Leveraging Migration and Remittances for Development

Dilip Ratha
Migration and Remittances Unit
World Bank
and
“Migrating out of Poverty” Research Consortium
University of Sussex

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Outline

A. Stylized facts

B. Development impact of international migration

C. Policy implications
A. Stylized Facts

1. Only 3% of world population are international migrants; 97% are not

2. Economic migrants account for 93% of global migrant stock. Economic migration is set to increase in future
In future, migration pressures will increase dramatically

*Projected Change in Labor Force, 2005–50 (millions), ages 15-39*

<table>
<thead>
<tr>
<th>Region</th>
<th>Change (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa</td>
<td>328</td>
</tr>
<tr>
<td>Middle-East &amp; N. Africa</td>
<td>44</td>
</tr>
<tr>
<td>Other sending regions</td>
<td>198</td>
</tr>
<tr>
<td><strong>All developing regions</strong></td>
<td><strong>570</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Region</th>
<th>Change (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU &amp; other Europe</td>
<td>-67</td>
</tr>
<tr>
<td>North America</td>
<td>-9</td>
</tr>
<tr>
<td>China</td>
<td>-85</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>-32</td>
</tr>
<tr>
<td>E Europe &amp; C Asia</td>
<td>-23</td>
</tr>
<tr>
<td><strong>Sub-total for these and other receiving regions</strong></td>
<td><strong>-216</strong></td>
</tr>
</tbody>
</table>

*Source: Shaping the Future: A Long-Term Perspective of People and Job Mobility for the Middle East and North Africa (World Bank 2008)*
A. Stylized Facts

1. Only 3% of world population are international migrants; 97% are not

2. Economic migrants account for 93% of global migrant stock. Economic migration is set to increase in future

3. South-South migration is larger than South-North migration
South-South migration is larger than migration from developing countries to high-income OECD countries

Destination of migrants from the South

- High-income non-OECD: 14%
- South: 44%
- High-income OECD: 42%

Source: Migration and Remittances Factbook 2011
Migrants' share of sending country population

Sending country ranked by GDP per capita

Receiving country ranked by GDP per capita

Data source: Ratha and Shaw (2007)
B. Development impact of international migration

1. Migration benefits all parties – the migrants, the destination country, and the origin country.
Migration boosts welfare for most households

Global income gains of $356 billion (0.6%)

Change in real income in 2025, $ billion

- Natives, high-income countries: 139
- Old migrants, high-inc. countries: -88
- Residents, developing countries: 143
- New migrants: 162

Source: Global Economic Prospects 2006
Migration benefits all parties

- Global income gains of $356 billion from a 3% (14 million) increase in labor force of high-income countries (GEP 2006)
- Global income gains of $675 billion (Anderson and Winters, 2008)
- “A conservative estimate of the welfare gain to a moderately skilled worker… moving to the US is PPP$10,000 per worker, per year…” (Clemens, Montenegro and Pritchett, 2008)
- Dixon and Rimmer (2009) estimate that the difference between the long-run welfare effects for U.S. households of a tighter border policy and a liberalized guest worker program with an optimal visa charge is about $260 billion a year.
B. Development impact of international migration

1. Migration benefits all parties – the migrants, the destination country, and the origin country.

2. Benefits to countries of origin are mostly through remittances.
Remittance flows to developing countries remained resilient during the crisis.
Remittances will be resilient w.r.t downturns in host countries

- Remittances are sent by the stock (cumulated flows) of migrants
- Remittances are a small part of migrants’ incomes that can be cushioned against income shocks by migrants
- Duration of migration may increase in response to tighter border controls
- “Safe haven” factor or “home-bias” -- returnees will take back accumulated savings
- Sectoral shifts – and fiscal stimulus packages – may help some migrants
However, Anti-immigrant sentiment is rising in major migrant-destination countries
B. Development impact of international migration

1. Migration benefits all parties – the migrants, the destination country, and the origin country.

2. Benefits to countries of origin are mostly through remittances.

3. Emigration of skilled people may be a problem in small countries.
Brain drain is a small country problem, if at all.

Share of developing country population (%)

- 75%
- 19%
- 3%
- 3%

High-skilled emigration rate

< 10% 10%-20% 20%-30% > 30%

Source: Docquier and Marfouk (2004)
B. Development impact of international migration

1. Migration benefits all parties – the migrants, the destination country, and the origin country.

2. Benefits to countries of origin are mostly through remittances.

3. Emigration of skilled people may be a problem in small countries.

4. Diasporas also provide business contact, trade network, technology, and capital to the origin country.
Diaspora bonds can be used to tap the wealth of the diaspora, often with “patriotic” discount

Israel and India have raised over $35 billion via diaspora bonds
Outline

A. Some stylized facts
B. Development impact of international migration
C. Policy implications
C. Policy implications

1. The international remittances agenda
1. Monitoring, analysis, projection

2. Retail payment systems

3. Financial access for households

4. Capital market access for institutions

International Remittances Agenda
International remittances Agenda

1. Improve monitoring, analysis, projection (MAPping)

2. Improve retail payment systems:
   - Reduce remittance costs
   - Improve competition in remittance industry
   - Share networks - avoid exclusivity contracts
   - Avoid overregulation of remittance industry
   - Introduce new technology

3. Leverage remittances for financial access for households

4. Leverage remittances for improving access to capital markets for institutions/countries
International remittances Agenda

1. US Wall Street Reform Bill
2. US BRIDGE initiative
C. Policy implications

1. The international remittances agenda
2. Know your migrants/diaspora
3. Help potential migrants acquire globally marketable skills
4. Point-based systems can produce adverse effects on developing countries –
5. But ethical recruitment policies may be ineffective, and unethical
6. Improve transparency in recruitment of migrants
7. Border control policies should be revisited
Do border controls stop migration?
Increase in border control seems to have little (perverse?) effect on illegal migrant stock

Source: Passel and Cohn (2010), Department of Homeland Security
Employment opportunities in the US appear to be a dominant pull factor for immigration.

Source: Passel and Cohn (2010), Department of Homeland Security
Tighter border controls increase coyote fees

Source: DHS, MMP
Apprehensions in the US-Mexico border have not declined significantly even though US border controls have increased.

Source: DHS, CBP
Migration rises and then falls as border controls increase (the Migration Curve)
Migrant stock today

= Existing migrant stock
  – Return migration
  + New migration

Or

\[ M_t = M_{t-1} - R_t + \Delta M_t \]
Return migration and border controls
Duration of Mexican migration has increased – return rate has declined – as controls have been tightened at the US-Mexico border.

Source: DHS, MMP
New migration and border controls

- Willingness to migrate is a function of developmental gaps
- Ability to migrate is a function of border controls
- Border controls increase the segmentation of labor markets and increase developmental gaps
Border controls also affect income differences
Break-up of the Soviet Union saw a divergence in income levels of FSU countries.

Coefficient of variation of GDP per capita (2000 US$)

Source: DECPG
Creation of borders in South Asia led to divergence of income levels

GDP per worker (2000 US$), thousands

Pakistan 6
Pakistan 4
India 2
Bangladesh 0


Source: Penn World Tables 6.2. India and Pakistan were partitioned in 1947.
Accession of Portugal to EU in 1986 allowed it to catch up with France’s income level

*Portugal GDP as % of France GDP*

Source: *Penn World Table 6.2*
Income gaps narrowed between East and West Germany after unification

Source: Penn World Tables 5.6 and Burda (2008)
New EU accession countries also saw their income levels converge

Coefficient of variation, GDP per capita (constant 2000 $)

Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, and Slovenia joined the EU in 2004. Source: WDI
Migration Curve

Migration

Border control

0

Maximum
Migration Curve

Migration

0

Border control

Maximum
Migration rises and then falls as border controls increase

Apprehensions along US-Mexico border (millions)
On the left of the curve, shifting from border controls to development aid could be very effective.

On which side of this curve are Mexico-US and Bangladesh-India corridors?

What is a border? Does it have to be the same for international trade, foreign investment, economic nationality, political sovereignty, cultural identity?
C. Policy implications

1. The international remittances agenda

2. Know your migrants/diaspora

3. Help potential migrants acquire globally marketable skills

4. Ethical recruitment policies may be ineffective, and unethical –

5. Improve transparency in recruitment of migrants

6. Border control policies should be revisited

7. Migration is not a substitute for employment creation at home