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Immigration – Fit for the future

Preliminary findings and recommendations

November 2021

NEW ZEALAND
PRODUCTIVITY COMMISSION
Te Kōmihana Whai Hua o Aotearoa

Immigration – Fit for the future
Preliminary findings and recommendations

The New Zealand Productivity Commission
Te Kōmihana Whai Hua o Aotearoa[1]

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1 The Commission that pursues abundance for New Zealand.

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Contents

Key points

- New Zealand's immigration system is highly adaptive, and able to respond promptly to emerging needs and opportunities. Currently, immigration policy does not undergo the same level of transparency, public scrutiny or robust policy assessment requirements as other public policies.
- High resident numbers, largely uncapped temporary migration programmes and reductions in departures by New Zealanders, have contributed to New Zealand's comparatively rapid population growth over the past decade.
- Immigration policy's disconnection from other policy areas has meant that migration and population numbers have grown ahead of the stock and flow of public infrastructure, contributing to burdens for the wider community. It also means the education and training system is less responsive to generating the skills New Zealand businesses need.
- Overall, impacts of migration on the average earnings and employment of local workers are very minor and mostly positive, though overall outcomes can mask impacts in some regions and on some workers. The immigration system endeavours to manage the risk of New Zealanders being displaced by migrant workers, however, there are known deficiencies with the current Labour Market Test and skills shortage lists.
- The years immediately preceding the pandemic saw large and unprecedented increases in net migration, driven in part by large growth in migrants on temporary visas. In addition to putting pressure on the country's 'absorptive capacity', this growth also saw a notable shift towards temporary migrants filling vacancies in lower-skilled occupations.

Key actions

- Governments should be required to issue regular policy statements on immigration, outlining short-term and long-term priorities for immigration and how performance will be measured. The Government should be required to give explicit consideration to how well New Zealand can successfully accommodate and settle new arrivals.
- The Treaty interest should be reflected in immigration policy and institutions. The Treaty was developed and signed in response to immigration, and directly refers to immigration. The Crown also has a duty to actively protect Māori interests.
- The number of temporary migrant visas with potential residence pathways should be linked to the number of residence visas on offer. Large increases in the number of temporary migrant visas have contributed to uncertainty and mismatched expectations of an actual path to residence.
- Governments should better utilise tools for prioritising migrants when there is high demand. This includes being more selective and transparent with the points system and developing more data-informed and dynamic skills shortage lists.
- Visa conditions that tie migrant workers to a specific employer should be removed. Allowing migrants to move reduces the risk of exploitation and permits them to find jobs that better match their skills and experience.
- The Commission is exploring options for managing volume pressures. These include making greater use of data, evidence and evaluation in designing visa categories and identifying skills shortages, and possibly managing overall numbers of inward migration.
- The Commission is considering options for how to promote migrants' commitment to New Zealand. Options include recognising efforts to learn te reo in decisions about residence or permanent residence, and limiting rights of return for permanent residents who re-migrate.

A summary of all findings, recommendations and questions in this report can be found on page 55.

Part 1

Immigration policy in New Zealand

What is immigration policy and what has the Commission been asked to do?

Immigration policy determines the volumes and the composition of foreign entrants into New Zealand. The Productivity Commission has been asked to undertake an inquiry into New Zealand's working-age immigration policies (Box 1).

This report provides a frame for thinking about what sort of working-age immigration policies would best promote New Zealand's long-term economic growth and the wellbeing of New Zealanders. In carrying out this analysis, the Commission has focused primarily on the economic and wellbeing impacts of immigration on citizens and permanent residents who are currently residing in New Zealand. However, a number of findings and recommendations in this report relate to the wellbeing of migrants. The Commission has also interpreted "wellbeing" broadly, to include the effects on social, natural, physical and human capitals; as well as impacts on income distribution, resilience and the Treaty of Waitangi.

The findings and recommendations made in this report are preliminary. They are intended to guide submissions and indicate the Commission's current views. Feedback is welcome, and submissions on the inquiry are open until **24 December 2021**.

To make a submission, go to: www.productivity.govt.nz/have-your-say/make-a-submission

The Commission is conducting further empirical work in three areas. The first examines the labour force and economic outcomes for temporary migrants. The second explores employer incentives in industries with seasonal labour force needs. The third examines firm-level productivity outcomes from migrants in New Zealand. These research outputs are described in Box 6. They will be used, alongside evidence provided in submissions, to refine the findings and recommendations in this report before the Commission submits its final advice to the Government in April 2022.

Box 1 Working-age immigration policies

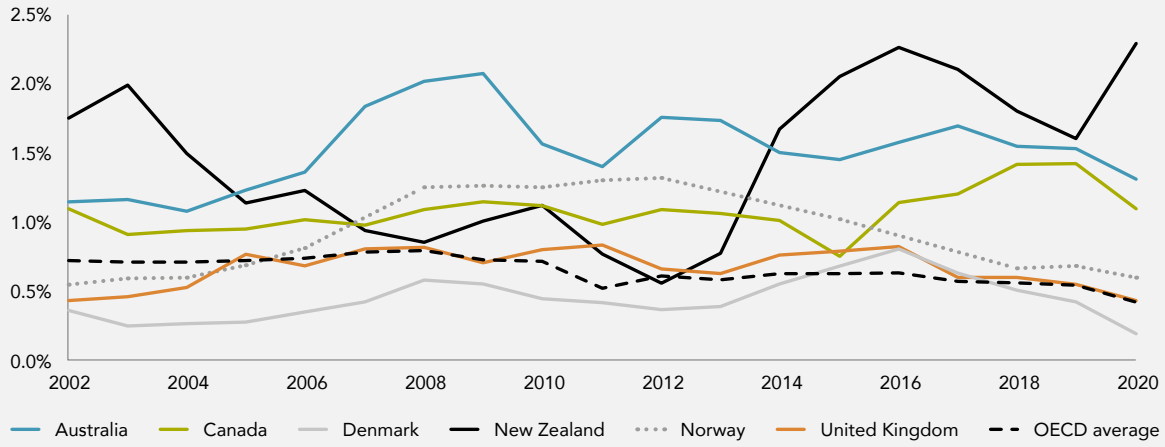
Working-age immigration policies are the policies that offer potential immigrants opportunities to seek employment, invest, or run a business in New Zealand. They include temporary work visas, residence visas, student visas, investor and entrepreneur visas, and immigration that is the result of other working-age immigration (eg, partners, parents and dependent children).

This inquiry is not about refugee or humanitarian immigration, the rights of Realm country residents (Cook Islanders, Niueans and Tokelauans) and Australians to freely enter New Zealand, or about international tourism.

The contribution of immigration to population growth

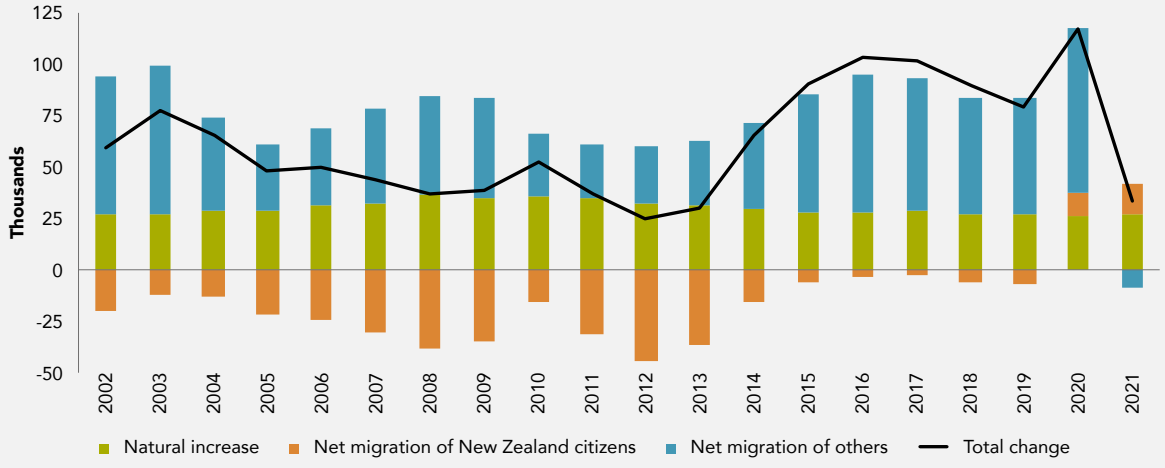
Immigration has played a significant role in supporting population growth, particularly over the past decade. In the seven years before the Covid-19 pandemic, New Zealand had one of the fastest population growth rates in the developed world (Figure 1.1). New Zealand also experienced considerable volatility in population growth over that period, largely reflecting changes in net migration (Figure 1.2).

Figure 1.1 Annual population growth in selected countries, financial year 2002-20



Source: OECD (2021).

Figure 1.2 Contributors to New Zealand's population growth, 2002-21

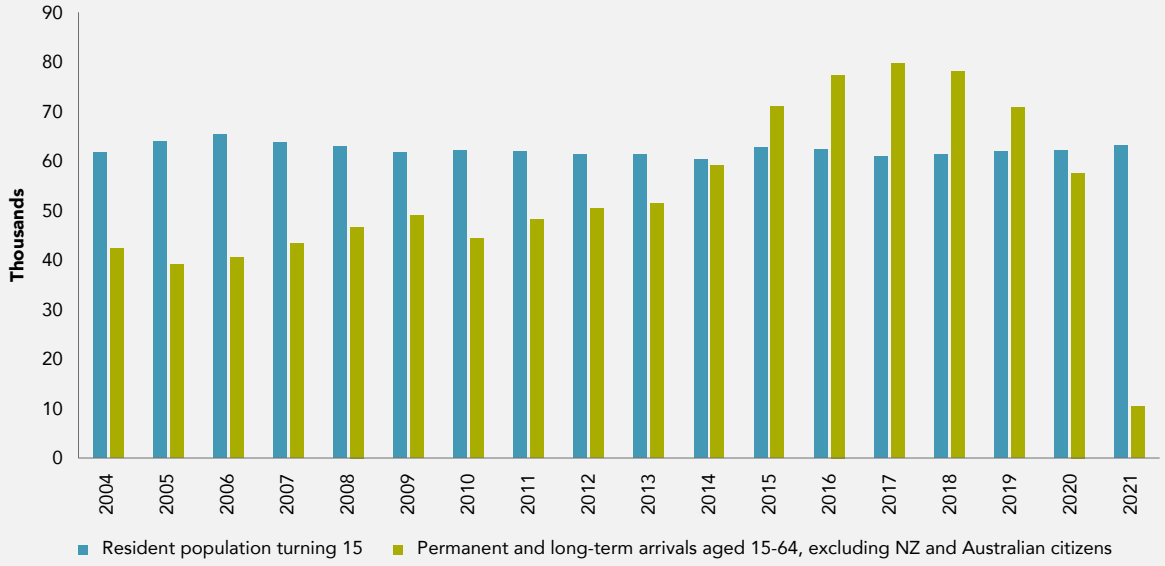


Source: Stats NZ (2019). International migration estimates extended back to 2001; Stats NZ (2021). Estimated Resident Population Change by component; Stats NZ (2021). International migration: March 2021.
Note: The difference between population change and the sum of natural increase and net migration is due to adjustments between censuses.

Immigration has been an increasingly important contributor to New Zealand's workforce

It is commonly thought that the growth of the workforce is due to existing residents reaching working age, "topped up" by immigrants. However, the number of new permanent and long-term migrant arrivals (aged 15-64) has, in recent years, exceeded the number of New Zealand residents turning 15 (and who could potentially enter the labour force) (Figure 1.3).

Figure 1.3 Additions to the working-age population – migrants and existing residents, financial year 2004-21



Source: Stats NZ International travel and migration; Stats NZ Population estimates.

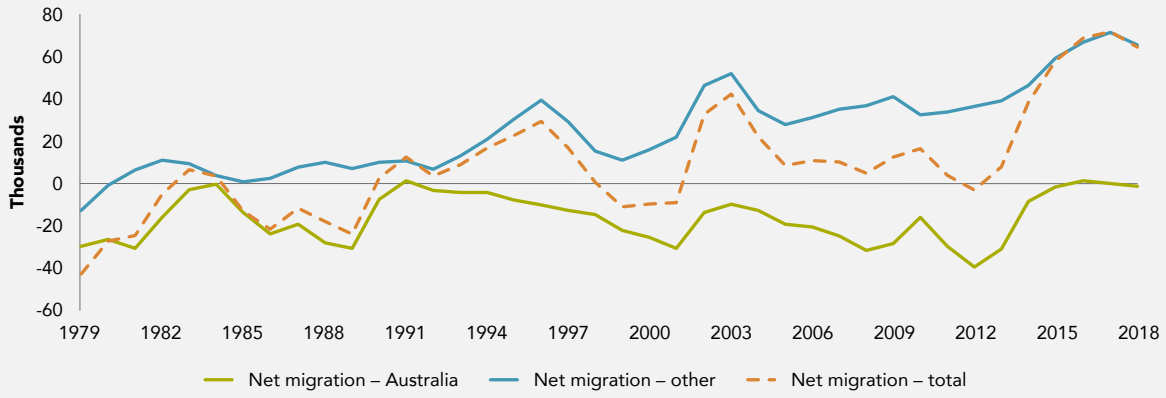
The government cannot control the fertility rate and has exerted limited control over the choices New Zealanders make about when they enter the workforce and with what skills. The education system is often characterised as a "skills pipeline" by policymakers. However, this can give a misleading impression of the extent to which skills shortages or surpluses can be avoided by controlling the number of people in the training pipeline for particular occupations. "Buying" skills through immigration is sometimes quicker and easier for employers than "making" the skills New Zealand needs by training people, especially when feedback mechanisms between the domestic education system and employers are weak (NZPC, 2017b).

Immigration has compensated for the Kiwi diaspora

The migration story in New Zealand is not only about people arriving here. In addition to having one of the highest rates of inwards migration in the Organisation for Economic Co-operation and Development (OECD), New Zealand is unusual in also having high rates of outward migration, largely of New Zealanders going to Australia, where incomes have been higher.

In normal times, the net migration of New Zealanders is outside the control of immigration policy.

Figure 1.4 Net migration, financial year 1979-2018

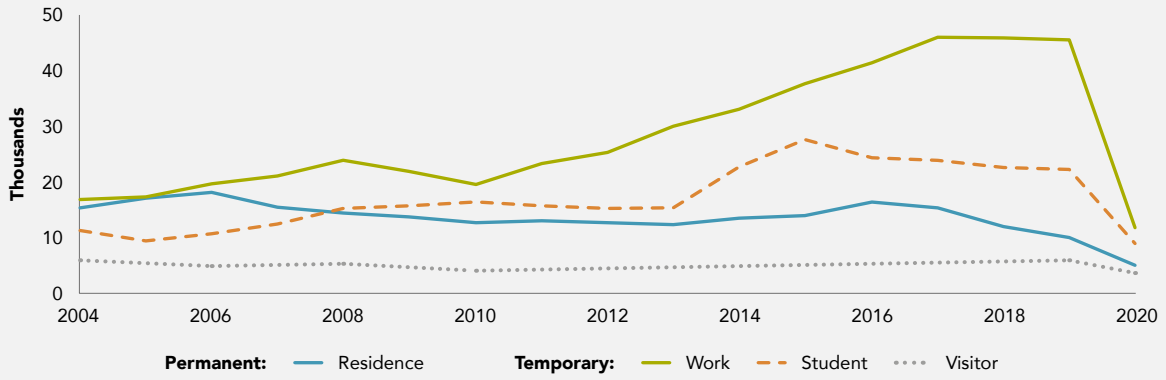


Source: Stats NZ International travel and migration.

The nature of immigration has changed in recent years

For much of New Zealand's history, immigration policy has focused on permanent migration and settlement. Over the past decade or so, however, the composition of immigration to New Zealand has shifted significantly towards temporary migration (eg, student and work visas) (Figure 1.5). This is largely the result of policy choices made by governments in response to demands from employers for workers, the growth in the international education sector, and a points system for residency that awards points for having an existing job offer and/or New Zealand work and study experience. The composition of the growth in temporary visas is important. For example, while most people who enter on working holiday visas leave New Zealand at the end of their holiday, many who enter on a student visa category will stay for multiple years. Some will transition to a post-study work visa and then to a residence visa.

Figure 1.5 Permanent and temporary arrivals by visa type, 2004-20



Source: Stats NZ (2021a).
Note: For Stats NZ's purposes, "permanent and long-term arrivals" are people who intend to stay in New Zealand for 12 months or more.

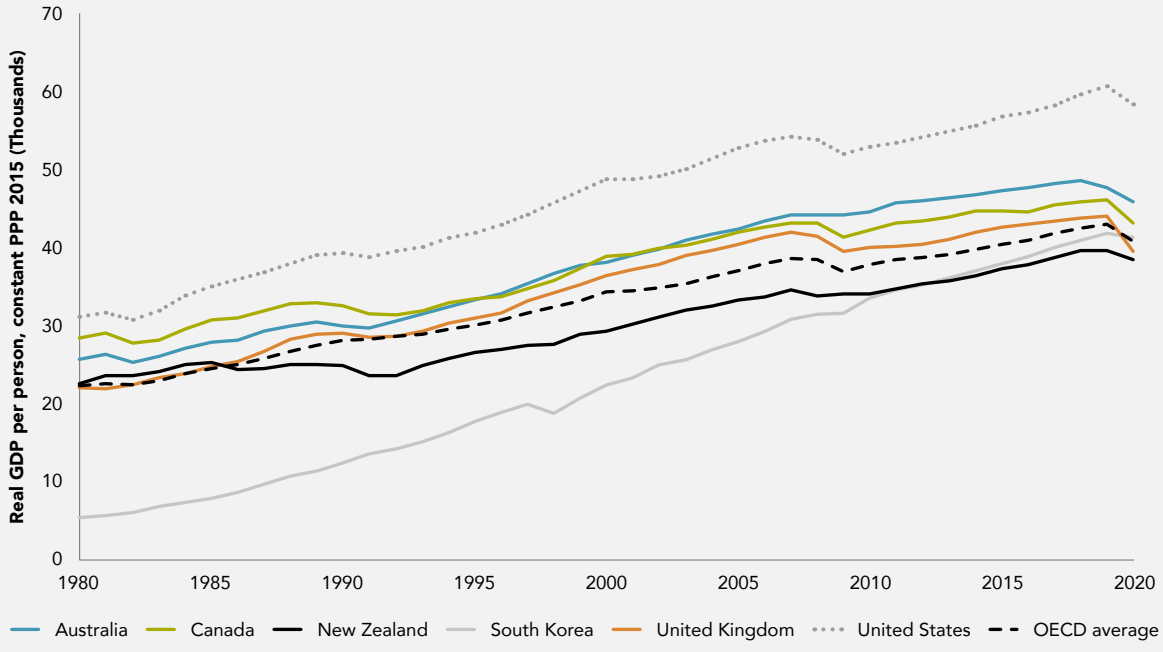
Immigration is valued for what it brings to New Zealand

New Zealand's Gross Domestic Product (GDP) per person has grown on average by 1.5% each year over the last two decades. Figure 1.6 shows that from the 1990s, New Zealand's per capita GDP has continued to grow at rates comparable to other OECD countries such as Canada and the United States (Grimes & Wu, 2021).

There are various channels through which immigration contributes to economic growth. Immigrants can bring valuable skills, practical know-how, connections, and knowledge of their country that lower the costs of trade and help boost exports (NZPC, 2021a).

Immigration can be described as a "win, win, win". Immigrants come to New Zealand to take up opportunities for a better life for themselves and their families. Immigrants' skills help to fill skills shortages for local employers, and new migrants have contributed along with the resident population to New Zealand's economic growth, wellbeing and public services. Immigration has also brought greater cultural diversity and vibrancy to New Zealand communities. Many New Zealanders value migrants' contributions both as workers and members of the community (Box 2).

Figure 1.6 New Zealand's GDP per capita, 1990-2020



Source: OECD (2021).

Box 2 Submitters' views about the positive contributions of migrants

- "[Migrants] contribute hugely to our economy as their kids go to our schools, universities, their whole families go to our churches, they're very much integrated into the Kiwi way of life" (Anonymous, sub. 8).
- "Migrants fill acute skills shortages, removing constraints that prevent our businesses growing" (Archer Wang, sub. 9).
- "As a worker in the aluminium joinery Industry I work with 8 Filipino coworkers. These people are excellent workers, great friends and all round good people. They came to New Zealand to build a better life for themselves and support their families back home… Without them our company could not function" (Jason Scott Willis, sub. 12).
- "With an ageing population and a low birth rate, migrants are crucial to New Zealand's workforce but more than that they enrich and diversify our society" (Anonymous, sub. 18).
- "Trustpower has employed numerous high skilled migrant labourers particularly in our technology division. We believe that this migrant labour has increased diversity of thought amongst this division, allowing for more innovative ideas to be shared and different working practices to be adopted" (Trustpower, sub. 25).
- "Without this immigration of individuals and their knowledge, experience and innovation, New Zealand as a nation and its economic growth will become stagnant and insular in its thinking" (Allan Fong, sub. 34).
- "Migrants are highly valued and engaged members of our community, through their contribution to the social, cultural and economic wellbeing of the district" (Ashburton District Council, sub. 64).

Read all submissions at: www.productivity.govt.nz/have-your-say/view-submissions/inquiry/596

Young, skilled migrants are positive for the public purse

Migrants can contribute to the community by helping to meet the costs of public services. All residents of a country affect public finances through their contributions (ie, tax payments) and withdrawals (ie, receipt of cash or in-kind public services, such as education, healthcare and social assistance). The difference between contributions and withdrawals is known as the "fiscal impact" – a positive fiscal impact means that a person contributes more than they use, while a negative fiscal impact indicates the opposite.

The period over which fiscal impact is measured matters. Children tend to be a net fiscal cost, due to their use of public education and health services. Once a person reaches adulthood and enters the workforce, they typically become net contributors, as their taxes paid often exceed the cost of services used. And upon retirement, people once again make larger withdrawals (eg, pensions, health) than tax payments. However, snapshot or "static" assessments of fiscal impacts may provide an unduly positive result, as they may not take into account the effects of the permanent migrant cohort ageing and having children. Dynamic studies, in comparison, try to account for these lifetime effects on the public purse and generally find smaller fiscal impacts.

Studies of the fiscal impacts of immigration find varying results, reflecting the different policy settings and cohorts in each country. That said, the studies reveal consistent themes.

- Younger, more highly skilled migrants have a larger positive fiscal impact.
- From arrival, the net positive impact increases with the duration of residence, as immigrants move on to higher-paying jobs and therefore pay higher taxes while drawing less on social assistance.
- Migrants are on average healthier than the existing population (although this difference fades over time).
- There is no little or no evidence of immigration increasing crime.

That migrants would, on average, provide a net positive fiscal impact is not particularly surprising given:

- the new host country has not had to pay for their schooling and childhood healthcare up to this point;
- immigration policy in developed countries typically tries to screen out people who might present high fiscal costs (eg, people with major health conditions, the elderly, people with criminal records); and
- governments also typically restrict eligibility by some migrants to public services, at least for a period.

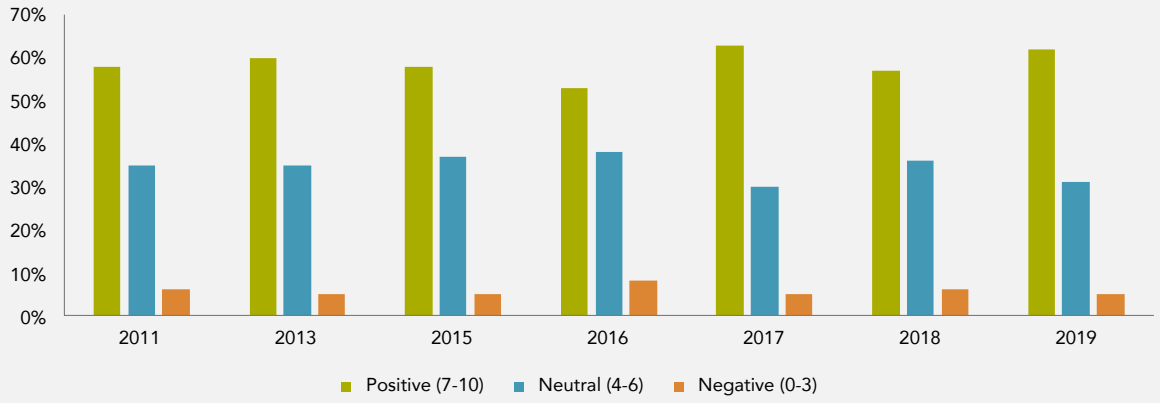
The available New Zealand studies are "static" assessments and so may overstate the actual impacts. Even so, the studies find significant net positive fiscal impacts. For example, Slack et al. (2007, p. 11) found that "migrants contributed a total of $8 101m through income taxes, GST and excise duties. Estimated fiscal expenditure on the migrant population was $4 813m." Consistent with international studies, the annual net fiscal impact of migrants in New Zealand increased with the duration of stay and was higher than for the locally born population.

There is broad community comfort with immigration

New Zealanders are broadly comfortable with immigration. Regular surveys of community opinion run by the Ministry of Business, Innovation and Employment (MBIE) consistently show very low negative attitudes as a whole (Figure 1.7). International surveys indicate similarly high levels of comfort with migrants in New Zealand to other high-immigration countries, such as Australia (Figure 1.8).

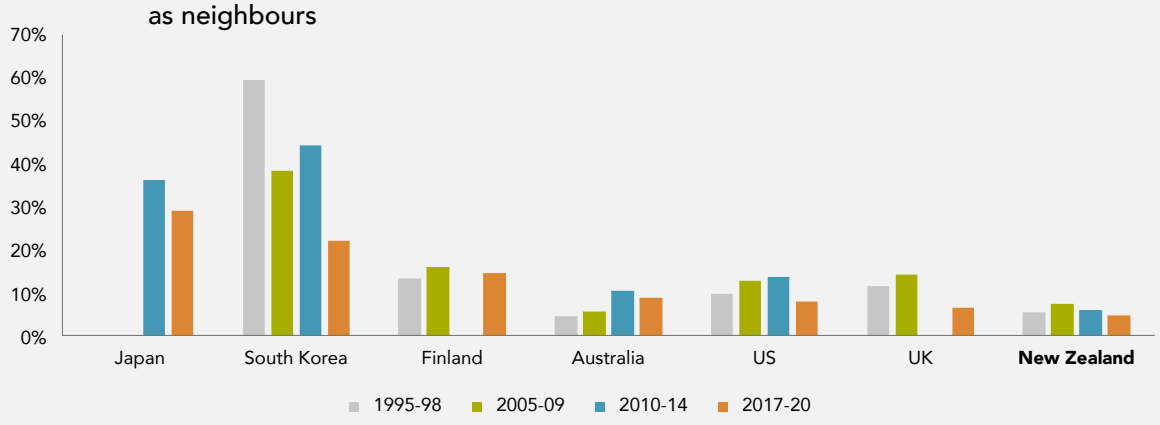
However, levels of comfort with immigration vary within the community. Positive sentiments towards migrants and migration were generally highest among people of Asian ethnicity (71%), Wellington residents (70%) and people born overseas (70%), and were lowest among New Zealanders who had no friends born outside New Zealand (44%) (MBIE, 2020).

Figure 1.7 Community views of migrants, 2011-19



Source: MBIE (2020).

Figure 1.8 Proportion of respondents who did not want immigrants or foreign workers as neighbours



Source: World Values Survey Association (2020).

There are concerns about immigration policy

Concerns about the impact of large-scale immigration

Submissions to the inquiry and wider public commentary have raised questions about the effects that large-scale immigration may have had on housing, training and employment opportunities for New Zealanders, on investment, and on the country's infrastructure and environment (Box 3).

Concerns about the impact of immigration on housing and infrastructure have been prominent during periods of economic downturn and in the aftermath of both World Wars, and at times of rapid population growth, such as in periods of large-scale, government-assisted immigration.

Work undertaken by the New Zealand Infrastructure Commission Te Waihanga suggests that around one-quarter of future demand for infrastructure is likely to come from population growth from all sources. The relationship between the demand for infrastructure and population growth is less smooth than for housing. Infrastructure (eg, new roads, bridges, hospitals) often involves large and expensive investments that scale to serve many people. However, when averaged across the country, over time and different types of infrastructure, the relationship between population growth and the demand for infrastructure investment is positive and stable. The regional concentration of migrants in major cities (especially Auckland) may have exacerbated infrastructure pressures in particular areas. New infrastructure (eg, schools, hospitals) also often requires more skilled people (eg, teachers, nurses, doctors) before the benefits of the infrastructure investment can be realised. The result is increased demand for these skills – and, potentially, for migrant workers.

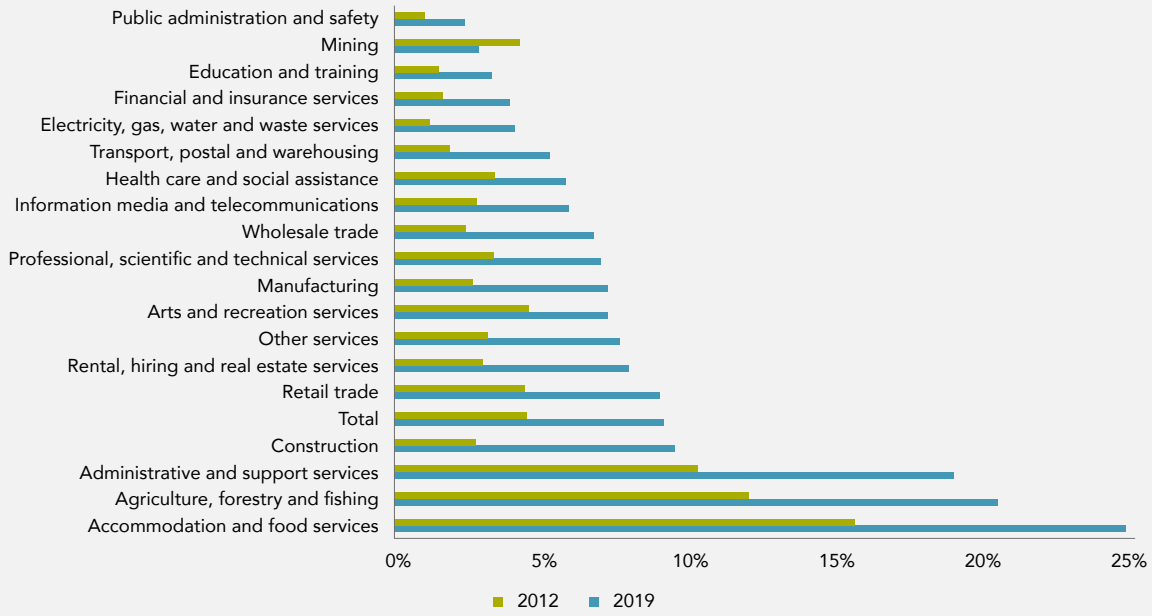
Concerns about an "over-reliance" on temporary migration

Temporary migrant workers make up a substantial share of the total labour force for some industries, and some firms appear to have business models that depend on having ongoing access, especially to people on temporary visas. Some commentators have argued that this access has permitted firms to grow without increasing wages or capital investment, or addressing other issues that have discouraged New Zealanders from taking up the roles (Hickey, 2021; Treen, 2021).

Box 3 Concerns about the costs of immigration

- "The rapid increase in the population of New Zealand by immigration outstrips all OECD countries. The intake over the last 10 years of 70 000 per annum makes no sense… There are insufficient houses being built to accommodate the influx let alone the modest natural increase in population" (Kerry Bateman, sub. 44).
- "More people means more impact on the environment including higher greenhouse gas emissions. Meeting our zero net carbon emissions target by 2050 will be materially more expensive and difficult with a rapidly growing population. A simple calculation shows the issue. If our rate of net immigration is 55 000 a year our population would be nearly 1.3 million larger by 2050 than would be case if the rate of net immigration was 10 000 a year. All other things being equal (including that emissions scale with population numbers) that's a 25 percent increase in New Zealand's total emissions" (Mike Lear, sub. 32, p. 11).
- "Both sides of politics have accidentally on purpose pursued a high population growth, high migration and low infrastructure approach to growing the economy over the last two decades. We never really debated this and the refusal by ratepayers and councils to help build infrastructure is a de facto rejection of the policy. It was the perfect match for bringing the Government's own Budget back into surplus because all the benefits of higher wages and spending went straight to the bottom line with higher income and GST taxes, without the heavy cost of infrastructure investment. It also allowed Governments to say they were growing the economy, albeit by having more people working harder, rather than through productivity and growing real wages from work" (Hickey, 2021).

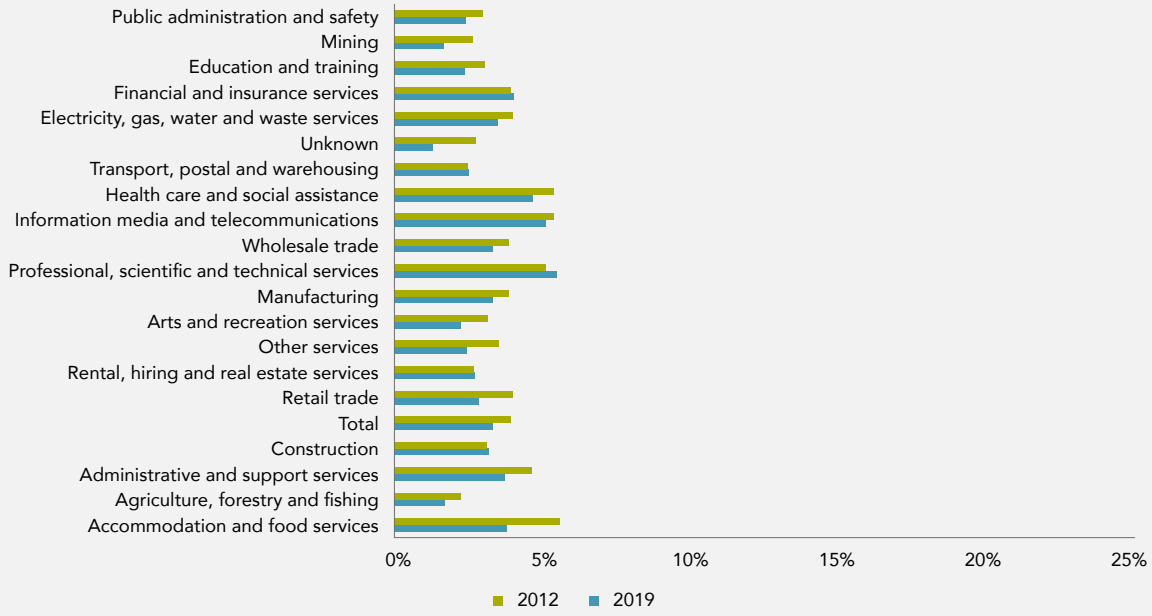
Figure 1.9 Proportion of jobs held by temporary migrants, by industry



Source: MBIE Migrant Employment Data.

The proportion of jobs held by temporary migrants in many industries grew significantly between 2012 and 2019 (Figure 1.9). In comparison, residence visa holders are more evenly distributed across the economy, and now make up a smaller proportion of many industry workforces. Also, their shares of total jobs remained broadly stable over the same period (Figure 1.10).

Figure 1.10 Proportion of jobs held by resident migrants, by industry



Source: MBIE Migrant Employment Data.
Note: Resident migrants are people holding residence visas who have been in New Zealand for less than five years.

There is no long-term strategy, and no mechanism for public engagement about immigration…

The immigration system is conspicuous for lacking a clear and single overarching strategy or set of priorities. The main piece of legislation (the Immigration Act 2009) provides little guidance, stating simply that its purpose is to "manage immigration in a way that balances the national interest, as determined by the Crown, and the rights of individuals." (section 3(1)). The Government is not currently required to publish how it interprets "national interest" in relation to immigration. Most insights about how ministers consider questions of immigration objectives and outcomes have been revealed through interested members of the public requesting advice under the Official Information Act 1982.

The absence of a long-term strategy – or any process for the public to engage on the issue of overall immigration settings – has a number of consequences.

First, there is no common set of goals against which performance can be assessed or trade-offs made. The various visa categories effectively operate independently, and efforts to reform the system as a whole in the absence of clear goals can look ad hoc, be difficult to explain in a compelling manner or create internal inconsistencies.

Second, the lack of a public engagement mechanism means that the main vehicle for expressing concerns about immigration is through the election process, which has historically meant that some political parties have campaigned on immigration policy. This can lead to policy responses that are blunt or narrowly focused, and which do not necessarily serve the long-term interests of the community as a whole.

Third, immigration policy settings are not clearly linked to other relevant areas, such as education and training, or infrastructure investment. As a result, decisions on the numbers of new arrivals are not complemented by decisions on other areas that matter for the wellbeing of them and other residents.

Finally, the absence of a longer-term strategy means there is little visibility about how the Government is thinking about and planning for pressures that could affect immigration supply and demand in the future – such as global ageing populations, and climate change.

To learn more, read *International migration to New Zealand: future opportunities and challenges* at: www.productivity.govt.nz/intl-migration

Box 4 Immigration objectives in New Zealand's past and in other countries

The goals sought from immigration to New Zealand have changed over time. For Julius Vogel in the 1870s, large-scale immigration was a tool for re-invigorating economic growth and delivering transformational infrastructure projects, such as roads, public buildings, ports, and rail and telegraph networks. From around 1900, however, public assistance for immigration became more selective, aiming to fill gaps in the labour market. Integration into Pākehā society was also an important goal, leading to official preferences for migrants from Great Britain and northern Europe until the 1980s. Changes in the 1980s and 1990s saw the abandonment of country preferences and a re-orientation of immigration policy towards selecting high-skilled migrants (NZPC, 2021b).

New Zealand governments periodically issued statements of immigration policy objectives. For example, a 1974 statement emphasised the need to "match the number of immigrants to the country's capacity to provide employment, housing and community services" (Immigration Division & New Zealand Immigration Advisory Council, 1974).

Governments in other countries express their objectives and priorities for immigration in different ways and formats. The UK Government issued a policy statement in 2020 on post-European Union settings which said:

> We will reduce overall levels of migration and give top priority to those with the highest skills and the greatest talents: scientists, engineers, academics and other highly-skilled workers… We will not introduce a general low-skilled or temporary work route. We need to shift the focus of our economy away from a reliance on cheap labour from Europe and instead concentrate on investment in technology and automation. Employers will need to adjust. (UK Government, 2020, p. 3)

Canada, by contrast, has established objectives for immigration in legislation. Section 3(1) of the Immigration and Refugee Protection Act 2001 lists a number of objectives, including supporting and assisting "the development of minority official languages communities", enriching and strengthening "the social and cultural fabric of Canadian society, while respecting the federal, bilingual and multicultural character of Canada" and promoting "the successful integration of permanent residents into Canada, while recognizing that integration involved mutual obligations for new immigrants and Canadian society".

….and unresolved debate about the place of the Treaty

Debate has been growing over the role of the Treaty in immigration, and how to reflect the Treaty in policy and law (Quince, 2021). Professor Ranginui Walker argued in 1993 that the "original charter for immigration into New Zealand is in the preamble of the Treaty of Waitangi" (1993, p. 87). A number of scholars and politicians have subsequently agreed with Walker's characterisation of the Treaty and drawn attention to the fact that immigration policy and implementation gives no recognition of the Treaty partnership (Kukutai & Rata, 2017).

In the past, the Crown has asserted that the Executive has sovereignty under Article 1, which includes the right to set migration policy, and has questioned whether the Executive faced a duty to consult with Māori over immigration settings (Fry & Wilson, 2018; Stevenson, 1992; White, 2005).

However, Ministries and Crown departments currently

> as a matter of routine generally develop engagement strategies with Māori when formulating and implementing policy initiatives. The Office of Crown Māori Relations – Te Arawhiti has developed an engagement framework and engagement guidelines for the public sector. The framework acknowledges that engagement with Māori is "an acknowledgement of their rangatiratanga and status as Treaty partners". (Whaia Legal, 2021, p. 3)

Current immigration law and policy does not explicitly reference the Treaty of Waitangi, and the Immigration Act 2009 defines immigration policy solely in terms of the Crown's interests. However, the absence of a Treaty clause in legislation does not mean the Treaty or tikanga obligations are irrelevant or do not apply. The courts have previously found that the Treaty is "part of the fabric of New Zealand society" and can be used to interpret a statute even where there is no explicit reference (Whaia Legal, 2021, p. 8).

What should be the role of immigration policy?

The primary goal of the Commission's inquiry is to consider how working-age immigration policy can best contribute to New Zealand's long-run economic growth and the wellbeing of New Zealanders.

Immigration's primary contribution comes through raising the long-term levels and diversity of human capabilities in New Zealand. Immigration can also promote wellbeing by supporting the achievement of other social and economic policy objectives (eg, expanding public services, strengthening innovation ecosystems, international relations). Both the productivity and wellbeing contributions of immigration have close analogues to principles expressed in the He Ara Waiora framework (NZ Treasury, 2021) – human connections (whanaungatanga), predictability for people and businesses to make their own plans (mana āheinga), and social cohesion (mana tuku iho).

Finding 1

Immigration's main contributions to productivity and wellbeing come through:

- raising the long-term levels and diversity of human capabilities in New Zealand; and
- supporting the achievement of other social and economic policy objectives; expanding public services, strengthening innovation ecosystems and extending international relations.

A working-age immigration policy that successfully makes these contributions has several important characteristics.

- First, immigration policy should support and complement the generation of skills and opportunities for local residents and workers. Immigration that simply replaces or substitutes for the local supply of skills and experience will not raise the long-term levels and diversity of human capabilities, nor overall prosperity and wellbeing.
- Second, policy needs to be flexible and adaptable to change. The sorts of skills, experience and capability that a country needs in one period are not necessarily the same that are needed later on.
- Third, policy and practice should prioritise people who are most likely to make the greatest contributions to the country. The numbers of people who can be accommodated at any one point in time will always be limited. Given this, New Zealand should seek people who will make the largest positive impact, broadly considered across the various dimensions of wellbeing.
- Fourth, policy needs to be sustainable over time, enjoying broad social licence and support.
- Fifth, policy should aim to treat migrants well. This has both a practical and moral component. A country that treats its guests well is more likely to retain their capabilities and enjoy their long-term contributions, and hosts have manaakitanga obligations towards their guests.
- Sixth, decisions on immigration policy should aim to minimise other social or economic costs that may result. This both helps maximise the contribution of immigration and maintain its sustainability.

These "operational" characteristics also have related foundations in te ao Māori. Social licence is upheld by transparent, consultative, and inclusive decision-making (tikanga), as a way of formalising guardianship (kaitiakitanga) and coherence (kotahitanga).

In this report, the Commission has used these six characteristics to assess the pre-pandemic immigration system and identify its strengths and weaknesses, and to propose changes that will raise its performance.

This report is a summary of the Commission's key preliminary findings and recommendations. It is underpinned by more detailed analysis in a series of thematic supplementary papers, which are available on the Commission's website (Box 5).

Box 5 Supplementary reports

- ***Primer to New Zealand's immigration system*** – this report outlines the key features of New Zealand's pre-pandemic immigration system.
- ***International migration to New Zealand: historical themes & trends*** – this report looks at the historical experience of immigration to New Zealand, including motivations, policy objectives and impacts.
- ***Impacts of immigration on the labour market and productivity*** – this report describes the channels through which immigration can affect labour markets, productivity and economic growth.
- ***The wider wellbeing effects of immigration*** – this report examines the wider effects that immigration can have on wellbeing, through such channels as its impact on infrastructure, public finances, natural capital, social and cultural capital and the macroeconomy.
- ***Immigration policy: international perspectives*** – this report examines what different countries seek to achieve from immigration and how they manage the entry, selection and settlement of migrants.
- ***International migration to New Zealand: future opportunities and challenges*** – this report identifies factors that might affect the demand for and supply of migrant labour in the future, the impacts these drivers might have on New Zealand's future prosperity and wellbeing, and possible policy responses.

The Commission will also be seeking to add to the evidence base about immigration, by carrying out or contracting further research (Box 6).

Box 6 Upcoming immigration research

- The Commission's economics and research team are investigating the characteristics and outcomes of temporary and permanent migrants to New Zealand arriving between 1999 and 2020. Temporary migrants make up a significant share of applicants for residence. Drawing off the Integrated Data Infrastructure (IDI), this work will explore the differences in decisions where employers determine entry (demand-driven temporary migration) and where the government selects residents (based on human capital). The research will investigate how well selected migrant characteristics (eg, visa type, occupation) predict economic and social outcomes, and whether there are lessons for immigration policy.
- Dave Maré, Lynda Sanderson and Melanie Morton are studying the firm-level impact on the composition (value-added, wage bill, and labour force) of employing seasonal migrants. This research uses the sudden closure of the New Zealand border on 19 March 2020 as an unanticipated shock to seasonal migration from the Pacific, and will compare the outcomes of businesses that experienced different changes to their Recognised Seasonal Employer (RSE) workforces.
- Richard Fabling and the Commission's economics & research team are linking individual-level information from the IDI to business-level information from the Longitudinal Business Database to examine sorting, productivity and wage differentials between migrant and local workers. The research will explore whether migrants work at firms that are more productive, whether migrants are more productive than local workers, and whether migrants are paid differently to similar locals.

This research will inform the Commission's final recommendations that relate to a range of areas:

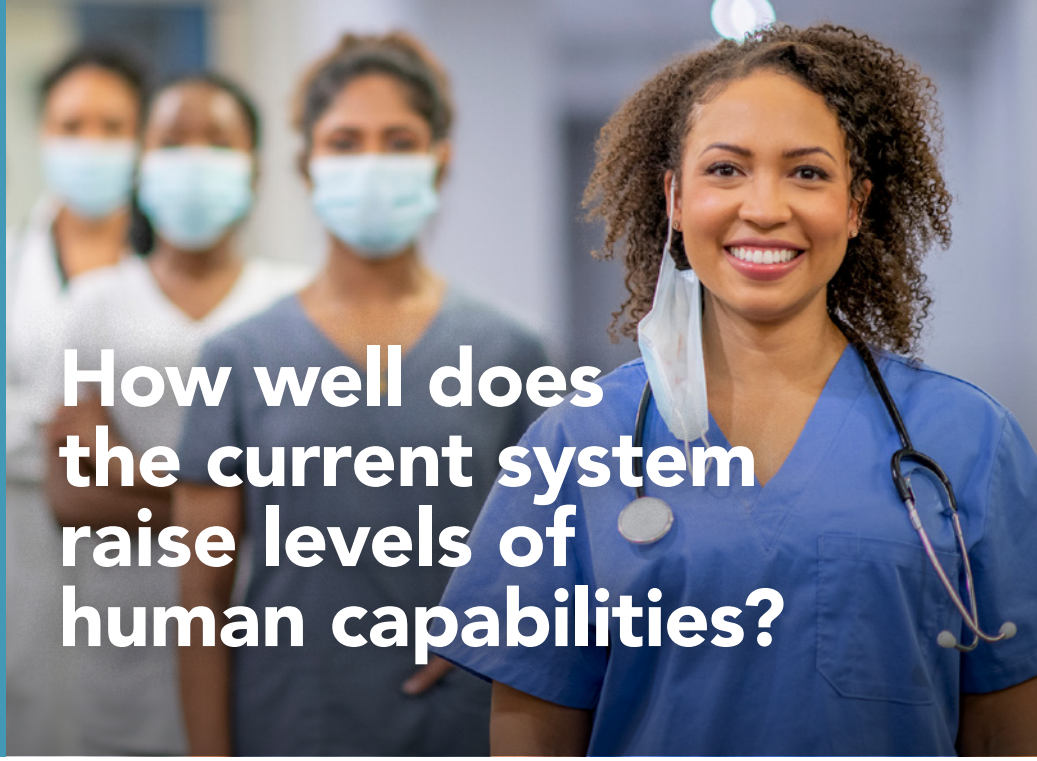
- the role of temporary (vis-à-vis permanent) migration and the expectations of prospective migrants;
- what criteria might drive better prioritisation of residency applications;
- how access to seasonal guest worker immigration affects investment incentives, output, and productivity in horticultural primary industries; and
- how New Zealand businesses might get the best out of migrant labour to grow smarter rather than faster.

These research projects will report in the coming months, and the Commission will publish findings ahead of delivering its final report to the Government in April 2022.

The next sections of this preliminary report consider how well the current immigration system raises levels of human capabilities in New Zealand (part 2), how well the system considers impacts on wellbeing and productivity (part 3) and makes some preliminary recommendations to improve the system for the future (part 4).

Part 2

How well does the current system raise levels of human capabilities?



Raising levels and increasing diversity of human capabilities

The system can accommodate a range of skill requirements and needs

New Zealand's immigration system is organised by visa categories that determine who can visit, stay and work in New Zealand. There were dozens of visa categories in operation before Covid-19, but many have been suspended because of the pandemic. A large number of visa categories are bespoke and have relatively few applicants (eg, the Thai Chefs Work Visa, Religious Worker Work Visa).

Box 7 Major changes to the temporary visa system from mid-2022

A new Accredited Employer Work Visa (AEWV) will be available from mid-2022, replacing six temporary work visas, including the two major temporary work categories: the Essential Skills visa and Work to Residence visa. Merging these two categories is a significant change, as past experience has shown that prospective migrants tend to switch between the two visas depending on which visa has the most accommodating eligibility criteria.

The new temporary work visa system is intended to address some of the challenges and issues with the current employer-assisted temporary work system, including that it:

- is needlessly complex;
- is unable to respond appropriately to regional and sectoral variation;
- does not create an incentive for industry to help address domestic labour market shortcomings;
- is not able to provide information back to other government systems to support domestic investment and responses; and
- does not adequately screen out employers with poor track records of compliance (Office of the Minister of Immigration, 2019b).

The temporary work visa categories that will be unaffected by these changes include the Recognised Seasonal Employer Limited Visa, Working holiday schemes, Student Visas, and the Post-study Work Visa.

See Box 10 for further details on how the new visa system will work.

Having a range of visa categories reflects the fact that people arrive in New Zealand with different intentions, and New Zealand may look to attract different kinds of migrants for different reasons. The ability to add or remove visa categories allows the immigration system to be adaptable to new opportunities or respond to changing circumstances and events. For example, the Recognised Seasonal Employer (RSE) visa category was introduced in part because of an increase in demand for labour in the horticulture industry during seasonal peaks, at the same time that governments of the Pacific Islands were pressing for more unskilled and low-skilled work opportunities for migrants in Australia and New Zealand (Gibson & Bailey, 2021). The Global Impact Visa was established in partnership with the Edmund Hillary Fellowship, to "attract individuals and teams with the drive and capability to launch global impact ventures from New Zealand" (New Zealand Immigration, 2021a).

Each visa category has its own distinct set of objectives. These objectives help guide the eligibility criteria and rules of the different visa categories. The overarching objectives of the temporary work visa instructions (that inform the details of the visa categories) are noted below.

> (W1) The objective of work visa instructions is to contribute to developing New Zealand's human capability base.
>
> Work visa instructions seek to achieve this by:
>
> a) facilitating the access of New Zealand employers and New Zealand industry to global skills and knowledge; while
> b) complementing the Government's education, training, employment and economic development policies; and
> c) ensuring that the employment in New Zealand of non-New Zealand citizens and residence class visa holders does not undermine the wages and conditions of New Zealand workers. (Immigration New Zealand, 2021)

Many temporary work visa categories also have their own objectives, which are expected to be consistent with the overarching temporary work objective. For example:

> Essential Skills work instructions contribute to the overall work instructions objective (see W1) by:
>
> a) incentivising the development of a highly skilled workforce, high quality jobs and workplaces, and high value industries; and
> b) helping New Zealand firms maintain capacity and supporting the provision of services meeting important social needs; while
> c) not displacing New Zealanders from employment opportunities or hindering improvements to wages or working conditions; and
> d) managing fiscal risks, settlement risks and public perceptions of migration; and
> e) ensuring the integrity of the immigration system and promoting the international reputation of New Zealand. (Immigration New Zealand, 2021)

The economic objectives for permanent migration are similar, but not identical, to the objectives of temporary work visas. The objectives of the residency programme are to:

> contribute to economic growth through enhancing the overall level of human capability in New Zealand, encouraging enterprise and innovation, and fostering international links, while maintaining a high level of social cohesion. (Immigration New Zealand, 2021)

The economic objectives of both the temporary work categories and residence programme are broad enough to be achieved in several different ways (ie, there are multiple ways the immigration system can contribute to and develop New Zealand's human capability). The approach can broaden opportunities for both migrants and New Zealanders who might benefit from migration, but does not in itself provide guidance on how to prioritise migrant applications or assess trade-offs in the relative contribution of migrants (ie, hiring a migrant might successfully allow a firm to maintain capacity, but might disincentivise employers to train local people).

The system doesn't adequately prioritise

Although the immigration system is successful in accommodating a range of skills requirements and needs, the system as a whole does not include any guidance on how to prioritise migrants who are likely to make the greatest contribution to New Zealand society; nor the trade-offs between short-term and longer-term economic objectives. This lack of prioritisation occurs at the temporary visa level and the permanent residency level.

Many temporary migrant visas – including those that attract the highest volumes of migrants (eg, working holiday schemes) – are uncapped. The main mechanism for controlling the volume and composition of temporary migrants is through the eligibility criteria for each visa category.

However, once the visa criteria are met, the temporary system does not prioritise applicants within the visa category. For example, the Essential Skills visa category (the main temporary work category in terms of volumes) is uncapped and is driven by employer demand (though employers must demonstrate that they have work vacancies that cannot be filled by locals).

The residence programme (the route to permanent migration) regulates the overall number of people granted residence and provides direction on which migrants' applications are prioritised within this overall number. Residence visas are allocated in proportional streams, with a large proportion allocated to economic migrants: skilled/business migrants (60% of places); family members of New Zealanders (32%-33%); and people who come under New Zealand's international and humanitarian commitments (7%-8%) (Office of the Minister of Immigration, 2019a).

The points system prioritises applicants up to a threshold (160 points at the time of writing), but does not rank applicants once they reach that threshold. It therefore does not prioritise applicants who could make the greatest contribution to society. The Skilled Migrant Category (SMC) is the largest residence category that allocates visas through the points-based system. Points are awarded based on applicant attributes such as qualifications, age and English proficiency, as well as what they intend to do in New Zealand (eg, having an existing job offer, high remuneration, working in an area of absolute skills shortage, living in a region outside Auckland). Partners and dependent children (aged under 24) can also be attached to the visa application.

Box 8 How points are allocated under the points system

New Zealand's points system for skilled migrant residency tends to prioritise migrants who are young and skilled. Points are also allocated based on characteristics related to employability and likelihood of successful settlement. The points system may also reflect the government's other objectives, by shifting the allocation of points for certain attributes. For example, applicants can currently earn extra points if they have been offered work outside Auckland, on the basis that this may ease pressure on Auckland's housing and infrastructure. Points can be allocated for the attributes listed below.

- Age: points are allocated based on youth, ranging from 30 points for applicants aged 20 to 39, to 5 points for applicants aged 50 to 55.
- Job offer in skilled employment: 50 points.
- Job offer in an area of absolute skills shortage (as determined by the Long-Term Skills Shortage List): 10 points.
- Offered work outside Auckland: 30 points.
- Job offer with pay above the high remuneration threshold: 20 points.
- Qualifications: points are allocated based on level of qualification, ranging from 70 points for Master's degree or PhD, to 40 points for a NZQA level 3-6 certificate or diploma.
- Having a New Zealand qualification and studied fulltime in New Zealand: 10 points for Bachelor's degree, up to 15 points for a postgraduate qualification.
- Having skilled work experience: up to 50 points depending on years of experience.
- Having at least one year of New Zealand work experience: 10 points.
- Having work experience in an area of absolute skills shortage: up to 15 points.
- If the applicant has a partner accompanying the application, points are also allocated based on the partner's English proficiency, whether the partner is working in skilled employment or has a job offer in skilled employment, and whether the partner has a recognised qualification.

Source: Immigration New Zealand (2021d).

Immigration has helped raise the overall skill level of the working population

Immigration has been a source of skills for much of modern New Zealand's history. Policy since the 1990s has deliberately targeted people with professional and advanced skills for residence. Several temporary work visa categories are also designed to fill gaps and meet specific demands for skill. This has been particularly important given the large outflows of New Zealanders during the same period.

Analysis by the OECD suggests that, measured in terms of the qualification levels of arriving and departing people, immigration "has more than offset New Zealand's brain drain, resulting in a 'brain exchange'" (Carey, 2019, p. 18). As a share of the adult population, immigrants made up 40% of those with tertiary education, while those heading offshore with tertiary education represented 21% (Table 2.1)

Table 2.1 Percentage of the population aged 15 and over, 2015-16

	Immigration	Emigration	Net migration
High education	39.6	20.8	18.8
Low-middle education	23.9	12.6	11.3
Total	**27.4**	**14.4**	**13.0**

Source: Carey (2019, p. 18).

Note: "Low education" refers to lower secondary education; "medium education" corresponds to upper secondary education and post-secondary non-tertiary education; and "high education" refers to tertiary education.

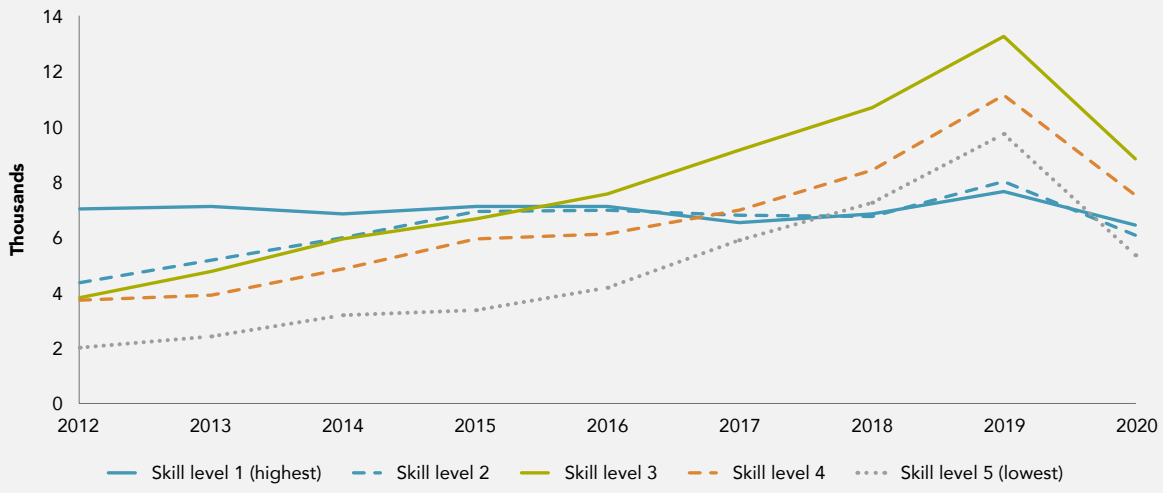
The contribution of migrants to national skill levels does not stop at one generation. In New Zealand, the children of immigrants tend to achieve results on OECD standardised tests similar to results of children of non-migrants, after controlling for socioeconomic background (Carey, 2019, p. 22).

Ninety percent of overseas-born migrant (non-refugee) school leavers in 2017 achieved at least an NCEA level 2 qualification, compared to 81% of all school leavers (MBIE, 2019, p. 27). Foreign-born young adults were less likely to be not in education, employment or training than their New Zealand born-born equivalents (Rawstron, 2021, p. 27). And migrant families in New Zealand exhibit high levels of educational mobility – that is, people with parents born overseas are more likely to achieve higher levels of qualifications than their parents compared to adults whose parents were born in New Zealand (Crossan & Scott, 2016).

But there are questions about the skills profiles of some temporary migrants

There are some uncertainties around the exact contribution of immigration to the nation's skill levels. While there is evidence about the jobs (and their skill requirements) undertaken by Essential Skills visa holders, there is relatively little data about the skill levels and jobs carried out by students, graduates and working holidaymakers.[1] The proportion of migrants approved for the Essential Skills visas in lower-skill occupations (ANZSCO levels 4 and 5) has grown considerably over the past decade, reducing the share of those at the higher (levels 1 and 2) levels (Figure 2.1). Similarly, the proportion of Work to Residence visas approved for people in lower-skill roles increased markedly in the years before the pandemic. Alongside this, OECD research also finds that skilled migrants with a Master's level education and above were more likely to re-migrate away from New Zealand; in contrast, people with lower levels or no qualifications were more likely to stay (McLeod et al., 2010; OECD, 2014; Wood, 2020).

Figure 2.1 Number of people approved on Essential Skills visas by skill level



Source: MBIE's Migration data explorer.

Finding 2

Temporary work visas were increasingly being used to fill vacancies in lower-skill occupations in the period before the Covid-19 pandemic.

1 Data is available on the courses that international students are enrolled in, but not on their jobs.

Maintaining opportunities for locals to work, train and advance

On average, immigration has not come at the cost of locals' wages and employment

To ensure immigration raises the overall human capability of New Zealand, it is important that immigration does not negatively impact opportunities for local workers. A common source of concern with immigration is that it may push down wages, hiring opportunities and conditions for local workers. The Productivity Commission considered both the domestic and international evidence on how immigration affects the labour market outcomes of local workers. Overall, New Zealand studies find very minor and mostly positive impacts on the average earnings and employment of local workers.

To learn more, read *Impacts of immigration on the labour market and productivity* at: www.productivity.govt.nz/immigration-labour

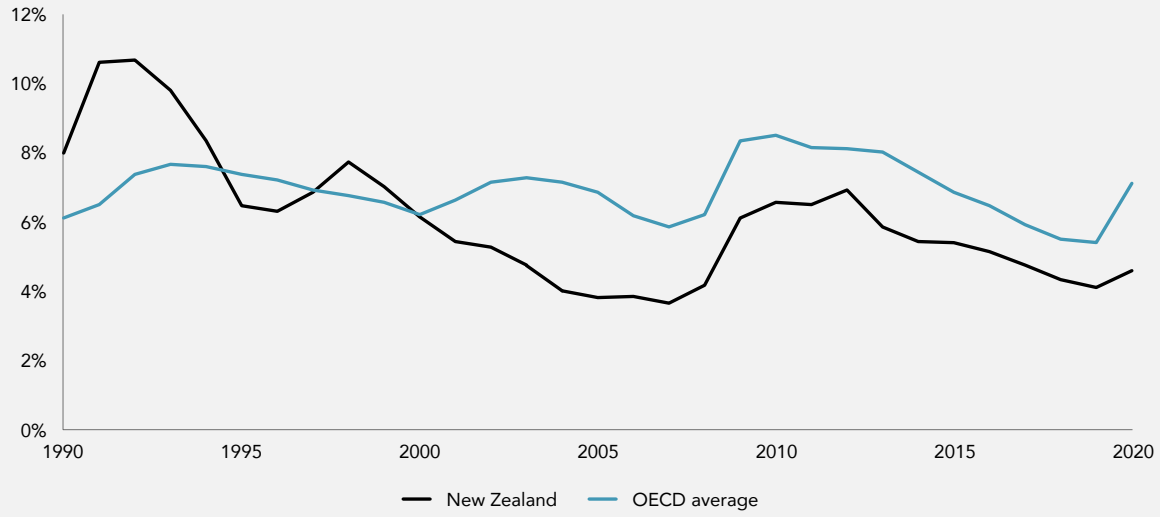
Box 9 How migrants can act as substitutes and complements to local workers

"Complements" and "substitutes" describe how particular sets of factors (eg, workers, capital, land, technology) interact with each other. Where factors are substitutes, an increase in the use of one item will reduce the demand for the other (or vice versa). For example, a farmer introducing more fertiliser and better harvesting techniques may need less land to produce a given amount of crops. Where factors are complements, an increase in the use of one item increases the demand for the other. The introduction of new technologies, for example, often leads firms to hire more skilled workers who are able to make the best of use of those technologies.

In the case of immigration, migrants may be substitutes or complements for local workers. Where migrants are substitutes (ie, have similar skills, experience and other characteristics relevant for a job), employers may hire them instead of a local. Where migrants are complements, hiring a foreign-trained worker can increase the demand for local staff. For example, where a migrant brings skills that are critical to a project but hard to hire in New Zealand (eg, tunnellers for large infrastructure projects, snow groomers for skifields, experienced horticultural workers), this can overcome bottlenecks, allowing the firm to grow and increasing the demand for local workers.

Small impacts likely reflect the fact that, over the last 20 years, New Zealand has had relatively low levels of unemployment (Figure 2.2), high rates of participation and very low rates of long-term unemployment compared with other OECD countries. Flows in and out of unemployment have been comparatively high and the duration of unemployment low (NZPC, 2019a). Compared to other OECD countries, New Zealand's minimum wage is relatively close to its median wage, which may moderate the downward pressure from low-skilled migration on wages for New Zealanders (NZPC, 2021a).

Figure 2.2 Unemployment rate, New Zealand and OECD countries, 1990-2020



Source: OECD Unemployment rate.

MBIE (2018) looked at the impact of temporary migrants on earnings, employment and job hires for New Zealanders between 2000 to 2015. MBIE found no effects on employment and new hires and some small, positive effects on wages for locals aged over 25. Maré and Stillman (2009, p. ii) used census data for 1996 and 2001 and found "little evidence that immigrants negatively affect either the wages or employment opportunities of the average New Zealand-born worker". These findings are consistent with many international studies. In our closest neighbour Australia, for example, Brell and Dustmann did "not see large effects… on wages, and the effects these studies do find are often positive" (2019, p. 35). The Australian Productivity Commission's study of migrant intakes similarly found "negligible effects on the labour market outcomes of the local labour force" (2016, p. 191).

Average outcomes mask concentrated impacts in some regions and on some workers

While, as a whole, New Zealand's unemployment rate is low, Gisborne and Northland region, and Māori, Pacific-peoples, young workers, and less educated workers have persistently higher rates of unemployment (NZPC, 2019a, p. 12).

MBIE (2018) found the effects from temporary migration impacting specific industries, regions and groups of workers were positive and negative.

- Temporary migration reduced new hires of beneficiaries by 8.9% in 2000-05, but not in later periods.
- Temporary migration increased new hires of youth in 2005-10 and 2010-15 by 2.3% and 3.6% respectively.

- Using data pooled from 2000 to 2015, the study found that temporary migration reduced new hires of beneficiaries outside the main urban areas (-2.3%), and in horticulture (-4.5%). Employment of temporary migrants in the family category reduced new hires of beneficiaries (-3.0%). Employment of international students had small positive direct effects on new hires of beneficiaries (+0.3%).
- In food services, temporary migration overall directly increased the employment of New Zealanders generally (11.1%) and youth (16.4%).

Maré and Stillman (2009, p. ii) found evidence that increased numbers of high-skilled recent migrants in local labour markets "have small negative impacts on the wages of high-skilled New Zealand-born workers". These effects, however, were "offset by small positive impacts on the wages of medium-skilled New Zealanders" (ibid). Tse and Maani (2017) found that a 10% increase in the numbers of migrants with degrees in the Auckland region was associated with a fall in the average earnings of other local workers by 1.5%. These small, negative impacts were concentrated among earlier migrants (who are closer substitutes for new arrivals) rather than New Zealand-born workers. International studies find similar effects on earlier migrants (Roodman, 2014).

Finding 3

Immigration has had small and mostly positive effects on the wages and employment of New Zealand-born workers over the last 25 years. Overall, evidence on labour market effects does not, of itself, point to major problems with the level and composition of immigration into New Zealand.

That immigration has not resulted in large negative impacts on the local labour market is encouraging. The immigration system pays considerable attention to managing the risk of New Zealanders being displaced, especially New Zealanders who work (or could potentially work) in lower-skilled occupations. Yet there are some known deficiencies. The two tools in use for ascertaining risks to the local labour market are the Labour Market Test (LMT) and skills shortage lists.

On some visas, including the Essential Skills visa, employers are required to undergo a LMT. When conducting a LMT, a visa or immigration officer must be satisfied that the employer has made a genuine attempt to attract and recruit suitable workers in New Zealand; and suitable workers are not available in New Zealand (Immigration New Zealand, 2021). Although this is a useful step for mitigating risks to the labour market, in practice its robustness is questionable as most employers successfully pass the test. On the efficacy of the LMT, in 2015 MBIE noted:

> It is particularly important that we ensure employers are adequately testing the local labour market for lower-skilled jobs. We note that, in practice, the vast majority of visa applications that require labour market tests or specific job offers are approved, so while there may be some compliance costs to employers, they will generally be able to employ a migrant worker. (cited in NZ Treasury, 2015, p. 34)

As well as a lack of robustness, the LMT is also not applied to all temporary work visa categories. Some visas confer "open work rights", meaning visa holders are able to work for any employer in New Zealand, and those employers do not have an obligation to recruit locally first. The visas with "open work" entitlements include:

- working holidaymaker schemes;
- visas for residents, people who hold certain types of work or student visas, and partners of New Zealand citizens; and
- visas for new graduates, who have recently completed a qualification in New Zealand.

One of the consequences of having different rules for different visa categories is that sometimes migrants may face different treatment even if they are working in the same or similar jobs (eg, a dairy farm worker on an Essential Skills visa will have different rights than a worker on a Working Holiday visa).

Box 10 New process for Labour Market Testing and Employer Accreditation

From mid-2022, a new temporary work visa will be introduced: the Accredited Employer Work Visa (AEWV) (see Box 7). A Cabinet Paper established the policy, and the Immigration New Zealand website contains the latest details on how the policy will be implemented. The new visa process will be employer-led. If an employer wants to hire a migrant under this visa category, the employer is required to:

- apply for accreditation under the new system;
- apply for a job check to make sure the role they want to fill cannot be done by New Zealanders; and
- request a migrant worker to apply for a visa.

This three-check process regulates employers in order to reduce the risk of migrant exploitation and harms to the local labour market. However, immigration settings would be looser for migrants working in jobs that pay above the median wage "where the risk of displacement or wage depression is small and is likely to be offset by the expected benefit of accessing offshore labour" (Office of the Minister of Immigration, 2019b, p. 11).

To become accredited, employers that employ high volumes of migrants (employers who want to hire six or more migrants at a time) must show a commitment to improving pay and conditions for all employees over time (New Zealand Immigration, 2021c).

Immigration officers have a set of measurable, reportable reasons for determining whether a job has passed the LMT. The LMT for lower-paid roles consists of two parts.

1. The employer must obtain a Skills Match Report (SMR) from the Ministry of Social Development (MSD) that identifies if MSD has any clients that it considers available, and suitable or trainable.
2. Immigration New Zealand makes an assessment about whether the employer has done everything required of them to test the labour market (such as advertising) in addition to obtaining an SMR.

In practice, this new process means that when MSD advises that there are suitable jobseekers available, and the employer has not made sufficient effort to engage with the domestic labour market, Immigration New Zealand will have limited grounds to determine the LMT has been passed. Employers may only reject a client referred from MSD if that client meets the specified acceptable reasons agreed by MBIE and MSD.

The process should improve the connections between the immigration system and welfare system, ensure the immigration system is responsive to the unique needs of different regions, and increase expectations on employers to employ and train more New Zealanders (Office of the Minister of Immigration, 2019b).

There are no consistent feedback loops between the immigration and training systems

Skills shortage lists are used as a more efficient alternative to individual LMTs. The lists are not based on whether an occupation is "low skilled" or "high skilled" (however defined), but whether an employer is struggling to get workers to meet demand. The skills shortage lists replace the need for employers with sustained shortages to go through repeated LMTs, leading to reduced costs and hassles for them.

The three skills shortage lists are:

- a long-term shortage list (where there is a sustained and ongoing shortage of high-skilled workers both globally and throughout New Zealand);
- a regional shortage list; and
- a construction and infrastructure shortage list.

Occupations on the lists are reviewed each year by MBIE. The occupations that are on the list are decided according to information provided by affected industries, employers, unions and other interested parties (eg, occupational licensing bodies).The process of consulting with various parties is intended to identify unmet labour demand, and also test whether employers are doing enough to attract workers from the local labour market – in an attempt to manage the risk of migrants competing with local workers. Given the importance of consultation to inform the skills shortage lists, and the fact that the diagnosis of a "skills shortage" is contestable, a large degree of judgement is needed. Like the individual LMTs, the process for compiling these skills shortage lists could be more robust.

Further, although immigration is one way of introducing skills into the economy, there are no links or feedback loops between occupations on the skills shortage lists and the production of skills through New Zealand's education and training system. Work is currently under way to build institutions that may improve links and information flows between industry, education and immigration, such as the Regional Skills Leadership Groups, Workforce Development Councils and the establishment of Te Pūkenga (the New Zealand Institute of Skills and Technology). There are also parallel processes for encouraging greater productivity and innovation in selected industries (Industry Transformation Plans), which may have implications for immigration settings. It is not yet clear how well these institutions will work, or how they will interact to address the issue.

Finding 4

Currently, there are no consistent feedback mechanisms to link skills shortages evident in the immigration system to potential responses in the education and training system. A lack of feedback mechanisms limits the ability of the education system to meet employer needs and may weaken accountabilities on employers to train and develop local workers. It is not yet clear how new institutions such as Workforce Development Councils and Regional Skills Leaderships Groups will work and interact to address this issue.

Mixed evidence on migrant labour and employers' incentives to train local workers

Access to skilled migrant labour could potentially undermine incentives for firms to train and develop New Zealand workers (Treen, 2021). In its assessment of migrant intakes into Australia, the Australian Productivity Commission (APC) found that employers' "incentives to invest in training of their workforce are likely to be dampened as a result of ready access to skilled immigrant labour" and that requiring employers wishing to access migrant labour to meet training thresholds was therefore appropriate (2016, p. 210).

The Commission heard mixed messages about the impact of access by firms to migrant workers on training and development opportunities for New Zealanders. Peak bodies from the Information Technology (IT) sector have stated that "the Immigration system has become the first port of call for meeting skills needs for many companies in the tech industry. It is often seen as easier and cheaper than investing in upskilling domestic talent" (IT Professionals New Zealand & NZTech, 2021, p. 17). In response, the sector has been developing a plan to promote better opportunities and training for students and stronger career pathways for local graduates and workers.

The IT sector's employment of migrant workers has been enabled by immigration policy settings. Most IT occupations have been placed on the Long-Term Skills Shortage List, meaning that relevant firms who want to employ migrants for these roles do not have to undergo a LMT to check whether suitable New Zealanders are available. The closure of the border in response to the Covid-19 pandemic has seen large efforts by industries that have made

significant use of migrant labour to increase training and improve career pathways, implying that, at some level, access to migrant workers may discourage education and development opportunities for New Zealanders.

Other industry bodies have emphasised the role of migrant workers in upskilling New Zealand workers. Trustpower, for example, submitted:

> We have observed that our migrant workers have had greater experience managing certain [technology] applications. They have used this knowledge to grow the capability of internal employees. Strong policy to attract these high impact migrant workers presents a great opportunity to adopt technology and improve the training of the New Zealand workforce. (sub. 25, p 2)

There is not much research into the impacts of immigration on the training of local workers, and nothing specific to New Zealand. The available international literature finds small positive or insignificant impacts (Campo et al., 2018; Mountford & Wadsworth, 2018).

The Cabinet Paper establishing the new AEWV (see Box 10) contained a requirement that employers that employ high volumes of migrants demonstrate a commitment to training and upskilling as part of the accreditation process. However, at the time of writing, this requirement is not reflected in Immigration New Zealand's description of the accreditation process (New Zealand Immigration, 2021c).

Question 1

To what extent does access to migrant labour reduce training and upskilling activity by employers? Do effects on training and development differ by industry? Are there areas of the economy in which New Zealand should be training people that are currently disproportionately supplied by migrant workers? How could policy best respond?

Treating people well and retaining their capabilities

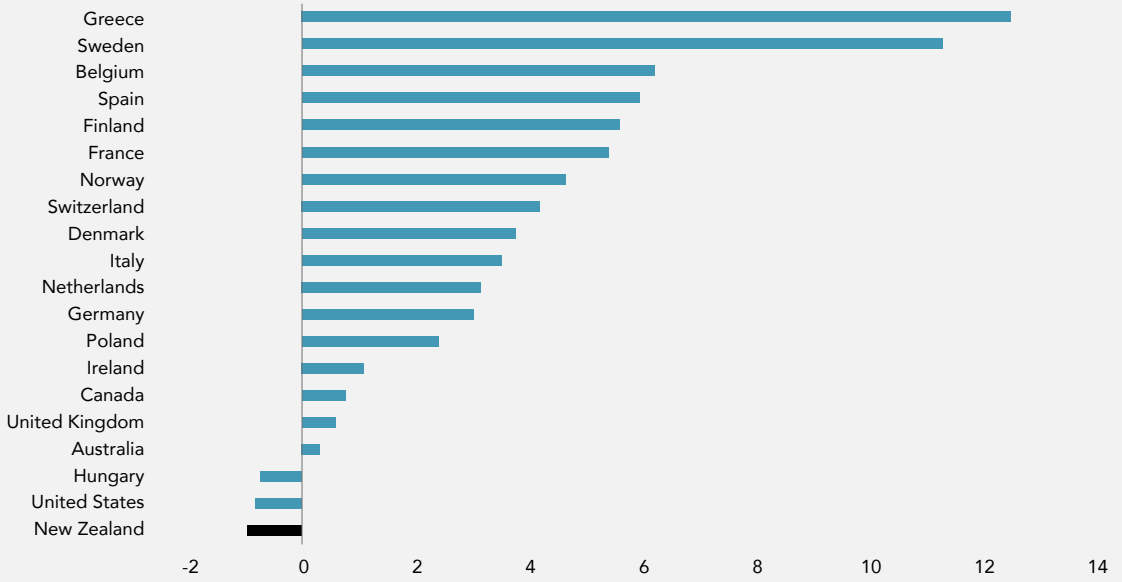
On average, migrants appear happy with life in New Zealand and settle well

One obvious measure of how well migrants are treated is how satisfied they feel with life in New Zealand. By the standards of OECD countries, migrants in New Zealand report high levels of integration and wellbeing (though with some gaps) and consistently report very high levels of overall satisfaction with life in New Zealand and high levels of belonging (Carey, 2019; MBIE, 2021b). The proportion of migrants surveyed by MBIE who reported feeling "very satisfied" or "satisfied" consistently sat at around 90% over 2015-19, and around two-thirds reported being feeling "completely" or "a lot" like New Zealand is home over the same period (MBIE, 2021b).[2]

Unusually for developed countries, migrants in New Zealand experience similar levels of wellbeing to New Zealand-born people, particularly in terms of life satisfaction, PISA scores (scores from the OECD's Programme for International Student Assessment), perceived health and having a say in government (Carey, 2019). Also, in contrast to most OECD countries, migrants in New Zealand tend to fare slightly better than locals in terms of unemployment rates (Figure 2.3). This probably reflects the heavy emphasis placed in both the temporary and permanent migration visa categories on having an existing job offer before migrating.

2 These surveys covered both residence and temporary visa holders, and a range of durations living in New Zealand. Only very small proportions (ie, 3%–5%) of respondents said they felt "not at all" that New Zealand was home.

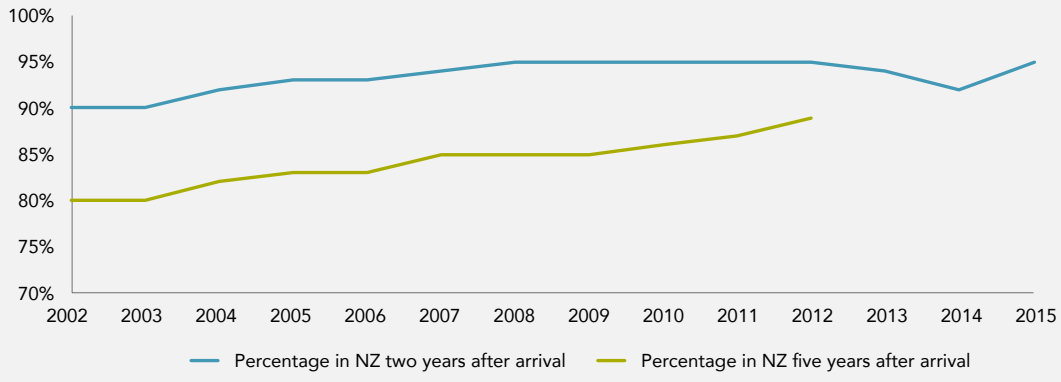
Figure 2.3 Gap in the unemployment rate between migrants and locals, 2019



Source: OECD (2020).
Note: Unemployment rates are the number of unemployed as a percentage of the relevant workforce. A negative result in the above Figure indicates that immigrants have a lower unemployment rate than locals; a positive result indicates the opposite.

These positive results are also due to New Zealand's immigration policy settings, which are designed to select people more likely to settle successfully (NZPC, 2021b). However, these high satisfaction levels probably also partly reflect "survivor bias"; migrants who have positive experiences are more likely to stay, while migrants with negative experiences are more likely to leave. Around one-quarter of skilled migrant residents re-migrate to other countries within five years (Krassoi-Peach, 2013) and attrition rates continue to grow beyond this period (Wood, 2020). Re-migration rates have been highest for residents aged under 30; residents from the United States, Canada and China; residents without children; and former students. However, Krassoi-Peach judged that New Zealand's rates were "in the lower range of those international studies that have been done on migrant remigration" (2013, p. 31). In addition, recent evidence suggests that five-year retention rates for permanent residents have been increasing.

Figure 2.4 Proportion of resident migrants who still live in New Zealand, by date of arrival



Source: MBIE (2018, p. 43).
Note: Years ending 30 June.

There are settings within the immigration system that could partly explain attrition rates for permanent residents. Unlike other developed countries, New Zealand does not limit the ability of permanent residents to re-enter the country after they re-migrate; nor are permanent residents expected to return to New Zealand regularly to retain their right of re-entry. Migrants only need to stay in New Zealand for two years after gaining their residence visa before they can move on to permanent residence (which provides the unlimited right to return). Perhaps not coincidentally, re-migration rates increase notably after the two-year period (Krassoi-Peach, 2013).

Not everyone has a positive settlement experience

Despite high overall levels of satisfaction and integration, there are some notable exceptions. The OECD observed that migrants are

> more likely to feel safe than the native-born but are also more likely to express loneliness and to experience discrimination and tend to have slightly lower literacy scores. Immigrants in New Zealand also report relatively low participation rates in elections relative to those for the native-born, which is a sign of weak civic engagement and hence social integration. (Carey, 2019, p. 23)

Migrants' labour market outcomes vary by ethnicity. Those who come from the United Kingdom experience no difference in incomes or occupational rank from comparable New Zealand-born workers. In contrast, migrants from Asia and the Pacific do experience such differences. Further, migrants from the Pacific often do not experience the improvement in their outcomes (relative to New Zealand-born workers) that other migrants do (Stillman & Maré, 2009). These results have been attributed to weak job networks, poor access to childcare or outright discrimination (Stillman, 2011).

High overall integration levels and social cohesion outcomes can mask pockets of deep dissatisfaction. For example, inquiry participants drew the Commission's attention to a study of migrant nurses' experiences in New Zealand, which revealed that many faced significant and distressing barriers adjusting to working life here, including interpersonal and organisational challenges and conflicts over values (Brunton & Cook, 2018). There is also considerable variation in satisfaction levels between different migrant communities.

There are troubling patterns of abuse and exploitation, often linked to visa conditions

The large majority of New Zealand migrants report positive experiences with their employers. However, a small but significant share of migrants report troubling behaviours, such as employers threatening to withhold entitlements or asking workers to pay to hold on to their jobs (MBIE, 2021b). There have also been more extreme cases of migrant worker exploitation (Box 11). Some current visa conditions – such as tying people to specific employers – significantly weaken the bargaining power of temporary migrant workers and raise the risk of their exploitation.

Following a review of migrant exploitation, the Government introduced a specific six month visa category to allow migrants to leave exploitative situations and remain in New Zealand for a period. A dedicated 0800 phone number and web form make it easier to report cases of exploitation. The new employer accreditation system (Box 10) is also partly designed to address exploitation, and policy work is under way on law changes to increase enforcement powers for labour inspectors and introduce new offences (MBIE, 2021a). It would appear that administrative hurdles make it difficult for migrants on employer-assisted visas to change their employer, increasing the risk of exploitation. The ability of migrants to easily move to a new job is arguably the best protection against exploitative behaviour, also allowing them to find jobs that better match their skills and experience and make a greater economic contribution to New Zealand. Options around removing visa conditions that tie workers to a specific employer are considered further in part 4 of this report.

Box 11 **Limited mobility creates risks of migrant worker exploitation**

Collins and Stringer (2019, p. iv) were tasked by MBIE to explore the "nature, drivers and consequences of exploitation from the perspective of migrants and key stakeholders". The types of exploitation examined included underpayment or nonpayment of wages and taxes, refusing leave, nonpayment of holiday entitlements, failure by employers to comply with employment contracts, as well as threats and abuse. Some exploitation was intentional and systematic, with business models built around it and strategies to avoid punishment ("phoenixing", where a business is placed into liquidation to avoid paying debts, with the business owner going on to establish a new firm).

Collins and Stringer found that exploitation occurred most frequently where workers held student visas and employer-assisted visas, including the essential skills and post-study categories. For students, some private tertiary providers had "been complicit in concentrating full-time study courses across two days a week that allow students to work full time, in breach of their visa regulations." (p. v). Many students had also taken on significant amounts of debt (either personally or through their family) to get to New Zealand. Given this, they faced significant pressure to find and hold work so they could service payments.

For employer-assisted visas, the risks of exploitation often arose because the visa and work rights were tied to a specific employer, meaning the worker was effectively "dependent on their employer for their legal status in New Zealand as well as employment" (p. 83). Although workers can apply to have their visa conditions varied so they can find work elsewhere, the bureaucracy and slow processes involved meant that this option was not always readily accessible. Collins and Stringer concluded that employer-assisted visas were "a mechanism for suppressing workers' rights" (p. 88).

They recommended introducing more flexible conditions into employer-assisted visas, stronger labour law enforcement and better victim support mechanisms, clearer information for migrants about immigration law and employment rights, more resources for Immigration New Zealand to speed up processes, a review of the international education sector, and a concerted effort by government to work with stakeholders like unions and industry bodies to tackle exploitation.

In a separate report for MBIE, Stringer and Michailova (2019) compared temporary migrant exploitation in Australia, Canada, New Zealand and the United Kingdom. Common drivers of exploitation were visas linked to specific employers, inadequate enforcement of labour laws, debt bondage or the need to send money back to family. Industries where exploitation was concentrated differed between countries. In New Zealand, exploitation in the hospitality sector was "deliberate and sustained" (p. iv), although there were also cases in the agriculture, horticulture, viticulture and construction industries.

The system can't deal with large volumes of applications for permanent residence

New Zealand's immigration system has provided a number of avenues towards residence. Although there are specific visa classes that are explicitly linked to residence eligibility (Work to Residence, Global Impact Visa), migrants holding some other temporary visas have been able to apply for residence under the SMC (as, indeed, can people from offshore). Until recently, with some notable exceptions, many temporary migrants have also been able to change visa types relatively easily.

This openness, and the focus of the points system on selecting people more likely to successfully settle in New Zealand, has some strengths. First, it allows people to try out New Zealand before they commit, therefore reducing later "buyer's regret". Second, allowing people to select into the residency process may be more efficient and less prone to errors than having predetermined "pathways" that inadvertently exclude people that could make positive contributions.

However, this broad flexibility appears to have created expectations among some migrants of achieving residence that cannot realistically be met. This issue becomes particularly pronounced when inflows of temporary migrants are high, increasing the stock to levels that cannot be accommodated within the "planning range" of annual residence approvals.

Nor does the current operation of the SMC help to manage some of these flows or expectations. To illustrate, migrants applying for the SMC must meet a minimum threshold for number of points (at the time of writing, this was 100 points). Migrants then enter the Expression of Interest (EoI) pool, which is intended to manage the number of applications received to fit the planning range. The Government's management of the EoI pool, however, has not extended to ranking migrants once they reach a certain number of points (at the time of writing, applicants are invited to apply for the Skilled Migrant Category if they gain 160 points). This can lead to large queues of migrants awaiting their application to be processed or awaiting residency in the EoI pool with an identical number of points (160), as the system does not recognise points over that threshold. The threshold has remained steady at 160 points since 2017, despite high volumes of applications and a theoretical ability to raise the threshold when demand is high. As at August 2021, almost 13 000 skilled residence applications were in the EoI pool (New Zealand Immigration, 2021b).

A number of inquiry participants and commentators described the mismatch between migrant expectations and the reality of residence, and the lack of any action to counter or prevent this gap, as cruel and falling well short of manaakitanga (Hickey, 2020; Treen, 2021; Clive Thorp, sub. 63).

Finding 5

Large queues of applicants for residence visas have increased uncertainty and reduced the likelihood of achieving a pathway to residence. This has left many migrants in flux and unable to settle.

Policy decisions made by Cabinet in 2019 (but not yet implemented) would narrow the pathways for temporary migrants to gain residency by potentially replacing the Work to Residence pathway to residency. Future temporary migrants would need to meet two criteria to be eligible – earn over 200% of the median wage, and work in a highly paid job in New Zealand for two years.

Lower-paid migrant workers would face a limit on their visa duration (generally 3 years) and would need to leave the country before they could apply for another visa. The status of these policy decisions is, however, currently unclear.

Part 3

Does the system consider wider impacts on wellbeing and productivity?

Immigration policies and decisions do not consider the wider impacts on the economy in any obvious or transparent way. Decisions are generally taken at the level of individual visa categories or applications. And the target ranges for the numbers of residence visas that will be issued each year no longer bear any relationship to population growth rates or the economy's ability to absorb new entrants.

This lack of consideration of wider impacts is a significant break from historical immigration practice. For much of the 20th century, immigration policy was explicitly cast in terms of needing to avoid pressures on the economy and community, particularly on housing, jobs and public services (NZPC, 2021b).

Policy reforms commencing in the 1990s effectively abandoned these constraints. Although the total number of residence visas approved each year was capped, the cap was set high by historical and international standards. And over the early 2000s, several temporary migration schemes with work rights were introduced, including working holidaymaker schemes, student visas with work rights, and post-study visas. These categories account for a large share of the growth in temporary migrant numbers over the past decade.

Migration has helped fuel recent population growth

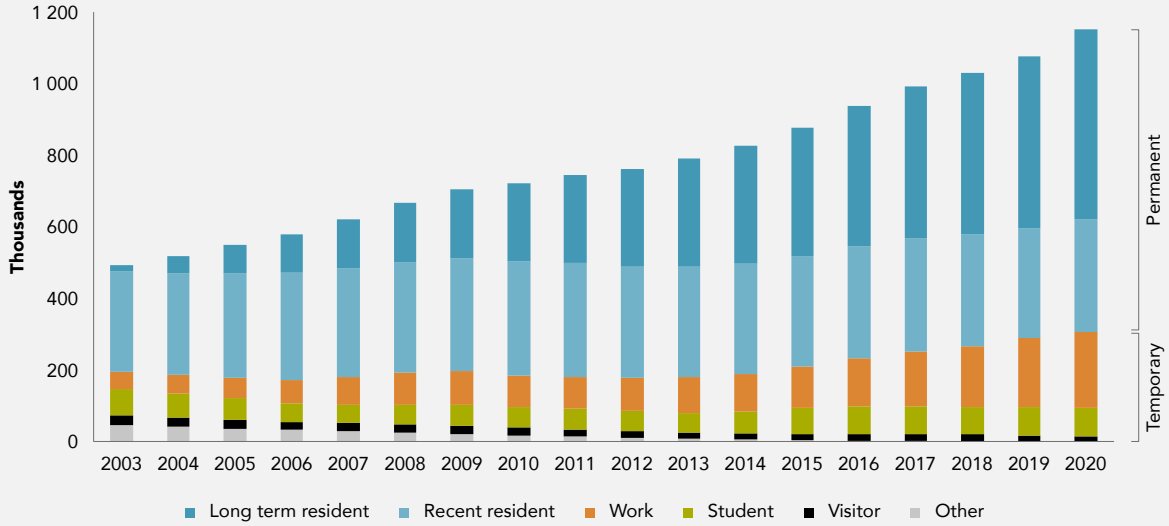
High permanent resident numbers and largely uncapped temporary migration programmes have contributed to New Zealand's comparatively rapid population growth over the past decade.

In terms of sustained population growth, permanent residents, which includes those temporary migrants who transition to resident (and the net migration of New Zealanders), have made the larger contribution over time (Figure 3.1).

Yet large increases in temporary migrant numbers are an important part of the story. This is because there has been both an increase in the overall stock of temporary visa holders and a flow of temporary visa holders into resident immigration streams.

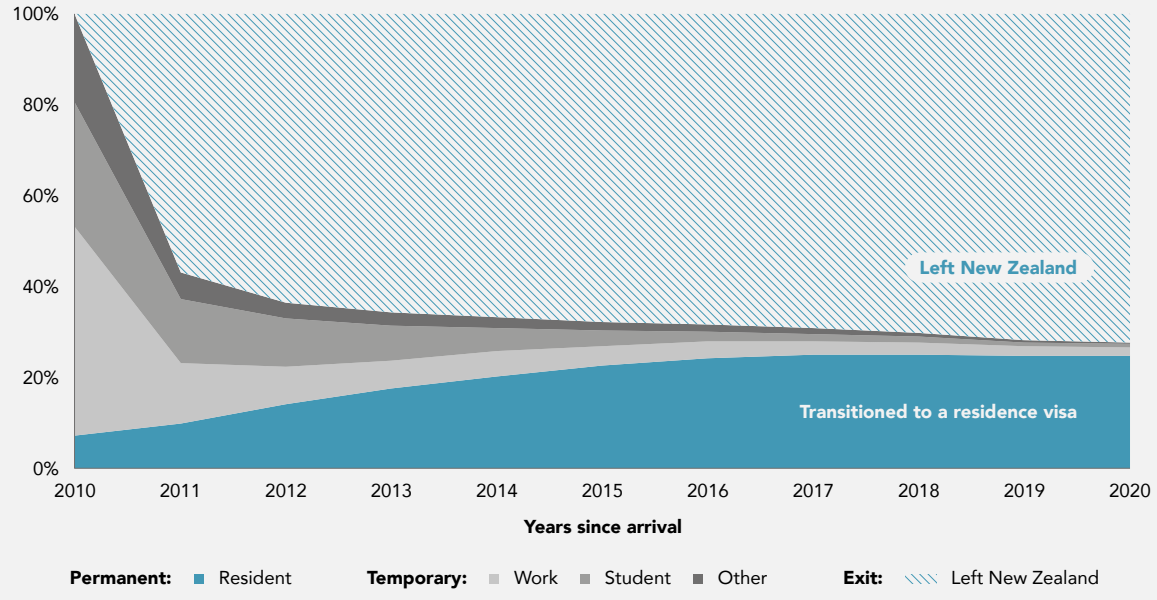
Examining the pathways of migrants who arrived in 2010 highlights that migrants change visa streams over time with most either leaving New Zealand or eventually ending up in the residence stream (Figure 3.2). For example, while 46% of migrants entered New Zealand in 2010 on a work visa, after one year 33 percentage points (or 68% of this work visa cohort) had left New Zealand. A further 10 percentage points (21% of the cohort) remained on a work visa and 2 percentage points (roughly 5% of the cohort) had moved to a residence visa.

Figure 3.1 Migrant population by visa type, as at 30 June in the years 2003–20



Source: Productivity Commission analysis of Stats NZ's IDI data.
Notes: 1. Recent residents are people who have been approved for a residence visa within the previous five years. Long term residents are people who have held a residence visa for longer than five years and may have transitioned to citizenship.
2. Long term residents are identified only from 2003, five years from the start of the dataset in 1997.
3. The dataset does not identify migrants who became residents before 1997 and have not left and re-entered New Zealand after 1997.

Figure 3.2 Pathways of migrants who arrived in New Zealand in 2010



Source: Productivity Commission analysis of Stats NZ's IDI data.
Note: *Other* covers a range of temporary visas, including interim, limited, military, special category, and visitor visas.

Population growth has added to pressures on housing and infrastructure

Population growth has contributed to pressures and deficits for public infrastructure (eg, roads, hospitals, schools, three waters services), and a need for people to build and provide these services.

Infrastructure supplied by the private sector (eg, telecommunications, energy, airports) has kept up more successfully with demand, with the obvious exception of housing. However, large deficits have occurred in areas owned and funded by the public sector. The Infrastructure Commission has estimated that filling this gap and providing enough infrastructure to respond to current housing shortfalls and ease congestion would cost 0.7% of GDP every year over a 30-year period (2021, p. 28). The Infrastructure Commission estimates that 115 000 more homes are needed to fix the current housing crisis and the cost of fixing up three waters networks alone will be $90 billion (ibid, p. 11).

These shortfalls are the result of population growth running up against political forces that constrain investment. Examples of such forces are:

- decisions by politicians that reflect popular demands to keep taxes or property rates low or which fail to take account of essential but largely invisible assets (eg, underground pipes);
- existing residents of cities resisting the changes and costs that come from a growing local population and urban expansion; and
- central government fiscal policy, which has prioritised keeping the budget deficit and public debt low rather than adding infrastructure assets to the Crown's balance sheet and increasing the capacity of public services.

New Zealand has experienced some of the fastest growth rates in house prices in the OECD over the past two decades, with a range of harmful impacts on New Zealand citizens and residents – especially those on lower incomes. There are many causes for these price increases, including restrictive land use regulation, inadequate use of infrastructure funding and financing tools, and mismatches between who enjoys the benefits and who bears the costs of urban growth (NZPC, 2012, 2015, 2017a, 2019b).

Research into the effects of immigration on New Zealand house prices finds mixed results, with some studies showing large effects and others small effects (Coleman & Landon-Lane, 2007; Hyslop et al., 2019; P. Nunns, 2021; Stillman & Maré, 2008). Some studies find that the effects of local population changes on local house prices are weak but the effects at the national level are strong. For example, an increased net-migration inflow of 1% of the national population leads to an 8%-9% increase in house prices. The difference between local and national results may be because of interactions between local housing markets and the outflow of people from Auckland to other regions.

Results also differ on whether the effects on house prices are stronger from changes in New Zealanders' net migration (eg, fewer departures) (Cochrane & Poot, 2016; Stillman & Maré, 2008) or from the arrival of non-citizens (McDonald, 2013). Vehbi (2016) finds that older migrants (30-49 years old) have greater impacts on house prices, rents and residential investment than younger migrants (17-29 years old).

Few studies cover the period after 2013 when non-citizen inflows increased, and citizen net outflows shrank to around zero. These two dynamics caused rapid population growth over 2013 to 2016-17 and a further lift in 2020. Over the same period, high and rising house prices have spread from Auckland to the rest of the country. Even if a mid-point estimate (from the New Zealand studies) is taken of the impact on net migration on house prices, these large population increases have contributed significantly to recent rapid house price increases.

From March 2020 (when New Zealand largely closed its borders because of Covid-19) until August 2021, the median house price increased by over 30%. Over the same period, net migration has been very low, at an average annual rate of around 5 000 people. This might suggest that other forces are more important than net migration in driving up house prices. Yet there are plausible reasons to explain why prices have not moderated, such as:

- an existing backlog of demand over supply and continuing sluggish supply growth;
- the momentum from continuing strong expectations of future price increases; and
- the policy to inject plentiful cash and credit liquidity into the economy to combat the potentially deflationary impacts of Covid-19 and its associated lockdowns.

Finding 6

Increases in New Zealand's population from net migration have exacerbated rapid house price increases, reflecting several factors including underlying and persistent constraints on the supply of housing.

Small and positive productivity gains, but possible large downsides

Many studies of the microeconomic impacts of immigration on productivity growth typically find small positive impacts. In most OECD countries, including New Zealand, migrants are on average younger and more skilled than the host population. As a result, migration increases GDP per capita because a greater proportion of the population is working, and average skills among those working are higher (Jaumotte et al., 2016). For instance, Boubtane et al. (2016) looked at immigration and economic growth across 22 OECD countries (including New Zealand) over the 1986-2006 period. They found that a 50% increase in foreign-born net migration led to a short-run average increase in GDP per worker of 0.3% a year, and a long-run average increase in GDP per worker of 2% a year. Nana et al. (2009) modelled the effects of different migration scenarios on the New Zealand economy and found that increased migration raised GDP per capita.

Migrants themselves, in terms of income, are likely the main immediate beneficiaries of the productivity gains from having a younger and more skilled population (Coates et al., 2021). Yet many studies have identified wider productivity benefits from complementarities between migrant and local workers, and faster dissemination of knowledge about technology and markets. These benefit longer-term residents as well as migrants.

Most New Zealand evidence on migration has focused on its impacts on firm innovation and exporting and found minor or conditional effects.

- Maré et al. (2010) looked at the effect of having migrants in a local labour market area on firm innovation levels. Once industry, firm size and research and development spending were controlled for, they found no relationship between the presence of migrants in local labour markets and firm-level innovation.
- McLeod et al. (2014) found that employing more migrants is associated with greater firm-level innovation, but this effect was more to do with having new, high-skilled employees than migrants as such.
- Sin et al. (2014) found that having a higher proportion of migrants among high-skilled workers is associated with a greater probability of exporting. Having migrant workers from developed (but not developing) countries was linked with a greater probability of earning export income in the workers' source countries.

Finding 7

Microeconomic evidence suggests positive, but small, impacts from immigration on average levels of labour productivity. New Zealand evidence on the impacts of immigration on innovation and exporting as channels for productivity growth finds minor or conditional effects.

While the microeconomic evidence tends to support small and positive impacts from immigration, there are arguments from the macroeconomic perspective suggesting that fast population growth may have suppressed New Zealand's productivity growth.

These arguments propose that this suppression occurs largely through the diversion of resources (eg, capital, labour) from the tradable to non-tradable sectors. Tradable goods and services are those that can be sold at locations other than at the place of production. Non-tradable products are those than can only be sold at the place of production (eg, haircuts). Tradable firms are typically more productive than other businesses, in part because they benefit from economies of scale and must be competitive with other firms nationally and internationally.

The diversion of resources resulting from migration and population growth occurs through several channels. First, the supply and demand effects of migration occur at different paces. When people arrive in a country, they have needs or demands that must be met in the short-term (eg, housing). Meeting this demand often requires non-tradable inputs, such as labour and local services.

Migrants also increase the productive capacity of the economy, but this can take longer to bear fruit, as people search for jobs and acclimatise to their new roles. In the short run, therefore, the demand effects of migration can "trump" the supply impacts. As a result, monetary policy may need to tighten – meaning higher interest rates – in order to bring the economy back into internal balance. Higher interest rates often entail higher exchange rates, which increase the ability of the economy to meet demand through imports but reduce the international competitiveness of local exporting and export-exposed sectors.

Over time, an economy may adjust to a short-lived increase in population growth, as the short-term demands are met, and resources flow back towards the tradable sector. But if an economy experiences ongoing high population growth, or repeated "shocks" of unexpected increases, this rebalancing may lag and restrict investment in the tradable sector over extended periods of time.

Aspects of New Zealand's economic performance over the past 30 years are consistent with these arguments, including a persistent high real exchange rate (despite poor relative productivity growth which would tend to push the exchange rate down), a flat or falling share of exports to GDP, slow rates of productivity growth, and high real interest rates compared with other developed countries. Immigration is unlikely to be the sole cause of these trends, but the symptoms are consistent with it being at least a contributor.

There are limits to how many people can be absorbed at any point in time

These negative effects – pressure in housing supply and prices, and a shortfall of public infrastructure – are due to underlying constraints within the New Zealand economy. These constraints include restrictive land use regulation and infrastructure funding tools (that limit the ability to meet housing demand promptly and efficiently), and low levels of national savings relative to investment needs. In essence, there are limits to how many people the economy can absorb at any point in time.

This "absorptive capacity" is not fixed in stone. The public infrastructure deficit and associated pressures are the result of a failure to align investment rates with population growth and build the assets needed to properly support more people in the community ahead of time. The economy could potentially accommodate more people without negative effects on housing or infrastructure if policy changes were made to ease regulatory constraints and increase investment rates, although New Zealand's small size and labour market suggest "absorptive capacity" has an upper limit.

The Commission has previously provided advice on easing regulatory constraints on housing and lifting infrastructure investment (NZPC, 2012, 2015, 2017a, 2019b). Such reforms would have significant wellbeing benefits for New Zealanders and should be pursued regardless of immigration levels. However, they will take on increasing importance in the future if New Zealand is to compete successfully for global talent and skills. As Parag Khanna has noted, a number of countries "know that they are ready to increase their population, and they are predesigning their infrastructure and their habitats accordingly" (McKinsey & Company, 2021).

Finding 8

An infrastructure deficit and associated pressures are the result of a failure to align investment rates with population growth and build the assets needed to properly support more people in the community ahead of time. The inability or unwillingness in the past to fund this infrastructure suggests that pre-pandemic rates of inwards migration will not be sustainable in the future.

Finding 9

Policy reforms such as better planning, land use regulation, and improved funding and building of infrastructure would have significant wellbeing and productivity benefits for New Zealanders, and should be pursued regardless of immigration levels.

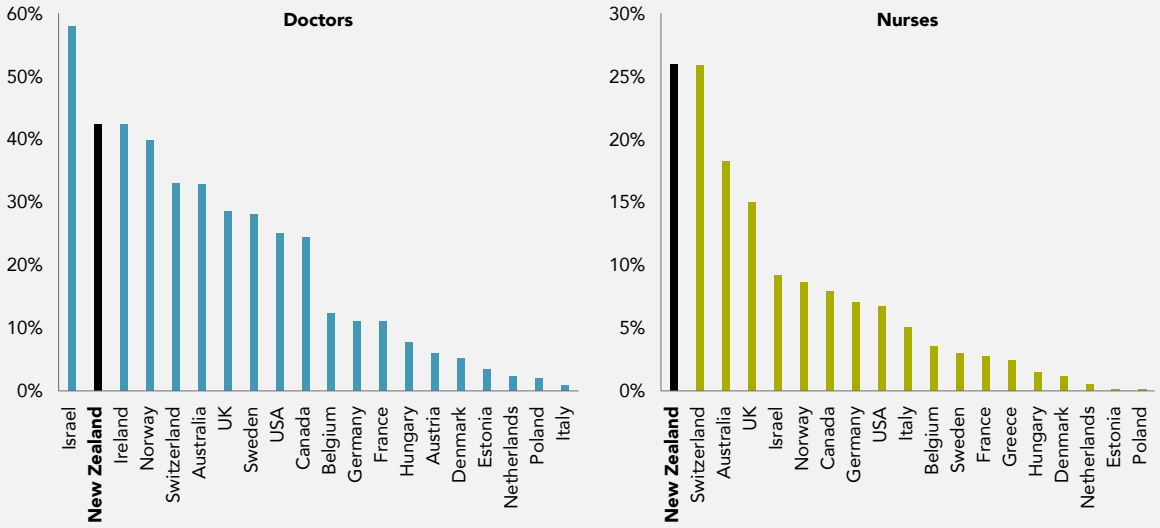
Incentives to invest and innovate

The Commission has investigated concerns that many industries are "over-reliant" on temporary migrant workers. Concerns about a reliance on temporary migrant workers may in part reflect long-term labour market conditions.

The use by some industries of temporary migrant workers is the result of many factors. Drivers include underlying labour market tightness and difficulties attracting and retaining New Zealanders to regional locations, low wages and poor work conditions, seasonal work patterns that are less attractive to locals, open work rights for some temporary visa categories, and market conditions. The recently released draft report from the Seafood Workforce Inquiry commented that

> [b]usinesses operating in the seafood sector are generally price takers. They are unable to pass on increased costs that do not increase the quality of the product they sell and face variability in the prices they receive. Large investments into securing annual catching rights, combined with seasonal availability of catch and ensuring product can be processed and delivered to markets at the right time, underscore the importance of a reliable supply of labour. These are challenges common to most primary industries. (Wilson et al., 2021, p. v)

Figure 3.3 Proportion of foreign-trained doctors and nurses, 2015-17



Source: OECD Health Statistics 2018.

Workforces with a large share of foreign-born staff are not specific to the private sector. New Zealand's health sector has some of the highest rates of foreign-trained nurses and doctors in the OECD (Figure 3.3). At the same time, New Zealand trains relatively low numbers of medical students and moderate numbers of nurses when compared with similar training in the OECD (OECD, 2021a, 2021b).

A strong or increased presence of migrant workers in a labour force may reflect specific industry conditions where there are complementarities between the use of migrant labour and the ability to specialise. Several international studies point to productivity improvements resulting from such complementarities. For example, Peri (2012, p. 357) examined the labour market and productivity effects of lower-skilled migration into the United States from Mexico over 1960-2000. He found that immigration was "significantly associated with total factor productivity growth" (ie, improvements in the way in which inputs, such as labour, machinery and land, are combined to produce goods and services). Peri attributed this productivity growth to greater specialisation, with migrants taking "manual-intensive" jobs and Americans moving to roles that were more "communication-intensive" (2012, p. 357)

Peri and Sparber (2009) looked at the task content of occupations in the United States over 1960-2000 and found a similar division of labour, with migrants taking on more manual tasks and locals moving into jobs with more communication tasks (which paid higher wages). Basso et al. (2020) found that local workers moved into more technical and cognitive roles following the spread of computerisation in the United States, while migrants took on less complex jobs. However, these processes took place over many years, meaning that there may have been adjustment costs for some local workers.

New Zealand literature and evidence show some support for complementarities in New Zealand. For example, in the horticulture industry, access to seasonal workers from the Pacific has helped facilitate "a shift towards new, higher-yield varieties and planting systems, and year-round production-related activity that stimulates demand for seasonal and permanent staff" (H. Nunns et al., 2020, p. 13).

An alternative approach is to look at what happens when a country removes migrants from the labour force. The most famous international example is the closure of the bracero program (1942-1964), which had allowed seasonal workers from Mexico to work on US farms for periods of between six weeks to six months.

The program was wound down over 1962-1964, with the aim of improving wages and employment for US workers. In practice, however, there was little impact on locals' incomes and jobs, as affected farmers either replaced migrant workers with technology such as mechanised harvesters (which improved labour productivity) or reduced their production levels where viable technological alternatives did not exist (Clemens et al., 2018).

These results have several implications.

- In some circumstances, access to lower-skilled migrant labour may enable productivity gains through the existence of complementarities and specialisation.
- The relative cost of hiring low-skilled migrants compared with the cost of investing in new technologies may reduce incentives for employers within industries to innovate or adopt labour-saving technologies.
- In the absence of technological alternatives to labour, firms may be forced to reduce or suspend some activity or even shut down entirely if migrant labour is not available. Over the longer-term, surviving firms may adjust in other ways (eg, changing what they produce.)

Immigration research under way by Dave Maré, Lynda Sanderson and Melanie Morton (Box 6) will provide further New Zealand evidence into resilience and the reliance of migrants in the current context. This research will use the sudden closure of the New Zealand border on 19 March 2020 as an unanticipated shock to seasonal migration from the Pacific and will compare the outcomes of businesses that experienced different changes to their RSE workforces. It is hoped that this research will provide insights into how businesses respond (in their value-added, wages, innovation and labour-force composition) to changes in the availability of migrant workers.

Finding 10

Access to a migrant workforce can unlock complementarities and specialisation, but also introduce resilience risks. Whether or not there are negative consequences on innovation and productivity from using migrant labour depends on a range of factors, including underlying labour market conditions and whether technological alternatives are available.

New Zealand will need young, skilled migrants to finance and deliver public services in the future

Like many other developed countries, New Zealand's population is ageing, reflecting falling fertility rates and increasing longevity. Treasury forecasts see future ageing patterns leading to a lower labour market participation rate,[3] lower saving and investment rates, rising superannuation and healthcare costs, and increasing dependency ratios (ie, the numbers of people who depend on public assistance will grow faster than the numbers of working-age people). Assuming no dramatic increases in productivity growth or technological breakthroughs, New Zealand will require young, skilled migrants to help both finance and deliver public services.[4]

3 Ageing populations may not necessarily lead to falling participation rates. Higher wages resulting from a tighter labour market could encourage people to work for longer (and employers to hire or retain older workers). Similarly, retirement ages may increase, encouraging people to stay in the workforce for longer periods.

4 New Zealand will not be the only country facing this demographic trend. Future fertility rates are projected to be well below replacement rates, not only in the wealthier OECD nations, but also in developing countries including those that have been sources of New Zealand's recent migrants (such as China and India).

Part 4

An immigration system for the future

There is a gap in the system

The immigration system's flexibility and responsiveness are both a strength and weakness. On the one hand, it is able to adjust settings quickly and adapt to changing circumstances. The Immigration Act creates high degrees of discretion for ministers and officials, and many decisions are not subject to procedural requirements such as Regulatory Impact Assessment or disallowance.

But, on the other hand, the system lacks clear objectives, cohesiveness, limits and boundaries.

The result is a system that is open to pressure from interests that benefit from high levels of immigration, struggles to make trade-offs, has a very short-term focus, and takes incremental decisions that fail to take account of cumulative or wider impacts or other government policy objectives. The system's disconnection from other policy areas has meant that migration and population numbers have grown ahead of the stock and flow of public infrastructure, creating pressures for the wider community (most notably in house and rental prices). The rapid growth in net migration and population in the years preceding the Covid-19 pandemic exceeded the country's absorptive capacity.

Finding 11

The disconnection of immigration from other policy areas has meant that the rapid growth in net migration and population in the years preceding the Covid-19 pandemic exceeded New Zealand's ability to successfully accommodate and settle new arrivals.

In the Commission's view, the system needs checks and balances that give greater weight to the wider impacts of immigration, promote more transparency about the Government's objectives and provide better information and process for decision making.

Amend the Act to require consideration of absorptive capacity

Under the Immigration Act 2009, the Crown is given the sole power to determine the "national interest" in immigration.

> The purpose of this Act is to manage immigration in a way that balances the national interest, as determined by the Crown, and the rights of individuals. [section 3(1)]

Given the significant negative wellbeing effects associated with exceeding absorptive capacity, the Act should be amended to require the Crown to consider New Zealand's ability to successfully accommodate and settle new arrivals, when determining the "national interest" in immigration. Governments' views on what "absorptive capacity" looks like, and how they would best manage it, would be reflected in a Government Policy Statement (described below).

Recommendation 1

The Immigration Act should be amended to require the Crown to take account of the country's absorptive capacity (our ability to successfully accommodate and settle new arrivals) when determining the "national interest".

Require the regular development of an immigration Government Policy Statement

The immigration system needs a mechanism to:

- allow the public to engage over policy goals and priorities;
- set clear objectives for the system as a whole including its fit within the education and training system and the government's wider economic strategy, against which decisions and trade-offs can be made;
- enable businesses and communities to invest and plan for the future; and
- provide a platform for monitoring and accountability.

This mechanism needs to provide enough flexibility to recognise that different governments will have different goals and priorities, while also providing enough detail and specificity to enable trade-offs to be made, performance to be measured, and to improve predictability.

Of the various public management tools available in the New Zealand state sector, the closest model to fitting these criteria is the Government Policy Statement (GPS) in the Land Transport Management Act 2003. The land transport GPS sets out the objectives the Government wishes to achieve for the land transport system over the coming ten years, its strategy for achieving those goals, and the measures that will be used to assess performance. A new GPS is developed every three years, with public submissions sought, and is supported by an ongoing monitoring and evaluation programme.

While the Land Transport Management Act lays out the type of content that should be included in a GPS and the links that need to be drawn with other related processes and policies (eg, energy efficiency and conservation strategies, Resource Management Act 1991 national policy statements), the Act itself is silent on the principles or objectives that should be pursued.

Statutory requirements for an immigration GPS could be similarly flexible on objectives, but set out process and content requirements, such as:

- a description of the Government's short-term and long-term objectives for immigration, and relative priorities;
- performance measures or indicators;
- how the GPS recognises the Treaty of Waitangi interest in immigration (see below);
- a description of what the Government considers New Zealand's absorptive capacity to be and how it intends to manage or invest to increase it;
- a description of how the demand for temporary and residence visas will be managed over the period of the GPS; and
- specification of planning ranges for new residents over the period covered by the GPS, and a description of how the planning range will affect other government policy objectives.

Recommendation 2

The Immigration Act should be amended to require the Minister to regularly develop and publish an immigration Government Policy Statement (GPS). These amendments should specify that a GPS must include:

- short-term and long-term objectives, and relative priorities;
- performance measures or indicators;
- how it recognises the Treaty of Waitangi interest in immigration;
- a description of how the demand for temporary and residence visas will be managed over the period of the GPS; and
- specification of planning ranges for new residents over the period covered by the GPS, and a description of how the planning range will affect other government policy objectives.

Recommendation 3

Amendments to the Immigration Act should specify that, in preparing an immigration GPS, the Government must describe what it considers New Zealand's absorptive capacity to be and how it intends to manage that capacity, or invest to expand capacity, in order to align it with long-term policy objectives.

Examples of objectives a GPS could include

Depending on the circumstances facing the country and the preferences of the government of the day, there is a range of other objectives that could be stated in an immigration GPS. For example, an objective may be to build the capacity of the health system, especially to support an ageing population. To achieve this objective, immigration policy might have a greater focus on targeting health workers. Another objective might be to respond to a natural disaster (such as the Canterbury earthquakes), which would lead to policy prioritising larger-than-usual numbers of construction workers in response to a natural disaster.

From the Commission's perspective, some goals and areas would be worth including in a future GPS, especially those that relate to the development and deepening of innovation ecosystems. As the Commission noted in its inquiry into *Frontier Firms*, small advanced economies that are more successful have built up and sustained innovation ecosystems around "areas of focus" in which they have a competitive advantage. These ecosystems

> are made up of entities, their capabilities, and the networks between them. Firms are at the centre of the ecosystem, including larger "anchor" firms providing "canopy cover" for small and medium enterprises (SMEs) and entrepreneurs. The ecosystem also includes workers with the right skills, international links, research bodies, education and training providers, mentors and investors with deep knowledge and understanding of the industry, and enabling infrastructure and regulations. (NZPC, 2021c, p. 4)

To make progress on developing these ecosystems, the Government could use immigration policy as a core and integrated part of this strategy, attracting the specialised skills, experience and networks needed to develop and deepen innovation ecosystems in New Zealand.

What could inclusion of an innovation ecosystem objective in an immigration GPS involve? Of the many available approaches, here are some options:

- Refine investor and entrepreneur visa categories to better target "smart capital"(eg, venture capital) and networks and capabilities of importance to New Zealand's chosen "areas of focus".
- Prioritise post-study work rights and residence pathways for tertiary graduates who hold qualifications in fields of significance to New Zealand's frontier firms.
- Continue efforts to attract international "high impact" innovators to New Zealand, and embed them in local ecosystems (eg, such as the Global Impact Visa).
- Facilitate easy entry and clear pathways to residence for advanced research academics, and for managers and directors who have international experience.

Such objectives would need to complement efforts through the domestic education and training system to create the skills needed to grow New Zealand's frontier firms, as well as activities in other policy areas (eg, science policy).

Question 2

What objectives should be included in an immigration Government Policy Statement? Why?

Acknowledge the Treaty interest

The Commission considers that there are two main grounds for concluding there is a Treaty interest in immigration policy, and that policy and institutions should explicitly recognise this interest.

The first ground is the preamble of the Treaty itself, which states that the agreement was

> necessary in consequence of the great number of Her Majesty's Subjects who have already settled in New Zealand and the rapid extension of Emigration both from Europe and Australia which is still in progress to constitute and appoint a functionary properly authorized to treat with the Aborigines of New Zealand for the recognition of Her Majesty's Sovereign authority over the whole or any part of those islands. (English text)

The Māori text refers to a transfer of rangatiratanga to protect Māori interests.

> Victoria, the Queen of England, in her concern to protect the chiefs and the subtribes of New Zealand and in her desire to preserve their chieftainship and their lands to them and to maintain peace and good order considers it just to appoint an administrator one who will negotiate with the people of New Zealand to the end that their chiefs will agree to the Queen's Government being established over all parts of this land and (adjoining) islands and also because there are many of her subjects already living on this land and others yet to come. So the Queen desires to establish a government so that no evil will come to Māori and European living in a state of lawlessness. [translation of the Māori text by Professor Sir Hugh Kawharu, cited in Waitangi Tribunal (2016b)]

This text has been interpreted by some as placing immigration "squarely in Article 1 of the Treaty, as a core function of newly established government" (White, 2005, p. 3). However, it can also be read as indicating a Treaty interest in immigration based on the protection of rangatiratanga (Whaia Legal, 2021, p. 12).

The second point is the duty on the Crown to actively protect Māori interests. With regards to immigration, this has two aspects. On the one hand, the Commission heard about the contribution that migrant workers had made to the growth and development of iwi-owned businesses. They will have views on the importance of such workers to their exercise of tino rangatiratanga and the advancement of iwi goals and interests.

On the other hand, while immigration has very minor effects on wages, employment and conditions as a whole, the situation can be less clear at an industry or local level. As noted above, in some cases, immigration may affect wages, conditions or opportunities – particularly for the young and beneficiaries. Māori are overrepresented in these groups. As the Legislation Design Advisory Committee (2018, p. 27) has noted, a Māori interest may "arise in issues where Māori are disproportionately affected".

Finding 12

The preamble of the Treaty of Waitangi, and the duty of active protection, demonstrate that there is a Treaty interest in immigration policy, which should be reflected in policy and institutions.

There are a range of ways in which the Treaty interest could be acknowledged. One obvious step would be to amend the Immigration Act to require the Government to consult with Māori when developing a GPS. Other options include a Treaty clause in the legislation, or co-governance models, where the Crown and Māori would jointly agree priorities and objectives. The Waitangi Tribunal has argued that there is a "'sliding scale' along which Crown engagement with Māori should occur", with the level of engagement dependent on the degree and nature of Māori interests" (2016a, p. 12). Where the interest is limited, very little engagement would be required, but where the interest is central or compelling, engagement "should go beyond consultation to negotiation aimed at consensus" or even include delegation of decision-making powers (ibid, pp.12-13).

The Commission has previously noted that Treaty clauses in law make more sense when Māori have a strong, relatively unified and legitimate interest in the policy being developed and/or how it will be subsequently implemented (NZPC, 2014). In the course of this inquiry, the Commission heard that there are a range of views about immigration within Māoridom. On the other hand, a Treaty clause could be valued in its own right as an acknowledgement of mana (NZPC, 2014).

The Commission welcomes feedback on how the Treaty interest could best be reflected in new institutions and policies.

Question 3

How could the Treaty of Waitangi interest in immigration policy be best reflected in new policies and institutions?

Introduce more robust review and evaluation mechanisms

A number of claims have been made about the benefits of specific visa categories or programmes, but few have been rigorously evaluated. Two exceptions are the RSE scheme, which has been the subject of several studies (C. Bedford et al., 2020; Gibson & Bailey, 2021; H. Nunns et al., 2019, 2020), and the Global Impact Visa, which is part-way through its evaluation process (MartinJenkins, 2018). Beyond that, there is little hard evidence on the impacts – positive or negative – of specific visa types.

There would be benefit in having specific visa categories formally evaluated, especially those that are uncapped and provide open work rights. Two obvious candidates would be the various working holidaymaker schemes that New Zealand has agreed, and student work visas (including post-graduation visas).

Other possible candidates for formal evaluation are the Investor 1 and 2 migrant categories, which do not seem well-aligned with New Zealand's economic needs. For example, these categories largely reward investment in passive assets for which there is no shortage of funds (eg, bonds, shares), and which do not obviously contribute to productivity growth in New Zealand.

Such evaluations would improve the evidence base for decisions about the ongoing need for any visa categories, policy changes that might be required, and the content and focus of a future GPS (eg, whether the visa categories are still consistent with GPS objectives and priorities, or need amendments).

Recommendation 4

The Ministry of Business, Innovation and Employment should develop and publish an evaluation programme for major visa categories, to assess their net benefits. Uncapped visa categories and those that offer open work rights, such as the various bilateral working holidaymaker schemes and student work visas, should be priorities for evaluation. The Investor 1 and 2 migrant categories would also merit evaluation.

Manage volumes better

Better link temporary migration volumes to resident approvals

Uncapped temporary visa categories and high degrees of flexibility to change visa types have contributed to high volumes of immigration, and mismatched expectations by migrants. Policy changes agreed in 2019 – especially limiting pathways to residence to higher-income roles, and introducing a "stand down" period for lower-income occupations – go some way to reducing pressures. However, they do not entirely resolve the issues of sudden increases in intakes resulting from a largely demand-driven system.

The allowable volume of temporary migrants (with potential residence pathways) should be managed to be compatible with the number of available residence visas. Microdata sets, such as Statistics New Zealand's Integrated Data Infrastructure (IDI), are currently used to inform the design and weighting of the residence points system to help select applicants who most likely to successfully settle. The IDI could also be used to identify the temporary visa categories and migrant characteristics that are most likely to lead to permanent residence and positive economic and social outcomes, and guide decisions about which visa categories or migrants should be prioritised when managing temporary visa numbers. This type of analysis could be used to target the people or visa categories that should be prioritised under a less demand-driven approach. It would need to be conducted regularly, as migrants' behaviours evolve to new policy settings. The Commission will be using the IDI to examine what temporary migrant characteristics matter for settlement and other economic outcomes (Box 6).

Recommendation 5

The allowable volume of temporary migrant visas with potential residence pathways should be managed to be compatible with the number of residence visas on offer.

Managing short-term risks and pressures

In proposing mechanisms such as a GPS, the Commission's aim is to see public investment better aligned with migration and population numbers, so that New Zealand is able to appropriately meet the wellbeing needs of both new arrivals and current citizens and residents. However, this is a longer-term objective and achieving it will most likely require a combination of increases to current investment levels (to catch up on outstanding demand), greater use of demand management tools (eg, congestion charging) (NZPC 2017a), and some moderation of overall net migration volumes, so as to avoid placing too much financial pressure on the current generation.

The Commission does not recommend sudden reductions in volumes, as this could have negative effects on the wellbeing of both New Zealanders and migrants and may harm the country's international reputation. The loss of access to migrant labour following the closure of the border has revealed concerns about reliance of many industries on migrant workers and the serious economic consequences of sudden shocks to labour supply. Ideally, any reductions or moderation in numbers would be staged, well-signalled and based as far as possible on evidence.

However, if the Government does decide it wishes to make larger reductions, the least harmful places to start would probably be categories where volumes are not managed, that are prone to large swings in numbers and that do not provide a clear link to labour market complementarities. This implies reviewing the volumes and/or conditions of student and working holidaymaker visas before moving on to more economically significant categories.

Overall volumes can be managed through a range of tools, rather than only numerical caps. Other options include reducing visa durations, limiting work rights (eg, post-study visas could be limited to specific fields of importance to New Zealand, or be identified in skills shortage lists), increasing wage thresholds for temporary visas, raising eligibility criteria (eg, English language proficiency), and using market mechanisms (eg, fees, auctions, tradable permits).

The Commission will be undertaking further work on managing short-term risks and pressures, with a view to providing advice in the final report.

Should resident approval numbers be reduced, or linked to other factors?

While temporary migrants and New Zealand citizens account for most volatility in net migration, migrants gaining residence make the larger contribution over time to population growth. This raises the question of whether overall resident approval numbers (the "planning range") should be reduced or linked to other factors, such as outflows of New Zealanders or the state of the economy.[5] If other changes are not made to ease restrictions on housing construction and to boost investment, a "least regrets" approach implies setting the planning range at lower levels than has been the case in recent years. Some commentators and submitters argued for setting the planning range at much lower levels (Reddell, 2021).

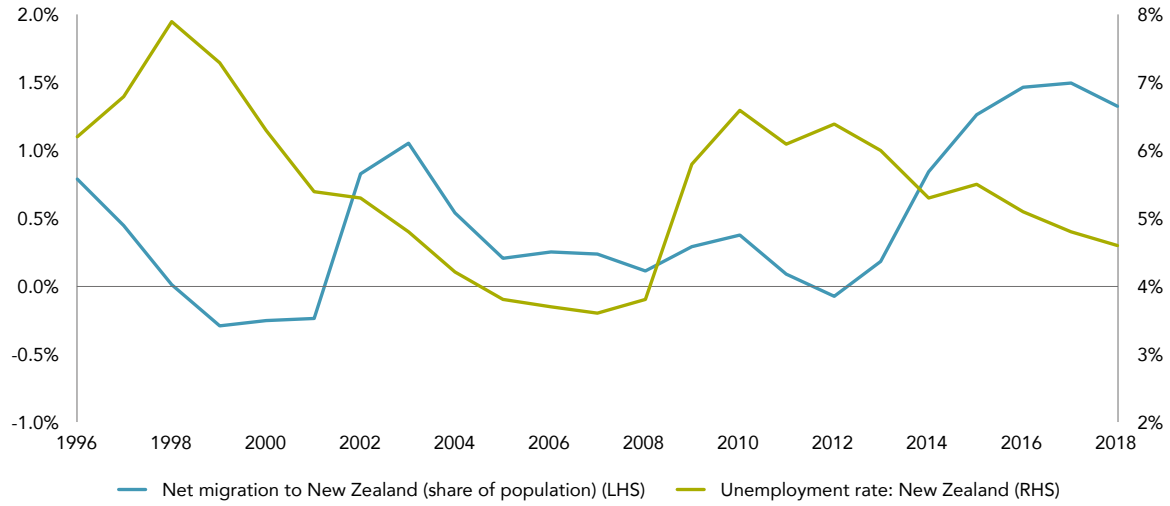
Another approach would be to try to adjust inflows to better reflect outflows or reduce resident approval numbers when net migration (including returning New Zealanders) is increasing. This could help smooth out population growth rates. The planning range was once notionally linked to outflows (Bedford et al., 2000), but this was not sustained over time. For such a smoothing policy to work, decision makers would need access to timely data on inflows and outflows. Such a system could be prone to over- or under-shooting, especially in periods where the net migration of New Zealanders is volatile. Over-shooting would increase pressures on absorptive capacity, while under-shooting could unhelpfully constrain business growth. The Commission has considered the drivers of variability in net migration (Box 12) and will conduct further analysis into the feasibility of smoothing inwards migration before providing its final advice to Government.

5 For context, Cabinet agreed in 2019 to set a planning range of 50 000 to 60 000 residence approvals between 1 July 2018 and 31 December 2019 (Office of the Minister of Immigration, 2019a).

Box 12 **Drivers of variability in net migration**

Researchers at the Reserve Bank of New Zealand have studied the effects of net migration on construction activity, overall demand and labour demand (Coleman & Landon-Lane, 2007; McDonald, 2013). Armstrong and McDonald (2016) looked further at the main drivers of net migration flows and the different effects they have on the New Zealand labour market.

A relationship between net migration and unemployment? 1996-2018



Source: Stats NZ.

Migration flows are made up largely of New Zealanders arriving and leaving. The state of labour markets in Australia and New Zealand are important determinants of this.

Armstrong and McDonald's model explains three episodes between 1996 and 2015 when net migration fell below long-term averages (1997 to 2002; 2004 to 2009; 2010 to 2013); and two main episodes when net migration rose substantially above long-term averages (2002 to 2004; 2013 to 2015). The model investigated drivers that explained changes in net migration – that is, large variations in the long run trend.

The researchers found that the dominant explanation for the strong rise in net migration between 2002 and 2004 couldn't be explained by the Australian unemployment rate or by changes in New Zealand labour market conditions, suggesting that changes in immigration policy were a cause. The authors note that the period that coincided with "large increases in foreign student arrivals" (p.7). In contrast, the strong surge in net migration after 2013 was mostly explained by the unemployment rate in Australia rising above trend and (to a lesser extent) positive labour market conditions in New Zealand.

The results of this study suggest that immigration policy by itself will have difficulty in reducing the cyclical variability in migration flows. First, the main drivers operate with lags – so by the time shocks show up in net migration numbers it could be too late to substantially moderate numbers through policy changes. Second, the main drivers of flows vary across different episodes in which net immigration is above or below long-term trends. This variation makes it more difficult to anticipate which drivers will be most important in the future.

Question 4

Should the annual number of residence visas on offer be reduced? If so, to what level and why? And if not, why not?

Selection and sorting mechanisms could be more effective

Be more selective and transparent with the points system

The way in which the points system has operated in the past has contributed to longer queues, frustration and unrealistic expectations. Rather than picking those with the highest points in the EoI pool, the current practice is to simply set the minimum threshold. This lower threshold then becomes the focus of applicants' energies.

To focus the EoI process, and to better manage expectations so that migration makes an economic and social contribution, the Commission recommends that Immigration New Zealand:

- rank candidates within the EoI pool and select those with the highest points first; and
- actively publicise the point ranges of the successful applicants (eg, 10th or 25th percentile, along with the median) to emphasise that the minimum threshold is not the target.
- raise the minimum threshold on a regular basis, based on trends in the point ranges of successful applicants.

The Commission is currently undertaking research into the visa categories and migrant characteristics most associated with positive economic and social outcomes. Depending on the findings, the Commission may make further recommendations about modifications to the points system or temporary visa categories (Box 5).

Recommendation 6

Immigration New Zealand should continue counting points past the minimum thresholds and rank candidates within the Expression of Interest pool. It should select those with the highest points first; actively publicise the point ranges of the successful applicants to emphasise that the minimum threshold is not the target, and raise the minimum threshold on a regular basis to manage application volumes.

Make the skills shortage lists more dynamic, and evidence- and rules-based

Skills shortage lists have been used to administer entry to the labour market for temporary migrants by exempting an employer from a LMT. They are also used for awarding points under the SMC.

Current lists lack independent and robust data on recent labour market trends and are based on an outdated set of role definitions – particularly in the fast-changing technology sector. Various submitters expressed dissatisfaction with the process for developing the lists, which invite lobbying, vetoes and gaming by affected industry parties. In addition, the skills shortage lists have no clear links to the tertiary education system, meaning that there are missing feedback loops between the labour market and education and training.

Defining and measuring skills shortages is not an easy task, and a large number of methodological challenges are involved (Australian Productivity Commission, 2020, pp. 115-116). But even imperfect approaches based on more regular and robust data, and independent review mechanisms, would represent an improvement on the current approaches.

Specific improvements could include:

- measures to assess labour market reactions to occupational shortages (eg, Have wages risen? Have the qualification requirements or job tasks changed?);
- measures to assess conditions and job satisfaction (eg, Have turnover rates in the occupation increased?);
- measures to assess the occupation's continued reliance on temporary migrants;
- measures of training responses (eg, Have the numbers of apprentices or graduates in relevant areas increased?); and
- a risk-based process, through which occupations that have shown no labour market reaction, high turnover rates and a continued high use of temporary migrants, are automatically brought up for review, with the burden placed on the industry to provide sufficient evidence to justify their continued placement on the list.

Such information could also be used to better inform planning, curriculum and funding priorities for the Vocational Education and Training system, and other related processes (eg, the Regional Skills Leadership Groups (RSLGs)). There could also be opportunities to use better skills shortage lists, alongside intelligence and strategies from the RSLGs and Workforce Development Councils, to inform the design of industry development policies (eg, sector agreements or Industry Transformation Plans). Better skills shortage lists may also help Immigration New Zealand and the Ministry of Social Development manage high future demand for LMTs (Box 10) from employers seeking workers in similar roles or occupations.

The Commission noted the work that Taylor Fry had conducted for the Australian National Skills Commission on developing a more data-informed and dynamic Skills Priority List (Taylor Fry, sub. 53). The Australian list, however, relies on a wider set of data than is currently available in New Zealand. The Commission will look over the coming months at what additional data might be required to make a similar system work in New Zealand.

Recommendation 7

MBIE should develop more data-informed and dynamic skills shortage lists. Occupations that have shown no labour market reaction (such as wage movements), high turnover rates and a continued reliance on temporary migrants, should be brought up for review, with the burden placed on the industry to provide sufficient evidence to justify their continued placement on the list.

Promoting commitment to New Zealand

Consider limiting rights to return for permanent residents who leave

Under ordinary circumstances, New Zealand citizens have the fundamental right to enter and leave the country as they wish,[6] and Australians enjoy similar freedoms under the Trans-Tasman Travel Arrangement. However, other flows – new temporary migrants and residents – are entirely at the discretion of the Government.

New Zealand is unusual in giving permanent residence visa holders an indefinite right to return, even if they have re-migrated elsewhere. Other countries, such as Australia, Canada, the United Kingdom and the United States, either require residents to return at regular points or to remain in the country for two years (out of the five years permitted) if they wish to retain or renew their permanent residence visa (Krassoi-Peach, 2013).

On the one hand, offering permanent residents an indefinite right to return may help boost New Zealand's attractiveness to talent, particularly if New Zealand faces tougher competition in the future. On the other hand, placing limits or additional conditions on the right to return may encourage some future migrants to make a stronger commitment to New Zealand and improve retention rates (Partridge, 2017; Wood, 2020). Having large numbers of people offshore who can return at any point adds to future volatility risks. The Government does not record the numbers of foreign nationals currently living overseas with New Zealand permanent residence, but the numbers are likely to be in the tens of thousands. Immigration New Zealand issued an average of around 40 000 residence class visas every year from 2011 to 2019. Typically, between 10% and 15% of these migrants leave New Zealand after year two (once they are eligible to obtain permanent residence) but before year five (when they can apply for citizenship) (Krassoi-Peach, 2013; MBIE, 2018).

Finding 13

New Zealand is unusual in giving permanent residence visa holders an indefinite right to return, even if they have re-migrated elsewhere in the world. Other countries either require residents to return at regular points or remain in the country for specified periods if they wish to retain or renew their permanent residence visa.

Question 5

Should the right to return for permanent residents who re-migrate out of New Zealand be limited? Under what conditions? What would be the costs and benefits?

6 Sections 18(2) and (3) of the New Zealand Bill of Rights Act 1990.

Formally recognise efforts to learn te reo in immigration policy

The Commission considers that efforts by migrants to learn te reo could be formally recognised in decisions about resident or permanent resident status. Learning te reo is an important means of gaining insights into te ao Māori and tangata whenua, and so can promote better understanding of New Zealand's bicultural nature. As the Canterbury Employers' Chamber of Commerce noted:

> A sense of belonging is also created by understanding more about Te Ao Māori – visiting marae and taking te reo lessons. A well-settled migrant will talk about feeling part of the country's whānau – and recognise their contribution to and part in it. (sub. 67, p. 4)

An interest in learning te reo may also signal a willingness to commit to New Zealand and could therefore be relevant to whether an applicant will settle. Currently, applicants for permanent residency must demonstrate their commitment to New Zealand by meeting one of five criteria, such as spending enough time in the country, being a tax resident, and establishing a base in New Zealand. Finally, such a policy would acknowledge the status of te reo as an official language and taonga.[7]

The policy could be implemented in a number of ways, including awarding additional points in the SMC for people who successfully complete a te reo course, or by making it a condition for a permanent residence visa.

Question 6

Should efforts by migrants to learn te reo be recognised in the residence or permanent residence approval process? If so, how would this best be done?

Treating people well

Remove visa conditions that tie workers to a specific employer

Essential Skills visa holders are required to work for a specific employer. Although it is technically possible for such workers to change employers by applying for a different visa, this possibility is not always known by migrants and slow processing times at Immigration New Zealand can make it inaccessible. As noted earlier (Box 10), this inability to move jobs significantly weakens the bargaining power of workers, increases the risk of their exploitation and makes it harder for them to find good job matches for their skills and experience.

Although better enforcement of labour and immigration law is needed, the ability to easily leave a job is arguably the best protection against abusive behaviour. Mobility supports the bargaining power of migrant workers and encourages employers to offer good wages and conditions in order to retain their workers. They also permit better job matches and opportunities for better labour market outcomes for migrants, with potentially beneficial impacts for productivity and wellbeing.

The reforms to temporary work visas and employer accreditation agreed in 2019 were intended, in part, to deal with exploitation yet they also retain the ability to tie workers to an employer. There are some policy reasons to have tied visas. By linking visas to roles for which there has been a previous LMT, the aim is to minimise the risk of New Zealanders being displaced. Removing the link could increase that risk. Tied visas may also reduce administrative and enforcement costs for the Government. However, the Commission considers that the benefits of enabling greater mobility for migrant workers outweighs the risks. Reform need not imply open work rights. There are a number of other, intermediate, steps that could be taken which would improve labour mobility and job matching, such as limiting portable work rights to specific regions, occupations, industries or to accredited employers.

7 Canada's points system gives points for proficiency in either (or both) of the country's two official languages: English and French.

Recommendation 8

The Government should remove visa conditions that tie temporary migrants to a specific employer. These conditions increase the risk of exploitation and limit the ability of workers to find better job matches, which can promote wellbeing and productivity. Where there are concerns about displacement of New Zealanders, work rights could be limited to specific regions, occupations, industries or accredited employers.

Continue efforts to be a responsible host

New Zealand has been comparatively successfully in selecting and supporting migrants to settle, but it is important not to become complacent. As noted earlier, there are areas of discontent and opportunities to continue to innovate in settlement policy, especially in the need to host well. A number of inquiry participants noted that the absence of orientation programmes for new migrants can put pressure on employers and existing members of the migrant community (eg, Ashburton District Council, sub. 64).

In a cross-country comparative analysis of settlement and integration initiatives in 13 countries, New Zealand was positively seen to be making widespread use of settlement activities including pre-arrival courses, labour market assistance policy, language programmes and special courses for non-principal applicants (eg, partners). That said, many other countries were noted for also making wider use of civics courses, personalised settlement plans and sports programmes (Shields & Drolet, 2016; Wood, 2020).

The Commission heard positive messages about the Welcoming Communities pilot programme aimed at shifting settlement policy towards the role played by receiving communities as hosts (Office of the Minister of Immigration, 2019, para. 22). This is a way to further align settlement policy with concepts of manaakitanga and the need for those inviting migrants to care for migrants well, rather than just expecting migrants to "fit in". It is anticipated that when people feel welcomed into a community, they are more likely to stay. As such, a welcoming policy is seen as part of the effort to improve retention rates for newcomers. Following an evaluation of the pilot in 2019, Cabinet agreed to expand the programme across 30 new sites (Box 13).

Box 13 Welcoming Communities – Te Waharoa ki ngā Hapori

In 2017 the Ministry of Business, Innovation and Employment collaborated with the Office of Ethnic Communities to establish a Welcoming Communities pilot programme. Alongside part-funding local communities to employ a welcoming community coordinator, the pilot established a "Welcoming Communities Standard" for New Zealand. This enabled participating communities to benchmark their efforts to communicate with recent migrants, the ability of migrants to participate in civic events, and for these communities to further understand the role of migrants within their community's economic development, culture and identity.

A final evaluation of the pilot reported a wide range of positive outcomes, including that migrants were feeling more welcome in their communities and that there was increased sharing of cultures between newcomers and locals. At the same time, the evaluation pointed to several key lessons that were vital for any expansion. These lessons included needing to secure long-term local funding, having the support of the local mayor to act as a champion, and being careful to include a wide range of stakeholders on the advisory groups. Of particular note was the need to proactively engage with local iwi and the role of local iwi in leading and delivering a range of welcoming activities across the regions.

Source: Matthew Fanselow (2019) , Office of the Minister of Immigration (2019)

Overall, there is the opportunity for the further use of settlement policy to care for and host well those we invite to New Zealand. Over the coming years this will be important, not least in part because of the announcement of the one-off residency 2021 visa that could see up to a fivefold increase in residence visas being processed over 2021-22. This increase, combined with the eventual opening of the borders, could place a significant strain on the ability of local communities to host and settle migrants well without additional support.

Recommendation 9

The Government should proceed with expanding the Welcoming Communities programme. MBIE should manage the expansion to ensure adequate resourcing, close engagement of participating communities, and strong ownership and involvement from local iwi in the delivery of welcoming plan activities.

Question 7

Do particular groups of migrants need additional or targeted support to settle? If they do, what types of support would work best?

All findings, recommendations and questions

The Productivity Commission welcomes and encourages your views on any or all of the findings, recommendations or questions in this report. Submissions are open until 24 December 2021 and can be made at: **www.productivity.govt.nz/have-your-say/make-a-submission**

Immigration policy in New Zealand

Finding 1

Immigration's main contributions to productivity and wellbeing come through:

- raising the long-term levels and diversity of human capabilities in New Zealand; and
- supporting the achievement of other social and economic policy objectives; expanding public services, strengthening innovation ecosystems and extending international relations.

How well does the current system raise levels of human capabilities?

Finding 2

Temporary work visas were increasingly being used to fill vacancies in lower-skill occupations in the period before the Covid-19 pandemic.

Finding 3

Immigration has had small and mostly positive effects on the wages and employment of New Zealand-born workers over the last 25 years. Overall, evidence on labour market effects does not, of itself, point to major problems with the level and composition of immigration into New Zealand.

Finding 4

Currently, there are no consistent feedback mechanisms to link skills shortages evident in the immigration system to potential responses in the education and training system. A lack of feedback mechanisms limits the ability of the education system to meet employer needs and may weaken accountabilities on employers to train and develop local workers. It is not yet clear how new institutions such as Workforce Development Councils and Regional Skills Leaderships Groups will work and interact to address this issue.

Question 1

To what extent does access to migrant labour reduce training and upskilling activity by employers? Do effects on training and development differ by industry? Are there areas of the economy in which New Zealand should be training people that are currently disproportionately supplied by migrant workers? How could policy best respond?

Finding 5

Large queues of applicants for residence visas have increased uncertainty and reduced the likelihood of achieving a pathway to residence. This has left many migrants in flux and unable to settle.

Does the system consider wider impacts on wellbeing and productivity?

Finding 6

Increases in New Zealand's population from net migration have exacerbated rapid house price increases, reflecting several factors including underlying and persistent constraints on the supply of housing.

Finding 7

Microeconomic evidence suggests positive, but small, impacts from immigration on average levels of labour productivity. New Zealand evidence on the impacts of immigration on innovation and exporting as channels for productivity growth finds minor or conditional effects.

Finding 8

An infrastructure deficit and associated pressures are the result of a failure to align investment rates with population growth and build the assets needed to properly support more people in the community ahead of time. The inability or unwillingness in the past to fund this infrastructure suggests that pre-pandemic rates of inwards migration will not be sustainable in the future.

Finding 9

Policy reforms such as better planning, land use regulation, and improved funding and building of infrastructure would have significant wellbeing and productivity benefits for New Zealanders, and should be pursued regardless of immigration levels.

Finding 10

Access to a migrant workforce can unlock complementarities and specialisation, but also introduce resilience risks. Whether or not there are negative consequences on innovation and productivity from using migrant labour depends on a range of factors, including underlying labour market conditions and whether technological alternatives are available.

An immigration system fit for the future

Finding 11

The disconnection of immigration from other policy areas has meant that the rapid growth in net migration and population in the years preceding the Covid-19 pandemic exceeded New Zealand's ability to successfully accommodate and settle new arrivals.

Recommendation 1

The Immigration Act should be amended to require the Crown to take account of the country's absorptive capacity (our ability to successfully accommodate and settle new arrivals) when determining the "national interest".

Recommendation 2

The Immigration Act should be amended to require the Minister to regularly develop and publish an immigration Government Policy Statement (GPS). These amendments should specify that a GPS must include:

- short-term and long-term objectives, and relative priorities;
- performance measures or indicators;
- how it recognises the Treaty of Waitangi interest in immigration;
- a description of how the demand for temporary and residence visas will be managed over the period of the GPS; and
- specification of planning ranges for new residents over the period covered by the GPS, and a description of how the planning range will affect other government policy objectives.

Recommendation 3

Amendments to the Immigration Act should specify that, in preparing an immigration GPS, the Government must describe what it considers New Zealand's absorptive capacity to be and how it intends to manage that capacity, or invest to expand capacity, in order to align it with long-term policy objectives.

Question 2

What objectives should be included in an immigration Government Policy Statement? Why?

Finding 12

The preamble of the Treaty of Waitangi, and the duty of active protection, demonstrate that there is a Treaty interest in immigration policy, which should be reflected in policy and institutions.

Question 3

How could the Treaty of Waitangi interest in immigration policy be best reflected in new policies and institutions?

Recommendation 4

The Ministry of Business, Innovation and Employment should develop and publish an evaluation programme for major visa categories, to assess their net benefits. Uncapped visa categories and those that offer open work rights, such as the various bilateral working holidaymaker schemes and student work visas, should be priorities for evaluation. The Investor 1 and 2 migrant categories would also merit evaluation.

Recommendation 5

The allowable volume of temporary migrant visas with potential residence pathways should be managed to be compatible with the number of residence visas on offer.

Question 4

Should the annual number of residence visas on offer be reduced? If so, to what level and why? And if not, why not?

Recommendation 6

Immigration New Zealand should continue counting points past the minimum thresholds and rank candidates within the Expression of Interest pool. It should select those with the highest points first; actively publicise the point ranges of the successful applicants to emphasise that the minimum threshold is not the target, and raise the minimum threshold on a regular basis to manage application volumes.

Recommendation 7

MBIE should develop more data-informed and dynamic skills shortage lists. Occupations that have shown no labour market reaction (such as wage movements), high turnover rates and a continued reliance on temporary migrants, should be brought up for review, with the burden placed on the industry to provide sufficient evidence to justify their continued placement on the list.

Finding 13

New Zealand is unusual in giving permanent residence visa holders an indefinite right to return, even if they have re-migrated elsewhere in the world. Other countries either require residents to return at regular points or remain in the country for specified periods if they wish to retain or renew their permanent residence visa.

Question 5

Should the right to return for permanent residents who re-migrate out of New Zealand be limited? Under what conditions? What would be the costs and benefits?

Question 6

Should efforts by migrants to learn te reo be recognised in the residence or permanent residence approval process? If so, how would this best be done?

Recommendation 8

The Government should remove visa conditions that tie temporary migrants to a specific employer. These conditions increase the risk of exploitation and limit the ability of workers to find better job matches, which can promote wellbeing and productivity. Where there are concerns about displacement of New Zealanders, work rights could be limited to specific regions, occupations, industries or accredited employers.

Recommendation 9

The Government should proceed with expanding the Welcoming Communities programme. MBIE should manage the expansion to ensure adequate resourcing, close engagement of participating communities, and strong ownership and involvement from local iwi in the delivery of welcoming plan activities.

Question 7

Do particular groups of migrants need additional or targeted support to settle? If they do, what types of support would work best?

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We would like to hear from you

Make a submission
We welcome your views on the questions, findings and recommendations in this report.

How to submit?
Anyone can make a submission. It can be a short note or a more substantial document. Submissions are open until **24 December 2021**.

Why submit?
Your insights will help us to understand issues and refine our recommendations for change.

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