund in 1956 as a trust fund to be built up from the profits from its nonrenewable phosphate exports. Tuvalu established the Tuvalu Trust Fund along similar lines in 1987. These funds are invested abroad and have achieved high rates of return that in Tuvalu's case averaged 19% in the first 4 years of operation. The revenues from the funds are used for national budgets. Nevertheless, though both countries have growing trust fund balances to provide national economic security, both have significant socioeconomic difficulties and no clear strategy for using their considerable assets to promote socioeconomic well being without risking reductions in much-needed aid.

MONETARY AND ANTI-INFLATION POLICIES

The governments of Pacific island states need to implement monetary policies that result in positive, internationally competitive interest rates. Without positive real interest rates, individuals and families cannot be expected to hold savings except in the short term. Clear differences in the inclination to save were evident in both Samoa and Tonga in line with differences in real interest rates (Foster 1995).

Rules are required for granting subsidies and guarantees to keep all lending rates low, not just rates provided by aid supported development banks that already have interest subsidies. Legislation would have to be drafted so that all financial institutions could hold overseas assets denominated in foreign or local currency. It would be best if relevant financial institutions were run as independent state corporations along the lines of existing national provident funds despite their somewhat checkered history. It is clear from the experience of Kiribati and Tuvalu (if not Nauru) that governments can handle overseas investments very effectively in conjunction with a reliable agent. Governments should not be able to borrow funds directly from these financial institutions in order to protect investors and to prevent crowding out of private investment.

Development and national security considerations often necessitate budget deficits. In the case of small Pacific island countries, aid can cover such deficits, but there is danger of inflation since aid increases liquidity. This may worsen the trade deficit or drive up prices, particularly when there is no immediate increase in the supply of goods and services from development spending. This undermines savings flows since it drives real interest rates to low or negative levels. Funds channelled through development banks may dissipate into consumption subsidies and reduce the propensity to save domestically. In such circumstances, aid should be used mainly for labor-intensive infrastructure projects to generate employment and for funding state pensions for the old and education for the young. Funding business investment should be strictly the province of financial institutions that recycle domestic and migrant savings. Governments and aid agencies are not competent to do this.

There is little doubt that attractive interest rates induce savings, either directly or indirectly, and that this is advantageous. If holding overseas assets is permitted, central banks need not be concerned with liquidity overhang. There is no simple link between the volume of financial assets and inflation. The inflation experience of Pacific island states suggests that it has been related to aid-funded government spending, to rises in import prices, and to natural disasters, not to large budget deficits.

It is appropriate that central banks should continue to avoid persistent budget deficits but should also promote savings as insurance for the future. The evidence presented here offers some indication that as their incomes rise, migrants accumulate financial assets provided interest differentials warrant it. Evidence from Walker and Brown's study (1995) suggests that migrants hold significant quantities of savings in their countries of residence, so the potential for accumulating savings in the home country clearly exists. The extent to which migrants might repatriate savings in different financial circumstances is obviously unknown, and there are grounds for caution over the degree to which migrants might welcome certain kinds of investment and development in their absence.

Recent studies also point to the need for financial policy reforms that take into consideration the real rate of return for the saver in relation to rates of return available to the transnational family in both financial and non-financial assets, both domestically and abroad. The details of these need to be worked out on a country-by-country basis, taking into account the particular financial, institutional, and policy environment of each case and the forms, channels, and determinants of remittance flows.

Conflict can arise between savings and investment strategies and anti-inflation measures. However, during the 1990s, inflation subsided as a central problem in many countries providing an opportunity to reorient economic policy towards growth and sustainability. The proposals suggested here concerning saving and investment do not pose any risk of inflation. Inflation is not caused by the public holding stocks of financial assets provided they are not lent to government to finance expenditure and provided that such assets are not used as a conduit for lending aid funds with a low probability of repayment (Foster 1995). Aid funds should continue to be managed by development banks or agencies.

9 CONCLUSIONS

This report has provided an overview of migration and remittances in the Pacific with particular reference to Samoa and Tonga, two of the larger Polynesian states where international migration and remittances have been of the greatest importance and where this has been documented to a more substantial and credible extent than elsewhere. A number of conclusions are significant.

- There has been a consistently substantial and growing volume of remittances especially in the Polynesian states making up a significant part of national income in excess of the value of exports and aid.
- The use of these remittances has gone through a partial transition from consumption to investment as many consumption goals have been met at least in part. Such trends have occurred elsewhere (Helweg 1983; Connell and Conway 2000) and have boosted standards of living.
- Remittances have been particularly important in the most remote islands where development needs are less well met. Even in the most remote locations such as Falahola in Tonga and outer Kiribati islands, people have invested remittances though the opportunities are very few (James 1993b; Borovnik 2003).
- Remittances contribute to valuable objectives such as human resource development and are a means of maintaining social networks and creating social capital (Grieco 2004). In several places, especially smaller islands, education is highly valued both in a general sense and for the development of specific skills in order to create human capital for potential migration.
- Overall various studies suggest that remittances are positive and satisfying for households but insufficient in and of themselves to influence national development goals. Economic growth has been very limited in Pacific island states as Bertram has pointed out, "…because of low capital absorption capacity, due partly to small scale and geographical isolation, which limits the possibilities for text-book growth models based on large country experience" (Bertram 1999b: 338; Tisdell 2002; Cohn 2003).

These conclusions further suggest a number of policy recommendations, however, conclusions drawn mainly from dated studies in the relatively large states of Samoa and Tonga cannot necessarily be generalized for other states in the region. Indeed, the financial systems of Pacific island countries are quite different both in the extent of financial development and in institutional structure due to unique mixes of cultures and colonial and post colonial histories. To some extent, however, the examples of Samoa and Tonga do provide financial templates of remittance dependent economies that can be used as a good starting point for understanding the situation in other small countries in the region.

Several of these conclusions indicate that further in-depth research should be undertaken. Few detailed studies of migration and remittances in the island Pacific are statistically significant, and many were done more than a decade ago and may no longer be valid. Two of the few studies that discuss remittances in this century note that the wives of Kiribati seamen regularly communicated with their husbands by fax or telephone but that e-mail was fast becoming their first preference (Clark 2004; Dennis 2003), opportunities that were not open to migrants or recipients a decade ago. How new electronic forms of communication have influenced actual remittance flows has yet to be explored in detail (cf. Morton Lee 2003, 2004a,b). There have been virtually no studies in Fiji Islands and Tuvalu though remittances are of considerable importance in both.

Remarkably, not a single village study appears to have been conducted anywhere in the Pacific in the past decade that provides data on remittances. Firstly, follow-up studies in key villages where earlier studies were conducted to indicate potentially significant changes would be useful. Secondly, more detailed studies would be useful in FSM, Niue, and the Cook Islands where there have been no recent studies, and in Kiribati and Tuvalu where the relationship between poverty, remittances, other income sources, and rural safety nets is of critical importance. Thirdly, detailed follow-up surveys in Samoa and Tonga that would indicate potentially significant changes over the past decade would be valuable. Without more adequate data, it will continue to be difficult to be precise about trends, outcomes, and policies.

Critical uncertainties about some basic issues remain, including the intent of remitters and how that is translated (and even whether remitters are more conservative than recipients), the extent of inequality created by the migration-remittance nexus, and the extent to which remittances contribute to crowding out local economic activities. This is scarcely surprising since similar uncertainties occur in broader and better-documented contexts (Jones 1998). The present conclusions, while suggesting that remittance levels would be sensitive to policies affecting relative real interest rates, do not suggest that policy would stimulate more domestic investment from remittance flows or that the migrants (or their families) would necessarily make the best entrepreneurs despite the use of remittances for investment. This raises the broader issue of the importance of the general investment climate. Migrants are unlikely to risk their capital in an investment in the home economy if safer alternatives exist elsewhere.

In view of these sorts of problems, policies should be geared more towards encouraging migrants to become more active in domestic capital markets as saver-rentiers. Governments must offer savers competitive real interest rates in order to accumulate loan funds to invest either in larger domestic projects or to hold as overseas assets denominated in foreign currency at the best possible rate of return. If and when investment opportunities arise in the home economies, such offshore funds could also provide an important source of venture capital.

This kind of intervention has not hitherto been considered in any detail in island states partly because it is technically difficult in open economies (and where migrants are often settlers) and because remitters have been uninterested in (or unaware of) the few existing schemes. Governments are also unwilling to tamper with substantial remittance inflows (the "goose laying the golden egg" syndrome) or be seen to restrict freedom of movement, privacy, and individual decision making. Moreover there is a strong belief that supporting remitters or recipients would favor those who have already benefited substantially from the system, hence equity would be poorly served. Finally Pacific island governments are relatively weak and ineffective in developing and implementing many policies and in other circumstances have been discouraged from intervening in the private sector.

It is increasingly evident however that maximizing the benefits of international migration is crucial since it is highly valued throughout the region for social and economic reasons. As long as considerable economic challenges face island states, as their population growth rates remain above world averages, as development prospects are few, as the possibility of declining aid becomes more apparent, and as expectations rise, the ability to migrate will be crucial.

There is no question that remittances have contributed to development in various contexts and senses. Most studies have suggested that many Pacific island households use migration and remittances to increase their incomes even fostering obligations and implicit contracts. Poirine has argued that family members are consciously and repeatedly optimizing their economic status over time while the informal family credit market of remittances is an efficient means of achieving the, "…highest returns on human capital investments" (1998). It is clear, however, that in many circumstances decision making is less rational and informed than such models suggest. Indeed the relationship between remittances and fluctuations in the labor markets in host countries is poorly understood, and there are almost no data that consider skilled and unskilled migrants as distinct categories. Moreover, there is a range of evidence that suggests that remittances are increasingly demand driven and a response to requests. However, even with imperfect knowledge, households are consciously making decisions in favor of the quantity and quality of education of children that boost their chances for migration (Brown and Connell 2004). Migration and remittances thus stem from and contribute both directly and indirectly to human capital formation.

Anecdotal evidence points to the growing individualism of overseas migrants, especially to the increasing numbers of second generation migrants born overseas and the reduced likelihood that they will send remittances to home countries especially if they take up host country citizenship. Thus one Tongan observed of migrants to Australia, "People who were born here or went to school here send remittances. People born there? No way!" (James 1997). Many Tongans in Melbourne have lost interest in continued financial support of their overseas kin as their sense of *kavenga* (obligations) has declined over time (Morton Lee 2004). Similarly, skilled Tongan migrants in Sydney are increasingly stating that they no longer remit (Fusitu'a 2000). Data on Samoan and Tongan nurses in Australia, on the other hand, indicate that skilled migrants sustain remittances at high levels and over long time periods, but that data dates from the mid-1990s and circumstances may now have changed.

Even if direct remittances decline, migrants still contribute to collective fundraising endeavors that play a part in nation building (Morton Lee 2004). The flow of food in both directions strongly suggests the affective and symbolic role of exchange, how it is embedded in social structures as much as economic transactions, and thus the potential for long term flows to continue. Indeed as remittances are a critical element in building and maintaining social networks, they are likely to be sustained beyond what economic principles might suggest.

As first generation family ties decline, as families are reunited in host countries, and as there are no dependents in home countries, remittances for that household will decrease, but other households will begin the migration process anew. It is not therefore surprising that several Pacific states have argued strongly and lobbied hard for special migration legislation in host countries to sustain migration flows. If migration becomes more selective in terms of skills (or in any other way), gains to Pacific island states are likely to decline. It has long been argued that concessionary migration schemes are a practical form of aid to smaller Pacific island states (Connell 1984). These arguments center around the view that since labor is the most successful export, concessionary migration policies would be even more beneficial. "Like any other export, in the right policy context labour export and remittances can serve as a stimulus to economic development and a change in comparative advantage" (Appleyard and Stahl 1995).

Two counter arguments to selective migration policies are that development (and aid) should be centered in the island states, and that recipient countries should have non-discriminatory migration policies (Cuthbertson and Cole 1995) though both such arguments have been largely bypassed by time. Indeed Australia has even been forced to contemplate the possibility of developing a migration-remittance economy for the impoverished state of Nauru (Hallett 2004). Moreover, these arguments take little account of labor needs in host states. Short term labor migration has worked effectively in New Zealand where workers from relatively poor parts of Fiji Islands have taken up jobs, mainly in agriculture, that are unattractive to residents and have returned to make substantial financial contributions to their home communities as a result (Levick and Bedford 1988). Workers who overstay their visas make similar contributions in Australia. Economic and institutional changes in present host countries do, however, place limits on this. Ultimately the future success of the migration-remittance nexus may lie in social, economic, and political changes in host states that open up labor markets.

As long as migration opportunities exist and offer prospects for higher earnings, it is perfectly rational for islanders to adopt strategies that maximize migration prospects such as investing in children's education. However, spending on education is treated as consumption (not investment) in national income accounts, and in the intergenerational transfer model (Brown and Poirine 2004), remittances to parents are understood as returns on past (human capital) investment. Once migration-induced investment in human capital is treated as a legitimate and rational use of resources, a number of the perceived problems with remittances and their use disappear, and the migration-remittances nexus is more obviously beneficial.

What is crucial for home countries is that long-term migration opportunities continue. If improved education encourages children to stay and if retired emigrants are encouraged to return, for example, by ensuring access to land (a major challenge in most states) and by securing agreements with host countries to preserve pension rights and any other retirement benefits in their home countries, then remittances will be maximized (Poirine 1998). Moreover it is possible as James suggests for Tonga, that the export of traditional wealth may continue to stimulate resource flows to Tonga (1997) even when remittances may dwindle.

Remittances in the Pacific are presently maintained for very long time periods, beyond what has hitherto been recorded in most other world regions, and in quite new socioeconomic contexts (Morton 1998, 1999). Indeed, the most striking conclusion of the most detailed studies is that remittances do not decline over time, emphasizing that migrants are ultimately motivated by factors other than altruistic family support such as asset accumulation and investment at home as the intergenerational flow of remittances takes on a more individualistic element (Brown 1997, 1998). This may also reflect the pervasiveness of island social mores and some degree of discrimination in host countries that increases the desire to maintain island social ties. For whatever combination of reasons, there is room for some degree of optimism that remittance flows will not decline significantly in the near future, along with a degree of pessimism that flows will not continue indefinitely. Even that conclusion depends in large part on the continuity of migration flows. It might be expected that migration will continue when possible where public sector employment is reduced, where wages and salaries remain low and unequal, where working conditions are sometimes difficult and hierarchical, where commodity prices have declined, and where there are many kin overseas. Moreover, some skilled groups such as nurses are now recruited internationally.

As Muliaina has argued in the case of Samoa, if there is a continued tightening of immigration policies by major Samoan hosts for whatever reason, "…the standard of living of rural Samoans, as opposed to urban dwellers, may be expected to decline in the next decade" (2001). If that is true of Samoa, it is true of all other independent Pacific states where there is presently a significant dependence on remittances. Moreover, Muliaina reached that conclusion primarily for a Samoan village about 12 kilometers from the capital where there were several business ventures and commuters to urban employment. Remote locations would face greater difficulties.

While international migration has had both positive and negative effects in the Pacific, the significance of the positive effects (particularly increased standards of living) must be contrasted with the limited development potential of many countries in the region and their failure to achieve significant economic growth or sustainable development. In the Pacific, as in the Caribbean, remittances have made a substantial contribution to household development but rather less to national development (Connell and Conway 2000). In most of the South Pacific, the greater self-sufficiency that would follow a decline of migration and remittances would be difficult and painful. As was argued for the small island of Rotuma, "With the prestige given to 'foreign' goods, it is doubtful, therefore, that Rotumans would want to be self sufficient, even if it were a possibility" (Plant 1977). In Tikopia, Solomon

Islands, "…from such a level of dependence on imported goods it becomes difficult to retreat without unease and a sense of deprivation" (Firth 1971). In Pohnpei, too, villagers were not interested in adequate subsistence or even in the right to subsistence, but rather desired, "…continued and increased access to the goods and prestige provided by employment" (Petersen 1979). More than two decades later, these statements can be re-emphasized in a wider context. Demand for migration and remittances is likely to be sustained alongside rising expectations in conditions of limited national economic growth.

As preferential trade agreements disappear and barriers to international migration become more selective and challenging, other forms of development and growth must be found and implemented, and remittances must be used more effectively. Many Pacific islanders, especially Polynesians, see migration or overseas employment as a means of escaping limited domestic economic opportunities and maximizing their development options. In this context the need to maximize the benefits from migration and remittances becomes ever more pressing.

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