IS THE ECONOMIC IMPACT OF INTERNATIONAL MIGRATION MARGINAL IN DEVELOPING COUNTRIES?

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Overview

For many poor people around the world migration is a way of life, and has been for centuries. People migrate to take advantage of jobs elsewhere, to use their skills better, or simply because there are few opportunities to earn a living where they are. Whatever the reason is, many migrants and their families benefit from the experience.[1]

Recent simulations indicate that small increments to global migration could have far more profound effects in enhancing world production than would complete removal of all policy barriers to trade. Moreover, for many developing countries, remittances have become a critical form of financing their balance of payments. The result is a vast increase in remittances. For example in Ghana recorded remittances are about the same as aid flows, around $1 billion a year.

Governments are beginning to encourage their Diaspora to invest; and people are returning home with new skills and a fresh outlook on life. There is still untapped potential in legal migration, which can be a spur for development.[2]

Globalization is increasing the demand for both skilled labor, and for cheap and flexible labor, particularly in richer countries in which societies are ageing.

However the risks, particularly when people move illegally should not be ignored. The involvement of criminal gangs in the trafficking and smuggling of people continues to represent a real challenge. Discussions about the consequences of migration take place in communities and societies all around the world in both developed and developing countries. People talk about the impact of irregular migration, the loss of much-needed skills, social tensions and the rights of newcomers.

But, if governments can manage migration, the benefits for poor people in developing countries could be made available. The World Bank has put a figure on this potential. It estimates that by 2025 migration could put over US$140 billion a year into the pockets of people in poor countries. This is almost three times more than the historic commitments leaders made to double aid at the G8 meeting at Gleneagles in 2005.[3]

However, international migratory flows are relatively small compared to other flows such as trade or financial flows. Despite considerable deepening of global flows of money, goods, services and information, the mobility of people remains limited. While the share of merchandise exports and trade in services in world GDP roughly doubled between 1960 and 2000 (from round

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[1] Moving Out of Poverty-Making Migration Work Better For Poor People, Department for International Development (DFID), March 2007.

[2] International Migration Regimes and Economic Development, Robert E. B. Lucas, 2005.

[3] DFID, March 2007.

10 to 20 per cent and 3 to 5 per cent respectively), the share of international migrants in world population has not risen that dramatically (from around 2. 5 to 3 per cent).[4]

The links between international migration and economic development in the lower income countries is two-way: development affects migration and migration affects development. The effects of development on migration and of migration upon development are intimately linked and both influences are controversial.[5]

Labor Market Response to Migration

Virtually all of the evidence indicates that tighter labor markets at home discourage departure. Economic theory offers few unambiguous, hypothesized effects of emigration upon local labor markets. Emigration probably does reduce labor supply overall, and more specifically reduces the availability of the departing labor categories, even in the longer run. Whether this results in increased wages or diminished unemployment in the market for workers, similar to those who are leaving, depends upon institutional barriers to wage flexibility in that particular market, upon the prevalence of surplus labor of this type, the role of international trade in the relevant product markets, ability of others to acquire skills rapidly or relocate residence to take up vacated positions, and the passage of time.

The cross market effects are even more ambiguous: little can be said a priori about the effects of skilled labor departure on wages or employment of the less skilled, or about the consequences of emigration from one region for trickle down gains elsewhere. Suffice to say that in the end the responses across the many differentiated domestic labor markets impacted by substantial emigration are almost impossible to characterize a priori. Evidence is clearly required.

The first is the set of countries where departing workers are indeed easily replaced with no discernible loss in output or rise in wages at home. This may occur where emigration is very small in relation to the overall labor market, where those departing were previously unemployed, or where departing employed workers are easily replaced through migration or training without significant decline in worker quality. This may have been largely true of Bangladesh, India, Indonesia and Sri Lanka for example.

A second set of cases is situations where significant upward pressure on wages is discernible. To some extent Pakistan appears to fit into this setting, given the fairly clear connection between wages of skilled construction workers and emigration to the Gulf, a connection which has continued over the last three decades, and there are weaker indications that wages of unskilled construction workers and possibly of agricultural workers may also have been enhanced. Similarly, real wages in the Philippines appear to have responded remarkably closely to out migration. This is notably true in Philippine manufacturing, though any trickle down effect on agricultural wages appears weak in this context, in part because less recruiting takes place from lower income agricultural areas than in Pakistan.

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[4] Migration and Development, Dhananjayan Sriskandarajah, Institute for Public Policy Research, Global Commission on International Migration, September 2005.
[5] Lucas, 2005.

No matter whether emigration thus results in tighter labor markets by replacing emigrants with underemployed or unemployed people without significant wage increments as in the first set of countries, or whether wages are drawn up through emigration as in the second set, both types of examples appear to indicate labor market gains for those who remain at home. The experience of Albania even suggests the possibility that emigration may serve a positive role in job creation, in that case by easing the transition to private sector employment.

Yet there is a less positive possibility, namely when emigration of skilled personnel restricts labor demand and hence employment opportunities of less skilled counterparts who remain at home.[6]

Emigration of Highly Skilled

There are increasing concerns about the loss of skilled and professional workers from developing countries as evidence suggests that 'brain drain' is now far greater than a few decades ago. For example, the number of highly skilled emigrants from Africa increased from 1,800 a year, on average, during 1960-1975 to 4,400 during 1975-1984 and 23,000 during 1984-1987.[7] There are obvious benefits to individuals – in terms of career opportunities and earnings – and to sending countries in the form of remittances and enhanced skills offered by migrants on their return. However, these outflows can have detrimental effects on the sending country, which loses scarce human capital.

The impact of highly skilled migration, particularly of health and education professionals, varies from country to country. Some countries, such as the Philippines and India, invest in training health workers for export; and remittance earnings are seen as an important benefit. For other countries – especially small nations and the poorest countries in Africa – the impact on their health systems can be more severe. Jamaica loses roughly 8% of its registered nurses and more than 20% of its specialist nurses annually. Most go to the US or the UK. As a result it has only 11.3 nurses per 10,000 people (compared to US at 93 per 10,000).[8] However, to relate the state of a nation's health to the increasing emigration of medical professionals, or conversely, to their presence, is to take too narrow a view of how health is delivered to a population.[9]

It is important to recognize that brain drain does not necessarily lead to brain strain. For example, highly-skilled migrant workers who would not have otherwise been employed effectively in the domestic labor market due to an oversupply of workers with those skills do not necessarily represent a loss to the economy when they migrate. The sector they left may be able to develop and thrive despite the leakage of these workers and the sending country's economy may actually benefit from remittances that migrant workers send home. Early evidence from India's IT sector suggests that the impact of mobility have not had clearly adverse impacts Hence, the Philippines continues to encourage its skilled workers to migrate despite a very high proportion of the country's workers already being abroad. Similarly, there have even been calls India for a special 'emigration ministry' whose sole purpose would be to 'export as many Indians

[6] Lucas, 2005.
[7] International Migration, Remittances and the Brain Drain, C. Ozden & M.Schiff, World Bank, 2005.
[8] Global Poaching: Jamaica's Brain Drain Econ-Atrocity Bulletin, B. Wyss, 2004.
[9] Globalization, Skilled Migration and Poverty Alleviation: Brain Drain in Context, R. Skeldon, 2005.

as possible' because it is seen as in India's interest to have a large, prosperous, influential and skilled Diaspora.

In other words, emigration of skilled workers must be seen in the context of the requirements of the country in question. This importance of context means that the first step in addressing the negative impacts of the emigration of highly-skilled workers is identification.[10]

Poverty Reduction

For poor people, opportunities to migrate into low-skilled jobs can and do offer a rapid route out of poverty. Economic analysis suggests that if global trends over the last thirty years continue, temporary migration to industrialized countries may lead to gains of as much as US$300 billion a year in 2025, shared equally between people in developing and developed countries. Much of the gain would come from the migration of unskilled workers to meet labor market needs.

Migration can benefit poor people, poor communities and developing countries. Migration can help individuals and their families to increase their income, learn new skills, improve their social status, build up assets and improve their quality of life. For communities and developing countries, emigration can relieve labor-market and political pressures; result in money being sent home (commonly known as remittances); increase trade and financial investment from abroad; and lead to support from migrant communities (Diaspora) such as technology transfer, tourism and charitable activities.

The benefits of migration are not realized when developing countries lack the capacity to manage internal and external movements, lose their 'best' people and fail to make the most of Diaspora activities – including remittances. In destination areas an inflow of migrants can lead to decreased wages, unemployment and social and political tensions. Well-managed migration regimes can help to make the most of the potential benefits and reduce the risks when people move.

If well managed, migration has the potential to support the achievement of the Millennium Development Goals (MDGs) and to improve poor people's lives. It is important therefore, that development policy and planning to reduce poverty takes account of the complexity of migration, and the different ways in which poor men, women and children may benefit from, or lose out as a result of, migration.[11]

Remittances

In 2006 international remittances to developing countries through formal channels were US$221,3 billion in total. The World Bank estimates that in 2007 the figure will exceed US$239,7 billion. In addition, there are large transfers of money through informal channels – sent in letters or carried by someone travelling home.[12]

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[10] Sriskandarajah, 2005.
[11] DFID, 2005.
[12] World Bank (2007) Global Economic Prospects.

Flows of remittances are relatively predictable, stable and rising. This is likely to continue despite the fact that remittances tend to decline between first and second generation migrants as they become integrated into their new homes. Unlike other types of foreign income, remittances can rise to meet the needs of ordinary people during times of crisis. For example, remittances to Afghanistan, Somalia, Central America and the Balkans have helped people and communities get their lives back together following conflict and natural disasters. More recently, banks and money-transfer companies in the UK noticed a sharp increase in remittances as many people sent money to help their families and communities following the tsunami that affected 14 countries in December 2004 and the earthquake in Pakistan in October 2005.

There have been a few cases where remittances do not increase in times of crisis. A recent study found this to be the case in Jordan and Morocco as well as in Turkey. The most likely explanation was that migrant workers chose to keep more of their savings in their host country during periods of economic trouble in the home country, because there is reduced confidence in their country's financial systems.[13]

World Remittances 2007[14]

(US$ billion)	1995	2000	2001	2002	2003	2004	2005	2006	2007e
Inward remittance flows	**101.6**	**131.5**	**146.8**	**169.5**	**205.6**	**231.3**	**262.7**	**297.1***	**317.7**
All developing countries	*57.5*	*84.5*	*95.6*	*115.9*	*143.6*	*161.3*	*191.2*	*221.3*	*239.7*
Outward remittance flows	**98.6**	**110.1**	**118.8**	**131.3**	**146.8**	**166.2**	**183.4**	**207.0****	
All developing countries	*12.4*	*11.5*	*13.6*	*20.4*	*23.8*	*30.9*	*36.0*	*44.2*	

- Top 10 remittance recipients in 2007: India ($27.0 bn), China ($25.7 bn), Mexico ($25.0 bn), Philippines ($17.0 bn), France ($12.5 bn), Spain ($8.9 bn), Belgium ($7.2 bn), United Kingdom ($7.0 bn), Germany ($7.0 bn), Romania ($6.8 bn).
- Top 10 remittance recipients in 2006 (percentage of GDP): Tajikistan (36.2%), Moldova (36.2%), Tonga (32.3%), Kyrgyz Republic (27.4%), Honduras (25.6%), Lesotho (24.5%), Guyana (24.3%), Lebanon (22.8%), Haiti (21.6%), Jordan (20.3%).
- Top 10 remittance senders in 2006: United States ($42.2 bn), Saudi Arabia ($15.6 bn), Switzerland ($13.8 bn), Germany ($12.3 bn), Russian Federation ($11.4 bn), Spain ($11 bn), Italy ($8.2 bn), Luxembourg ($7.5 bn), Netherlands ($6.7 bn), Malaysia ($5.6 bn).
- Top 10 remittance senders in 2006 (percentage of GDP): Luxembourg (18.2%), Lebanon (18.2%), Tajikistan (14.0%), Bahrain (11.9%), Maldives (9.1%), Tonga (5.4%), Kyrgyz Republic (5.4%), Guyana (5.4%), Saudi Arabia (5.0%), Vanuatu (4.6%).

Researches suggest that remittances from one country to another and those sent within countries help to reduce poverty. Remittances can help families to meet their basic needs – buy food, see a doctor or make repairs to their home. In some cases the money received from relatives who have migrated can be enough to provide savings or investment opportunities in small-scale enterprise, to buy land or open a bank account.

Remittances can help to improve economic growth. When remittances are saved or used to make investments they help to stimulate economic growth. Even when remittances are used to buy food or health and education services, they stimulate demand for other goods and services.

[13] Business Cycles and Workers' Remittances: How do Migrant Workers Respond to Cyclical Movements of GDP at Home? IMF WP/06/52.
[14] Migration and Remittances Factbook, World Bank, 2008.

This is particularly important in countries with high unemployment. Remittances are also a source of foreign exchange for some of the poorest countries and in some small economies represent a large share of gross domestic product (GDP) and of export earnings.[15]

Turkey Remittances 2007[16]

(US$ million)	2000	2001	2002	2003	2004	2005	2006	2007e
Inward remittance flows	**4,560**	**2,786**	**1,936**	**729**	**804**	**851**	**1,111***	**1,200**
of which								
Workers' remittances	4,560	2,786	1,936	729	804	851	1,111	..
Compensation of employees	-	-	-	-	-	..	..	..
Migrants' transfer	-	-	-	-	-	-	-	..

Emigration, 2005
• Stock of emigrants: 4,402,914
• Stock of emigrants as percentage of population: 6.0%
• Top 10 destination countries: Germany, France, Netherlands, Austria, United States, Saudi Arabia, Bulgaria, Greece, Switzerland, United Kingdom.
Skilled Emigration, 2000
• Emigration rate of tertiary educated: 4.6%
• Emigration of physicians: 1,986 or 2.3% of physicians trained in the country
Immigration, 2005
• Stock of immigrants: 1,328,405
• Stock of immigrants as percentage of population: 1.8%
• Female as percentage of immigrants: 52.6%
• Refugees as percentage of immigrants: 0.3%
• Top 10 source countries: Bulgaria, Germany, Serbia and Montenegro, Greece, Macedonia FYR, Netherlands, Romania, Russia, United Kingdom, Azerbaijan.

The sending of money by migrants to their families and communities is made difficult and costly by weak financial infrastructure, poor payments systems, a lack of accessible financial institutions, weak accountability and a weak regulatory environment. This means migrants frequently turn to informal channels to transfer money. Informal transfer systems are not necessarily ‘bad’ and, from the point of view of migrants, they can offer an inexpensive and reliable way to send money home when there are no banking or financial services available. However, transparent and accountable ways of transferring money are important to prevent financial crimes and money laundering or the diversion of funds to finance other illegal activities such as terrorism. Preventing these illegal activities is best achieved through regulated formal systems. The challenge is to create a set of rules that are flexible and inclusive enough to cover both informal and formal sector approaches.

To make the most of remittances there is a need to improve the infrastructure for sending and receiving money. This will mean having good economic policies at national level; political stability and improvements in the investment climate in origin countries; improvements in migrants’ access to the formal financial sector – or ‘banking the unbanked’

Supporting migrants to use the formal financial sector might include lowering the cost of money transfers, providing them with information about the services available and helping to overcome their concerns about using formal institutions such as the need for identification.[17]

[15] DFID, 2005.
[16] Migration and Remittances Factbook, World Bank, 2008.

In response to the growing value of remittances, some governments have started to encourage these flows. They are putting in place new legislation and regulations to make it easier to send money home. But it is important that governments do not damage what is essentially a private transaction between individuals and that there is recognition of the impacts for migrants who send money home. Remittances involve a trade off between the needs of the migrant and those of the families to whom they send money. Any attempts to increase the volume and poverty reduction impact of remittances should not place additional burden on migrants who may also be in a vulnerable situation.[18]

Many governments now recognize that their diasporas can support national development from abroad. As a result they have begun to give 'their' migrants special rights, protections and recognitions. For example, in 1998 the Indian government launched a huge sale of five-year bonds guaranteed by the State Bank of India and available only to non-resident Indians. There were significant benefits to make the bonds attractive including the option of redemption in US dollars or German Marks and exemption from Indian income and wealth taxes.[19] Similarly, the Philippine government has created incentives including tax breaks and privileged investment options for Filipinos abroad. Governments' involvement with their diasporas takes different forms and has differing priorities. The most immediate positive effects on poverty are likely to come from plans that aim to maximize the income that comes from remittances and goes directly to households.[20]

Conclusion

Summary of the economic effects of migration[21]

Positive effects	Negative effects
• Provides opportunities to workers not available in the home country. • May ease effect on the domestic market of the supply of excess labor and reduce unemployment. • Inflow of remittances (that increase incomes and may lead to improved human development outcomes for recipients) and foreign exchange. • Technology, investments and venture capital from diasporas. • Can contribute to increased trade flows between sending and receiving countries.	• Loss of highly skilled workers and reduced quality of essential services. • Reduced growth and productivity because of the lower stock of highly skilled workers and its externalities. • Lower return from public investments in public education. • Selective migration may cause increasing disparities in incomes in the home country. • Loss of fiscal revenue from taxation of workers. • Remittances may diminish over time.

[17] DFID, 2005.
[18] The Development Dimension of Migrant Remittances.Working Paper Series, Migration Policy Research, N. Nyberg Sorensen, IOM, 2004.
[19]Beyond Remittances: The Role of Diaspora in Poverty Reduction in their Countries of Origin. A Scoping Study. Migration Policy Institute, K. Newland, & E. Patrick, 2004.
[20] DFID, 2005.
[21] Sriskandarajah, 2005.

• Stimulus to investment in domestic education and individual human capital investments. • Return of skilled workers may increase local human capital, transfer of skills and links to foreign networks. • Charitable activities of diasporas can assist in relief and local community development.	• Inflationary potential of remittances, especially on real estate, in some areas. • A 'culture' of migration, disincentives to invest locally.

Until recently migration and development have been treated as very separate policy areas. The priorities for migration authorities have been to control the movement of people and integrate regular migrants into national labor markets and wider society. For development professionals, particularly those involved in rural development and urban planning, migration has been viewed as a failure of development, as people leave their communities despite programmes and projects to help them improve their lives in their home areas.

The increasing recognition that migration and development are linked means more sophisticated policy approaches are now needed. The objectives of both fields are more likely to be achieved if migration and development policies begin to acknowledge the benefits and risks of migration for poor people and developing countries.[22]

The relationship between migration and development is at once incredibly significant **but also marginal in many ways.** It is significant for all the reasons outlined above**. Yet, it would be naïve not to recognize that the relationship is also somewhat marginal. *Development is marginal to migration:* when all the various aspects of managing migration are considered, the development impacts on countries of origin is rarely going to be as prominent a research or policy issue as issues such as immigrant integration, migrant rights and the economic impacts of immigration*. Similarly, migration is marginal to development: of all the factors that shape the development potential of an economy, migration is almost always going to be relatively insignificant.***

Nevertheless, it is clear that migration has the potential to shape significantly the economic development of some sectors in developing countries. **And from the growing evidence in this area that whether the impacts of migration are positive or negative will depend very much on the context and *how the situation is managed*. Much will depend on the rate and nature of emigration.[23]**

[22] DFID, 2005.
[23] Sriskandarajah, 2005.