

Institution: University of Sussex

Unit of Assessment: UoA 18 Economics

Title of case study: Boosting poor households' incomes through temporary worker schemes in the Pacific

1. Summary of the impact

Thousands of poor rural workers from 11 island states in the Pacific have benefited from the findings of twin research programmes led by Alan Winters of the University of Sussex – one on small island economies and one on the temporary mobility of labour. New Zealand's Recognised Seasonal Employers Scheme (RSE), which welcomes workers from poor Pacific Islands for the agricultural season, is a direct outcome of his research. Winters was also instrumental in designing and implementing the RSE in a way that permitted formal evaluation and which has become an exemplar of good practice. The evaluation shows that households in Vanuatu and Tonga benefiting from the scheme have experienced average increases in income of 35–40 per cent.

The RSE has been described by World Bank staff as 'among the most effective development projects ever evaluated'. Persuaded by the positive evaluation, the Australian government has overcome longstanding reservations and introduced a nearly identical scheme, which is potentially much larger. The RSE also inspired the imaginative US response to the 2010 earthquake in Haiti, providing 1,000 temporary visas for unskilled Haitian workers. And Winters' research on temporary labour mobility and the RSE underpins developing countries' efforts to start serious negotiations on the issue in the WTO's Doha Round of trade negotiations.

2. Underpinning research

Between 2000 and 2003, the Commonwealth Secretariat (ComSec) approached Alan Winters at Sussex to help to analyse two pressing policy issues: how to promote growth in small remote economies, and whether developing countries would benefit from the liberalisation of temporary international labour mobility. The approaches reflected Winters' extensive experience in applied international trade research and his strong network of contacts in the policy world around trade and development. The results of the commissioned research have since been published and become widely cited.

The first stream of research concerned the excess production costs faced by very small and isolated economies, which Winters and Pedro Martins (then a Research Assistant at Sussex and now at the Overseas Development Institute) were able to measure more carefully than previously [see Section 3, R1]. With their small consignment sizes and great distances from economic centres, these countries face massive trading costs. As a result, imported goods (most goods for these small economies) are much more expensive, as are the locally produced goods that use imports as inputs. Similarly, most goods cannot be exported because, in addition to high production costs, the price in destination markets needs to cover the cost of transporting them to market.

As Winters and Martins showed, the outcome is that real wages in these economies are very low and will become lower as the rest of the world becomes more efficient and island states lose their tariff preferences in major markets. In many manufacturing activities, even if wages fell to zero, the island economies would still not be able to match world prices because they pay so much more for inputs. The researchers concluded that, if real wages were not to fall to subsistence levels, migration would have to play a fundamental role in income growth. Such views have now become widely accepted: one manifestation is in Chapter 1 of the World Bank's 2006 report, *Home and Away*, which argues for a migration solution in the Pacific Islands [see Section 5, C1].

The second stream of work – with Terrie Walmsley (Purdue), Zhen Kun Wang (Sussex) and Roman Grynberg (ComSec) – analysed the economic benefits of liberalising the flow of temporary workers between economies [R2–R6]. Mobility moves workers from places with low productivity to those with high productivity, with a resulting large gain in world output. The research provided the first numerical estimates of the benefits of mobility, which hugely exceed those associated with

removing remaining barriers to trade in goods. It also analysed the practicalities of introducing temporary mobility schemes and showed that any potential problems would be far from insurmountable. This work was taken up by developing-country groups – for example, in the Commonwealth, UNCTAD, the WTO, the World Bank, the International Organization for Migration and the OECD – and by specific countries in their negotiations with partners.

3. References to the research

- R1 Winters, L.A. and Martins, P.M.G. (2004) 'When comparative advantage is not enough: business costs in small remote economies', *World Trade Review*, 3(3): 347–83.
- R2 Winters, L.A., Walmsley, T.L., Wang, Z.K. and Grynberg, R. (2003) *Liberalising Labour Mobility under the GATS*. London: Commonwealth Secretariat, Economic Paper No. 53.
- R3 Winters, L.A., Walmsley, T.L., Wang, Z.K. and Grynberg, R. (2003) 'Liberalising temporary movement of natural persons: an agenda for the development round', *The World Economy*, 26(8): 1137–62.
- R4 Walmsley, T.L. and Winters, L.A. (2005) 'Relaxing the restrictions on the temporary movement of natural persons: a simulation analysis', *Journal of Economic Integration*, 20(4): 688–26.
- R5 McKenzie, D., Martinez, P.M.G. and Winters, L.A. (2008) 'Who is coming from Vanuatu to New Zealand under the new Recognised Seasonal Employer (RSE) Program?', *Pacific Economic Bulletin*, 23(3): 205–28.
- R6 Walmsley, T.L., Winters, L.A. and Ahmed, A. (2011) 'The impact of the movement of labour: results from a model of bilateral migration flows', *Global Economy Journal*, 11(4): 1–24.

Outputs can be supplied by the University on request.

4. Details of the impact

The two streams of research led by Alan Winters came together to underpin New Zealand's establishment of the Recognised Seasonal Employers Scheme (RSE) [see Section 5, C2]. This scheme, operational since 2008, allows recognised agricultural employers to recruit workers from certain Pacific Islands for a season's work subject to the workers meeting certain (mild) criteria and to the employers providing reasonable working and living conditions. Workers with good records can return in subsequent seasons.

Evaluation of the scheme in two of the island economies that have benefited shows massive effects: the *per capita* incomes of participating households have risen by an average of 35–40 per cent in Vanuatu and Tonga. Workers remit money to their families while they are away and carry income and goods back home when they return at the end of the season. According to Vanuatu's Labour Commissioner [C3], 'The scheme has raked in around Vt 3.8 billion so far for the country' (approximately \$40 million) and around 11,000 temporary placements have been made. Virtually all of the benefit was reaped over the period 2008–13, although the data include a few hundred workers who moved under the 2007 pilot scheme.

The key innovation of the RSE was that it not only suited New Zealand farmers but that it also drew on research to assuage society's fears about migration and to show explicitly how it would foster development in the Pacific region, a major foreign-policy objective for New Zealand. The research was central to these innovations, motivating migration as a development policy and defining the practical needs for success for both host and home countries. Its role is evident in the World Bank's report *Home and Away* [C1] and in the accounts of the RSE in the evaluation documents by John Gibson and David McKenzie [C4].

The confluence of the two research streams came in the *Home and Away* report, following which the New Zealand government sought the World Bank's help in constructing a temporary-migration scheme for the Pacific Islands. Winters worked closely with the senior economist involved (Manjula Luthria), especially on the design of the scheme and the presentation of the case for what was a very innovative and potentially contentious piece of policy. Winters was also largely responsible for persuading the parties to set it up with a proper evaluation process – a first for a national migration

policy. Demonstrating the scheme's effectiveness objectively was important politically and enabled the idea to be exported to Australia (which adopted a similar small pilot scheme in 2008 and a full scheme in 2013 [see C5, C6] and elsewhere (see the testimonial from Michael Clemens [C10]).

McKenzie *et al.* [R5] reports the RSE baseline survey for Vanuatu. After leaving the Bank in 2007, Winters passed the project to his co-author of that study, David McKenzie who, with John Gibson, has continued the evaluation. They write [C4]:

The RSE ... is viewed as a possible model for other countries [in the ILO good practices database]. ... Our evaluation was designed prospectively, alongside the launch of the program [with] baseline surveys ... before workers left to work in New Zealand, and then re-interview[s] ... 6, 12 and 24 months later. ... The results show that the RSE has had large positive effects on sending households in Tonga and Vanuatu. We find *per capita* incomes of households participating in the RSE to have increased by over 30 per cent relative to the comparison groups in both countries... Subjective economic welfare is estimated to have increased by almost half a standard deviation in both countries... School attendance rates increased by 20 percentage points for 16- to 18-year-olds in Tonga... Overall these results show that the seasonal worker program has been a powerful development intervention for the participating households.

On the fifth anniversary celebration of the RSE in 2012, New Zealand High Commissioner, Bill Dobbie, said [C3]:

RSE is a very important scheme because it is a huge initiative for New Zealand and Vanuatu. Every year 2500 plus workers are recruited to work in a New Zealand farm. ... For the last five years Vanuatu has over 11,000 RSE work placements in New Zealand. RSE also contributed greatly to the Vanuatu's economy. Each year RSE workers contributed over Vt 1 billion to the economy.

The New Zealand scheme has been closely copied in Australia. After a pilot scheme between 2008 and 2012, Australia introduced a full scheme in 2013 [C5]. The pilot, which naturally had only modest coverage, suggests that Tongan participants increased the *per capita* income of their households by 36 per cent [C6].

The New Zealand experience also provided inspiration for the imaginative US response to the Haitian earthquake of providing 1,000 temporary unskilled-worker visas specifically for Haitians. The champion of this policy change – Michael Clemens of the Center for Global Development (CGD) – acknowledges the inspiration of the RSE for policy work in his testimonial [C10].

Winters' research findings on small economies and on temporary migration have both been disseminated widely as separate themes – not only in academic outlets, but personally at conferences, seminars and policy meetings (for example, OECD, UNCTAD, World Bank, IOM, ComSec) and as policy briefs and by ComSec staff (notably Roman Grynberg) in their operational work. The work particularly underpins developing countries' efforts to raise temporary labour mobility as a significant element of the Doha Round; this goal still informs many developing country policy positions, although it has not yet borne fruit at the WTO.

5. Sources to corroborate the impact

- C1** The World Bank (2006) *Home and Away*: <http://archives.pireport.org/archive/2006/August/08-16-rp.htm>
- C2** New Zealand, Regional Seasonal Migration Scheme: <http://www.immigration.govt.nz/employers/employ/temp/rse/>
- C3** Vanuatu Daily Record: <http://www.dailypost.vu/content/vt38-billion-rse-5-years>
- C4** Gibson, J. and McKenzie, D. (2011a) http://researchcommons.waikato.ac.nz/bitstream/handle/10289/4944/Economics_wp_1008.pdf?sequence=1
- C5** Australia, Pacific Seasonal Worker Pilot Scheme:

Impact case study (REF3b)

<http://deewr.gov.au/pacific-seasonal-worker-pilot-scheme>

C6 Gibson, John and David McKenzie (2011b):

http://siteresources.worldbank.org/DEC/Resources/Australia_Pacific_Seasonal_Worker_Pilot_Scheme.pdf

Four people have provided Testimonials (available in full from the University):

- C7** Roman Grynberg, who commissioned both sets of work while at ComSec, now in Botswana as a Senior Research Fellow. In an unsolicited email to Winters (27 April 2012) he wrote: 'I thought I would send you this just to show you what your research on temporary movement has done in the Pacific. While failure is an orphan and success has many fathers, you are definitely the intellectual father of this program. You have good cause to be proud because this has benefited so many thousands of poor rural workers in the Pacific Islands region and has shown that a real and balanced globalisation can benefit the poor directly and quickly.' And in an email on 14 Aug 2013, 'There can be no doubt that your work had a direct impact on the developments on the ground in the Pacific. Both the New Zealand and Australian programs were developed as a direct result of the research you did on temporary movement. The course in terms of the impact on Australia is certainly more direct. Your papers on the subject shifted thinking inside the World Bank on this subject.'
- C8** Yurendra Basnett (Research Fellow, ODI, wrote on 26 October 2012, 'I was at the Department of Trade in Vanuatu (as an ODI fellow) when the RSE was being launched... I got to interact with most of the key actors (including the First Secretary at NZ High Commission... With re: to your work on RSE I could definitely say that it had huge impact not just on Vanuatu (or PICs) but also in shaping the thinking at the NZ side. It was frequently referenced by all parties. But not just on RSE, your work on GATS-Mode 4 (with Roman Grynberg et al) informed much of Vanuatu's position on trade negotiations. While I was there, Vanuatu had increasingly articulated Mode 4 [on labour mobility] as a key offensive position on all trade negotiations it was part of – EPA, PACER+, PICTA etc.'
- C9** Manjula Luthria, the World Bank staff member who wrote 'Home and Away' and led on the RSE and the related Australian scheme writes (email 2 Sept 2013), 'the entire aid paradigm had been built around preventing migration by putting aid money into competitiveness-enhancing projects in the hope of mitigating the need for labor mobility. As the Bank's front line economist in the EAP region, I struggled to reverse the tide of thinking but didn't feel equipped with the analytical or empirical tools which I could use as a game changer in policy circles. Alan's paper was just that'; and 'Alan also took on the task of advising us on M&E methods. This entailed a long-term investment and Alan was certain it would pay off, and it did. Today, it is entirely because we collected data in the manner than Alan advised, that these schemes are now considered one of the most development friendly interventions that has ever been evaluated.'
- C10** Michael Clemens, Senior Research Fellow at CGD, writes (letter, 26 August 2013) of the huge success of the RSE, 'I have observed first hand that the RSE scheme and evaluation set up by Winters have influenced other major countries to copy the program. Top government officials in Canberra, Australia who run Australia's own Seasonal Agricultural Visa told me that they created it in 2009–2010 following the proof of concept by Winters's work in New Zealand... It's my assessment that this international replication would never have occurred but for the sound design and rigorous evaluation of New Zealand's RSE scheme put in place by Winters. I have participated in countless policy discussions in which someone claims that guestwork schemes cannot work... after which someone has cited Winters's work on New Zealand as proving that indeed they can work if correctly designed. Evaluation evidence has been critical to those conversations.' He also notes that his 'own research on the development impacts of temporary labor visas in the Philippines, India, and Mexico... is simply an extension of Winters's unprecedented and foundational work'.