Session 2
Part I: Origins, Trends and Major Themes: Issues in Migration
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Guest Lecturer: Manuel Orozco

Key Issues in Migration.

Migration - the major driver of remittances flows.

1. Migration has a rich, broad literature
2. Course will not focus on migration except to touch on those aspects that intersect with the topic of remittances.
3. The diversity of disciplines examining migration makes exploring the costs and benefits of the process too complex for this course (with economists using one lens, sociologists using another, and political scientists using yet another).

Migration is a global, widespread and diverse experience with a pervasive influence in both sending and receiving societies.

1. Geographic disparities partially reflect the remittances distribution illustrated in the previous lecture.
2. Not all countries have a prominent experience of international migration.
3. In the lowest income countries, domestic migration is often the more common and dominant experience – easier because of same laws, languages, transportation costs, information, etc. International migration is more characteristic of high skilled migrants in these countries.
4. Selectivity of the experience is key.

What factors determine who migrates and why? Conceptual framework of migrants and remitters must include a division between skilled and unskilled, educated and uneducated, men and women, rural and urban, to name a few. Migration and trade are not substitutes.

1. International migration was thought to arise from wage differentials that could be diminished through increased trade.
2. In essence: people would migrate less if jobs were available at home. Therefore, generating jobs through trade would slow migration. This was one of the arguments made for NAFTA. This doesn't work.
3. Migration is a much more complicated phenomenon. Economic effects of migration are distinct from social/political.
4. A host of issues cannot be addressed by economic analysis of migration: psychological effects of migration, trans-nationalism, family impact, etc.

Global Phenomenon

a. Based on existing data, migration mostly moves between developing and developed countries, with developed countries being the largest net gainers of migrant population.
    i. (2000) UN estimates 175 million migrants, 3% of world population.
    ii. 110 million in developed countries.
    iii. steadily increasing rate at which developed countries are gaining migrants from developing countries since 1960
    iv. 1990 -2000, developed regions gained approximately 2.6 million migrants, almost half of which went to North America - Asia the largest source, then Latin America and the Caribbean (LAC) and Africa.
b. Migration the partial result of economic drivers but other considerations also key(wage differentials with informational asymmetries).
    i. Asymmetric information: Some migrants have unrealistic expectations about job prospects (misled by *coyote*, poor information, etc.)
    ii. Push factors also: economic crisis, conflict, lack of opportunity, corruption, state dysfunction.
    iii. Social interactions also important: migration as a group choice or an individual choice; interaction with sending communities
    iv. Altruism an important motivator
    v. May be a calculated portfolio strategy – share costs of migration with the expected return whereby a family sends one of its members abroad
    vi. important to think beyond migration as an "act of desperation or boundless optimism."
    vii. Demographic drivers also key - aging labor force in developed countries and labor surplus in developing countries

Pervasive influence of migration

a. Changes in income for migrants, natives in destination countries, households in origin countries.
b. Costs, benefits depend on:
    i. Differentiation/substitutability among workers
    ii. Impact of migrants on fiscal balance
    iii. The flow of remittances

iv. Investment climate in both sending and receiving countries (how quickly labor markets adjust to migrants' arrival)

c. Gender

i. Female migration has increased over the past decade.

ii. Sex trade; service occupations; manufacturing.

iii. Links between remittances and migration among women:

1. How much do women remit as compared to men?
2. Under what circumstances?
3. differences in amount paid? Mechanisms? Uses of funds?
4. impact on families and children?

Economic Theory and Migration

a. No economic theory encompasses migration, impacts and flows of financing.

i. Neo-classical economics – The emphasis on factor mobility and comparative advantage suggests that countries should specialize in producing those things in which they have a comparative advantage. If country can not engage in trade of goods, then it might engage in trade of people; a labor surplus becomes labor exports. Individuals maximize their utility and income over their working life.

ii. "New Economics of Labor Migration" (Stark and Oded)

i. Migration as a response to failed markets for credit, insurance, etc. at home, rather than simply wage differentials.

ii. Migration/remittances loosen constraints– access to credit, production, etc.

iii. Relevant unit of study is the household, rather than the migrant.

Economic vs. Social/Political Impact

a. Generally, the main impacts of migration on wages are: receiving country incomes can rise; workers in the home country may experience an increase in wages with reduced labor supply and remittances; wages may fall for existing receiving country migrants .

b. The fiscal impacts may balance out but as yet have been difficult to measure. The impact depends in large part on assumptions about skills/education, short vs. long term time horizon, and government policies. Some studies suggest a net drain and use of public resources. Low skilled migrants may draw on public assistance in the early part of

their migration stay. But over the long term, migrants may perform as well or better than natives at the same income/education level. The outcome depends also on units of comparison: skilled vs. unskilled; returns to capital/labor; substitutability of labor.

c. Social and political issues – concerns about loss of cultural identity (not an important part of this class)

d. Other impacts of note:

    i. Brain Drain/Skill Loss – generally a negative impact on production in the migrant-sending country

    ii. Propensity to Remit – positive impact on consumption, in migrant-receiving country

Responses

a. Formalization of the migration process – ex. Philippines exports labor through government-sponsored schemes.

b. Improve information regarding migration - governments may distribute information about migration, highlighting pros and cons, .

c. Fiscal incentives to encourage people to return to their country of origin with investment capital.

Guest Lecturer:

Manuel Orozco

Inter-American Dialogue

Until relatively recently, remittances were basically a human interest story, not an economic or development story. In the last 15 years, the topic has become central to both development and security, contributing to economic growth, job creation and poverty alleviation. The Inter-American Dialogue estimates the global amount to be on the order of $260 billion annually.[1]

We can not properly study the remittance phenomenon without first attempting to make sense of migration patterns and determinants. Immigration is a representation of the human dimension of globalization. Remittances, in turn, are a reflection of transnationalism; "distant proximities," connecting migrants to their homelands in an economic and psychological sense.

There are several important premises to keep in mind when addressing remittances:

a. Their impact is significant. In 2002, the amount remitted to LAC was $32 billion, which amounted to 2% of gross regional product. For many small Central American and Caribbean countries, the amount received can be as high as 10-12% of GDP. These numbers are more than double the amount of foreign direct investment (FDI) to the region. More importantly, while FDI can be volatile, remittance flows appear to be relatively steady.

b. Remittance impacts should not be looked at as a substitute for development. Often, the problems aren't simply about the money; they are about the structural and political environment in which people live. Remittances can not address political inequality. This is where we get into development: how do we create the right environment for remittances to help in substantive, sustainable ways? Additionally, the ability to positively absorb remittances is dependent on a country's productive base. Development should be a dynamic process for addressing the constraints imposed by poverty and inequality in a country.

c. Governments can adopt policies can be implemented that can leverage the economic relationship migrants have with their home country.

d. Any development approach demands a transnational outlook and a gender perspective.

[1] Compare this to the recent World Bank estimate of $168 billion in 2005, *Global Economic Prospects 2006*.

There is a fair amount of attention being devoted to understanding the macro and micro-economic dynamics of remittances.

a. From a micro-economic perspective, individual households are the biggest winners, by receiving a boost to their consumption and savings abilities. There is also a redistributive nature to remittances that is being uncovered. Rural sectors, where there is often a dearth of employment, are seeing relative gains from remittances.

b. From the macroeconomic side, there are also a number of characteristics and hypotheses being presented.

    i. Often sent in dollars, especially in LAC, remittances provide a form of secure hard foreign currency.

    ii. Counter-cyclical role. As mentioned earlier, many foreign funding sources, such as FDI can be sensitive to things like inflation or political risk. Remittances, however, will often remain stable or even increase as other sources of financing begin to dry up, making certain sectors of the economy more resilient to macro-instability.

    iii. Macro-economic determinants. Inflation and foreign exchange shifts may increase remittance flows in response to an increased need by families in the home country.

    iv. Multiplier effect. It is reasonable to expect that remittances have a multiplier effect within local economies. Even if the use of remittances is limited to consumption, this would fuel jobs and income for local businesses. If uses of funds extended to savings and lending, the multiplier effects might even be larger.

    v. Effect on economic growth. An IMF report noted that eighteen developing countries that received sizable remittances registered over twenty percent growth during 2001-2003. (Course note: The majority of econometric work on the subject has found weak or no connection between growth and remittances)

c. Remittances are obviously tied to personal finance, which is a critical component of development. Development can be looked at as a dynamic aimed at improving a set of a social condition where circumstances, standard of living and social mobility are made healthier. Wealth creation is an important of this process, as it is tied to savings, access to credit and investment.

The Five T's

a. Transportation: One key source of communication among immigrants and their families is the use of air transportation, where relatives in Latin America visit family members in the United States and vice versa. The likelihood of visiting the home country increases with the number of years immigrants have lived in the United States.

b. Tourism: Economic connectivity between migrants and their native country has become a regular practice. Tourism in El Salvador and the Dominican Republic, for example, is heavily weighted toward nationals living abroad. Tourism contributions may be almost as important as remittances in certain countries.

c. Telecommunications: The volume of calls to Central America and the Caribbean has increased as connectivity has improved, opening opportunities for business expansion and investment in cellular telephony, the Internet, and cable transmission.

d. Trade: Migrants have become a new market for exports from their home country. Ethnic imports to the United States – called nostalgic trade and including items such as beer, rum, cheese, and other foodstuffs – are gaining attention among producers.

e. Transfer of remittances: 60 percent of immigrants send remittances every month and 70 percent at least eight times a year. With incomes below US averages (this relates to their low educational attainment and the types of jobs they hold), they send at least US$2,500 annually. The overall trend is that they remit at least US$200 a month, or 15 percent of their income. A greater number of countries are receiving money from their migrant diasporas, and the flows are growing in intensity. Improved statistical tracking accounts for a large part of this growth, but the increase is also reflected in the fierce competition for new customers in the money-transfer business. Furthermore, remittances continue to grow despite economic and political difficulties in the host countries.

f. Home town association donations: This trend is also accompanied by various forms of hometown associations (HTAs). HTAs, organizations of immigrants that raise funds for the betterment of their places of origin, are growing in importance in Latin America and the Caribbean due to the size of the support to their communities. One key aspect of these organizations is their ability to promote equity: HTAs can become important to improving the quality of life of all households. These migrant associations seek to promote small social changes with a concern for the community, particularly toward vulnerable sectors, such as children and the elderly. They can facilitate projects that would otherwise be impossible for the receiving communities to implement. Nevertheless, HTA impact is relatively small compared to the total immigrant population.

Remittance Practices

a. The Inter-American Dialogue has estimated the following average annual economic expenses for migrants:

   i. Family remittances, understood as contributing to household economies: $2,700

   ii. Donations, generally to home communities: $10,000

iii. Consumption of trade, retail and services: $3,000

iv. Capital investment in property and other investment: $5, 000

Remittance Amounts and Frequencies

a. Over the years, frequency of remittance sending has increased.

b. Asians tend to send larger amounts than LAC. An Inter-American Dialogue study showed that Nepalese were the largest senders, averaging approximately $1,631 per month, with Indians behind them, averaging $1,130 per month. The bulk of senders averaged between $200 and $400 per month.

Mechanisms

a. The mechanism used to remit is very much a factor of location of the migrant and the destination country. Money Transfer Organization's (MTOs) are the most abundant method, but informal methods are still used in many parts of the world. For example, most people in LAC now use MTO's as a result of their increased availability and affordability, though 17% of Latinos say they use other methods. Of this 17%, 40% say they still use friends or the mail to send money. An alternative example is Africa, where people predominantly use more informal methods because formal points of access are still few and far between.

b. Other methods include banks, credit unions, mail, friends or couriers and the internet. Of these methods, banks have the majority of market share in LAC.

c. Average MTO cost is about 10%. In LAC, the average is about 7%. Competition has been bringing prices down. The Inter-American Dialogue surveyed costs to send $200 via MTO to particular countries in 2003, following are some selected results:

i. Egypt 13.8%

ii. India 13.8%

iii. Pakistan 13%

iv. Philippines 10.3%

v. Ghana 7.5%

Major Factors of Economic Growth

a. The Inter-American Dialogue performed a study identifying several statistically significant factors affecting GDP growth in LAC countries. These factors were: remittance flows, tourism, maquiladoras (manufacturing jobs), and foreign aid. The regression equation created

using these independent variables showed a strong predictability fit.[2] In the Dominican Republic, specifically, of the four independent variables, remittances were most strongly associated with shifts in GDP.

b. In another survey of LAC countries, it appeared that remittance receivers are more likely to have a bank account than those who do not.

Questions

1. What future impact does the increase of remittances and migration have on developing countries? The current debate needs to be informed by other effects of remittances; children's relationships with their parents, the desire to return home. The psychology of migration is a subject that requires a great deal more study.
2. Are there any initiatives that promote development in recipient communities such as building small producer cooperatives to benefit from the demand for nostalgic trade? The major initiative has been to get people into the financial sector. Twenty-five percent of receivers who pick up their money at a bank or other financial institution will develop a financial relationship with that institution. This is a very positive sign. Many lessons suggest that we need to think from a business perspective rather than a charitable perspective. The question is increasingly about designing financial products that will attract the migrant consumer base.
3. Should we be trying to make businessmen out of migrants? Yes and no. This very much ties into the previous question: it depends on levels of education. If one is not very educated, that person may just believe that charity is best way to help a country. The more educated a person is, the more likely he will see productive investment as an option to help.

[2] R-squared = 0.8, statistically significant at a 1% level.