POLICY PRIMER

Migration and Development

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This policy primer examines the relationship between migration and international development, considering the benefits and challenges it creates for both sending and receiving countries.

The issue: the relationship between migration and development and the possible role of policy

There has been increasing recognition during the last few decades that migration can be a factor in the promotion of international development. Migrants typically do not cut ties with their country of origin and their interaction with the household back home and the home community is the main channel by which migration could benefit development. There can be an important exchange of money, knowledge and ideas between host and home countries through migrants.

Remittances, the most concrete consequence of international migration for developing countries, have reached a significant dimension at global levels. In 2010, remittances to developing countries reached over USD 320 billion (World Bank 2011) – and this is just those officially recorded. These flows have become an important source of foreign exchange and financing for many developing countries. These international flows are arguably less volatile than other capital flows such as portfolio investment, foreign direct investment and official foreign aid (Ratha 2003, Vargas-Silva 2008).

Not every aspect of migration is beneficial for developing countries. Migration may impose a high cost for developing countries by leaving the country without the human capital necessary to achieve long-term economic growth. This human capital flight may impose a significant economic burden for developing countries as migrants take with them the value of their training, which is often subsidised by governments with limited resources.

While migration impacts development, economic conditions are important drivers of migration. People migrate for a variety of reasons including the search for better economic opportunities, education, family reunion and escaping violence. People often migrate for a combination of these and other reasons. However, the expected income gap between developed and developing countries is a strong incentive for people to migrate (Czaika and de Haas 2011a). As such, migration affects development, but development also affects migration.

As explained below, these are not simple relationships. Development does not always lead to less migration, the brain drain may not be bad for the human capital levels of the migrant-sending countries and remittances may not always be beneficial to the receiving economies. Mixed migration as an analytical concept: understanding the continuum between 'forced' and 'voluntary' migration

Poverty and underdevelopment as a driver of migration

Differences in income and in living standards in general are important drivers of migration. Yet not everyone in developing countries migrates to developed countries, even when migration would imply a significant income gain for a large majority. Africa, the poorest continent on the globe, has generated relatively small migration flows considering the massive gain that migration would bring to its inhabitants (Hatton and Williamson, 2002). An explanation for this puzzle is found in the constraints on the migration of people. One such limitation is immigration policy restrictions in developed countries. With varying degrees of success these policies limit the level of migration flows globally (Czaika and de Haas 2011b).

While immigration restrictions could potentially be a limiting factor, there is another constraint that is likely to be even more important: money. Migration is not free and whatever the reason for moving, migrants need a certain minimum level of resources in order to finance their move. A simple economics model would suggest that people migrate for economic reasons if expected lifetime income in the host country, less the cost of migrating, exceeds expected lifetime income in the home country. However, if the individual cannot access the funds necessary to finance the move, the expected income gap becomes irrelevant.

There are several implications of this cost restriction for migration. First, the desire to migrate is higher than actual migration levels, especially among those with fewer resources. Gallup's Potential Net Migration Index suggests that several developed countries would be extremely overcrowded and some developing countries would be almost empty if all the people in the world who would like to migrate were actually able to move where they wanted (Esipova et al. 2009).

Second, increases in GDP per capita in many developing countries may lead to an increase rather than a decrease in migration (Hatton and Williamson 2002). As income rises, those who have a lot to gain from moving but were not previously able to move will be able to migrate. This is likely to continue until the home country reaches a certain level of income, migration stabilizes and potentially decreases thereafter.

The third implication of the cost restriction on mobility is that those who migrate are not likely to be the poorest. Therefore, development related policies designed to assist migrants and their families back in the home country do not necessarily benefit the poorest.

Brain drain or brain gain?

People who leave developing countries are not randomly selected among the population. It is often the case that those who migrate from developing countries are among the most educated people. This has caused great concern about a "brain drain" process in developing countries, where the brightest minds leave for other countries. Developing countries complain that scientists, nurses, doctors, engineers and other professionals, who were educated with the limited resources available, go to work in and benefit developed countries. There are arguments that developed countries should compensate developing countries for the migration of their most educated professionals (House of Commons 2004).

Other evidence has dismissed the brain drain theory and has instead adopted the notion of a brain gain (Gibson and McKenzie 2011). The main idea is that acquiring human capital (i.e. getting an education) is not free. Individuals have to forgo earning income (or at least some portion of their income) while they are in school, and in many cases they have to pay significant tuition fees, study hard and put much personal effort into their education. Many individuals will make the sacrifice necessary to acquire human capital only if they are able to be rewarded financially in the future. Salaries for educated people in developing countries are often low and not sufficient to encourage the acquisition of an education.

The possibility of migrating abroad increases the expected salary in some professions. In this case, individuals also look at the salary expectations in other countries when making human capital investment decisions. The fact that some may be able to migrate encourages more people to become educated. Not all people who acquire an education will migrate. As such, the possibility of migrating may result in a brain gain for the country (Stark et al. 1997). Beine et al. (2011), for instance, present evidence that in countries where the skilled emigration rate is not overly large (i.e. 20 to 30%), the net effect of skilled emigration on the country's human capital level is positive.

The departure of the most educated individuals from a country may also result in the creation of a brain bank that provides locals access to knowledge built up abroad (Agrawal et al. 2008). Previous studies also suggest that migrants are in a superior situation to invest in their home countries because they have specific knowledge that other foreign investors lack. Non-migrant locals also have this knowledge, but they often lack the valuable business expertise that can be acquired abroad.

Finally, it is often the case that migration is a two-way occurrence, with many migrants returning back home after a few years abroad. The return of highly skilled migrants with specialised knowledge and skills (e.g. engineers and scientists) can help improve research and development programs in the home country. These migrants may include, among others, those who obtain additional education abroad and return back home.

The impact of remittances

Remittances are transfers of money from an individual in one country to an individual in another country. The majority of these transactions involve small amounts of money. However, for households in receiving countries these money flows may represent an important share of their budget.

Migrants send money for many reasons. In some cases migrants are behaving altruistically toward the household back home. In other cases, migrants have some self-interested reason for remitting, such as maintaining their household status for inheritance or other purposes. There is evidence that some migrants also remit for investment purposes. Finally, some migrants may be paying loans and other debts to the household, potentially including the money they used to finance their move abroad.

It has also been argued that remittances could serve as a risk-sharing mechanism for household members who are separated by international borders (Yang and Choi 2007). By leaving the household and moving to another region or country, the migrant will be subjected to risks that are mostly uncorrelated to those that the household faces; hence, the migrant and the household are able to diversify their risks.

The jury is still out on the overall impact of remittances in remittance-receiving countries and on receiving households. Some of the evidence suggests that remittances have beneficial impacts on receiving countries and households. For instance, at the household level there is evidence that remittances increase human capital acquisition (Cox and Edwards 2003). Receiving remittances may relax the budget constraint of the receiving household potentially allowing the household to send children to school.

Remittances may also provide the capital necessary to start a small business (Woodruff and Zenteno 2007) or may simply cover household expenses during the period when the business is not generating profits. Receiving remittances may allow the household to enter more profitable but riskier businesses, given that remittances can be used as a source of support for the household. This role of remittances is especially important in those countries where credit markets are not well developed.

One the negative side, there is evidence that many remittance-receiving households decrease their labour market participation. People may tend to rely on these flows and reduce their participation in the labour market, which ultimately could create dependency on these flows similar to some type of international "welfare" system. Nonetheless, in many instances a reduction in the labour supply can lead to a significant increase in quality of life and allow some members of the household to acquire additional human capital. Hence, the potential reduction in the labour supply is not necessarily a negative aspect of remittances.

One of the arguments of those suggesting that remittances may harm receiving economies is that remittances can generate inflationary pressures or appreciate the receiving country's currency. The latter impact may potentially have a negative effect on the country's export sector. For more information about remittances see the Migration Observatory briefing on 'Migrant Remittances to and from the UK'.

Migrants send more than money back home

In addition to sending money back home, migrants transfer ideas, norms of behavior, values and expectations (Levitt 1998). The term "social remittances" has been used to describe these non-monetary transfers.

The social remittances transmitted can be positive and negative. South-North migration often results in migrants establishing themselves in countries in which the law is followed more strictly, contractual agreements must be fulfilled, politicians are held accountable and there is greater government oversight and transparency in general (Levitt and Lamba-Nieves 2011). Migrants often send these ideas back home, influencing first the demands of voters and ultimately the behavior of politicians, elected officials and other government employees. However, the evidence also suggests that migrants often send home a more materialistic idea of life, in which financial success is given more weight than other considerations such as family time. Other ideas may include preferences for more privacy and disregard for community life.

Much of the early research on the transmission of ideas between countries through migrants was not based on statistical evidence. The lack of data and the difficulty of separating social remittances from their monetary counterparts presented a challenge. However, there is recent statistical evidence of this phenomenon. For instance, Spilimbergo (2009) conducted an analysis using data from more than 180 countries to show that the education of their citizens in democratic foreign countries promotes democracy in the home country. The foreign education of nationals (some of whom will later become country leaders) instills in them the political ideas of the host country. For instance, those educated in the Soviet bloc tended to bring home socialist and authoritarian ideas, those educated in conservative Islamic countries tend to spread this world-view, and those educated in foreign democratic countries are inclined to support democracy back home. Pérez-Armendáriz and Crow (2010) present a related finding focusing on the case of Mexico. In their study, migrants are shown to contribute to the process of democratic diffusion across international borders by channeling political beliefs and practices from their host countries to their home countries. They find that even short experiences in the host country can help to alter the attitudes of returning immigrants.

Making migration more development friendly

Evidence from different studies suggests that migration results in significant global welfare increases (e.g. Clemens 2011, Rodrik 2002, Winters 2003). As such, developed countries could simply increase global welfare by opening their doors to more immigration. However, development is not a key factor (and in most cases not a factor at all) when developed countries determine the "desired" level of immigration. In most cases, including the UK, the government takes immigration policy decisions based on based on social, cultural, political and economic impacts on the host country. However, for any given level of immigration (flow or stock) and some given characteristics of migrants (e.g. skills, origin, etc.), there are policies that host country governments can adopt in order to maximise developmental benefits.

These policies could include initiatives such as programmes that match funds collected by migrant organizations for social investments in home countries. The contribution of governments in host countries does not have to be limited to monetary support but could include helping these organisations to better define their goals and implement strategies. Collecting and providing information on members of the diaspora from a certain country and their skills relevant to development could also support the initiatives of home countries. Finally, it is possible to include the perspectives of migrant organisations into the host countries policy planning on development issues. These are just a few examples of ways in which governments can affect development through migrants without increasing immigration levels.

An idea that has been popular in recent times is the creation of government sponsored websites where migrants can compare prices on remittances services from different providers and select the best deal to maximize the amount of money received by their families. An example is the website www.sendmoneypacific.org created as a joint initiative by the Australian and New Zealand Governments. The website provides information on remitting choices for migrants living in Australia and New Zealand and remitting to Fiji, Kiribati, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. These types of websites do not require a major monetary investment on the part of host country governments, but can have a major impact on the remittances market.

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The Migration Observatory

Based at the Centre on Migration, Policy and Society (COMPAS) at the University of Oxford, the Migration Observatory provides independent, authoritative, evidence-based analysis of data on migration and migrants in the UK, to inform media, public and policy debates, and to generate high quality research on international migration and public policy issues. The Observatory's analysis involves experts from a wide range of disciplines and departments at the University of Oxford.

COMPAS

The Migration Observatory is based at the ESRC Centre on Migration, Policy and Society (COMPAS) at the University of Oxford. The mission of COMPAS is to conduct high quality research in order to develop theory and knowledge, inform policy-making and public debate, and engage users of research within the field of migration.
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