

Submission by



to the

**Productivity Commission**

on the

**Immigration – Fit For The Future  
Preliminary Findings and Recommendations  
&  
Immigration, Productivity, and Wellbeing  
Issues Paper**

**December 2021**

## **GENERAL DISCUSSION**

1. ExportNZ welcomes the opportunity to continue our contribution to the Productivity Commission's inquiry into Aotearoa/New Zealand's immigration policy settings through the "*Immigration: Fit for the Future, Preliminary Findings and Recommendations*" and the "*Immigration, Productivity, and Wellbeing Issues Paper*" (both to hence be referred to as *the Report*).
2. New Zealand's immigration settings, and the people that migrate to New Zealand as a result, contribute a significant amount to the country's economic and social environment. If the New Zealand economy is to continue growing, the country must continue to supplement the local workforce with the skills, talents, ideas, and investment that New Zealand lacks onshore.
3. While ExportNZ is happy to respond to a number of the questions posed by the Productivity Commission in the preliminary report and issues paper and to add further insights from the export business community, we also write in strong support of the Business New Zealand submission on the same report, and we lend our voice in support of their submission.

## **Comment on the Future State of the New Zealand Immigration System**

### ***1. What should the overall objectives for the immigration system be?***

(Issues Paper Question 3)

#### *General Comments*

- 1.1 ExportNZ advocates for an immigration policy that strives to meet the challenges of sustained economic growth and provide businesses access to a skilled workforce where the local labour supply is unable to meet the demand.
- 1.2 While the immigration system should be reflective of the need for a range of skilled labour and qualifications. It should also acknowledge and reflect the reality that there are jobs that New Zealanders are not able, willing, or skilled to do at every level. Throughout the issues paper, so-called 'low skilled' work is considered to add less human capital and productivity growth than 'high skilled work', however, the report

does not point to any data sources to support this claim. This kind of rhetoric does not look at immigration in a holistic way and underestimates the contribution that 'low skilled' labour makes to the economy. Productivity loss from labour shortages can impact a business's ability to focus on future innovation and puts extra strain on business owners and workers.

- 1.3 The immigration system should work cohesively with future workforce development planning. The ongoing work on the reform of vocational education should alleviate some of the skills shortages in the long term, but the immigration system should be flexible and should complement labour demands as the labour market landscape changes. The immigration and education systems are the two major contributors to labour supply in an economy. The education supply pipeline alone is unable to meet the labour market demand at the speed and scale that is required to support a growing economy. According to the OECD, the adult population in New Zealand is becoming increasingly well-educated. This exacerbates skill shortages in 'low skilled' jobs that New Zealanders don't want to do. Labour market demand does not equate to young New Zealanders studying these courses, particularly at lower levels to meet this labour market demand.
- 1.4 The immigration system should work in partnership with employers, employees, government, and industry groups, ensuring that policymakers have open and clear guidance through timely feedback from those who need to use the immigration system to meet labour supply. The immigration system should meet the requirements of its current stakeholders but is proactive enough to meet future requirements based on regular communication through these partnerships. For Immigration to support the labour market, both policy and operational aspects of the system must be cohesive and adaptable based on the changing requirements of the business community.
- 1.5 Given the current New Zealand birth rate is 1.61 births per women<sup>1</sup>, and thus under the required rate of replacement, New Zealand's future immigration policy needs to reflect this reality. ExportNZ is concerned that should New Zealand's immigration policies not be fit for purpose, we could see a population decline that further exacerbates the skills shortage the country currently faces.

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<sup>1</sup> Statistics New Zealand. (2021). *Births and deaths: Year ended December 2020 (including abridged period life table)*.

### *International Connections*

- 1.6 The immigration system in New Zealand should support the strengthening of New Zealand's international connectivity, by facilitating the entry of residents and travellers who continue to support strong economic and social connections with other countries. Furthermore, as the New Zealand Government agreed to the United Nations Global Compact on Migration in December 2018, New Zealand should commit to adapt options and pathways for regular migration in a manner that facilitates labour mobility and decent work reflecting labour market realities, optimizes education opportunities, upholds the right to family life and responds to the needs of migrants in a situation of vulnerability.
  
- 1.7 The immigration system should be easy to navigate to reflect the increasing "global war for talent". This requires a combination of policy settings that are clear, transparent and predictable, and an operational system that enables individuals to connect directly as much as possible. Ensuring that the immigration system is easy to navigate will also reduce reliance on third party agents, consequently reducing the risks of exploitation of vulnerable migrants.

### *Knowledge Transfers*

- 1.8 New Zealand must continue to have the ability to access knowledge from overseas through our immigration system. Knowledge sharing between highly skilled individuals fosters a greater opportunity for innovation and business development. A good example of this is the development of New Zealand's fledgling aerospace industry. New Zealand may have some homegrown talent in the aeronautical or aerospace sectors, but not enough to build a new industry around. Many of the engineers and specialists involved in the industry is talent that has migrated to New Zealand for the opportunity to work here.
  
- 1.9 Another example is the growing film and creative industry throughout the country. While the sector is built on the backs of New Zealand-owned and operated companies, many of the digital experts and producers that work on films in New Zealand have migrated to New Zealand specifically for these work opportunities.

1.10 Knowledge transfers and the importing of specialized expertise allows New Zealand to grow innovative and forward-thinking industries that help grow the New Zealand economy. These migrants also help to teach, mentor and manage the next generation of Kiwi aeronautical engineers, film producers, and other highly valuable, highly skilled professionals. These skills are critical for the future growth of these export industries and the contributions the industries make to the New Zealand economy.

#### *Diversifying the Trade Export Sector*

1.11 One objective is that a future immigration system could assist in the diversification of New Zealand's export markets and trade opportunities through the development of new export sectors. Given current uncertainty regarding geopolitical issues involving key trade partners and the post-Covid economic recovery, much of the Government's and Ministry of Foreign Affairs and Trade's rhetoric regarding international trade and exports has been to diversify markets and opportunities.

1.12 ExportNZ supports the trade diversification strategy, but also believes that to do so correctly would mean diversifying the goods and services we export as well as markets they are exported to. While New Zealand's immigration system will certainly not be a key driver of diversification, it can certainly support the ambitions to diversify trading partners through both the development of new sectors and trade opportunities.

1.13 Diversifying and developing new export sectors depends on New Zealand having the skills and talent onshore to develop said sectors. While the current Government is discussing the future of work with both businesses and unions and the tertiary sector is under review, businesses need the highly skilled talent now to further their growth and expansion.

1.14 The Covid-19 border restrictions and limits to migration into New Zealand have shown how dependent New Zealand is on importing highly skilled talent into New Zealand. While ExportNZ is very supportive of developing that talent onshore through our education system, this will take years, if not decades, for the system to get up to speed. With New Zealand's low population, we may never have the necessary volume of onshore talent given New Zealand has surplus production and is dependent on exporting overseas.

1.15 Immigration also contributes to productivity and innovation through global connections that attract trade and FDI from their home countries. Migration has had positive impacts through entrepreneurship and innovation. A report by the NZIER found that reducing the costs of international trade is a major part of lifting New Zealand's economic performance. One promising way of doing so is by using the business knowledge, language skills, and social and commercial networks of migrants. This report found that if New Zealand receives 10 per cent more migrants from a particular country, New Zealand's merchandise exports to that country grow by 0.6 per cent, and New Zealand merchandise imports from that country grow by 1.9 per cent. These estimates fall within the range obtained in overseas studies.<sup>2</sup>

1.16 Furthermore, the report found that the effect of immigration on tourism is several times stronger than the effect of migration on merchandise trade. Trade can also be strengthened through immigration when the language spoken in the host country differs from that in the home country, bilingual immigrants can facilitate communication. Immigrants may also make use of personal networks in their home and host countries to facilitate trade.

## **2. Impact of Immigration on Productivity**

(Draft Report Finding 7)

2.1 Immigration contributes to productivity growth through filling critical skills shortages, which lessens constraints that prevent our businesses from growing. Attracting migrants at all skill levels to fill the skills gaps that exist in our labour force are critical to improving our productivity. Research into the effects of temporary migration found a positive effect on the earnings and employment of New Zealanders. This may be because migrants fill jobs that local born are reluctant to do and because migrants provide a boost to the sectors in which they work.

2.2 Businesses who contributed to the discovery for this submission described the impacts on their existing workforce given the current labour constraints. The impacts on productivity included the following:

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<sup>2</sup> Law, D., Genç, M. Bryant, J., (2009). *Trade, Diaspora and Migration to New Zealand*. NZIER Working Paper.

- i) Extreme stress on existing employees and reports of increased use of Employee Assistance Programmes, burnout and retention issues,
- ii) Lost productivity through work being physically unable to be completed, and more time being spent trying to recruit new staff,
- iii) Moving operations offshore to ensure work can be fulfilled.

2.3 The third bullet point mentioned in paragraph 2.2 is significant. We have heard from several IT and digital firms in Wellington and Auckland that are growing rapidly and are unable to source the talent either locally or through the immigration system. These high-value companies have instead decided to establish offshore offices rather than wait for New Zealand's borders to reopen, the immigration system to improve, or for the education system to produce the talent required.

2.4 Understandably, digital exporters are finding alternative solutions to the growth and skills issues they are facing here in New Zealand. This sets a dangerous precedent going forward for some of our best and brightest companies. It is up to the New Zealand Government to address the issues that are causing companies to offshore their growth to ensure these businesses keep the productivity growth and jobs here in New Zealand.

2.5 ExportNZ acknowledges that New Zealand's current labour supply is extremely tight given the current border settings due to Covid-19. We have seen employers respond to this by increasing wages and other benefits to attract and retain staff and yet are still unable to fill these labour market demands domestically. Upward pressure on wages and conditions needs to be accompanied by increases in revenue or productivity. New Zealand exporters are price takers rather than price makers and need to remain globally competitive. An 'immigration reset' that would seek to reinforce these settings (though less drastic than the current settings) would not encourage economic growth, it could simply push businesses offshore.

2.6 Migrants contribute to productivity growth through the different sets of skills they bring to the workplace. Migrants do more than increase the size of the labour force. Because migrants tend to have different skills than the typical New Zealander, they boost the growth of the New Zealand economy by filling niches in the labour market. To consider that foreign and local labour is homogeneous and thus perfect substitutes

do not align with the literature<sup>3</sup>. If, by contrast, we classified local and migrant labour (even with the same skill levels) as imperfect substitutes or even complements, the narrative around migrant labour could change dramatically. A research paper authored by the Centre for Research and Analysis of Migration found that "Overall, the results provide little support for the hypothesis that migrant inflows displace either the New Zealand born or earlier migrants with similar skills in the areas in which migrants are settling. If anything, the results indicate the existence of positive spillovers between recent migrants and other individuals. These encourage individuals to move to, or remain in, the areas in which similarly skilled migrants are settling."<sup>4</sup> Furthermore, additional studies show that in general, immigrants have no negative impact on the labour market outcomes of the local-born population is highly consistent with the broad range of international evidence.<sup>5</sup>

### **Comment on Other Productivity Commission Recommendations**

#### ***3. Currently, most employers have an obligation to prioritise the New Zealand labour force before recruiting temporary migrants. Do you agree with this obligation?*** (Issues Paper Questions 14)

- 3.1 ExportNZ acknowledges and supports the government's drive to employ domestically as a priority, but when there are not suitably skilled or qualified Kiwis available, migrants must be available to meet that demand.
  
- 3.2 There is an ideological perception that migrants are taking the jobs of local-born New Zealanders, however, there is no empirical evidence to support this claim. In fact, according to a report from the OECD, empirical evidence suggests that immigration has had positive effects on per capita incomes and has not adversely affected the wage or employment outcomes of the average NZ-born worker<sup>6</sup>. The increase in migrants on temporary work visas over the last decade has led to concerns that this

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<sup>3</sup> Huber, P., Landesmann, M., Robinson, C., & Stehrer, R. (2010). Migrants' Skills and Productivity: A European Perspective. National Institute Economic Review, 213, R20-R34.

<sup>4</sup> Hodgson, R. & Poot, J. (2011). New Zealand Research on the Economic Impacts of Immigration 2005-2010: Synthesis and Research Agenda. Centre for Research and Analysis of Migration. CDP No 04/11.

<sup>5</sup> Longhi, S., Nijkamp, P. & Poot, J. (2010). Meta-Analyses of Labour-Market Impacts of Immigration: Key Conclusions and Policy Implications. Environment and Planning C: Government and Policy. 28. 819-833.

<sup>6</sup> Carey, D. (2019). Improving Well-Being in New Zealand Through Migration. OECD Working Papers.



has impacted the employment of local New Zealanders or has decreased earning potential, however, a study completed by the Ministry of Business, Innovation and Employment was “unable to find any evidence [that there were] adverse consequences for the employment of New Zealanders overall”.<sup>7</sup> The number of jobs in an economy is not fixed, and migrants also contribute to job growth by increasing domestic demand. The evidence suggests that migrant workers in New Zealand complement the local workforce rather than compete with it.

- 3.3 A person on a benefit or undertaking further study does not necessarily equate to a person who has the work-ready skills required to re-enter the workforce, and labour market tests must acknowledge this. The issues paper states that *"There is no clear distinction between skills shortages and labour shortages. The former may indicate a need for skills only available overseas, or for which New Zealand has not yet trained sufficient people. The latter may indicate employers not making jobs sufficiently attractive to appeal to New Zealand applicants."* ExportNZ would strongly disagree with this sentiment. There is a multitude of reasons as to why someone who is on a benefit or undertaking study will not progress into a 'low-skilled' job that is available. Despite businesses improving working conditions, increasing opportunities for training and career development and ensuring salaries are above minimum wage, labour shortages remain.
- 3.4 The reality for a lot of exporters is that increasing employment in rural and regional areas is not always possible as geographical location and transport access, as well as family and community commitments, can impede their ability to hire domestically. The welfare system must continue to remove the barriers that prevent people from participating in employment such as substance abuse issues, access to transport, lack of literacy and numeracy skills etc. Further education, training and social support will lead to more sustainable employment, decreasing churn and positively impacting both employer and employee.
- 3.5 Immigration at both ends of the skills spectrum adds value to the economy. All migrants, not just high-tech entrepreneurs, add value to the economy. Low skilled migrants in service jobs can provide value much greater than their contribution to

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<sup>7</sup> Ministry of Business, Innovation & Employment. (2018). Impact of Temporary Migration on Employment and Earnings of New Zealanders

GDP suggests. Hiring migrant workers in the service industry, especially home production (childcare, cleaning, gardening), can free up time for workers in other sectors of the economy. This way, they can be an important complement to highly skilled workers. A 2016 IMF paper provides strong evidence that low-skilled immigration can boost labour productivity. Increasing the share of low-skilled migrants in the population increases labour force participation of women in the economy, likely because of the greater availability of household and childcare services.

**4. *What evidence, if any, should employers have to provide to prove they have made sufficient efforts to recruit New Zealanders?***

(Issues Paper Question 16)

- 4.1 ExportNZ would like to see Immigration New Zealand consider a more complete approach when assessing how businesses are engaging with New Zealanders. Many businesses engage with the New Zealand workforce in ways that are not currently captured under labour market testing.
- 4.2 The decision to hire migrants into roles is generally not the preferred option for New Zealand businesses. There are considerable barriers to hiring migrants. Deterrents can range from language proficiency and fit within work cultures, to frustrations having to deal with the current immigration system. It is also typically more expensive and a longer onboarding process, while migrants do not tend to stay in the roles as long as New Zealanders. Regardless, businesses need access to the skills, talent, and experience that New Zealanders sometimes cannot provide.
- 4.3 ExportNZ strongly disagrees with Immigration New Zealand's decision not to issue work visas under the Essential Skills category for ANZSCO skill level five (lower skill level) occupations unless the employer can demonstrate to the satisfaction of an immigration officer that no New Zealanders can be trained to do the work. This is extremely arbitrary and does not provide businesses with any confidence or certainty. As covered throughout this submission, there are various reasons as to why an unemployed person may not have work-ready skills. This is a clear message that the importance of the requirement to consider those New Zealanders who are 'readily able to be trained' will have increased significantly in this new labour market.

## **5. *Suitability of Current Investor and Entrepreneur visa criteria***

(Issues Paper Question 20 to 23)

- 5.1 ExportNZ believes there is a lack of data on the long-term effects of the investor visa category and the benefits it brings. Investments are a long-term game, they may also not have an immediate impact and can take years to come to fruition. New Zealand cannot be so quick to judge on the success of an investor migrant. Given some negative connotations around migrants in the category having “bought their way into New Zealand”, ExportNZ believes there needs to be more done to measure the investment impacts these migrants have before any decisions are made regarding changes to the visa category.
- 5.2 New Zealand has been able to attract a number of significant individuals and families into the country to both reside and invest. ExportNZ believes that the investor category has been a positive contribution to New Zealand thus far and should continue to operate, at least until more data and information can be collected to analyse the category properly.

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## **ABOUT EXPORT NEW ZEALAND**

Export New Zealand (ExportNZ) is a national industry association representing a diverse range of exporters throughout New Zealand. ExportNZ is a division of BusinessNZ, New Zealand's peak business advocacy body.

We are a membership organisation and across our two brands have approximately 2,000 export members. We also have four regional partners: Employers Manufacturers Association (Upper North Island), Business Central (Lower North Island), Canterbury Employers Chamber of Commerce (Upper South Island) and Otago Southland Employers Association (Lower South Island) which between them represents the bulk of manufacturers in New Zealand.

Our value proposition for members is a mixture of policy and advocacy, education and training, networking, trade missions and inspiration through awards events and conferences. Notably, we run a BusinessNZ Chief Technology Officers Group, incorporating the largest innovation-driven companies in New Zealand, many of which export.

### Division Brands

