

International Workshop on the Economic and Social Impact of Migration, Remittances, and Diaspora

Yerevan, Armenia

Keynote Address

Luca Barbone

We are very delighted to host a workshop in Yerevan on the Economic and Social Impact of Migration, Remittances, and Diaspora and would like to thank all of you for your interest and participation. Migration is a phenomenon that reflects economic, social and demographic imbalances across countries and requires a multi-disciplinary approach to understand and manage.

Today, I will offer some observations on the complex issue of the development impact of migration. I will do so by commenting on three broad questions:

- First, how and in what ways is migration important for development?
- Second, what are the costs and benefits of migration for migrant sending and receiving countries?
- And finally, what are the strategic choices that countries—both receiving and sending—are facing—(and what do we know and not know on how to advise them)?

I. Why is migration important for development?

Let me start a bit provocatively to frame my argument on the importance of migration as a development issue. Judging by the scope of media coverage and public debate, migration has been one of the most contentious public policy issues in the developed countries in recent years. Spirited discussions on just how many immigrants are “too many” – or not enough – has headlined many of the most recent electoral cycles in developed countries -- most notably Australia, Denmark, France, Switzerland, Austria, and the U.S. The charged nature of the discussion has stalled or scattered sound reforms. At the same time, at the international level, initiatives have abounded. Following the publication of the influential report of the High Level Commission on Migration in December 2005, the UN system, the IOM, the World Bank and several bilateral and multilateral organizations have moved to establish a global forum for migration and development to provide a platform for countries and development partners to “share information on ideas, good practices and policies regarding migration and development and to explore initiatives for international cooperation.” (Global Forum on Migration).

But for all the public debate and heated discussions, it is worth noting that international migration is **actually a very rare event**, if you consider the numbers involved and the image of globalization that has taken hold in the world. The fact remains that there is really still only a small fraction of the world population who reside outside their country of birth. Only 3 percent of the world’s population (or about 200 million people) lived in a country different from their country of birth. Although this is the highest rate in the past 40 years, this rate has not changed much in the last decade.

If globalization involves increasing international flows of goods, capital and people, then international flow of people pales in comparison to the volume of flows in goods and capital.

Four reasons why migration is controversial

But clearly the (relatively) small numbers belie a much more complex reality and one that makes it very important for the development profession.

First, migration is not happening uniformly: large numbers of migrants leave from relatively few countries and move to selected destinations. This asymmetry is bound to breed social debate and unrest. The share of foreign population in total European and US population has been growing since 1960. It stood at about 13 percent in the US and around 8 percent in Europe by 2005. And within that, some countries in Europe - most notably Austria, Ireland, Luxembourg, UK, Sweden and Switzerland - have much higher rates than the European average, while others (Spain, Italy) have seen the massive emergence of foreign workers and guests where they were not really present. Russia's stock of immigrants accounts for 8.4 percent of population.

Second, for several developing countries, out-migration involves a large fraction of the population. The list includes large and small countries as well as developed and developing countries. Close to 40 percent of the population of some small open economies such as Bosnia-Herzegovina or Jamaica is out of the country. In Europe and Central Asia, Albania, Moldova, Tajikistan, Kyrgyzstan, Kazakhstan, etc., all have migrant population of between 15 and 30 percent. The list also includes some large countries with fast growing economies such as the UK. In terms of sheer numbers, of course, countries such as India, China, and Mexico rank among the highest senders of migrants.

Third, while the South-North migration captures the media attention, possibly an even larger fraction of migration occurs between developing countries themselves, or the South-South migration. As a matter of fact, it is fair to say that existing statistics vastly underestimate population flows happening among poor countries. The US, Germany, France and UK remain among the top receiving nations. However, the list of the 15-top receiving countries also includes Cote d'Ivoire, India, Pakistan and Jordan. While most of the international migrants, 37 percent, move from low-and middle-income countries to richer Northern countries, another 24 percent of all international migrants are between Southern countries compared to 16 percent between Northern countries. It has been clear for years now that most international labor moves between contiguous countries. More than half the international migrants from East Asia, Latin America and Caribbean, and North Africa and Middle East go to the OECD countries. By contrast, 40 percent of international migrants from South Asia and 60 percent of the same from Africa stay within region, and only 20 percent go to OECD countries (World Bank, 2009).

Fourth (and finally), some of the largest movements of labor in the world occurs every year within countries. A glimpse of these internal migration patterns can be seen by the growth of concentration of economic activity within countries and the constantly changing spatial distribution of the population. The most important example of all is China, where policies to restrict the flow of internal migration (adopted among other things with a view to preventing the emergence of slums and shantytowns) have been unable to stem the movement of people, and have created a class of second-rate internal migrants numbering perhaps 250 million, i.e. more than all recorded international migration in the rest of the world.

To summarize, although international migration is still uncommon compared to other flows that measure the scale of globalization, it has been increasing and will, more likely, continue to do so because:

- Increasing globalization is leading to greater awareness of the gaps in living conditions and providing clearer incentives for migration;
- Improved access to transportation and communications is facilitating mobility of individuals while enhanced information flows are reducing uncertainty over migration prospects;
- A large share of the population in developing countries is under 14, and they are likely to be more responsive in the near future to migration incentives; and,
- Consolidation of Diasporas in higher income countries facilitates the information and social networks required to migrate.

Furthermore, while labor flows between wealthy OECD and poor- and middle-income countries often receives much of the attention, there is a much larger movement of people within countries (internal migration) and between poor and middle-income countries (the South-South migration).

I now turn to the issue of the contribution of migrants to the economies of receiving and sending countries.

II. How important is migration for development?

Because the benefits to sending and receiving countries take different forms, we take each in turn.

a) Benefits for sending countries

Economic growth through increased foreign exchange: The most obvious benefit for sending countries is, undoubtedly, the flow of remittances. Remittances are nearly three times the size of official development assistance (ODA) received by developing countries, except in Sub-Saharan Africa. Officially recorded remittance to developing countries reached \$316 billion in 2009, down 6 percent from \$336 billion in 2008. With improved prospects for the global economy, remittance flows to developing countries are expected to increase by 6.2 percent in 2010 and 7.1 percent in 2011.

Remittances were also greater than 65% of foreign direct investment (FDI) in all regions, except Europe and Central Asia (ECA). They are larger than capital flows in 36 developing countries, and larger than the most important single commodity export in 28 countries. In this region, remittances amount perhaps to 50 percent of GDP in Tajikistan, 31 percent in Moldova, and important amounts (double digits of GDP) in several other countries (Albania, 28 percent in Kyrgyzstan, 17 in Bosnia, 14 in Serbia, etc.).

Remittance flows are also generally more resilient than private or official capital flows, a feature that could prove exceedingly important amidst one of the worst financial crisis in decades. By providing a reliable source of foreign exchange, remittances lead to stable macro-economic conditions.

Income gains to migrants and reduction in household poverty: Through remittances, migrants share some of their earnings to enable receiving households to smooth consumption and to escape poverty.

We also understand that remittances are not an overall panacea for poverty reduction. Evidence from several countries, particularly in Latin America, points to the fact that the poorest households are less likely to be recipients of remittances—a reflection of the fact that migrants tend to be relatively better-off to begin with.

Investment in human capital: There is also growing evidence that increased remittances and information sharing are associated with increased expenditures and investments in education and health.

Investment in business start-ups: Additional evidence shows that migration may help households overcome poor credit availability in sending countries. In particular, remittances have been shown to provide increased financial resources for entrepreneurial activities, especially those that have a high-risk/high return trade-offs.

Active role of Diasporas in home countries' development: Diasporas contribute to growth as they are potentially an important resource for countries to leverage further its development. However, the existing knowledge on Diasporas' impact on the home countries' development is weak and requires a thorough research. The key channels through which Diasporas can affect sending countries' growth and development are:

- Promotion of foreign investments and trade,
- Transfer of knowledge, skills and technology by returning to home countries temporarily, permanently or conducting it virtually.

a) Benefits for receiving countries

For receiving countries, Migration has brought multiple benefits too. I highlight only a few of these benefits.

Improving economic efficiency and growth: Most migrants are typically moving from low productivity areas to high productivity regions; therefore, they should improve allocation of resources and global output. By entering sectors where demand for native labor is high and unavailable, migrant labor complements native workers and therefore makes native workers more productive. Recent research in endogenous growth indicates that concentration of high skilled workers (immigrants included) creates spillovers that fuel innovations. Overall, therefore, immigration should lead to better allocation of resources, higher productivity, and growth. Immigrants also create substantial economies of scale. An increasing population means ever larger markets – larger business, more division of labor and specialization, and makes possible major social investments (e.g. public transportation). In one of the only studies of its kinds, Boeri and Brucker (2005) show that a 3 percent increase in Eastern European (New Member States) immigration to the EU-15, at the given wage and productivity differences, will increase total EU GDP by 0.5 percent.

Increasing labor supply: Many of the countries that are recipients of large influx of immigrants are also countries that are experiencing aging populations and are therefore in need of young workers to support the swelling ranks of the elderly. In such circumstances, migration has been shown to have been beneficial. Most of the benefits in receiving countries would go to owners of factors of production that are complementary to immigrants – including employers of immigrants and buyers of immigrant produced goods and services. This has been especially the case when

immigrants and native workers are complementary and where most immigrants come with high skills and substantial labor market success in the receiving countries.

Slow down overall growth in wages and price level (inflation): The existing literature provides no general consensus on the labor market impact of immigrants in receiving countries. There is some agreement that immigrants displace and reduce the wages of low skilled natives. But after that, the majority of the studies find either no impact at all, or negligible negative wage and employment effects (Hanson, 2008; Card, 2001, 2005). If the latter is the case, it suggests that the main value of immigrants is to slow down wage growth – which surely must have been higher if the same level of economic growth were maintained and there was no migration. A slowdown in wage growth has the added advantage of slowing down overall price level since wage costs are a major determinant of price level in many countries.

Employment-creation in receiving countries: Proportionately higher numbers of immigrants become entrepreneurs, and in some countries such as the U.S., immigrants are 10 to 20 percent more likely to start a business. These immigrant businesses create employment in host countries.

d) Costs of migration

Thus far, we have highlighted some of the benefits that migration and immigrants bring to both receiving and sending countries. The tale, were it to end there, would be a happy one, and for the most part it is. However, migration is not without costs and the latter are complex because they are layered (from the personal costs to immigrants themselves to social costs). So we mention three key costs related to migration.

Macroeconomic costs: the potential for Dutch disease. As just argued, remittances flows have come to represent very high proportions of national income and of capital inflows in a number of sending countries. While we stressed the potential for poverty reduction and protection from external shocks that such flows entail, we must also recognize that such bonanzas do not escape the laws of economics, and thus carry the possibility of undermining the competitiveness of small economies as real exchange rates appreciate as the result of the increase in the demand for non-tradable goods, thus undermining export diversification. I will return to this important issue shortly.

Individual costs. It is important to stress that differences in per capita incomes between sending and receiving countries overstate income gains to migrants. By some measure income gains that take the differences in per capita incomes overstate income gains to migrants by two to three times (Hanson, 2006; Clemons, Montenegro and Pritchett, 2008; Rosenzweig, 2007; McKenzie, Gibson, and Stillman, 2006). But even these gains are gross returns to migration. Little information is available on the actual costs of migration such as transport costs to relocate or to cross border illegally, time and wages lost in changing labor markets and psychic costs of leaving home. Any one of these costs may be substantial and could reduce further the estimated gains from migration by large margins.

As an example, the full extent of cultural assimilation and therefore reaching the same level of psychological satisfaction as natives, may last as long as 30 years, as estimated in the paper by Corbi and Freguglia.

Social exclusion: Some of the individual costs can spill over and turn into social costs. Money to migrate may have been borrowed which leads to household indebtedness, and as part of debt recovery, lenders may seize assets or even traffic some household members. In addition, long

separations and absence of traditional heads of families could lead to a breakdown in authority and cohesion. These could lead to family dissolution, and potentially increased risk of social exclusion of young adults who may indulge in high risk activities like crime and drugs. Difficulty in assimilating to receiving country culture can lead to alienation, marginalization, and exclusion from many aspects of the society, including the labor market.

Deterioration of key social services: Intense brain drain can deplete the limited resources available for delivery of high value social services, such as in health and the education system. This is especially acute for small countries already having difficulty meeting their human resource needs in key sectors of the society. But it could also pose serious problems for relatively rich countries experiencing intense migration. There is a voluminous literature that argues many sides of this issue, and I will not attempt to summarize it here.

Strategic issues

The discussion of costs and benefits of migration reveals that the issues are complex, and policies to enhance the positive impact of migration on economic development need careful thinking. Let me then conclude my address by raising one crucial issue to help us think about policy implications: How should sending countries approach migration policy?

How should sending countries approach migration policy?

In December 2005, the UN Secretary General's Global Commission on International Migration issued a report which called for concerted action to formulate a coherent global approach to the issue of migration. The report proposed six "Principles for Action" to accomplish that objective, and among them it called for "Reinforcing economic and developmental impact", along these lines:

"The role that migrants play in promoting development and poverty reduction in countries of origin, as well as the contribution they make towards the prosperity of destination countries, should be recognized and reinforced. International migration should become an integral part of national, regional and global strategies for economic growth, in both the developing and developed world."

How do these lofty principles stack against the reality in most countries?

With very few exceptions, sending countries have yet to incorporate migration policy in their overall economic development strategies. This carries risks as well as the possibility of missed opportunities. In some countries, indeed, it is virtually impossible to ignore the phenomenon, as it permeates every facet of socio-economic activities. But surprisingly in very few countries is migration seen as a holistic issue, and the discussion, if it indeed occurs, is often relegated to specific issues or to bilateral negotiations. In recent years, we have seen in some countries where the amount of remittances has grown exponentially, a certain complacency among policymakers set in. Remittance flows appear to relieve external budget constraints and provide an avenue for easy economic growth, postponing the need for needed reforms.

But lack of appropriate positioning, or complacency in the face of availability of foreign exchange, carries its risks. Pros and cons of different strategies must be carefully thought through.

Conclusions

Let me now conclude these reflections on the development impact of migration with two final observations on the way forward.

First, as will be evident from this conference, there is a lot more that we do not know about the effects of migration in its many facets. It is imperative for the international community to continue to support the efforts to close the information gaps and to increase our knowledge and understanding of these phenomena. This, as in many other areas, is the precondition for fact-based decision making, which is often lacking in matters concerning migration. In this respect, this workshop and many such gatherings are a commendable effort to fill this gap. We in the World Bank are working actively, both on the research and the policy front.

Second, the recent global financial crisis, with its unprecedented job losses and potential for long duration, is likely to exacerbate the migration debate, while putting an extra burden on the poorest countries and the migrants themselves. We are already witnessing large numbers of migrants returning to their countries as their job opportunities have suddenly vanished. The latest worldwide trend reveals a \$20 billion decline in remittance flows from 2008 to 2009, according to The World Bank's Migration and Development Brief (March, 2010). While the dimensions of the world crisis are yet to be seen in their entirety, we should strive to add to the voices of reason and moderation so that the economic woes do not result in a backward step in the domestic and international debates on migration.

Thank you.