International Migration and Development: A Literature Review

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Migration is a decision that impacts the welfare of the household, home community and the whole economy in various ways (Azam & Gubert, 2006). Over the past decade, the issue of migration and its development implications has been at the center of attention of research and development policies. This has also coincided with a striking turnaround of views and the debate about migration and development has swung back and forth like a pendulum, from optimism in the postwar period to deep "brain drain" pessimism since the 1970's towards neo-optimistic "brain gain" since 2000.

How can we explain this surge in interest in the issue alongside the shift towards optimistic views? In part, evidence suggests that this has to do with the spectacular rise in global remittances. In 1990, migrants sent back the equivalent of US$24 billion to lower and middle income countries. This amount had doubled to US$59 billion in 2000 and reached a spectacular US$243 in 2008.[1] "Additionally, the argument that migration would lead to remittance dependency and brain drain is increasingly being countered by the argument that migration can lead to significant gains through a counter-flow of remittances, investments, trade relations, new knowledge and innovation. (Lowell & Findlay, 2002; Stark et al., 1997). This overview leads us to the following questions: *First, what are the development and economic implications of international migration on the origin and destination countries? And second, what role can government policies in sending and receiving countries play to enhance the impact of migration on economic development?* The remainder of this paper attempts to answer these questions through a review of the literature and empirical evidence.

Economic implications for the origin country*:* While migration has social, economic and cultural implications for the sending and host countries, remittances the migrants send home have usually received a lot of attention (Ratha, 2007). The benefits that a sending country might receive from skilled-immigrants are usually listed in terms of return flows of income, ability to smooth consumption, investment and expertise from migrants back to the sending country. Migration and remittances have direct and indirect effects on the welfare of the population in the sending countries. "A cross-country study of 71 developing nations found that a 10 percent increase in per capita official international remittances leads to a 3.5 percent decline in the share of people living in poverty" (Adams & Page, 2005). Further evidence from Latin America, Africa and South Asia suggests that remittances indeed reduce the depth and severity of poverty, as well as indirectly stimulate economic activity (Adams, 1991; Gupta et al., 2007; Lachaud, 1999).

Remittances have also been found to have an income stabilizing effect at both, the macroeconomic level and the household level (Chami et al., 2009). Historically, remittances have risen in times of economic downturns, financial crisis and natural disasters because migrants send money to help their families back home (Mohapatra et al., 2010; Yang, 2006). In Ghana, remittances were found to help households to minimize the effects of economic shocks on household welfare (Quartey, 2006). Recent evidence from Mali also confirms that a substantial part of remittances is saved for unexpected events and thus, the migrant serves as an insurer for the whole household (Ponsot & Obegi, 2010). These findings suggest that the

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[1] See figure 1 attached in the appendix for reference.

consumption smoothing effect of remittances allows households to engage in high-risk and more profitable economic activities that have a poverty-reducing effect, but in absence of migration, that would be difficult.

Migration remittances have been found to improve growth prospects as they increase domestic savings as well as improve financial intermediation (Aggrawal et al., 2006). "Evidence from Philippines and Mexico suggests that remittances increase the accumulation of assets in farm equipment, promote self-employment and increase small business investments in migrant sending areas" (Lucas, 1987; Yang, 2008). Some studies have also found that remittances are likely to improve the credit rating and external debt sustainability of the remittance receiving country, enabling easier access to international capital markets. (Abdih et al., 2009; Ratha et al., 2010).

The migration diaspora serves as a link between the sending and receiving countries, facilitates networking and expands the opportunities to access international financing.[2] "The diaspora also contributes through philanthropic remittances (Goldring, 2004), and the development of their former communities through hometown associations and collective financing of development projects such as schools, health facilities and community infrastructure" (Ghosh, 2006; UNDP, 2009). It is also believed that the access to information by returning migrants can improve technology, management and institutions in the sending country (Carling, 2005).

There is a growing body of literature which argues that migration contributes to human capital formation as the income from remittances is disproportionately spent on education and health, rather than everyday consumption. The children of migrants are more likely to finish their education as the remittances provide additional financial resources and better prospects (UNDP, 2009). Evidence from rural Pakistan shows that migration is associated with higher school enrolment, especially for girls (Mansuri, 2006).

High skilled emigration or the so called "brain drain" has received a lot of attention as it can significantly reduce the sending country's productive capacity, and it can be particularly important in the education and health sectors in small countries that face severe shortage of health workers (Docquier et al., 2010). However, as argued by Dustmann et al. (2010), return migration can lead to mitigation of the brain drain, if not a net "brain gain". When the migrants return, they have usually acquired skills that are needed in the sending community as manifested by a sizable wage premium paid to the returned migrants (Wahba, 2007).

Economic implications for the receiving country: Migration of people, just as international trade, benefits both the sending country and the receiving country (Roland-Holst, 2009). "The welfare gain for the destination country is due to the fact that immigration increases the supply of labor, which increases employment, production and thus, the GDP" (Ortega & Peri, 2009). Immigration also boosts productivity through innovation and specialization. "Data from the United States shows that a one percent increase in the share of migrant university graduates increase the number of patent applications and grants issued per capita" (Chellaraj et al., 2008).

[2] Ratha et al. (2008) estimate that Sub-Saharan African countries can potentially raise $5-10 billion by issuing diaspora bonds.

The idea behind this is that immigrants free up the local workforce to move to higher productivity occupations, by taking up relatively low skilled and labor intensive jobs.

However, policymakers in the destination countries often argue that immigration can become an economic burden as it is feared to lead to loss of jobs, heavy burden on public services, social tension and increased criminality (UNDP, 2009). The main reason behind this is that increased job competition brings down the wages for the locals. Despite this criticism, the aggregate effect of immigration on wages in the OECD countries has been found to be very small in magnitude, both in the short run and in the long run (Longhi et al., 2005). Similar findings in the context of North-South migration have been confirmed by Ratha and Shaw (2007). The wage impact also depends upon how extensive the social safety nets and welfare services are and to what extent migrants are allowed to access the domestic welfare system.

Policy suggestions*:* Most studies argue that migration should be incorporated both, in the development cooperative strategies in the receiving country, as well as the national poverty reduction strategies in the sending countries (UNDP, 2009). Although very rare, there are some cases of successful strategies for cooperative efforts between the sending and receiving countries to manage migration. For instance, Mali and France have initiated annual bilateral consultations to manage migration and initiate cooperative efforts for development (Martin et al., 2002).

The question governments should be asking is how they can design immigration policies that empower (instead of exploit) migrants and maximizes their social, human and economic capabilities to contribute to development in origin countries. "Policies that improve the functioning of legal, economic and political institutions, and the access of ordinary people to education, health care and basic rights are crucial for compelling migrants to invest in origin countries" (Haas, 2012). Also, immigrant-receiving governments can play a significant role in increasing the development potential of migration through lowering thresholds for legal immigration, particularly for the relatively poor and the lower-skilled, and through favoring their socio-economic mobility by giving access to residency rights, education and employment.

Recommendation for future research*:* Here, I pose some questions for further research for which answers are needed to better understand the overall impacts of international migration. First, what is the value of the option to migrate for those who remain in their home countries? This calculation should include both an economics option value as well as the utility individuals place on freedom of movement (Gibson & McKenzie, 2011). Second, what is the effect of high skilled migration on institutional development at home? We are far from putting a dollar or utility value on such effects. And finally, how much does migration policy actually matter for determining the level of skilled migration? Specifically, do individual country policies make in shaping the skill composition of its immigrants? Much remains to be learned from these topics.

In conclusion, this paper argues that international migration and remittances can be valuable components to broad-based development efforts and they can indeed have a fruitful interaction. Yet, they should not be viewed as a substitute for official development aid because migration alone cannot independently set in motion broader processes of human and economic development. Therefore, all government's must harness the development potential of migration through appropriately measured policies, emphasizing on broad based economic growth.

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Appendix

Growth of global remittances over time:

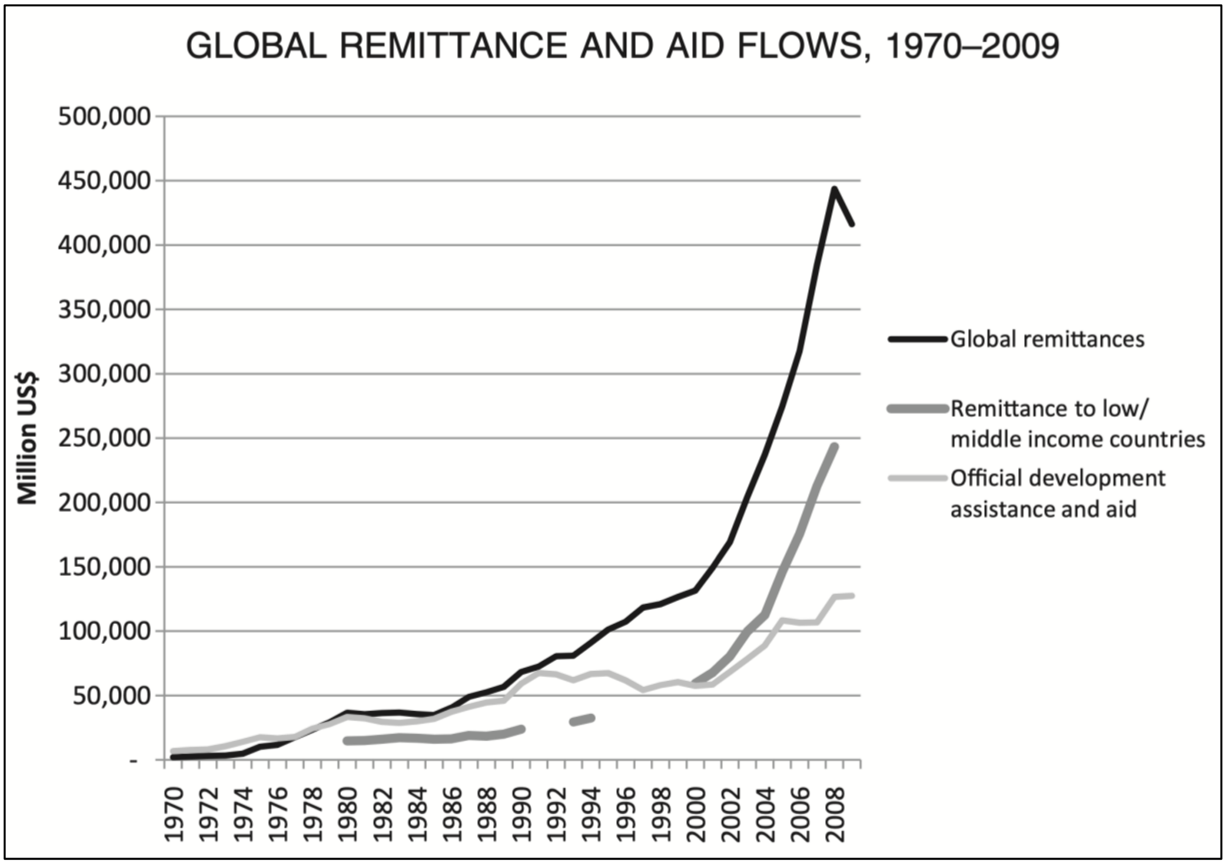

Figure 1 - Source: World Development Indicators database, World Bank.