

Fiji's emigrant transfers and potential macroeconomic effects

Azmat Gani

This article examines the magnitude of emigrant transfers from Fiji and their potential macroeconomic effects in Fiji. Since the first political crisis in 1987, some US$517 million has left Fiji in the form of emigrant transfers; including around US$40 million per annum between 1987 and 1999. On average, this represents almost 25 per cent of Fiji's gross fixed capital formation, 18 per cent of its savings, and just over 2 per cent of GDP. Some policy implications of these transfers are drawn.

Azmat Gani is a Senior Lecturer in the Department of Economics at the University of the South Pacific.

The impact of emigration on origin and destination countries has been the subject of considerable research. In an early investigation, Bhagwati and Hamada (1974) stressed that the migration of people endowed with a high level of human capital—the so-called brain drain—is detrimental for the country of origin in several ways. In recent times, the relationships between education, migration and growth on migrant sending and receiving countries have been analysed within the framework of endogenous growth theory: for example, Miyagiwa (1991); Haque and Kim (1995); and Galor and Tsiddon (1997).

Since Lucas' (1988) finding that education is a major determinant of growth, researchers have come to see the loss of human capital as likely to affect origin countries. Beine et al. (2001) have taken the human capital aspect a step further, providing an analysis of migration's impact on human capital formation in the migrants' home country.

While the 'brain drain' reduces the human capital so necessary for a country's growth and development, an accompanying loss is that migrants, if leaving permanently, shift their accumulated savings and wealth (hereby referred to as emigrant transfers) to the destination country.

Like the detrimental effects of brain drain, emigrant transfers can have direct negative effects on domestic economic activity in the origin country; for example, by reducing the

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financial resources available for investment. But emigrant transfers can have direct beneficial effects on destination countries, for example, by raising investment. The overall impact is not clear. Thus, emigrant transfers deserve attention, particularly their impacts on origin countries.

Emigration, transfers and the Fijian economy

Fiji, a lower-middle income country in the Asia Pacific region with a population of around 830,000 people, presents a good case study for investigating emigrant transfers and their effects. Emigration of Fijian citizens since the country's first political crisis in 1987 has been massive, with many Fijians moving to neighbouring high-income countries, Australia and New Zealand, and to more distant high-income countries such as Canada and the United States, to avoid the ensuing political and social instability, increased poverty, and economic torpor (see Kumar and Prasad 2004).

Fijians' expectations that the country would return to normality with the implementation of a revised Constitution in mid 1998 were short-lived. A civilian coup overturned the government elected in 1999 and held its members hostage at gunpoint for 56 days. One outcome of the crisis was an increased flow of emigrants. Emigration from Fiji is likely to remain high in the short and medium term given the resurgence of instability in 2000. It is also likely that emigration will be associated with capital transfers as permanent migrants shift savings out of Fiji into their destination countries.

The focus of this paper is an examination of the magnitude of emigrant transfers and their likely macroeconomic effects in Fiji. The discussion is confined to a descriptive analysis of data; empirical testing of hypotheses will be the subject of inquiry in the second part of this ongoing research.

Emigration trends and the magnitude of emigrant transfers

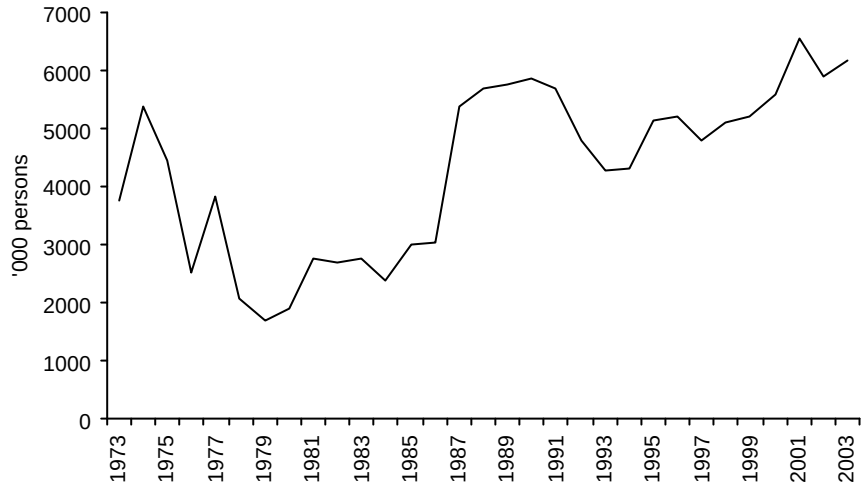
As can be seen from Figure 1, emigration from Fiji has been around 5,000 per year and increasing since 1987. Fiji's emigration numbers jumped in the wake of the 2000 crisis. Within a year following the May 2000 coup, some 6,000 Fijians of Indian origin (henceforth referred to as Fiji Indians) and 600 indigenous Fijians emigrated (*Fijilive.com*, 21 September 2001).

Not much is known of the patterns and magnitude of emigrant transfers. Emigrants' savings in the origin country determine the value of emigrant transfers and each emigrant will have a different level of savings. Thus, the level of transfers cannot be easily derived. In addition, the level of transfers is influenced by each destination country's classification of entry and the conditions for permanent settlement.

Fijian emigrants have generally entered their destination country as occupational, business or family reunion migrants. Although destination countries have a refugee migration category, this has rarely been applied to Fiji citizens. Thus, among those entering destination countries under the occupational category, wage and pension contributions to the Fiji National Provident Fund have been the major component of savings. Emigrants may transfer these savings, together with any earnings from the sale of assets in Fiji, to the destination country in part or in full. Emigrants with extended families may leave a portion of their wealth in Fiji to meet the financial needs of non-emigrant family members. No limit is placed on the value of transfers under this category. Eligibility for occupational emigration is primarily based on the emigrant's skills, education, work experience and age, so transfers do not form a significant component of the selection criteria for permanent migration in this category.

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Figure 1 **Fiji: pattern of emigration, 1973–2003** ('000 persons)



Source: Fiji Bureau of Statistics, various issues. *Current Economic Statistics,* Fiji Bureau of Statistics, Suva.

The family reunion category largely involves parents emigrating to join their children in destination countries. Family-reunion emigrants are likely to have similar transfer profiles as occupational migrants, but possibly at lower values. Savings in their country of origin are expected to be lower owing to the costs of raising children or the needs of private consumption.

Business migrants' transfers are likely to be larger for two reasons. First, business migrants are required to satisfy destination-country immigration authorities that they have the required level of funds ready to be transferred for business purposes, as stipulated in the destination country's business immigration guidelines. Second, those qualifying as business migrants are most likely to be of the entrepreneurial class, with established business enterprises in Fiji. Thus, their transfers would comprise after-tax business earnings and earnings from the sale of their assets.

The magnitude of aggregate transfers is shown in Figure 2. The lack of disaggregated data makes it impossible to give a breakdown of transfers by emigrant category. Several issues emerge from the data depicted in Figure 2, which are discussed under three categories: absolute transfers, transfers per emigrant, and transfers as a share of investment, savings and gross output.

Absolute transfers

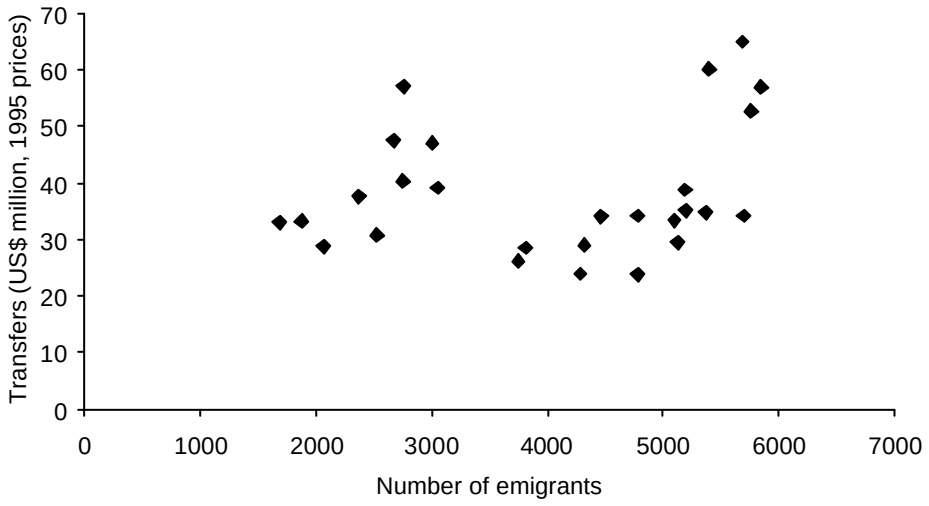
Figure 2 shows the absolute values of transfers for the period 1973–99. The pattern of emigrant transfers follows quite closely the pattern of emigrant numbers depicted in the scatter plot in Figure 3. Rising emigration numbers has meant rising emigrant transfers. According to Figure 2, real emigrant transfers rose from US$26.2 million in 1973 to a peak of US$65.0 million in 1991. In 1987, the year of the first coup, real emigrant transfers amounted to US$60.2 million, then the highest recorded level of annual transfers.

Figure 2 **Fiji: annual emigrant transfers, 1973–99** (constant 1995 prices, US$ million)



Source: Fiji Bureau of Statistics, various issues. *Current Economic Statistics*, Fiji Bureau of Statistics, Suva.

Figure 3 **Fiji: emigrants versus transfers**



Source: International Monetary Fund, various issues. *Balance of Payments Statistics Yearbook*, Washington, DC.

Since the political crisis of 1987, approximately US$517 million (constant 1995 prices) has been transferred. The 1987 crisis seems to have influenced the scale of emigrant transfers, with the annual average over the period 1973–86 being US$37 million, compared to US$40 million during 1987–99.

Transfers per emigrant

Real transfers per emigrant were at a high of US$20,735 in 1981 and a low of US$4,995 in 1992 (Figure 4), with an average of US$7,577 per annum in the post-1987 period, compared to US$13,547 per annum over the 1973–86 period. Clearly, the increase in emigrant numbers since 1987 included people with lower average levels of savings than prior to the coup.

The trends depicted in Figure 4 should be interpreted with caution. As noted earlier, emigrants enter destination countries under one of several categories. For example, 42 per cent of all emigrants in the post-1987 period emigrated under the occupational category (Gani 2000). The other common category of permanent entry is business. Although there are less of them, business migrants tend to be wealthier than other types of migrants, and hence transfer larger volumes of funds. Therefore, transfers per emigrant may be biased by large numbers of business emigrants during particular periods. At this stage, the lack of disaggregate data prevents further analysis of this factor.

Transfers as a share of investment, savings and gross output

Emigrant transfers as a share of three macroeconomic variables are shown in Figure 5. Transfers amounted to 21 per cent of gross fixed capital formation in 1987 and averaged 24.5 per cent per annum for the period 1987–99, compared to 9.7 per cent per annum for the period 1980–86 and 6.9 per cent per annum over 1973–79. As a proportion of gross savings, emigrant transfers averaged 18.4 per cent per annum for the period 1987–96 compared to 9.7 per cent per annum for 1979–86. Emigrant transfers peaked at 3.9 per cent of GDP per annum in 1991 and averaged 2.3 per cent of GDP per annum during 1987–99, compared to 1.6 per cent of GDP during 1973–86.

Clearly, transfers as a share of the three macroeconomic variables are high, and thus are likely to have a significant impact on Fiji. The next section discusses the likely macroeconomic effects of the emigrant transfers.

Impact of transfers on the origin country, Fiji

In the origin country, transfers are likely to affect growth and tax structures, and give rise to illegal transfers and activities, monetary contraction, and disturbances in financial markets. The likely effects in each of these areas are discussed below.

Growth effects

The growth effects of emigrant transfers are likely to flow through investment (see, for example, Kormendi and Meguire 1985, Khan and Reinhart 1990, and Barro 1991 for discussions of the relationship between investment and growth).

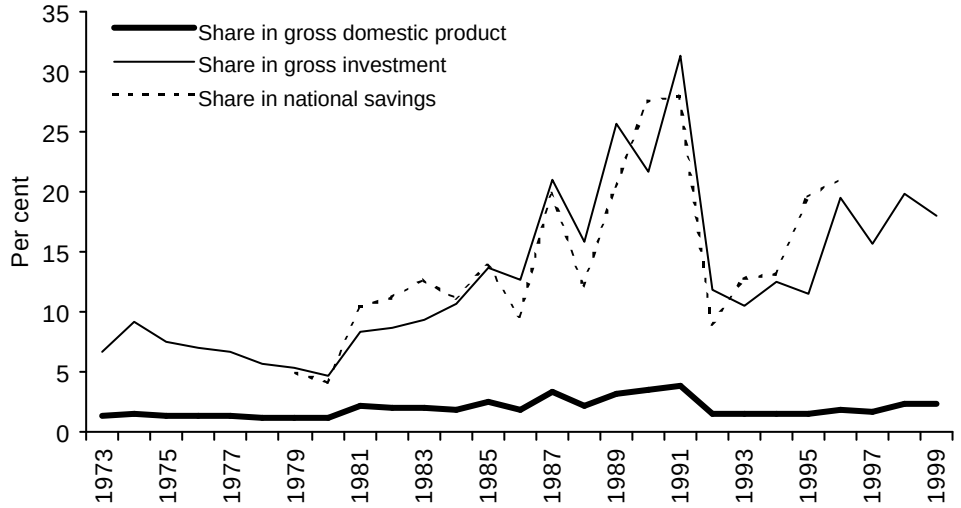
Investment in Fiji has been falling, particularly since 1990, and is now well below the average for developing countries (see Gani 1999). This trend reflects a lack of funds available for investment, which in turn is partly caused by the diversion of funds abroad. While such diversion—a reduction of national savings—takes many forms in Fiji, including capital flight, emigrant transfers are an important component. The long-standing theoretical view is that domestic investment is primarily determined by domestic saving. According to this view, the level of savings determines the interest

Figure 4 **Fiji: transfers per emigrant, 1973–1999** (annual average, constant 1995 prices)



Source: Fiji Bureau of Statistics, various issues. *Current Economic Statistics*, Fiji Bureau of Statistics, Suva; International Monetary Fund, various issues. *Balance of Payments Statistics Yearbook,* Washington, DC.

Figure 5 **Transfers: share in gross domestic product, investment and savings, 1973–99**



Source: World Bank, 2004. *World Development Indicators CD ROM 2004*, World Bank, Washington, DC.

rate and thus the cost of investment, which in turn influences the demand for new capital. Researchers such as Feldstein and Horioka (1980), Dooley et al. (1987) and Bayoumim (1990) have documented a close connection in developing economies between low investment rates and low domestic savings.

Transfers can limit growth in two main ways. First, financial capital that is transferred to destination countries does not contribute to the domestic investment required for economic development. In the theoretical and empirical literature, it is well known that investments in physical and human capital and in research and development are proximate sources of growth (see Temple 1999). Because capital that leaves for offshore is largely held by individuals and private companies rather than government, it is investment in the private sector that suffers, particularly through the reduction in investment in physical capital like equipment, which is found to be especially important in developing countries (De Long and Summers 1991). In Fiji, following the events of 1987, the government targeted the development of the private sector. For example, credit to the private sector as a percentage of gross domestic product increased gradually from 26.7 in 1987 to 40.5 in 1995 but fell sharply to 28.7 in 1999 (World Bank 2004). The fall in credit available to the private sector in the post-1995 period reflects the reduction in private sector development.

Investments in human capital are also affected if capital leaves for abroad. Mankiw et al. (1992) have shown the importance of human capital in stimulating growth. Government education funding has remained fairly steady since 1987, but the emigration of highly skilled and educated people has diminished Fiji's stock of human capital. According to the Construction Industry Council, manning levels (a measure of productivity) in Fiji's construction industry has not changed for over a decade because the emigration of skilled workers has left the industry with an under-trained and inexperienced workforce, thus constraining growth in an industry that should otherwise be booming, given the boom in the tourism industry (Fraser 2004).

Another link from transfers to growth potential is through competition over foreign exchange. When scarce foreign resources are used for transfers, they cannot be used to finance imports that could contribute to economic growth (Wacziarg 2001; Connolly 2003). Thus, necessary imports may be limited by the drain on foreign exchange reserves from transfers.

Erosion of the tax base

Transfers reduce both wealth and earnings. This creates problems for government revenues because of the reductions in the direct taxable assets and incomes of those most able to meet government revenue requirements.

Transfers can also adversely affect the government's tax effort and budget performance in that government tax revenue is likely to fall short of projections when transfers increase. It is also likely that Fiji's unevenly enforced tax rates encourage tax evasion. Large amounts of funds from individuals and business entities can be sent abroad through emigrating friends and family, and can thus be hidden from tax authorities, undermining government revenue. An expanded discussion of this point is provided below.

Rise of illegal transfers and activities

Emigrant transfers may also reflect and facilitate illegal activities, and there is a widespread perception that this is particularly relevant in the case of Fiji. Large volumes of capital leaving for offshore signal the ease with which capital can be transferred,

attracting individuals interested in unlawful business practices. There is evidence that individuals associated with large businesses have illegally transferred funds abroad in schemes that the Reserve Bank of Fiji has largely failed to bring under control. For example, Fiji has lost close to F$500 million through scams over the past decade, including the F$240 million National Bank of Fiji scam that eventually led to its collapse (Grynberg et al. 2002), the F$67 million Commodity Development Fund fiasco, and the F$25 million Agricultural Scheme scam of 2001 (*Fijilive.com*, 6 February 2002). It is thought that a large part of these funds was sent out of Fiji to destinations such as Australia and Singapore (*Fijilive.com*, 30 December 2001). These scams are reputed to involve large businesses, particularly the garment industry (*Fijivillage.com*, 28 January 2002).

Monetary contraction

The monetary contraction issue in Fiji is more relevant in the post-1987 period and fits more closely with the theoretical arguments of post-Keynesian economists—that an expanded supply of money in circulation increases the availability of loanable funds, which lowers interest rates. This can aid economic growth as more liquidity in the banking sector encourages borrowing for investment. Since private investment is assumed to be inversely related to interest rates, investments expand as interest rates fall, thus contributing to higher levels of economic activity.

However, transfers are likely to have the opposite effect, giving rise to monetary contraction in the origin country. Individuals choosing to reduce their real holdings of domestic currency contribute to monetary contraction, which can lead to high interest rates and potentially deter borrowers. As discussed earlier, domestic investment in Fiji has been falling since 1987. Although this is also attributable to other factors, transfers theoretically can contribute.

The Fiji case, however, is quite overt. Despite excess liquidity in the financial system, interest rates on borrowing have remained high while investment has remained low. It seems that Fiji's lending rates have deliberately been maintained at high levels, with the Reserve Bank of Fiji failing to correct this inefficiency in the financial market. Poor domestic economic policies have been noted as constraints on development in many Pacific island countries (Duncan 1994). Fiji is no exception. While low levels of investment are directly attributable to Fiji's unresolved political and constitutional issues, lending interest rates are equally important. Had interest rates been more competitive, this would certainly have beefed up Fiji's lacklustre levels of gross investment.

Contraction of the domestic financial market

Closely allied to monetary contraction is the effect of transfers on financial markets. In theory, emigrant transfers also reflect portfolio allocation decisions involving the relative rates of return on investment in financial and real assets in origin and destination countries.

The theoretical argument from a neoclassical perspective is that high interest rates (lending) increase the user cost of capital and so reduce investment. Contradicting this, the McKinnon–Shaw hypothesis (McKinnon 1973; and Shaw 1973) establishes a positive relationship between interest rates, specifically the deposit interest rate, and investment. Higher interest rates on deposits will attract more real balances, which allow them to finance more investment; low or negative real interest rates discourage savings and reduce the amount of funds available for investment.

An examination of the data on rates of return in Fiji and destination countries reveals wide gaps. The basic indicator, the deposit interest rate, is compared for Fiji and three destination countries in Figure 6. The real

deposit interest rates of the three destination countries largely move together. The Fiji interest rate diverges substantially from the destination-country rates for much of the last 30 years. It is obvious that rates of return are lower in Fiji than in the destination countries.

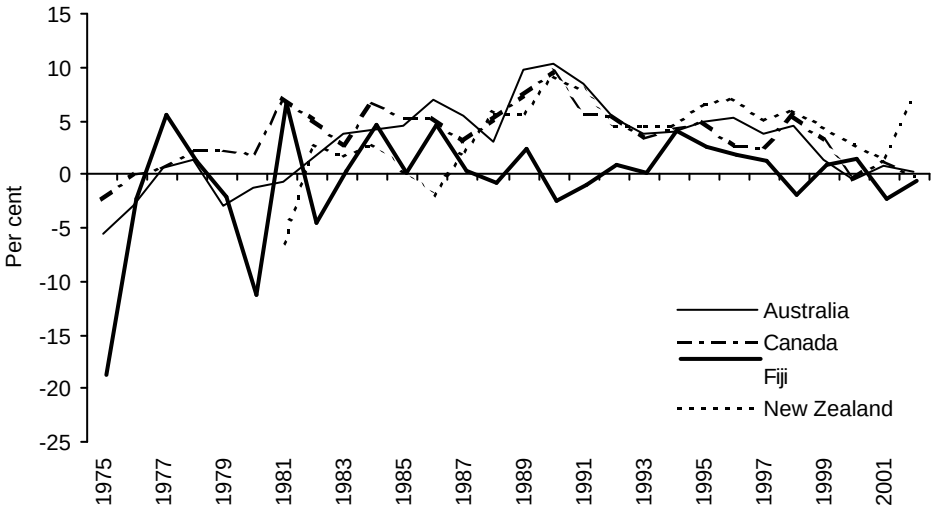
The financial markets are in turn affected by a contraction in money supply. The banking system thus faces a decrease in liquidity and contraction in domestic credit. Liquidity contraction means high borrowing rates, which can discourage investment and decrease aggregate demand. Lending interest rates in Fiji are higher than in many destination countries. For example, between 1991 and 1999, lending interest rates in Fiji averaged 11.1 per cent, compared to 10.2 per cent in Australia, 7.0 per cent in Canada and 7.7 per cent in the United States (World Bank 2004). The continuous decline in investment levels in the years following the 1987 crisis reflects reluctance on the part of potential investors. High lending rates are clearly a factor, even though continued political instability has been the prime cause of low confidence among domestic investors.

Summary and concluding remarks

Fiji's high levels of brain drain since 1987 have contributed not only to the loss of vital human capital but also to the loss of substantial financial capital necessary for economic growth and development. The purpose of this article has been to examine the magnitude of the loss of financial capital due to emigration—the so-called emigrant transfers—and the potential macroeconomic effects in Fiji.

The analysis revealed that the pattern of emigrant transfers has closely followed the pattern of emigrant numbers: rising

Figure 6 **Deposit interest rates, 1975–2001** (real, per cent)



Source: World Bank, 2004. *World Development Indicators CD ROM 2004*, World Bank, Washington, DC.

emigration has meant rising emigrant transfers. The statistics confirm that between 1987 and 1999 some US$517 million left Fiji in the form of emigrant transfers. Since 1987, real aggregate emigrant transfers in 1995 price terms have averaged US$40 million per annum while real transfers per emigrant have averaged US$7,577 per anum. Transfers as a share of gross fixed capital formation averaged 24.5 per cent per annum, while their share in terms of gross savings averaged 18.4 per cent per annum. Emigrant transfers have equalled 2.3 per cent of GDP per annum on average since 1987.

Emigrant transfers of these magnitudes are likely to have several direct negative effects on Fiji's economy. Foremost among these is that transfers are likely to have constrained Fiji's economic growth by reducing financial capital for domestic investment and removing both stocks of wealth and earnings streams from the economy, hence shrinking the taxable income base. In addition, emigrant transfers have likely indirectly facilitated illegal transfers by emigrants' friends and families. It is also likely that emigrant transfers have to some extent contributed to Fiji's monetary contraction, leading to high interest rates (lending), deterring borrowers and reducing domestic investment. On the other hand, low domestic rates of return compared with those in destination countries have also encouraged transfers, again contributing to a decline in domestic investment and aggregate demand.

There is ample evidence that Fiji's emigration pattern, particularly since 1987, is related to its unstable political environment. The political crises have adversely affected individuals' welfare, both materially and socially, triggering emigration and fund transfers. While emigrant transfers are a purely financial issue, both for emigrants and government policymakers, Fiji must take positive measures to retain would-be emigrants, their skills and their savings. The success of any such policies will depend on the return of political normality and stability, and observance of the principles of democracy, equality and good governance.

Assuming Fiji returns to political normality, financial policies that seek to improve returns on domestic financial investment may assist in mitigating outflows of funds. Currently, the ratio of destination-country to Fijian deposit rates is encouraging emigrants to transfer their funds. This issue should be of major significance to policymakers in Fiji who seek to attract funds to boost domestic investment and finance economic development. The policy implication is that domestic interest rates, both deposit and lending, should be competitive. Uncompetitive rates of return on domestic investment mean outflows not only of emigrant's savings but also earnings by large corporations and businesses.

Sparked by the dramatic political events of 1987 and 2000, the exodus of Fiji citizens continues to be defined by the political crisis. In a recent study, Duncan and Chand (2002:1) found that 'in common with all Pacific Island countries, four of the Melanesian countries have experienced difficulties in generating better living standards for their people and political instability has made economic development even more difficult'. To ameliorate the potential effects of emigrant transfers as well as brain drain in Fiji, the government must seek a stable long-term political environment that generates confidence in personal, economic and social security among Fiji's multi-ethnic population. A stable, internationally recognised and respectable government and political environment, characterised by good governance, fair play and equality can only help promote sustained economic growth and improved social security. The fruits of this will be reduced flows of emigrants, who currently take with them skills and savings desperately needed in Fiji.



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