Migrant Remittances and Economic Development
Lecture 3

SIPA U8159
Tuesdays 4:10 pm – 6:00 pm
IAB 410

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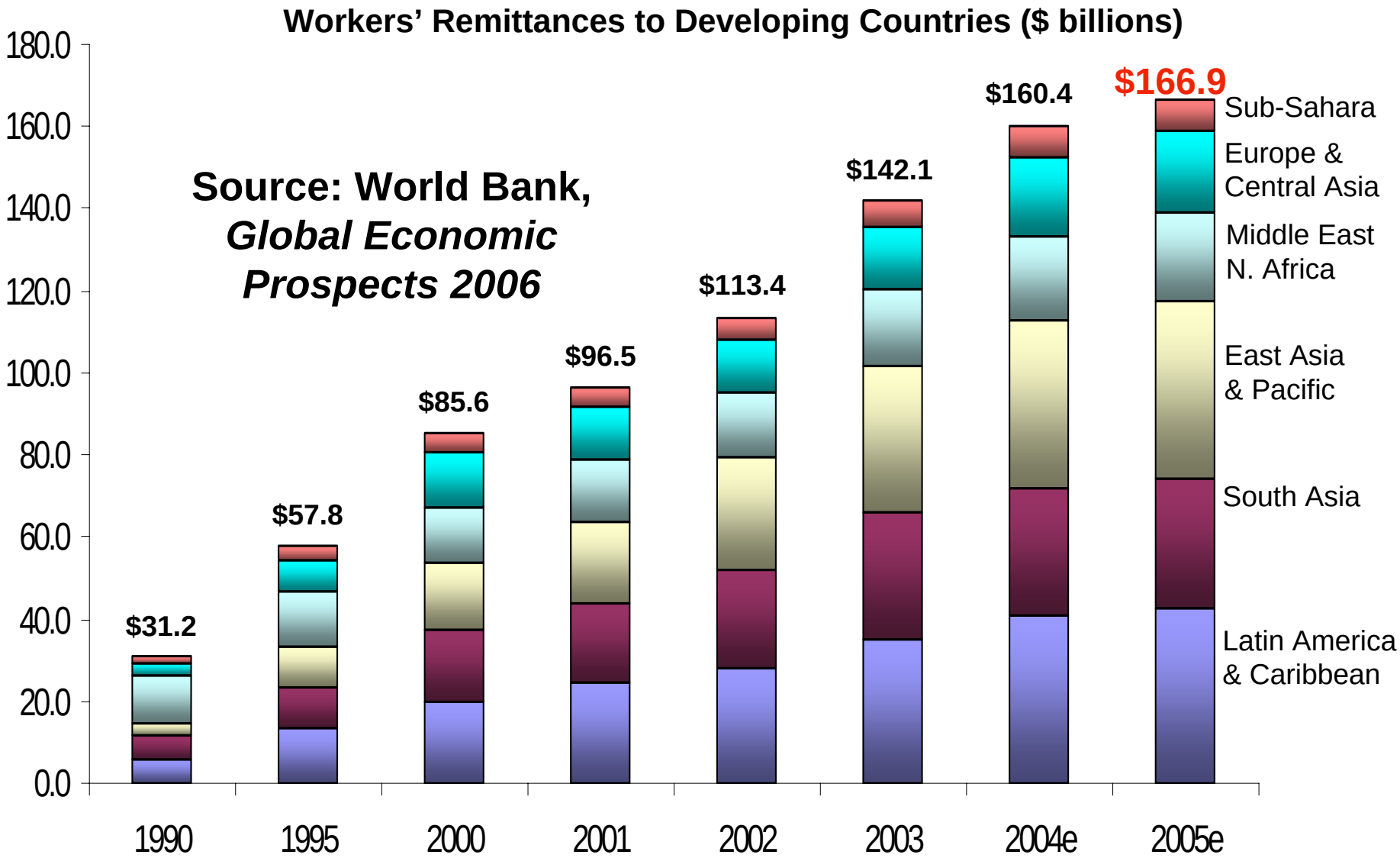
How large is the flow of remittances?



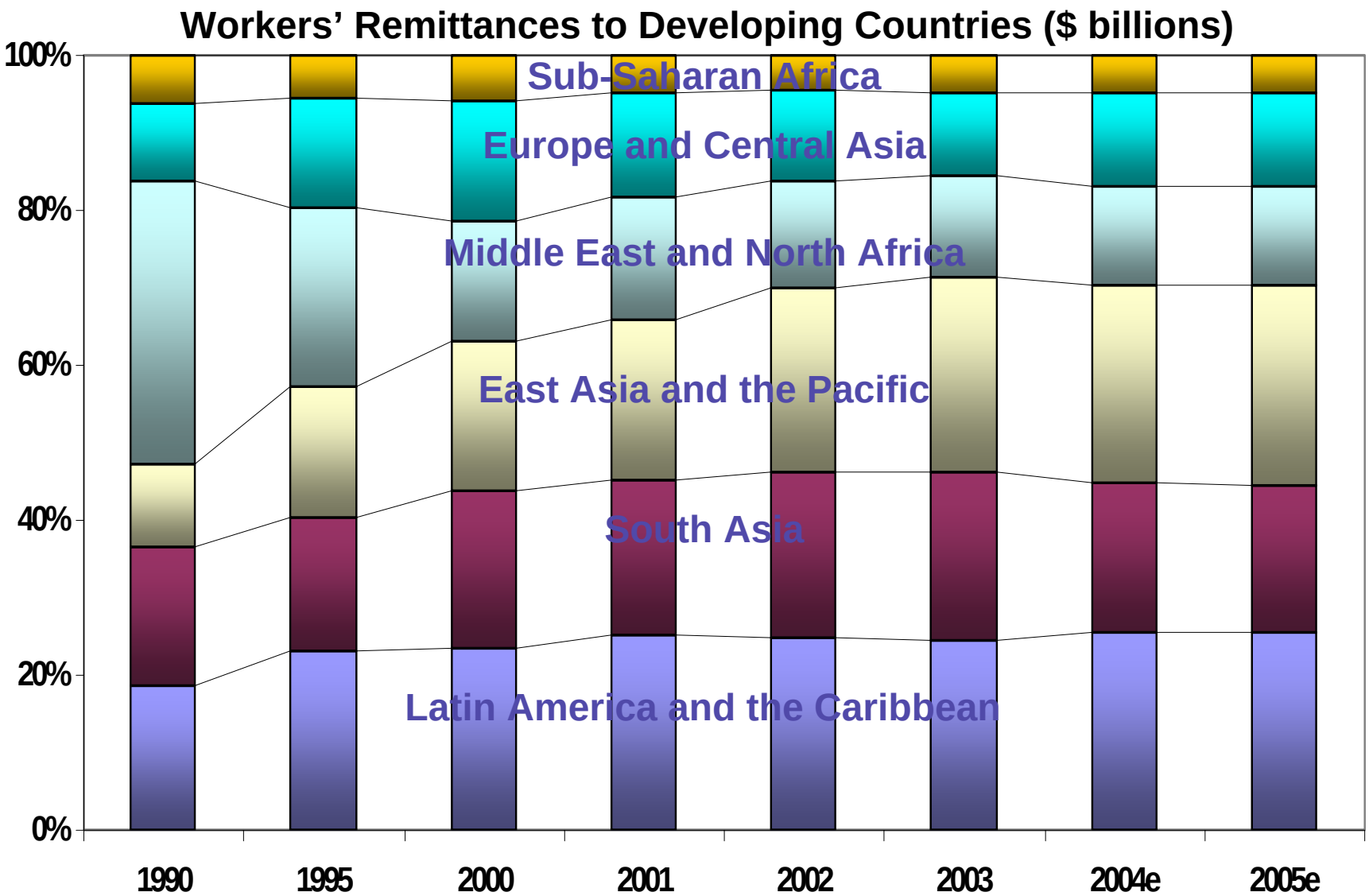
Source: World Bank, *Global Economic Prospects 2006*

How large is the flow of remittances?

Global Distribution of Workers' Remittances ($ billions)	1990	1995	2000	2001	2002	2003	2004	2005	*Change (%) 2005-2001*
Developing Countries	**31.2**	**57.8**	**85.6**	**96.5**	**113.4**	**142.1**	**160.4**	**166.9**	**73**
Lower Middle Income	13.9	30.0	42.6	47.4	57.3	72.5	83.5	88.0	86
Upper Middle Income	9.1	14.5	20.0	22.3	23.0	27.8	33.0	33.8	52
Low Income	8.1	13.3	22.8	26.8	33.1	41.8	43.9	45.0	68
Latin America and the Caribbean	5.8	13.4	20.1	24.4	28.1	34.8	40.7	42.4	74
South Asia	5.6	10.0	17.2	19.2	24.2	31.1	31.4	32.0	67
East Asia and the Pacific	3.3	9.7	16.7	20.1	27.2	35.8	40.9	43.1	114
Middle East and North Africa	11.4	13.4	13.2	15.1	15.6	18.6	20.3	21.3	41
Europe and Central Asia	3.2	8.1	13.4	13.0	13.3	15.1	19.4	19.9	53
Sub-Saharan Africa	1.9	3.2	4.9	4.7	5.2	6.8	7.7	8.1	72
World (developing & industrial)	**68.6**	**101.6**	**131.5**	**147.1**	**166.2**	**200.2**	**225.8**	**232.3**	**58**
Outward remittances from developing countries	6.1	12.5	12.1	14.3	18.7	20.2	24.1	*	*
Outward remittances from Saudi Arabia	11.2	16.6	15.4	15.1	15.9	14.8	13.6	*	*

Source: World Bank, *Global Economic Prospects 2006*

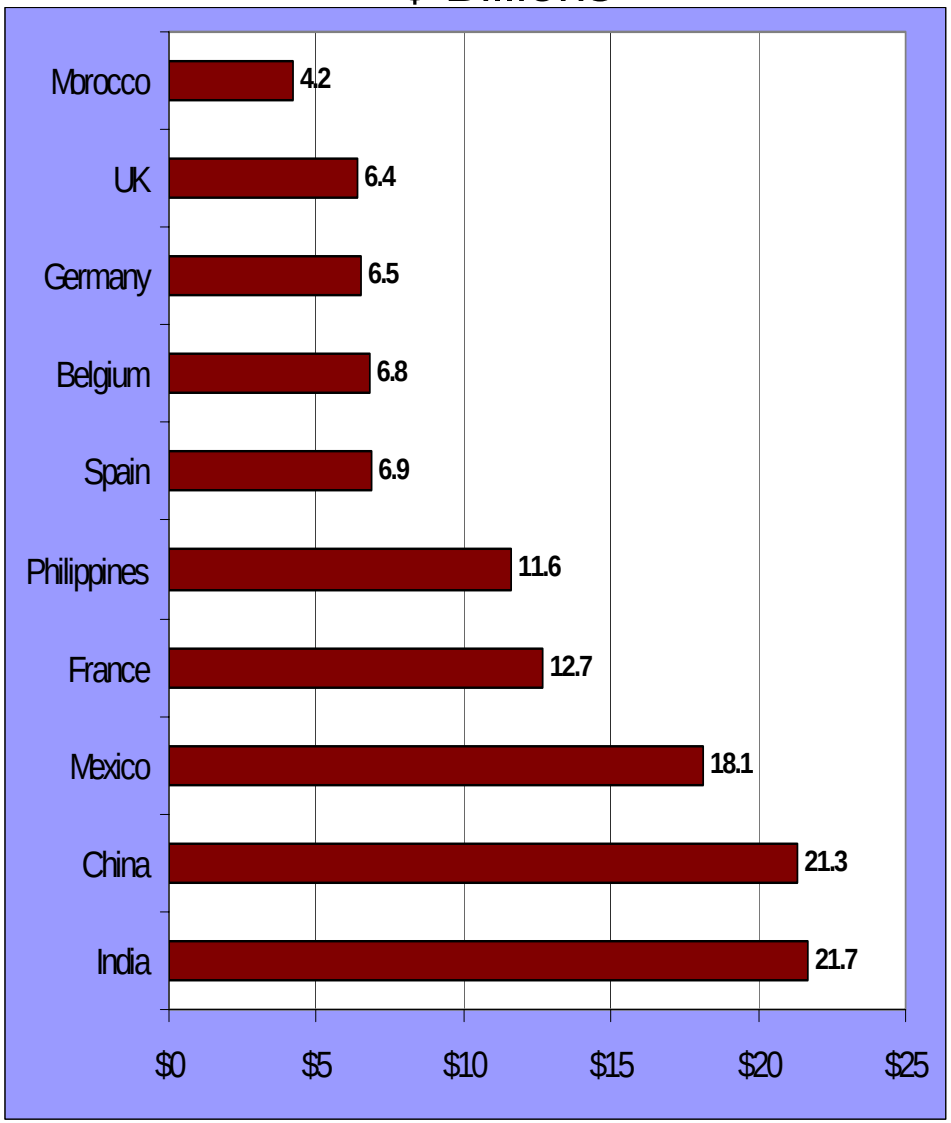
Where are remittances going?

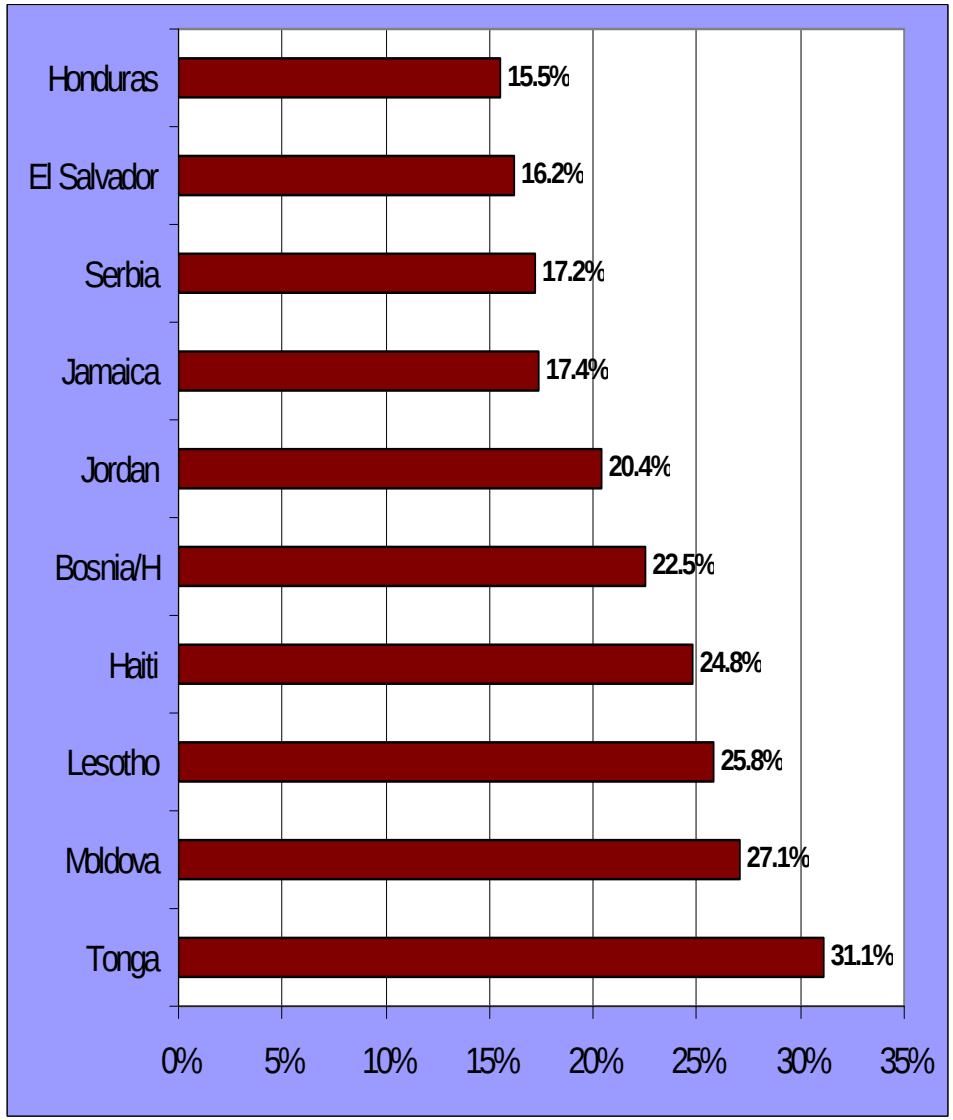


Source: World Bank *Global Economic Prospects 2006*

Top 10 Remittance Receivers, 2004
Absolute Amounts vs. Share of GDP

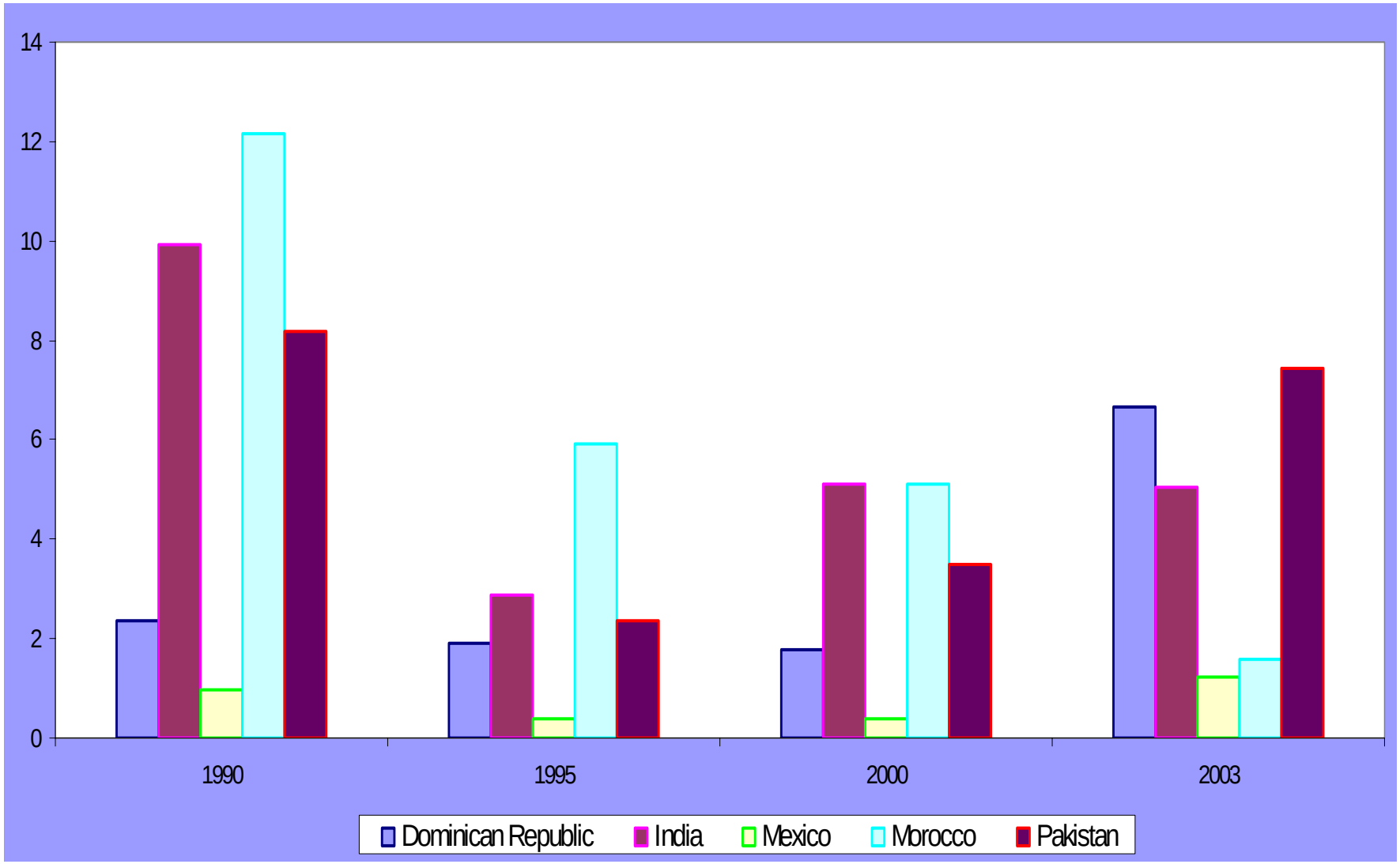
$ Billions vs. Share of GDP



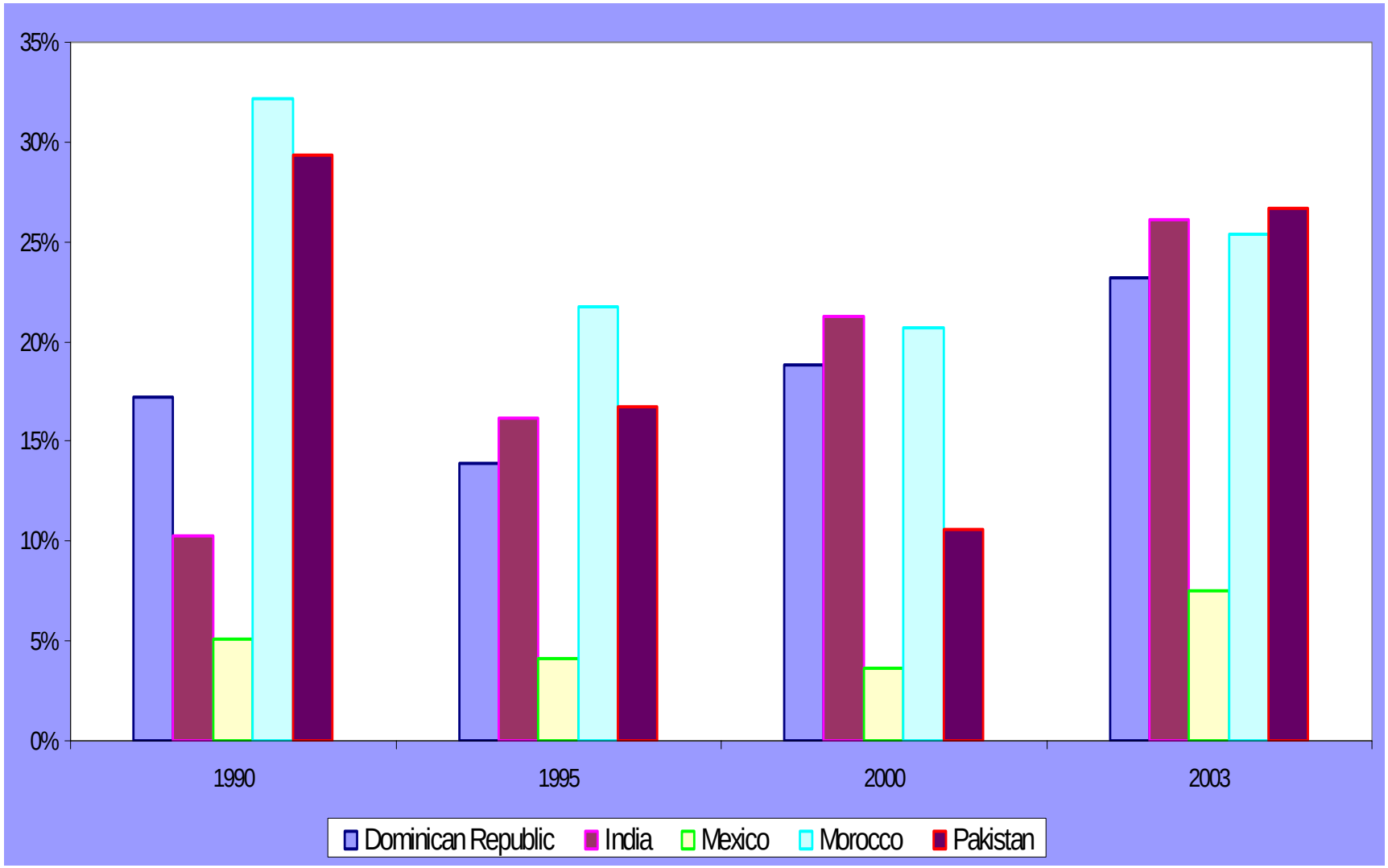


Source: World Bank, *Global Economic Prospects 2006*

Growth of Remittances as a Percentage of Foreign Direct Investment (times FDI)



Growth of Remittances as a Percentage of Net Exports



Cost and benefits of remittances

Benefits

National/sub-national	*Household/community*
- Stable foreign exchange flow	- Additional resources for subsistence
- Finance current account	- Opportunity for human resource investment
- National savings mobilization for capital formation	- Use as insurance against crop failure or other disaster
- Lower unemployment	- Investments in small business
	- Funds for return migration or future retirement
	- Funds often lent on to other families
	- Spending in local communities

Cost and benefits of remittances

Costs/challenges

National/sub-national	*Household/community*
- Sudden interruptions	- Few options for appropriate investments
- Potential inflationary impacts	- "Over-investment" in housing
- Increased demand for imports	- Spending on luxury items
- Little investment in capital formation	- Mimicry of spending among non-migrants
- Increased dependency, reduced labor supply	

Remittances Decision Tree

Adapted from Russell (1986)

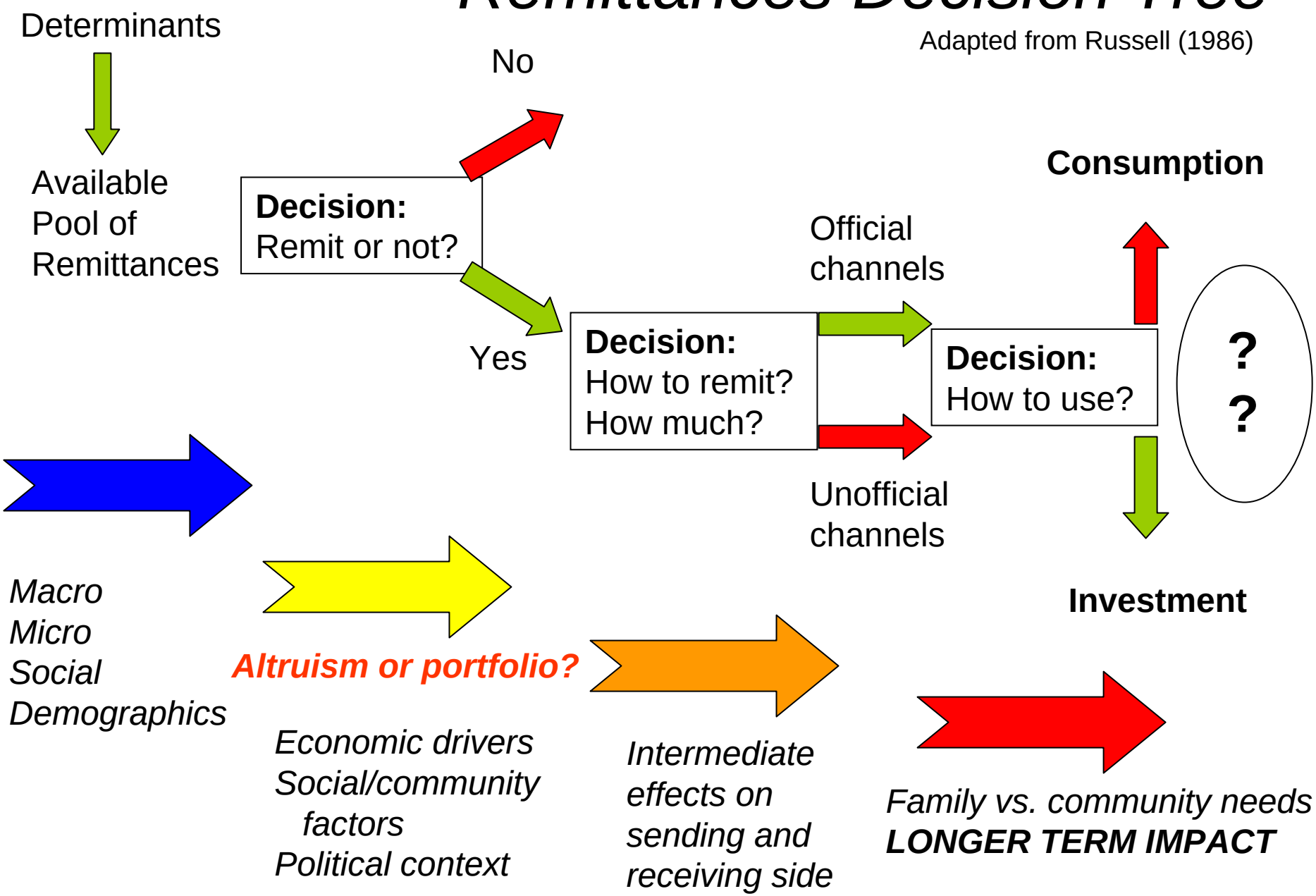


Table 2. *The remittance system: Determinants and intermediate effects*

Potential determinants of remittances	Expected direction of relationship	Intermediate effects				
		Available pool of remittances	Decision to remit or not	How to remit	Amount to remit	Uses
Number of workers	+	×				
Wage rates	±	×				
Economic activity in host country	+	×				
Economic activity in sending country	+	×				
Exchange rate	±		×	×		
Relative interest rate between labor-sending and receiving countries	±		×	×		
Political risk factors in sending country	−		×			
Facility of transfering funds	+	?	×	×		
Ratio of females in population in host country	−		×		×	
Years since outmigration	±		×		×	×
Household income level	−		×		×	×
Employment of other household members	−		×		×	×
Marital status	+		×		×	?
Level of education	−		×	?	×	×
Occupational level of migrants	−		×		×	×

Source: Russell (1986)

Linking migration theory and remittances

Determinants of remittances

Decision model clarifies intermediate steps*

Major determinants: # of migrants, wage rates, activity in adopted and host country, facility of transferring funds, etc.

Note how many determinants could sign in either direction! → Methodological challenges

* Russell (1986)

Linking migration theory and remittances

Determinants of remittances

MACROECONOMIC DETERMINANTS

Activity in host country – most important (Swamy 1981)

Activity in home country – Russell ⇧ IMF ⇩

Other macro variables – interest rate and exchange rate differentials – INCONCLUSIVE, country dependent

Why?

- exchange rates' impact varied channels
- negative impact of black market fx rate (El Sakka 1999)
- threshold differential more important than absolute diff.
- policies – exchange rate regimes? interest rate controls?

Linking migration theory and remittances

Determinants of remittances

OTHER DETERMINANTS - MICRO, POLITICAL, SOCIOECONOMIC, DEMOGRAPHIC, INSTITUTIONAL

Household income (-), household employment (-) – obvious

Political risk – Russell (1986) signs negative; Haiti? Somalia?

Ease of remitting – Making remittances easy drives migration?

Ratio of females – an emerging theme for study

- migrant womens' wages < men (sex workers?)
- migrant women remit a higher % of their incomes
- migrant women may pay more for remittances (education?)

Years since migration, marital status, education – less clear

Linking migration theory and remittances

Revisiting theory and empirical evidence

Perceived impacts are articulated on two "extremes"*

(1) Developmentalist, New Economics of Labor Migration

(2) Dutch Disease and Migrant Syndrome

*Taylor (1999)

Linking migration theory and remittances

*Developmentalist or NELM **

Migration is a part of a ***family*** strategy to raise income, obtain new funds for investment, insure against risks

Remittances, or the promise of them, loosen consumption/investment constraints

*Taylor (1999)

Linking migration theory and remittances

*Dutch Disease or Migrant Syndrome**

- Migration becomes lucrative
- Extracts labor/capital
- Dampens production in sending areas
- Self-perpetuation, erodes meaning of place
- Developing countries as nurseries and old age homes

*Taylor (1999)

Linking migration theory and remittances

So? Do remittances drive growth and reduce poverty? Or is it the other way round?

In short, we don't know yet.

Strong links w/ poverty reduction, stabilization

Inconclusive w.r.t. growth, other HD indicators

NOT the same as resource curse – diffuse