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# The Impact of the State Migration Centre on the Current and Future Economic Well-Being of Western Australia – A Review

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## Contents

<b>1. Introduction .....</b>	<b>3</b>
<b>2. The Effects of Skilled and Business Migration on the Western Australian Economy .....</b>	<b>4</b>
Economic Modelling.....	4
Microeconomic Effects.....	5
Complementarities and Skill Transfer.....	5
The Financial Wealth of Business Migrants.....	7
Summary.....	7
<b>3. State-Specific and Regional Migration .....</b>	<b>9</b>
State Responses .....	9
<b>4. Population and Migration in Western Australia.....</b>	<b>14</b>
Impact of Immigration .....	14
Skilled Migration .....	15
<b>5. Western Australia's Need for Skills.....</b>	<b>18</b>
The Current Skills Shortage .....	18
Future Needs .....	18
<b>6. The Role and Performance of the State Migration Centre .....</b>	<b>20</b>
Targeted Marketing in Overseas Locations.....	20
Programs and policy development.....	22
Meeting the skill needs.....	23
Performance measurement.....	24
Skill needs and small and medium sized businesses .....	26
The Impact of the SMC on Small Firms in WA .....	27
Strategic Outlook .....	28
State Migration Planning for Skills Shortages .....	30
<b>7. Future Trends and Developments .....</b>	<b>31</b>
Immigration policy .....	31
Development in other states .....	31
Summary of Western Australia's need for skills .....	32
<b>8. Strategic Options and Recommendations .....</b>	<b>34</b>
Projected Future Investment in the SMC.....	36
Conclusions .....	37
<b>References.....</b>	<b>39</b>

## 1. Introduction

The connection between immigration and skill shortages has a long and illustrious history. In 1912, A.P Piddington, Commissioner, reported on his 'full and diligent inquiry into the alleged shortage of labour in New South Wales':

*"The conclusion at which I have arrived is that, as a result of natural causes, there does exist in the State, in most of the skilled trades and in most of the manufacturing industries, a great and permanent need for the introduction from abroad of trained and competent workers" (ibid. p vi)*

As anticipated by Pilkington, innumerable reports and inquiries have subsequently arrived at the same conclusion because:

*"In a county like this .... the flood of human energy and skill poured into the veins of the body industrial will not only vitalise it highly for its present duties, but create in all its parts so strong a pulse and so sound a growth that before long a new necessity will arise for a fresh infusion of skilled as well as other immigrants" (ibid. p vii).*

The great need has indeed become a permanent one. The need for the 'introduction from abroad of trained and competent workers' in today's Western Australia is just as great as it once was in New South Wales.

This report reviews the role and performance of the State Migration Centre (SMC) in meeting this need and develops a strategy for its future operations

The starting point is a conceptual overview of the economic case for the continuing need for trained and competent workers from abroad. The outcome of this overview is a list of factors and considerations relevant to assessing the SMC performance.

The body of the report then provides an overview of the recent trends in business and skilled migration and goes on to analyse of the SMC's role and performance. Its role is clarified by reference to the current immigration policy and recent trends in skilled and business migration. This provides the setting for an analysis of its performance drawing on the indicators developed in the first section of the report.

Looking ahead to the future, we than consider the likely future needs as indicated by the demand for skilled workers, the extent to which this demand is met by the resident workforce and the migration planning levels. This analysis provides the basis for a range of options that the SMC might pursue. The funding levels associated with these options are outlined and a series of recommendations are put forward.

## **2. The Effects of Skilled and Business Migration on the Western Australian Economy**

As was evident from the introduction, the presence of skill shortages has been the dominant rationale for the recruitment of trained and competent workers from abroad. It is noted that employers have difficulties in recruiting the skilled workers they need; a skills shortage is inferred and more migrants are posed as the solution. At one level, this argument may seem simplistic, but is more sophisticated than it seems. When a Western Australian employer takes on a skilled migrant, the exchange in question must be presumed to benefit both parties. More generally, having more people to trade with should provide average gains to residents once all the macroeconomic adjustments have worked themselves out. This is a standard economic argument that has been used in support of free trade throughout the ages. Its general validity can hardly be questioned even if there are circumstances where this does not hold true. There is also a large body of economic theory that has developed the argument more formally.

### **Economic Modelling**

A number of studies have sought to quantify the benefits of migrant labour. The most common approach has been to use a computable general equilibrium model to compare the effect of a higher migration intake against a base level scenario. Being aggregate models of the whole economy, such models can only take account of the most direct influences of immigration. On the other hand, such models take full account of the complex macroeconomic adjustments consequent upon a change in the level of migration.

The most recent Australian studies indicate that an expansion of skilled migration initially has a small negative effect on living standards (GDP per capita) (Productivity Commission 2006). In the longer run this negative effect is reversed to yield a positive effect of 0.7 to 1.1 per cent on average living standards. It should be stressed that this is a small effect. It represents the effect of increasing skilled migration by 50 per cent (about 39,000 per year) and then computing the effect of this higher level of migration after 21 years. Thus 800,000 new skilled migrants (a population increase of about 4 per cent) increase the average income by 0.7 to 1.1 per cent.

The two main effects incorporated in these models are the human and financial capital migrants bring. More human and financial capital increases the size of the host economy but this greater size has, by itself, little impact on welfare. Instead, the main benefits arise from the skilled migrants having, on average, a higher level of skill than existing residents. Thus more skilled migrants increase the average level of skill in the workforce. Likewise, business migrants who bring large amounts of financial wealth, increases the average level of wealth in the community.

For most purposes, a better indicator of the effect of migration would be to assess the effect of a higher level of migration on the resident population. This raises some technical issues, but the approximate effect is beyond doubt. Because the skilled migrants are more skilled than existing residents, the increase in average income is mainly due to their higher income. In other words, it is the migrants that capture most of the benefits. Furthermore, since the average effect on living standards is small, existing residents stand to gain very little and might even lose from the presence of more migrants. The Productivity Commission report puts a figure on this as well; the average income of residents would decrease by 0.15 per cent.

These findings are typical of other Australian and international studies of the economic impact of immigration using general equilibrium models. In the Australian debate, the term benign, meaning that migration has no significant effect of existing residents, has often been used to characterise the finding. The same qualitative result would obtain if we analysed the effect of the skills and financial capital of business migrants rather than instead of skilled workers.

### **Microeconomic Effects**

Although computable general equilibrium models incorporate many effects of more migrants on an economy, it is fair to say that their most useful role is to work out the macroeconomic adjustments consequent on an increase in the level of migration. This is because a host of micro economic effects that cannot be quantified are omitted from the analysis.

These omitted factors include:

- Economies of scale
- Complementarities between migrant and resident labour
- Embodied technical change
- Economies of size or scale at a regional level
- Natural resources and environmental externalities
- Taxation and transfer payments
- Trade and technology transfer

While these effects can not be quantified there is nevertheless much qualitative evidence of (mainly) positive effects. Two of the above factors are particularly relevant to the Western Australian situation and discussed in more detail below.

### **Complementarities and Skill Transfer**

Allowing for complementarities between migrant and migrant labour has been shown to have a large effect on the economic impact of migration derived from economic models. This is highly relevant to the Western Australian situation with persistent skill shortages. Absent migrants, in a competitive market such skill shortages would be eliminated by adjustments in the price of labour and the resulting supply and demand responses. Wages for skills in short supply would be driven up; the supply of labour, by increased participation education and training would expand and employers would reduce their use of the now more expensive labour. While these adjustment processes may well be at work, the responses appear muted. Apart from the fact that they take a long time to work themselves out, the muted responses suggest that migrant and resident labour are not perfect substitutes. Rather there may be significant complementarities between the two. The wages of resident labour is not bid up because some of the shortage is for skills that the resident workers do not possess - they are not substitutes for migrant workers. Hence, shortages persist, as has now been the case in Western Australia for some time, until and unless they are filled by migrants. Furthermore, the complementarities mean that the productivity of residents is enhanced by the arrival of migrants.

This perspective is also strongly embedded in Australia's immigration policy. The rationale for temporary visas for workers in certain categories has always been rationalised by reference to the need for such workers, where need is understood to mean that the skills that they bring are not easily obtainable in Australia. Much the same applies to the Employer Nomination Program. The sponsoring employer has always been required to justify the sponsorship migrants by showing:

- That resident workers are not adversely affected - i.e. that resident workers are not substitutes, and
- That there are distinct benefits from sponsoring a migrant. One way such benefits are obtained is through the complementarities of the migrants' skills.

This line of reasoning is essentially a variation of the argument for free trade; existing Australian residents can hardly be worse off on average if they have the opportunity to trade with a larger group. This free trade argument is essentially the same whether it concerns the trade of goods or the trade of skills. The only reservation is that some existing residents might become worse off if their skills are close substitutes. However, if migrants are complements rather than substitutes this reservation does not apply. The complementarities mean that the productivity of residents is enhanced by the arrival of migrants.

At a micro economic level it is easy to appreciate that migrants with complementary skills can bring considerable benefit to resident workers. An obvious example is the chef with international experience who can transform a mediocre restaurant into a culinary haven. This might then set in train a dynamic process of developing the skills of other staff to leverage the benefits from the initial skill infusion. At the same time it is easy to think of many migrants who just bring another pair of hands to the job; no more or no less than the typical resident worker. The only hard evidence comes from a recent US study that challenges earlier findings. Most studies of the effect of immigration on the wages of US-born workers have found a large negative effect; implying that immigrants are substitutes for the US-born so that the resulting inflow depresses the wage. Taking complementarities into account this result is reversed; immigration generates a large positive effect on the average wages of U.S.-born workers.

The benefits to residents can be further enhanced by any transfer of skills from migrant to resident labour. Again this is of particular relevance to Western Australia. At a more general level, skill transfer come under the heading of spill over or external effects whereby the actions of one party has an effect (negative or positive) on another party. The extent of spill-overs has been extensively studied by economists in relation to innovation, foreign direct investments, and many other fields and is generally held to be an important consideration.

Like the degree of complementarity the extent of skill transfer is difficult to measure. There are few objective measures, and the best that can be done is to use well designed surveys to uncover the evidence. One such study was of migrants sponsored under the Employer Nomination Scheme in Western Australia. The employers in this survey thought that sponsored workers enhance the training opportunities rather than reduce the need to train Australian workers. The immediate supervisors of the sponsored that migrants is an important source of skill of particular importance to a small and relatively isolated state workers said that almost two thirds of sponsored workers provided some training to their co-workers, and rated the usefulness of that

training very highly. Equally positive was the assessment of the contribution of sponsored workers to the performance of the employing organisation. Overall, they were judged to make a moderate to high contribution to the productivity and performance of the organisation and particular value was placed on their technical skills.

### **The Financial Wealth of Business Migrants**

Another benefit that is not really allowed for in economic modelling of the effect of migration is migrants' transfer of financial wealth. This is an important consideration, and partly a rationale, for encouraging business migrants to Western Australia.

Like many other effects, the mechanism by which existing residents benefit is very indirect. The first point to note is that the business migrants who transfer some of their wealth to Western Australia continue to own this wealth and to receive the return it generates. In other words, the business migrant themselves are the direct beneficiaries of their own wealth. But it also adds to the total financial wealth of Western Australia which has some indirect benefits to existing residents.

Consistent with the way in which this additional financial wealth is treated in economic models, one might argue as follows. Suppose existing residents were to borrow from abroad the money that the business migrants bring with them. The net effect of this would be to increase the WA foreign debt (or decrease foreign assets). In turn this would have the effect of increasing the cost of borrowing from abroad although some of the effect would be reflected in a revaluation of the Australian dollar. In other words, the financial wealth that business migrants bring can be viewed as increasing the equity/debt ratio of Western Australia Ltd. Thus, abstracting from the business skills they bring, the recruiting of business migrants is essentially an equity raising activity. This additional equity benefits existing equity holders (residents) who otherwise would have to borrow the equivalent amount from abroad at a higher cost.

The limitation with this line of reasoning is that there is no real prospect of assessing the value of this additional equity. But to take the reasoning one step further the benefit can be approximated by the cost of a large equity rising by private corporations. A benchmark figure is 0.5 per cent of the capital raised a figure that can be used to value of this particular contribution of the State Migration Centre.

### **Summary**

The large scale immigration to Australia can be seen as an expression of the collective view that these other economic considerations and the wider social effects of immigration are positive and significant. In the case of Western Australia, successive State Governments have been strongly in favour of growth and development. This ethos remains as strong today as it has always been. It is based, partly on narrow economic reasons - that migrants is an important source of skill of particular importance to a small and relatively isolated state - but mainly on a belief that growth creates opportunities that otherwise would no be available to people in Western Australia.

On the whole, these views are shared by the Western Australian community. Most people welcome additional migrants appreciate the contribution they make and feel that they benefit from their presence.

This sentiment is well captured by the Minister for Small Business:

*"Western Australia has a long tradition of relying on the expertise of migrants to help the state to grow and prosper" (Media statement 18/12/07).*

### **3. State-Specific and Regional Migration**

The role of the SMC is intimately tied up with the state-specific and regional migration initiative (SSRM). These initiatives were first introduced in 1996 with the aim of a more spatially balanced migration program. In particular, the initiatives were designed to:

- encourage a more balanced settlement pattern of the skilled migrant intake
- address the skill needs in regional Australia
- attract overseas business people to establish themselves in Australia

SSRM has enabled state and territory governments, employers and other bodies in regional locations to pursue regional development objectives by attracting skilled migrants. It has also provided encouragement for such migrants to locate in places where they are needed and wanted by relaxing the normal entry requirements.

Since first introduced in 1996, the SSRM initiatives have been modified and expanded in response to the experience of the initiatives and changing circumstances. It is generally accepted that these initiatives have been very successful. They have broken the link between population size and location of migrants. More specifically, the SSRM initiatives have relaxed the constraints that population pressures in Sydney and Melbourne once had on Australia's immigration program. Thus, much of the increase in immigration in recent years has been a direct result of, or driven by, SSRM initiatives. Nationally, SSRM visas have increased from a very small base in the late 1990's to over 25,000 in 2005-06. This level has been maintained since then. This figure corresponds to about 25 per cent of the skilled stream visas. In the case of Western Australia, the SSRM visas increased to over 3,000 in 2006-07.

The SSRM initiatives has given state and territory governments a much more significant role in the operation of Australia's immigration program. Thus state and territory governments now have three main roles:

- the identification of the need for skilled migrants
- the recruitment of skilled and business migrants to meet those needs
- maintaining the integrity of the immigration program

#### **State Responses**

In response to these developments the Western Australian Government set up a Business Migration Program in October 2002. Initially, the primary role of the Program was to provide information to prospective business migrants. Over time it came to play a more active role as changes in the SSRM initiatives gave state and territory governments a more prominent role in the recruitment of business migrants.

In 2004 the role of the Western Australian government was further enhanced by setting up a Skilled Migration Unit in the Department of Resources and Industry. These initiatives were associated a significant increase in skilled and business migration to Western Australia. Further changes in the SSRM programs, in particular the state/territory sponsoring of skilled migrants, saw the two arms of business and skilled migration combined in a State Migration Centre. This permitted a more efficient use of resources and an opportunity to streamline the services to prospective migrants. The

State Migration Centre was set up in July 2006. It has now operated for a full two years allowing for a comprehensive view of its operation.

Similar developments have occurred in the other states and territories. South Australia, in particular has embraced the SSRM initiatives to transform its immigration program. Historically, South Australia has attracted a disproportionately low share of Australia's migrants. The SSRM initiatives, by classifying the whole of South Australia, including Adelaide, as a 'regional area', has dramatically changed this position as the South Australian Government has used its regional status to pursue a very active policy of recruiting skilled migrants. Instead of attracting only about 3 per cent of Australia's migrants, South Australia has accounted for almost one third of the SSRM visas. Other state and territory governments, with one exception, have also developed their capacities to make the SSRM initiatives a success.

**Table 1:** State-Specific & Regional Migration visa grants: Western Australia & Australia

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
<b>New South Wales</b>	228	617	857	1303	1632	1900
<b>Victoria</b>	2,129	4,146	6,459	7,100	10,496	9,178
<b>Queensland</b>	272	649	1,483	2,412	3103	3,084
<b>South Australia</b>	703	1,324	2,071	4,951	8,182	7,158
<b>Western Australia</b>	341	584	968	1,786	2,401	3,025
<b>Tasmania</b>	204	197	291	459	503	512
<b>Northern Territory</b>	57	132	154	158	303	290
<b>Australian Capital Territory</b>	202	292	442	528	682	650
<b>Australia</b>	4,136	7,941	12,725	18,697	27,488	25,845

Source: DIAC, 2008a

As is evident from Table 1, the Western Australian take-up of the SSRM initiatives was a bit slow. In recent years, however, Western Australia has increased its share to more than 10 per cent through the initiatives undertaken by, in the first instance the first the Skilled Migration Unit, and later the SMC.

In conjunction with the SSRM initiative the number of visa classes has expanded considerably giving the skilled and business migration programs a more complicated

structure. Table 2 sets out the various visa classes and identifies the visa classes for which the SMC has a direct responsibility as a sponsor. For skilled migrants the role of state and territory governments are limited to the four sponsored visa classes that combined account for about 25 per cent of skilled migration. In the case of business skills, the SSRM initiatives have largely replaced the independent business migration. Thus almost all business migration now comes under the three state and territory sponsored visa classes 163/164/165

**Table 2:** Skilled and Business Development visa classes

<b><i>General Skilled Migration</i></b>	
Offshore permanent	
Skilled – Independent (subclass 175)	
*Skilled - Sponsored (subclass 176)	
Offshore provisional	
*Skilled - Regional Sponsored (subclass 475)	
Skilled - Recognised Graduate (subclass 476)	
Onshore permanent	
Skilled - Independent (subclass 885)	
*Skilled - Sponsored (subclass 886)	
Skilled - Regional (subclass 887)	
Onshore provisional	
Skilled - Graduate (subclass 485)	
*Skilled - Regional Sponsored (subclass 487)	
Skilled - Regional Sponsored (subclass 487) 12 month renewal	
<b><i>Business Development</i></b>	
For business people to establish a business in Australia, manage a new or existing business or invest in Australia. These are temporary visas that offer a pathway to a permanent visa.	
Business Owner (Provisional) (Subclass 160)	
*State/Territory Sponsored Business Owner (Provisional) (Subclass 163)	
Senior Executives (Provisional) (Subclass 161)	
*State/Territory Sponsored Senior Executive (Provisional) (Subclass 164)	
Investor (Provisional) (Subclass 162)	
*State/Territory Sponsored Investor (Provisional) (Subclass 165)	
Investor Retirement Visa (Subclass 405)	
Independent Executive Further Application Onshore (Subclass 457IEFAO)	

As regards the other states, South Australia has for along time had a very low rate of population growth. It has been loosing people to other states and lost its attractiveness

to migrants. In 2000/01 it attracted only three per cent of Australia's migrants. As part of a concerted effort to transform the fortunes of the state, the South Australia Strategic Plan sets out a wide range of initiatives for securing a better future. Increasing the population of South Australia is an important part of this plan. Thus South Australia has embraced the SSRM initiative to the fullest by a very active program to attract migrants. These initiatives have transformed the migration flows. The number of settlers to South Australia has more than doubled during the 2000/01-2006/07 period. The national share of overseas settlers coming to South Australia has increased from 3 to 7.2 per cent.

In contrast, New South Wales and Sydney in particular has long been a magnet for immigrants to Australia leading to significant population pressures. Consequently, and as a matter of policy, its state migration agency does little more than process applications for state sponsorship. Prospective migrants are on their own getting there. According to its state migration web page "The NSW Department of Industry and Regional Development does not provide advice and assistance service". The contrast with South Australia could not be starker.

Queensland has also followed a fairly low key approach but for different reasons. It attracts large numbers of inter-state migrants from New South Wales and Victoria. In addition, Queensland is the favoured destination of New Zealanders who account for almost half of the overseas migration to this state. Since most of its skill needs are met by these flows, the skilled migration program does not play a very important role. The Queensland Government's position statement on skilled migration simply states that the Department of Tourism, Regional Development and Industry will manage the skilled migration program in Queensland. As such it will develop strategies such as targeted marketing, promotion, sponsorship support services and whole-of-government coordination. However, even though at the policy level the approach may be low key Queensland has developed an active program of attracting skilled migrants.

Victoria has followed an approach that is perhaps most similar to Western Australia. In its population strategy developed in 2002 it set out explicit targets to use the SSRM initiative to increase its population and share of skilled migrants as well as to ensure that regional Victoria received a more appropriate share of migrants to the state. To achieve this, its migration agency has operated along lines similar to the SMC and with results similar to that of Western Australia.

While each state is different, and each has embraced the SSRM initiatives in different way there is still much in common. Thus, with the exception of New South Wales all states and territories have set up agencies that undertake most of the following functions:

- Provision of information to prospective migrants
- Marketing the state as a destination
- Targeted marketing in overseas locations
- Provision of business related information of prospective business development migrants
- Development of information network to identify state needs
- Assessment of state sponsorship applications

- Provision of, or links to, post-arrival services
- Follow up assessment of business development migrants
- Advice and inform other government agencies about migration issues

These developments in the role of state migration agencies constitute a significant departure from the past. It has given the states the opportunity to drive the migration to their state according to their specific needs of the state. Most states have sought to take up these opportunities resulting in a significant redistribution of migrant arrivals from New South Wales to South Australia, Western Australia and Victoria.

## **4. Population and Migration in Western Australia**

Western Australia is predominately a state of immigrants. While the Aboriginal community occupied the land for thousands of years prior to European occupation, the state of WA in its current form is a product of immigration. It was settled by immigrants, and its continued development has been driven by immigrants. The flow has varied over time in response to economic and political developments. However, even now, 170 years since first European settlement, immigration remains as important as it has ever been to the future development of the state.

Following a slow down of immigration during the early nineties, more favourable economic conditions have seen a continuing increase in the number of immigrants. Settler arrivals have increased dramatically since 2002-03 reaching to about 20,000 persons. In addition, there has been an even larger increase in permanent settlement of holders of temporary visas.

### **Impact of Immigration**

In the past, the number of settler arrivals was the primary indicator of the impact on overseas migration on the population. However, this no longer applies. The large number of temporary residents, students and visitors and the increased mobility of permanent residents can present a quite confusing picture. While many of these come and go, many more now become permanent residents.

The period 2001-06 provides the most comprehensive picture of what has happened. Migration has overtaken domestic population growth as the largest component of population growth. At the same time, net internal migration, between WA and the other states, has been reversed, also making a positive contribution to population growth.

The impact of immigration over the 2001-2006 period is best summarised by the position in 2006. At that time there were 101,089 persons in WA who lived overseas five years earlier. About 40 per cent of these came from the three leading source countries, England, New Zealand and South Africa. In other respects, however, recently arrived migrants are surprising similar to the resident population along a number of indicators. Thus their employment rate is about the same as is the industry distribution of employment and earnings. Minor differences include their larger concentration in Perth compared to residents, their higher rate of unemployment and a greater concentration in professional occupations.

The data indicates the highly successful settlement of recent arrivals. The higher unemployment rate is an almost inevitable consequence of their recent arrival and should not be taken to mean that they experience any particular problems in finding jobs.

The recent strong growth in the WA economy has also attracted persons from the other states and territories. This inflow, however, is balanced by a similarly large outflow of people from WA to the other states. Historically, the net inflow to WA has fluctuated considerably but at a quite low level. Since 2002, a small net outflow has turned into a small net inflow. However, there is no reason to believe that this recent increase in net inter-state migration represents a change from the fluctuating patterns that have prevailed over a long period.

Even if interstate migration has a small net effect it has a larger effect on the population in particular regions. Thus, the North West receives a disproportionately

large proportion of interstate migrants to WA. One factor driving this is a highly mobile indigenous population. It also reflects that interstate migrants are a source of workers to the mining industry but the importance of this should not be overstated. By its location, the mining industry in the North West is always going to be dependent on movers wherever they come from - inter-state, overseas or intra-state.

The past decade in particular has seen a growing internationalisation of the Australian labour market which has been even more evident in Western Australia. Temporary flows of persons have become much larger and, to further obscure the picture, the permanent arrivals are increasingly drawn from this source. Because of this changing pattern, a simple and consistent set of figures from a single source can no longer be used to characterise the population effect of migration.

### **Skilled Migration**

Given that the focus of SMC's work is on skilled workers the figures below relate only to the permanent visas in the skilled stream. Permanent migrants are now classified as 'permanent additions' to cope with the fact many arrived long before they gained a permanent visa. Thus there are now two categories; 'arrivals' and 'on-shore'. The increasing importance of the latter group is clearly evident - mainly overseas students who have now become an important source of skills to Australia.

**Table 3:** Settler arrivals- Skilled category permanent additions intending to locate in Western Australia

VISA CLASS	2002-03	2003-04	2004-05	2005-06
Sponsored	1,016	2,099	2,221	2,649
Employer Nomination Scheme	285	251	519	604
Business Skills	1,550	1,508	1,068	778
Independent	4,626	5,892	5,358	6,421
Total skilled arrivals	6,477	9,750	9,166	10,452
Total skilled on-shore (estimated)		1,957	2,820	3,096

Source: DIAC, 2008a

**Table 3 (cont):** Arrivals 2006 - December 2007

VISA CLASS	2006-07	JUL-DEC 2007
Australian Sponsored	1,377	721
Regional Designated Area Sponsor	506	160
Employer Nomination Scheme	684	593
Business Skills	794	317
Distinguished Talents	12	7
Independent	7,735	3,723
State/Territory Nominated Independent		468
Skilled Independent Regional	245	163
Total skilled arrivals	11,353	6,152

Source: DIAC, 2008a

**Table 3 (cont):** On-shore 2006 - December 2007

VISA CLASS	2006-07	JUL-DEC 2007
Australian Sponsored	174	97
Regional Designated Area Sponsor	17	8
Employer Nomination Scheme	1,799	1,410
Business Skills	620	225
Distinguished Talents	9	5
Independent	1,132	495
State/Territory Nominated Independent		
Skilled Independent Regional	17	12
Total skilled on-shore	3,768	2,252

Source: DIAC, 2008a

At the level of detail the most striking aspect of skilled migrants is the concentration in a small number of occupational groups. The five occupational categories listed below, account for about two thirds of all skilled migrants to Western Australia:

- managers and administrators
- accountants
- building and engineering professionals
- registered nurses
- computing professionals

This pattern is not unique to Western Australia but a feature of skilled migration to Australia as a whole resulting from the large weight that the points test gives to a persons' occupation.

## **5. Western Australia's Need for Skills**

The mining and resources boom, as well as infrastructure investment and development, has created many opportunities for Western Australians. At the same time it has put great pressure on resources. Employment in Western Australia has been close to full capacity for some time now. Against the back drop of a tight labour market labour shortages have become more prevalent and pronounced, particularly in certain skilled professions.

### **The Current Skills Shortage**

The Chamber of Commerce and Industry of WA (CCIWA) report that 76 per cent of surveyed businesses are now experiencing labour shortages. Skills shortages are now predicted in almost all industry sectors with particular emphasis on mining and resources, construction and manufacturing (CCIWA, 2007). Skill shortages are also being identified in such areas as information and communications technologies (ICT), particularly electronic engineers and electronic trades' workers. The forecasts are for increases in demand that the domestic supply from local educational institutions is unlikely to meet (CIER, 2008; DEEWR, 2008a). This chronic labour shortage is constrains the growth of the Western Australian economy (ABS, 2006).

Another indicator of the strength of the state's labour market is the relatively high number of job vacancies that have been consistently reported across various industry sectors. ABS data for the September quarter of 2007 indicated that there were only 1.35 potential applicants for every job vacancy listed in Western Australia. According to the ABS, the greatest need is for tradespersons in the construction, metals, electrical and electronic, automotive industries (ABS, 2006). These trades are also in great demand in the mining and resources sector.

The survey undertaken by the Department of Education, Employment and Workplace Relations (DEEWR) in 2007 also found that employers across the Perth metropolitan region were experiencing significant skills shortages, particularly in the trades. Two thirds of employers found job applicants lacked suitable qualifications. Overseas migrants were filling many vacancies, particularly in the construction and manufacturing sectors. Around 38 per cent of employers surveyed by DEEWR indicated that they would be willing to recruit migrants in the future (DEEWR, 2007).

Within regional WA the labour skills shortage is understood to be worse than in the metropolitan region. DEEWR research undertaken in late 2007 within the South West found that 73 per cent of employers were experiencing difficulties recruiting skilled or suitably qualified employees. As with the Perth metropolitan area, the construction (91% reported skills shortages) and property and business services (88% reported skills shortages), were the most affected.

### **Future Needs**

All reports on the likely future labour market conditions expect skill shortages to remain a significant problem.

The *Sensis Business Index* of May 2008 found that SME in WA expected employment growth to increase by 2 per cent into 2008-09. While the total level of demand may be easing, chronic skills shortages in specific industries and regional areas are likely to persist

The CCIWA's report titled "Building Human Capital" predicts that the state economy will need as many as 400 000 extra workers over the next decade. The report also asserts that WA's current and future projected labour market and population trends will not be able to accommodate these additional labour needs. The report thus affirms that without the implementation of effective measures to adequately expand WA's labour pool, the state is likely to face a shortfall of 150 000 workers by 2017 (CCIWA 2007, pg 47).

A report released by the Minerals Council of Australia (MCA) indicated that the enhanced demand for labour in the mining sector deriving from currently anticipated increases in output leading up to 2020 and assuming there are no significant changes in labour productivity, that the WA mining sector would need to employ 47 700 more workers. Another report published by the State Training Board of WA predicted that the demand for labour in the state would increase to such an extent that up to 17,800 extra skilled workers per year may be required in WA over the next decade. According to the results of the study the greatest demand is forecast to be for mechanical engineering tradespeople as well as electrical and electronic tradespeople.

A Monash University study commissioned by CCIWA found that the state was likely to experience a shortage of more than 3000 skilled workers across a range of occupations in key construction industries by 2009. The research also predicted that 20000 more workers would be required each year until 2010 to accommodate the increase in overall labour demand within WA. More specifically the Monash University report predicted a shortfall of 2,170 mechanical and fabrication trades persons and 1,150 electrical trade persons by 2010.

## **6. The Role and Performance of the State Migration Centre**

The aim of the State Migration Centre is to contribute to the economic well being and prosperity of the state by increasing the supply of skilled labour and attracting new sources of investment capital.

The three main activities in pursuit of these objectives are:

1. The identification of the need for skilled workers and business skills
2. The provision of information to prospective migrants
3. The recruitment of skilled and business migrants to meet the needs

The SSRM initiative also gives the SMC a very specific role to sponsor prospective migrants on behalf of the State who are not eligible for temporary or permanent visas under other (non-SSRM) visa categories.

Since its inception in July 2006, the SMC has provided of a streamlined service for prospective skilled and business migrants to the state. Given the persistent skill shortages, it is natural that the focus has been on the latter two activities - marketing and promoting WA to potential business and skilled migrants.

### **Targeted Marketing in Overseas Locations**

The market for business and skilled migrants is highly competitive, with pressure coming from both international quarters and other Australian states. Given this environment, the marketing of Western Australia as a destination for potential location is essential to attracting large number of migrants.

Marketing activities do not yield instant returns. To be effective it must be preceded by relationship building that enables the SMC to leverage the some of the resources in the source country. It must be sustained over a period of time so that these relationships can mature. It must also be carried out in an appropriate and sensitive manner. From the perspective of the source country, the SMC is an agent for a foreign government seeking to induce its citizens to abandon their country of birth.

To make the most of its resources the SMC has focussed on mainly on countries from which most of Western Australia's migrants are drawn: India, United Kingdom, China, South Africa Malaysia and Singapore.

**Table 4:** Major source countries for Business and Skilled Migrants to WA (per cent)

SOURCE COUNTRY	BUSINESS SPONSORED	SKILLED SPONSORED	SKILLED UNSPONSORED
UK	25	13	55
China	21	6	
India	3	25	7
South Africa	20	6	7
Malaysia & Singapore	12	4	10

Source: SMC, 2008

As part of its marketing strategy to promote Western Australia as a viable place for desired skilled and business migrants to move to, the SMC has conducted a series of migration functions, seminars, events and expos in several key markets including India, China, the UK, South Africa, the USA, Ireland and the Netherlands. As part of its international marketing campaign, the SMC was an active participant in the "Australian Needs Skills" series of expos which were run by the Department of Immigration and Citizenship (DIAC) in conjunction with other Australian State and territory government organisations and employer groups in Dublin, Manchester, Perth and London. Other promotional activities that SMC has been involved in include:

- Other migration expos held in the Netherlands, UK, China, India, Taiwan and Ireland
- Migration seminar programs conducted in India, China, South Africa, the UK and Netherlands
- Carrying out migration agent functions in China, India, South Africa and the UK

During 2007, the SMC introduced its marketing strategy "*Destination Western Australia*" at expos conducted in South Africa where 20 employers participated and also in the UK where 12 employers attended. Other promotional activities that the SMC engaged in included advertising in a publication entitled "*Living in Perth*" and also placing promotional material in newspapers in India, South Africa and the UK. The SMC also keeps in close contact with migration agents and WA Trade Offices in the main source countries in Europe and Asia including the UK, South Korea, Taiwan, India and China.

To further strengthen its position in Europe the SMC appointed a Senior Migration officer in the Western Australian European Office based in London in October 2007. The principal role of the officer is to continue to secure the UK as WA's premier source of business and skilled migrants. In addition, the London based Migration Office will promote Western Australia as a destination in other European countries. It will also support WA businesses, employer groups and government organisations looking to increase their recruitment activities and access more workers from the UK and other European countries.

To date, WA's European office has been involved in providing assistance to WA employers from both the private and public sectors in their recruitment activities in

Ireland and other parts of the UK. The European office has also been involved in various promotional activities including disseminating marketing material to migration agents as well as conducting seminars and attending migration expos in Ireland and the UK.

During the nine month period to June 2008, the WA European office has:

- Responded to 1745 enquiries
- Presented eleven seminars
- Attended eight migration expos with a combined attendance of almost 40,000 persons.

In total, a combined attendance of approximately 70,000 participants was recorded for all the international expos, seminars and other migration functions that the SMC was involved with in 2006-07. The strong level of assistance provided by the SMC in relation to matters of business and skilled migration to Western Australia is reflected by the fact that the SMC responded to around 19,217 enquiries in 2006-07. During the same period the SMC also attended to 2,456 appointments that were conducted in its Perth office and also in overseas locations. The high level of direct interaction was maintained throughout 2007-08, with the SMC handling 27,000 inquiries in relation to business and skilled migration to Western Australia.

### **Programs and policy development**

The SMC has also been closely involved at a policy level in working with key stakeholders including DIAC, employer groups and the Migration Institute of Australia (MIA) to develop and implement migration policies and marketing strategies to promote skilled and business migration into Western Australia. This has included negotiating with the Federal Government on behalf of the state to develop a Labour Agreement for the meat industry in Western Australia. Another example is the contribution and input the SMC has made towards the introduction of a new visa class to enable semi skilled migrant workers to enter Australia and seek employment.

The SMC's submissions to several reviews of the 457 Business Skilled Visa Class should also be noted. The number of 457 visas has grown rapidly in recent years to about 60,000 for Australia as a whole. Maintaining the integrity of the program in the face of this rapid growth has been a challenge and several reviews have explored a range of issues.

WA is highly dependent on 457 visas as a source of skilled workers to the construction, mining and health industries, accounting for almost 25 per cent of the total number. For that reason it is important that the State has effective input into how this program operates. Thus SMC, being the only agency with operational knowledge of Australia's migration programs, has taken on the role of representing the state on these matters. In the recent round of reviews the SMC made a very useful contribution to the debate concerning the minimum salary level for skilled workers in regional areas, arguing that the concession for regional areas should be dropped. Responding to these recurrent policy issues is likely to remain an important task for the SMC.

The Business Migrant Incentive Program (BMIP) was another past initiative of the SMC which was aimed at attracting business migrants to regional and rural areas and increasing the distribution of these migrants to the geographical localities. Under the program, business migrants intending to reside and operate a business enterprise in a regional area of the state were eligible to apply to receive up to \$1,500 funding, to put towards the cost of having a Western Australia consultant prepare a business proposal. The BMIP has now been ceased, but number of approvals and funding for the BMIP issued by the SMC in 2006-07 and 2007-08 is listed in Table 5 below.

**Table 5:** SMC's Business Migrant Incentive Program (BMIP)

	2006-07	2007-08	TOTAL
Number of BMIP Approvals	14	17	31
BMIP Funding	\$19,091	\$10,500	\$29, 591

Source: SMC, 2008

The SMC has also been responsible for periodically updating the Skills in Demand and Priority Skills Lists for WA in line with DIAC guidelines. This helps to ensure that skilled migrants sponsored and supported by the state government have skills in demand.

### **Meeting the skill needs**

As noted in Section 4, the skilled permanent migration to Western Australia, and for that matter Australia as a whole, is dominated by persons in a small number of professional occupations. This reflects the settings of the Australian immigration program and the pull factor of recent and past flows of migrants

Since the SMC's marketing is focused on the main source countries, this pattern also applies to the state sponsored migrants. Thus three quarters of the skilled workers for whom SMC has arranged sponsorship have professional occupations. The occupation that stands out is Accountants. More than one third of all state sponsored skilled workers are accountants. The converse of this is that only a quarter of the skilled workers have a trade occupation.

Apparently, sponsorship has done little to change the characteristics of the flow of skilled workers. But as previously noted the worst skill shortages have been in the trades. Furthermore, this situation is likely to prevail in the foreseeable future. We also note that one of the major reasons for the SSRM initiative was to enable states and regions to pursue state and regional objectives.

To remedy this situation, and to better meet the needs of the Western Australian economy, a better balance is called for. In pointing this out we are conscious of the fact the targeted marketing and promotion of WA as a destination to prospective migrants overseas is an expensive undertaking. Attracting a different balance of skilled migrants inevitably means more targeted and costly marketing and promotion. As the following section points out, however, the needs of the small business sector are an important consideration.

## **Performance measurement**

The aim of the State Migration Centre (SMC) is to contribute to the economic well being and prosperity of the state by increasing the supply of skilled labour and attracting new sources of investment capital. In translating this aim into more concrete terms we take it that 'increasing the supply of labour' means attracting workers from overseas, and skilled workers in particular, as well as persons with business skills who bring their financial wealth to the state.

With regard to the second aim, there is a direct link between SMC's activities and the measured outcomes - the number and wealth of business migrants. Of course some business migrants may well come to WA for reasons that have nothing to do with the SMC. Even so the SMC is the principal marketer of the state to business migrants. It also has an almost exclusive position as a recruiter, processor of visa applications, business development advisor, and monitor of visa conditions.

In the case of skilled migrants, the nexus between the SMC's activities and measured outcomes is much more complex. The effectiveness of the primary activity, marketing the state to prospective migrants, translates into many different outcomes. Positive responses might translate into choosing to come to WA as a student, as a holiday maker or as a worker on a temporary visa. A student might then apply for a permanent visa on completion of their studies. A holiday worker might turn their holiday into a working holiday and then return at a later date on an employer sponsored permanent visa.

In other cases, a positive response is reflected in the arrival in WA on a permanent visa. This visa can be one of many different types depending on the personal circumstances of the migrant. In the case of skilled migrants the first choice is between the family and skilled visa classes. Within the skilled visa class, there are then a number of further options. The further role of the SMC then depends on the type of visa. In the first instance they only play an advisory role. It is only when a state or regional sponsored visa might be appropriate that the role of the SMC can be clearly identified.

The complex pattern of migrant flow is further exasperated by the delay between activities and observable outcome. The results of activities undertaken today will be reflected in figures one to three years hence. In some cases, the lag between activities and an observed outcome is even longer. Furthermore, visa statistics are published with a considerable delay. Most relevant statistics are available with a delay ranging from 6 to 12 months. Consequently, the figures observed today reflect on the activities of the SMC some two to four years ago - before the SMC was set up.

Clearly, this is not a satisfactory situation. It makes it difficult, for the SMC and outsiders alike, to assess what is going on. That the complexity of the flows makes it difficult to relate the SMC's internally generated data with DIAC immigration statistics compounds the problem. This is not a problem that can be addressed by SMC alone. The emergent role of the states and territories in the migration process requires DIAC to rethink how the statistical collections can be developed to support the states in their work.

To summarise, from this discussion of performance measurement the following points can be made:

- The number of business migrants and the amount of financial wealth they bring is a fair indicator of one dimension of SMC's performance.
- In the case of skilled migrants the only internally generated indicator, the number of state sponsored migrants, is at best a very partial indicator of the performance of the SMC.
- A broader performance indicator, such as the number of skilled visa categories 'permanent additions' (see Tables 7, 8 and 9)
  - Does not include temporary visas or skilled workers on a family category visa
  - Reflects the performance of the SMC with a considerable delay
- Broader measures of performance reflect the effect of factors other than the activities of the SMC
- There is a strong case for DIAC to develop measures of migrant flows specifically designed to assist state and territories to track their performance

The tables below summarise the performance of the SMC over the 2006-07 to 2007-08 period. For skilled migrants the SMC internal statistics distinguish between three categories - state sponsored other skilled visa categories and temporary (457) visas. Apart from the number of primary applicants, estimates of the number of potential workers are also included. In case of business migrants the information include the number of business migrants, the financial capital they bring and how much is used in the business they establish or invested in other ways. The progress of business migrants can also be followed from the number of persons they employ and whether they become exporters.

**Table 6:** Skilled Migration Statistics

SKILLED MIGRATION	2006 - 07	2007 - 08	TOTAL
State Sponsored Migrants	1,127	1,667	2,794
Total Capital inflow	\$123,835,000	\$185,670,498	\$309,505,498
Total Client Contacts	15,747	20,704	36,451
Primary Skilled Visas (PSVs)	3,603	4,500	8,103
Potential Employees from PSVs	4,400	6,750	11,150
Temporary Residency 457 Visas	7,500	8,500	16,000
Potential Employees from 457 Visas	11,250	12,250	23, 500

Source: SBDC, 2008.

**Table 7:** Business Migration Statistics

BUSINESS MIGRATION	2006 - 07	2007 - 08	TOTAL
Approved State Sponsored Visas	488	453	941
Total Capital inflow	\$628,000,000	\$640,061,417	1,268,061,417
Total Client Contacts	5,926	6,287	12,213
927 Registrations (Unsponsored)	28	36	64
Capital Invested in Business	\$249,104,000	\$253,144,000	\$502,248,000
Capital Invested in Treasury Bonds	\$34,000,000	\$50,000,000	\$84,000,000
Jobs Generated	1,017	1,214	2,231
Businesses Exporting	107	74	181

Source: SBDC, 2008.

These are indeed impressive figures and they provide useful measure of the value of the SMC. To put a value on just one of these - the amount of financial wealth business migrants bring - comes out at \$3 millions using the typical of 0.5 per cent rate for raising equity capital.

### **Skill needs and small and medium sized businesses**

There are an estimated 196,000 small to medium enterprises (SME) in operation within WA. Of these 83,500 are non-employing micro-enterprises, 36,500 are employing micro-enterprises with fewer than 5 employees, and 13,900 are small businesses with between 5 and 20 employees (ABS, 2005). These firms generally operate within their industries and are typically more constrained by lack of skilled employees than their larger counterparts. Furthermore, during times of labour scarcity the larger firms are better placed to absorb the available pool of workers as they possess the resources to pay higher wages and promote their job opportunities.

In most cases the business migration program is attracting entrepreneurs from small to medium sized enterprises (SME) into the WA economy. As noted in the table above, the proportion of such firms who engage in exporting is relatively high, in comparison to domestically grown firms. What is not clear is the role the skilled migration program has in filling gaps in the skills shortages experienced by SME.

An analysis of the skills shortages within the WA economy undertaken by the ABS found that greatest areas of need were in the fields of trades workers. The top four occupation groups trades workers in the construction, metals, electrical and electronic, automotive industries (ABS, 2006). Such occupations are also in demand in the mining and resources sector, and small firms will compete for the available pool of skilled labour.

Research undertaken by DEEWR in 2007 found that employers across the Perth metropolitan region were experiencing significant skills shortages, particularly in the recruitment of trades' workers. Two thirds of employers found job applicants lacked suitable qualifications. Overseas migrants were filling many vacancies, particularly in the construction and manufacturing sectors. Around 38 per cent of employers surveyed by DEEWR indicated that they would be willing to recruit migrants in the future (DEEWR, 2007).

Within regional WA the labour skills shortage is understood to be worse than in the metropolitan region. DEEWR research undertaken in late 2007 within the South West found that 73 per cent of employers were experiencing difficulties recruiting skilled or suitably qualified employees. As with the Perth metropolitan area, the construction (91% reported skills shortages) and property and business services (88% reported skills shortages), were the most affected.

It is also worth noting that the *Sensis Business Index* of May 2008 found that SME in WA recorded the highest expectations for employment growth of any state or territory. This would suggest that demand for skilled workers is set to continue, and while the total level of demand may be easing, there remain chronic skills shortages in specific industries and across specific regional areas.

### **The Impact of the SMC on Small Firms in WA**

The impact of the skilled migration program on the state's SME sector is less easily measured. In seeking to understand the impact of labour skills shortages on SME the focus should be upon the firm within its industry. Small firms operate within industry supply chains and their fortunes are typically linked to the trends that impact upon their sectors. Within most industry sectors there are a small number of large firms and a substantial number of SME. As a general principle, where skills shortages impact upon an industry, it is generally easier for the larger firms to soak up the available pool of labour. A problem with the existing analysis of labour skills shortages is the lack of identification of the impact that this is having on the SME community within each industry.

The SMC is tasked to attract both skilled and business migrants into Western Australia. Since its establishment the SMC has achieved or exceeded its designated targets, attracting 1,667 skilled migrants and an estimated \$825.7 million in capital inflow from the skilled migration program. In the area of business migration the SMC has reportedly attracted 453 new business migrants and registration for a further 36. In the performance of its duties the SMC has undertaken an impressive number of overseas trade visits targeting a range of countries. Some of the SMC's own estimates of the economic contribution it makes to the Western Australia economy are included in Tables 6 and 7. However, a question that should be asked is the impact of the SMC on the state's small business sector?

The SMC has been active in targeting specific overseas labour markets and also specific occupational categories identified as being in shortage within some categories. What is not clear is the integration of SMC targeting with the identified needs of specific industries and regions. The SMC is known to work with the Regional Development Commissions (RDC) to help alleviate skills shortages but this process needs to be linked more closely to the needs of industries and industries within regions.

Within the WA economy the majority of employment is concentrated within the industry categories of retailing, property and business services area, health and community services, manufacturing and construction. There are skills gaps across all these areas although they differ in terms of their severity. Within each of these industries are numerous sub-sectors. For example, the property and business services sector encompasses around 53 per cent of all the ICT skilled employees within the Australian workforce, where they are located within a variety of businesses engaged in computer services, multimedia and software development and engineering services.

The targeting of SMC recruitment activities needs to be guided by the needs of specific industries and there should be greater attention given to understanding these needs as they impact on small business operators, and particularly as they impact on regional economies.

### **Strategic Outlook**

The SMC is looking to focus its future efforts on attracting potential skilled and business migrants in the following target markets:

- **China:** Is likely to remain a predominant source of business migrants particularly business talent migrants given its relatively close proximity and existing trade links with WA. It also represents a flourishing market from which considerably more skilled migrants are likely to emerge for the state.
- **India:** Is poised to continue being a leading source of skilled migrants for the state, a position that is likely to be cemented by the fact that there is a high level of participation by Indian students in WA's education system. It is also likely to develop as an important market for business migration for WA.
- **United Kingdom:** Has traditionally had strong cultural and trade links with WA, which is likely to result in it retaining its position as an important market for both skilled and business migrants. This is likely to continue due to WA having the presence of the largest community of UK residents in Australia and will also be aided by the existence of the WA European office being based in London.
- **Malaysia and Singapore:** Represent truly unique and viable markets due to their geographical proximity to WA and the fact that a high proportion of skilled and business migrants have already acquired some form of education or qualification in the state. This is a trend that is also likely to continue into the future. In addition, many of the potential migrants from these countries have an existing knowledge of the many economic opportunities and lifestyle benefits that WA has to offer.
- **South Africa:** Is set to continue to provide a steady source of business and skilled migrants for WA. This is likely to be heightened due the economic and security problems currently faced by many of the country's residents. The relatively large expatriate South African subpopulation already living in WA is also likely to be another draw card for potential skilled and business migrants from this market.

The SMC aims to continue to promote WA as ideal location for potential business and skilled migrants in target markets by highlighting the:

- Visa options for business and skilled migrants
- Advantages of state government sponsorship support
- Benefits of State government assistance
- The state's strong economic outlook including its impressive low unemployment rates and positive employment growth prospects
- stable political climate and multicultural population
- sophisticated business environment and abundant investment opportunities
- relaxed life style and high quality of life enjoyed by residents
- affordability of living in WA

The main promotional activities that the SMC are planned to be involved in during 2008-09 include the following:

- Participating in international migration events in target markets to promote business and skilled migration to WA. This is scheduled to involve:
  - 3 visits to China and India
  - 2 visits to South Africa and the UK
  - 1 visit to Malaysia and Singapore
- Identifying and developing new markets by attending international migration events in Dublin, the Netherlands and Dubai
- Using the assistance of the Senior Migration Officer in the London based WA
- Trade office to test emerging markets in Belgium, Denmark and Eastern Europe
- Liaise and train WA Govt Trade office staff in India, China, the UK and Dubai
- Continue with the "Destination WA" marketing program at international migration expos
- Introduce and implement the "Come share our future" promotional campaign
- Reinforce relationships with key stakeholders by releasing three newsletters to inform and update employer groups, service providers, migration agents, business and skilled migrants on the SMC's operations.
- In addition, the SMC plans to arrange three functions through the Business Migrant Network to keep in contact with their stakeholders. The SMC also intends to organise regular meetings with the State based office of the Department of Immigration and Citizenship (DIAC).

- Provide financial support for Regional Development Commissions to carry out skilled migration initiatives in their localities, by making up to \$135 000 of funding available for these purposes.

### **State Migration Planning for Skills Shortages**

When setting policy for skilled migration attention should be given to the needs of specific industries, but also to the distribution of labour across regions and firms by size. The current mechanisms for measuring the impact of labour shortages and the role of SMC in alleviating the problems of SME could be improved. As noted earlier, attention should be given to supporting the needs of SME and in particular regional industries in the targeting of skilled migration programs.

It is encouraging to see the SMC working with the RDC to identify specific skills gaps at the regional level. As the SMC is located within the SBDC it seems appropriate for the SMC to target its activities in assisting small business operators to find suitable skilled workers. A problem for the SMC is likely to be the identification of skills gaps and the collection of reliable information from SME. Currently the DEEWR skills vacancy surveys do not appear to be reporting the specific needs of industries by size. Discussions with DEEWR might assist in this process as they maintain a Labour Market Economist presence in each state and are generally open to collaboration.

The collection of information from small business operators will require collaboration with groups such as DEEWR and the RDC to identify possible skills shortages, but is also likely to require some new data collection. The SMC is also likely to benefit from a closer collaboration with other State Government agencies such as the Department of Industry and Resources (DOIR), and the Department of Food and Agriculture of WA (DAFWA). Both these agencies are already engaged in projects designed to boost the development of industries such as the ICT and manufacturing sectors, and agribusiness.

As noted earlier in this report, the coordinated approach followed by South Australia and Victoria has proven an effective mechanism for boosting inbound migration. This approach should be emulated by Western Australia and the SBDC-SMC should be a key component within any future framework. Collaboration between state agencies over industry and regional development policy needs to place human capital development at the centre of any future strategies. There should be a state level industry skills development task force created that draws together the appropriate government agencies (e.g. DOIR, SBDC, DAFWA, DET), along with industry representatives (e.g. CCIWA, Chamber of Minerals & Energy, ACS, Australian Information Industries Association, Master Builders Association, Housing Industries Association and Motor Trade Association). It is in this arena that the SMC can serve a useful role as a service delivery and policy support entity.

In conjunction with the RDC, the SBDC and its SMC should consider replication of any collaborate state level frameworks at the regional level. The creation of a regional industry and economic development plan is already a strategic task of the RDC. At the regional level there should be nine regional skills development task forces that replicate and report to the state level mechanism. These would provide a means of data collection and policy guidance to the SMC.

## **7. Future Trends and Developments**

This section sets out some future trends and developments that are relevant to the role of the SMC in the future. In the first instant we discuss the future direction of Australia's immigration policy. This is followed by description of what some of the other states are doing. Finally we look at Western Australia future need for skilled labour.

### **Immigration policy**

Two important drivers of the SMC's operations are the level of immigration and the pace and direction of change to the state sponsored and regional migration initiatives. Both are under the control of the Commonwealth Government, but the developments that have already taken place means that the states and territories will be able to exert greater influence than in the past.

The planned level of migration for 2008-09 in the skilled stream is forecasted as rising to 133,500. This is an increase of over 20 per cent over the 2007-08 level. Beyond 2008, the size of the immigration program will be driven by an assessment of the number of migrants that Australia can absorb. It seems highly unlikely, however, that the size of the program will decrease over the coming years. The new Commonwealth government has taken a strong pro-immigration stance which is unlikely to be moderated. Furthermore, the increase in migration since 2001-02 has its own built in momentum and will drive the demand for more migrants in the future. Past experience also clearly demonstrates that migration cannot be turned on and off at will.

The SSRM initiatives are also likely to expand. Recently we have seen the somewhat unusual situation of the Commonwealth Government urging state governments to sponsor more skilled immigrants. In case of Western Australia it is not for lack of trying that state sponsorship account for only ten per cent of skilled migration. What constrains state sponsorship is the occupational list that restricts WA from attracting the migrants it wants. This constraint is recognised by the Commonwealth and consequently it has been proposed that WA be allocated 500 non-list places in February. It is likely that the developments in the capacities of the states to manage their migration will result in further relaxation in the Commonwealth's control over the occupations of migrants. These and other developments might take place under a State Migration Plan suggested by the Minister of Immigration and Citizens Affairs and welcomed by the Western Australian Government. However, at this point in time no details about what such a plan might involve have been released.

### **Development in other states**

As previously explained most of the other states have embraced opportunities the devolution of Australia's immigration program has given them. There is also every indication that they will do so even more actively in the future than in the past.

A case in point is Victoria's migration strategy for the 2008-11, Global Skills for Victoria. This strategy provides some pointers to the future and might also serve as a benchmark for Western Australia. It is significant to note that this is a policy document endorsed by the Victorian Government and not just a plan developed by a government agency. The strategy sets out four objectives:

1. Expanding and enhancing Victoria's skill base

2. Marketing Victoria as the destination of choice for skilled and business migrants
3. Assisting skilled and business migrants to make the most of their skills
4. Attracting and retaining skilled migrants to provincial areas

Compared to the past the objectives are given a broader formulation. Thus instead of just 'increasing skilled migration to Victoria' the revised formulation provides for 'expanding and enhancing Victoria's skills base'. Consistent with this, the range of actions under this heading expands on what was previously subsumed under the more simplistic 'increase migration' objective. In a similar vein, the activities to be undertaken to meet the other objectives are also more encompassing. The commitment to attracting migrants to regional areas is particularly strong and backed by a specific budget allocation.

The overall impression this strategy gives is that the Victorian Government is serious about attracting more migrants to the state and to make better use of their skills. This impression is reinforced by the budgetary commitment of \$15 million. This figure is more than double the \$6 million allocated to increase skilled and business migration over the 2003/04-2006/07 period.

### **Summary of Western Australia's need for skills**

During the past four to five years Western Australia has experienced exceptional shortages of skilled labour.

- The Skilled Vacancies Index has been stuck at around 200 points (twice the national figure)
- The number of trade vacancies has been running at around the 1000 mark
- The Scarcity Index, the percentage of employers saying that labour is scarce, has been around 70 per cent
- The Hudson index of permanent employment expectations was at its fourth highest level in eight years in September 2008

Even if the shortages are most acute in the trades, the scarcity of labour is evident in most occupations and industries. Thus, two thirds of employers view the shortage of labour as one of their top three concerns.

These shortages are not a temporary aberration. Over the next few years the boom is expected to continue. All the forecasts of GSP (Gross State Product) come up with figures in the 5-6 per cent range. Beyond that nobody really knows what will happen, but there is nothing to suggest that the export driven growth will come to a halt. Consequently, all projections of Western Australia's skill needs come up with very large numbers.

- The State Training Board expects another 180,000 skilled jobs by 2016

- The minerals sector expects to need another 42,000 workers by 2015
- The Chamber of Commerce and Industry projects a need for another 400,000 workers over the next ten years. Given the current population trends, this implies a shortfall of 150,000 workers

The latter two also recognise that overseas migration must play a large role in meeting these expected demands. In contrast, the State Training Board makes but one reference to migration - not as a source of skill, but as contributing to demand and hence to the growth in employment.

In summary, the most likely future is an environment with:

- A Commonwealth migration policy favourable to expanding migration to WA
- A continuing strong need for attracting more migrants
- Increasing competition from the other states

It is abundantly clear from the scenario developed above that a passive approach to migration to WA is not really an option. Notwithstanding the strong pull from employment growth, given what the other states are doing a passive approach by the Western Australian Government could lead to a significant drop in skilled migration. Currently, WA attracts about 18 per cent of permanent skilled migrants. This share could easily drop to below the population share of 10 per cent.

## **8. Strategic Options and Recommendations**

There are at least three strategic options available to the WA State Government in relation to the future of the SMC. These can be summarised as follows:

1. **Closure** – the SMC is closed down and its funding allocated elsewhere.
2. **Status Quo** – the SMC continues in a “business as usual” mode with the same level of funding and the same tasking.
3. **Growth** – the SMC is tasked to undertake a wider role and expand its services. This will require additional resources.

Let us examine each of these options. It is understood that the annual budget for the SMC is in the order of \$1.4 million. The closure of the SMC will therefore save the State Government this relatively modest level of annual revenue, but its opportunity cost will be significantly higher. Given the chronic skills shortages facing the WA economy, and the anticipation that these conditions are unlikely to be alleviated in the short to medium term, the closure of the SMC would have a net-negative impact on the State. It may be argued that the inflow of migrants to Western Australia is likely to continue whether or not the SMC exists, however, the disappearance of the centre would risk the loss of the specific targeting function performed by it.

The ‘status quo’ option would see the SMC continue to operate in its current form and with broadly its current level of funding. The problem with this option is that the demand for skilled labour is likely to remain high, and this is predicted to place significant constraints on industry growth and overall economic development in the state. The continuation of business as usual with the SMC and its current resources will therefore provide some assistance but it will not provide a significant contribution to the state’s labour skills shortage.

The third option of “growth” would involve the SMC expanding its operations with a vision to address specific industry skills shortages and to assist the alleviation of such skills shortages in regional Western Australia. In doing this the SMC would need to take a stronger role in collaborating with other agencies and seeking to fill the gaps in the labour market that are holding back economic growth. The focus would be on working within targeted industries, e.g. ICT, Manufacturing. It would require not only cross-agency collaboration, but also enhanced data collection and analysis.

As noted above this would potentially see the SBDC-SMC working more closely with such state agencies as DOIR, DAFWA and the Department of Local Government and Regional Development (DLGRD) who are also undertaking skills shortage projects. Collaboration with DEEWR at the Federal Level to collect labour force data will also be required. SBDC-SMC would also need to collaborate with Regional Development Commissions (RDC) to identify skills shortages in regional industries and undertake programs designed to alleviate these.

The creation of a coordinated approach to the attraction of skilled migrants as has happened in South Australia and Victoria would also seem an appropriate response. This should involve a multi-agency task force approach and the role of the SMC would be to serve as a service delivery arm. Similar collaborative approaches should be considered for the nine regional areas with Western Australia. If a suitable task force model were created at the state level, nine regional-level task forces should be created.

As discussed above, these task forces would draw together representatives from the relevant State Government agencies, plus industry representatives. There should be a "voice" in this process for small business operators. This might be achieved through the appointment of small business representatives, but given that time is typically a problem for such individuals, there is likely to be a role for the local Chambers of Commerce and Industry (CCI), Local Government Agencies (LGA) and the Small Business Centre (SBC) network that is funded by the WA Government via the SBDC.

The scope of work for this study involved four tasks:

1. Review the current economic situation in WA and forecast the needs of the State with regard to skill shortages and investment attraction.
2. Outline the State Migration Centre's response to date to attracting skilled workers and capital investment.
3. Comment on the State Migration Centre's proposed future response to attracting skilled workers and capital investment.
4. Recommend the level of funding required by the State Migration Centre to undertake its proposed activities to attract skilled workers and capital investment

The first of these has been addressed in the body of this report and based on the most reliable forecasts the shortfall in the Western Australian workforce is anticipated to be around 150,000. Within this there are likely to be major skills gaps in key areas of professional and technical occupation across a number of key industries. The lack of a suitable pool of skilled workers is threatening to impose constraints on the growth of the WA economy.

This report has also addressed the second task by reviewing the role of the SMC in both skilled migration and business migration. Overall the pattern that emerges is a positive one for the role played by the SMC. If there are any weaknesses in its past track record, they are related to the need for a more focused targeting of its efforts in addressing the needs of specific industries and in servicing the needs of regional areas and small firms.

The SMC plans for future activity seem to be moving in the right direction. For example, it is encouraging to see the SMC focusing on an enhanced collaboration with the nine RDC to assist in better targeting of skills gaps in the regional area of the State. With the experiences of South Australia and Victoria in mind, there appears to be scope for increased collaborative approaches to tackling the skills shortage. As suggested above, this might be addressed via the creation of a labour skills task force framework that could be established at the state and regional levels.

The SMC has played a key role in the development of policy in the area of skilled and business migration to Western Australia. This dual role of policy development and service delivery undertaken by the SMC is a significant one for a relatively small team. For the SMC to continue to provide effective services and policy guidance some consideration will need to be given to this dual function.

For example, this review has identified the need for a labour skills task force or similar framework to be established. The SMC is likely to be the primary actor within this providing both policy and service support to other agencies. The details of the creation

of a labour skills task force model is beyond the scope of this report, however, it would need to be coordinated by a senior public servant and reporting to a State Cabinet Minister. The structure of this task force need not be overly formal; however, we strongly urge the establishment of a meaningful strategic partnering between the SBDC and other relevant government agencies, as well as industry representative bodies. The SMC would potentially play the key role in this structure.

The final task relates to the funding for the SMC. As outlined above, we see three strategic options: i) closure, ii) status quo and iii) growth. The first two are not recommended. If the SMC is to follow the third option its current funding level will need to be increased. As the current funding is approximately \$1.4 million per annum, an increase of up to \$4 million per annum might be required to allow the SMC to widen its scope and undertake the type of responses to regional and industry development needs outlined in this report.

Confidential discussions with State Governments agencies in South Australia and Queensland indicate that these states invest significantly more in their respective skilled migration activities than Western Australia. For example, Queensland has a total annual budget of around \$2.9 million with additional funding for their UK representative office. South Australia invests annually \$8 million. It is understood that Victoria spends around \$5 million. If Western Australia is to compete with these states for business and skilled migrants it will need to consider investing more than has been the case over past years.

### **Projected Future Investment in the SMC**

The SMC is currently operating with a budget of \$1.4 million of which \$800,000 is allocated to salaries for the existing team of 9 personnel. It also allocates some \$200,000 per annum to keep its UK office operating in London. The remaining \$400,000 is spent on marketing and associated operations.

To effectively address the challenges facing Western Australia's future need for skilled and business migration, the SMC would need to increase its staffing level by approximately 4-5 personnel, as well as boosting its overall budget for other activities. Table 8 outlines a proposed budget of \$4 million. The justification of this budget is as follows:

- Salaries of \$1.5 million would be allocated to up to 14 staff plus on-costs with a total cost per head of \$107,000.
- Increase of expenditure for the UK office of \$50,000 to keep pace with rising costs of operation.
- Research and policy development expenditure of \$500,000 allocated broadly on the basis of \$50,000 for each of the nine State regions and the same for the Perth metropolitan area. This would enable enhanced data capture and coordination of activities with the RDC and local CCI networks to identify skills needs in regional WA.
- Marketing and operations budget of \$1.5 million to allow 12 overseas trade delegations or trade fairs per year. This would enable the SMC to provide more effective coverage of key target markets as well as enhancing the marketing communications effort undertaken by Western Australia.

- The \$250,000 allocated to settlement assistance is a reflection of the need to offer services to in-bound migrants and this amount of funding would permit the SMC to support approximately 2,500 primary visa holders and their families each year.

**Table 8:** Proposed Future Funding for the SMC

ACTIVITY	ANNUAL EXPENDITURE
Salaries plus on-costs	\$1,500,000
UK Office operations	\$250,000
Research & Policy Development	\$500,000
Marketing & operations	\$1,500,00
Settlement Assistance	\$250,000
TOTAL	\$4,000,000

### Conclusions

As noted the body of the report, the activities of state migration agencies can be classified under the following headings:

- Provision of information to prospective migrants
- Marketing the state as a destination
- Targeted marketing in overseas locations
- Provision of business related information of prospective business development migrants
- Development of information network to identify state needs
- Assessment and processing of state sponsorship applications
- Provision of, or links to, post-arrival services
- Follow up assessment of business development migrants
- Advice and inform other government agencies about migration issues

There is a need for and prospects of attracting more migrants, but effective targeted marketing overseas requires a continued presence in the most promising source countries. We have also noted that the competition for internationally mobile workers and persons with business skills is increasing which tends to increase the cost of

attracting a given number of migrants. In addition we have set out a strong case for better meeting the skill needs of Western Australia, in particular the needs of the small and medium size businesses.

The developments in Australia's immigration policy during the past decade have created many new opportunities for State Governments to influence the number and characteristics of migrants who come to their state. In our view, Western Australia should seek to play a more prominent role in the continued devolution of the immigration program, and position itself to make the best possible use of future opportunities to drive the continued development of the state. This requires a well resourced State Migration Centre.

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