

# International Migration and Economic Development: Puzzles and Policies for LDCs

*J. Edward Taylor*

*Department of Agricultural and Resource Economics and  
REAP*

*University of California, Davis*



*United Nations*  
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# The Changing Question



- ◆ **The old question:** “Does migration has a positive or negative effect on development in less developed countries (LDCs)?”
- ◆ **The new questions:**
  - “Why does international migration seem to promote economic development in some cases and not in others?”
  - “How can policies be designed to influence migration’s impacts in migrant-sending economies?”

# International Migration and Development



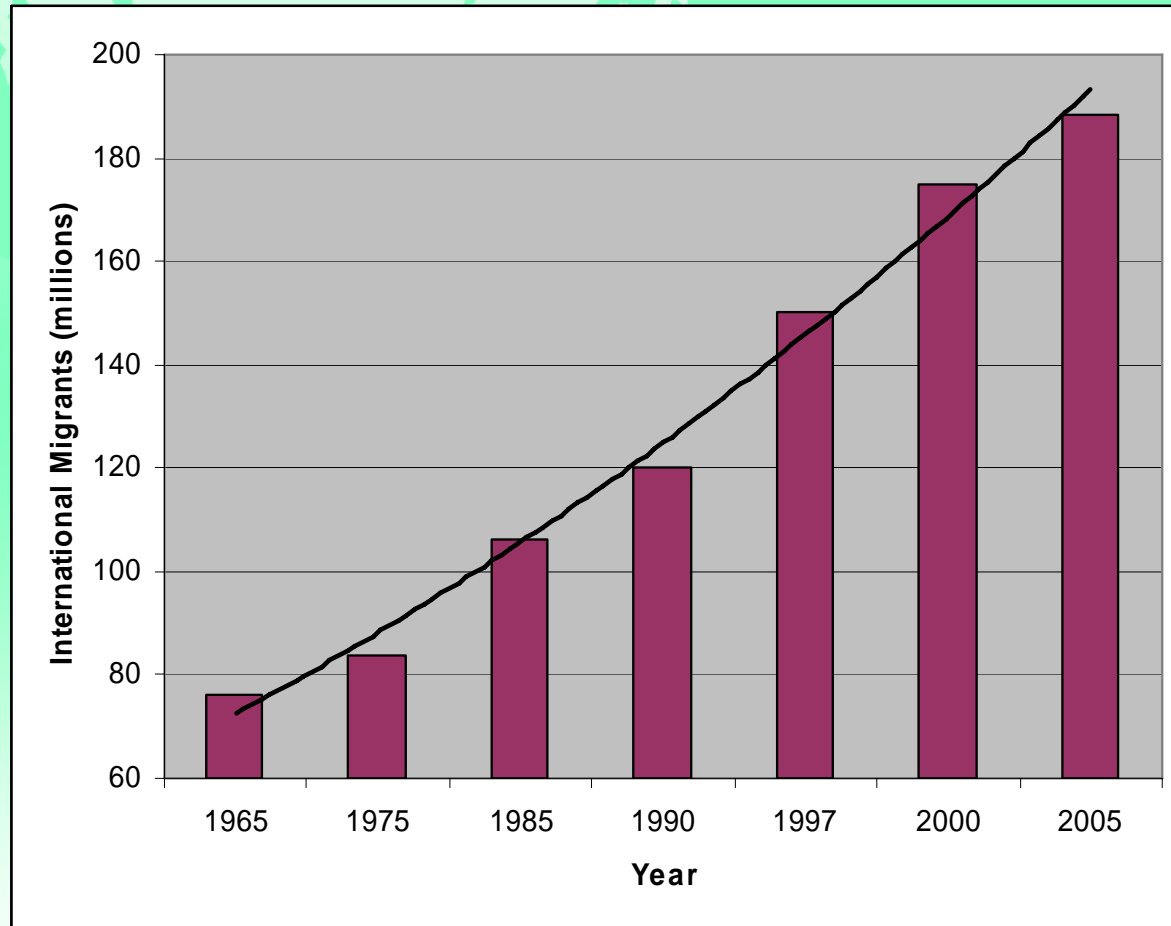
- ◆ A vast subject
- ◆ Puzzles, paradoxes and myths
- ◆ Policy options (more in paper)

# Conclusions (putting the cart before the horse)



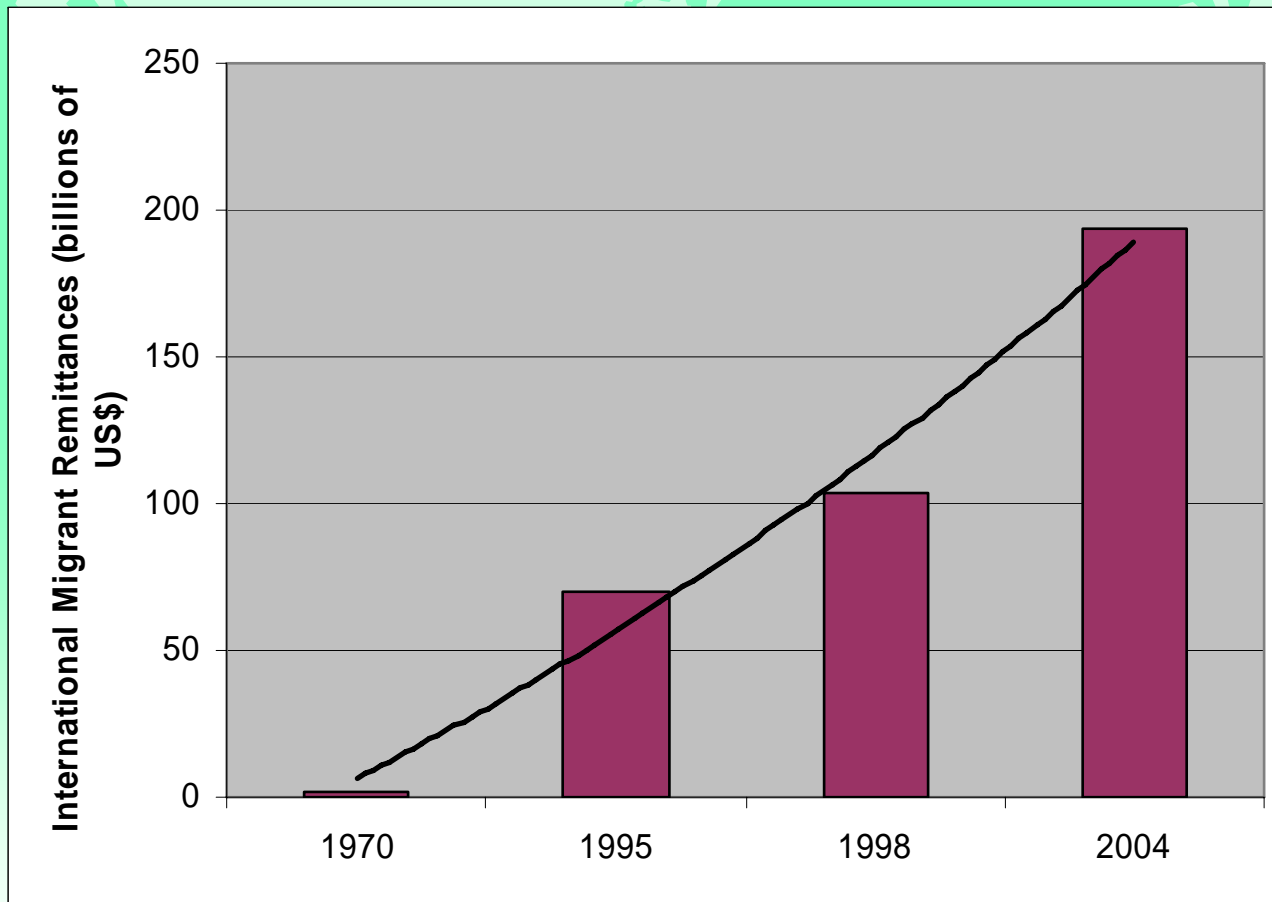
- ◆ International migration is neither a panacea nor a threat
- ◆ Economic development and underdevelopment shape migration. Migration, in turn, shapes development.
- ◆ The key question is how governments can use international migration as a development tool.

# The Context: International Migration is Increasing



Source: International Organization for Migration (2005).

# ...and Remittances Even More



Source: International Monetary Fund (2005).

# Example: Central America (there are many others)



- ◆ The number of Salvadorans, Guatemalans, Hondurans and Nicaraguans in the U.S. increased 20-fold between 1970 and 2000, from 68,800 to 1,419,000.
- ◆ Emigration rates are higher than population growth rates in these four countries
- ◆ ...without counting Nicaraguans in Costa Rica.

# Human Beings Are the Most Important Export (in Terms of Foreign Exchange)

<b>País</b>	<b>(A) Remesas</b>	<b>(B) Exportaciones</b>	<b>Racion de remesas a exportaciones (A/B)</b>
El Salvador	2,548	3,249	0.78
Guatemala	2,681	2,911	0.92
Honduras	1,134	1,457	0.78
Nicaragua	810	750	1.08



A world map showing the continents of North America, South America, Europe, Africa, Asia, and Australia. The word "Lessons" is written in a large, bold, black font across the center of the map, overlapping the Atlantic and Indian oceans.

# Lessons

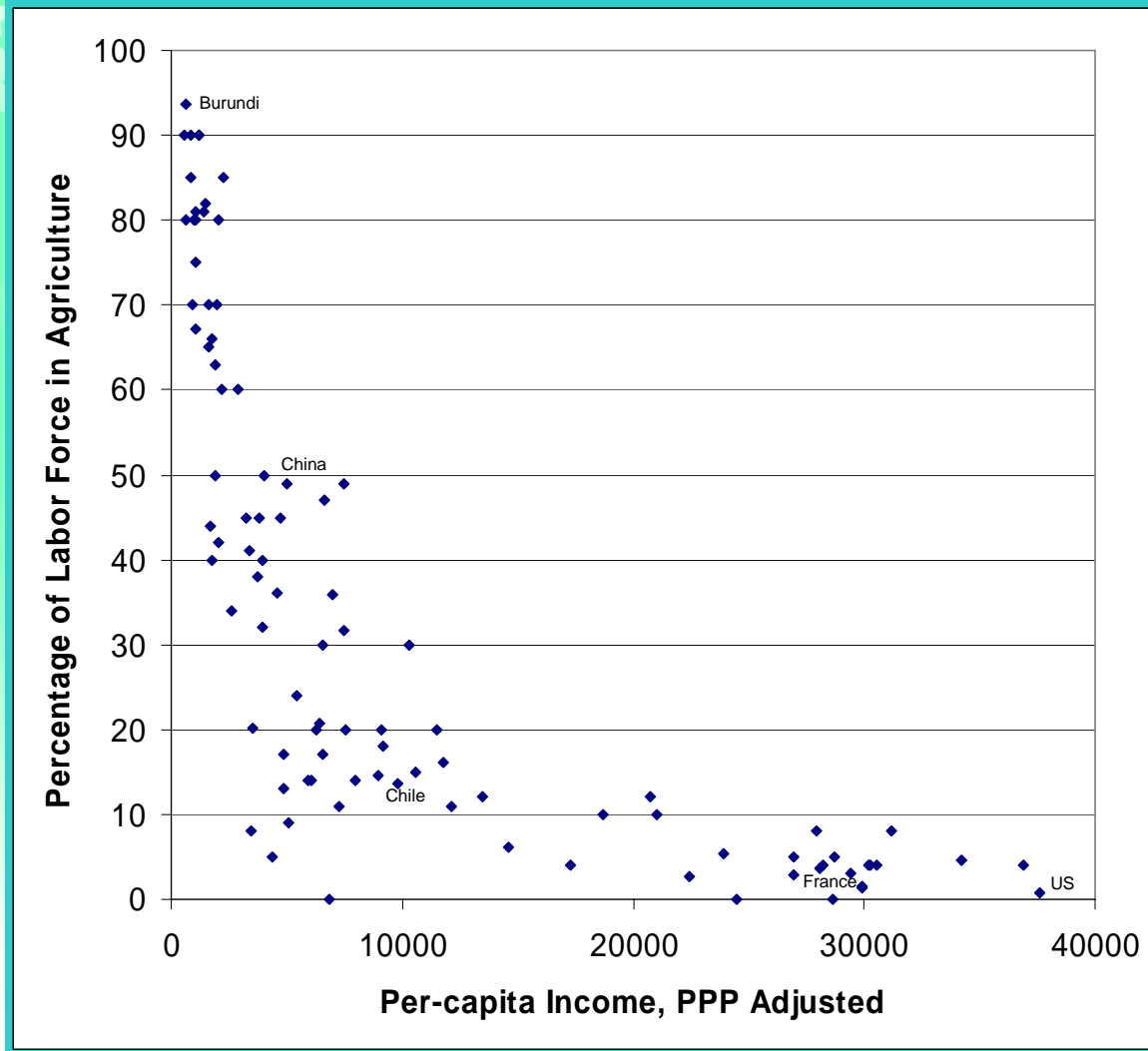
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# 1. It Is a Mistake to Try to “Keep People on the Farm”



- ◆ Costly (China learned this)
- ◆ Will not work in most cases

# The Alternative of No International Migration Is to Go Somewhere Else



## 2. Don't Think Income Growth Will Keep People at Home

- ◆ As incomes rise, people become more mobile, not less
- ◆ They move out of rural areas and farm jobs
- ◆ ...to cities
- ◆ ...and abroad

### 3. Trade Integration Will Not Necessarily Reduce Migration

- ◆ Trade integration may reduce out-migration pressures in long run.
- ◆ ...but may intensify pressures in short run
  - Transition, importables to exportables
  - Income growth and mobility
- ◆ Need transition policies.

## 4. International Migration Is Not the Solution to Poverty



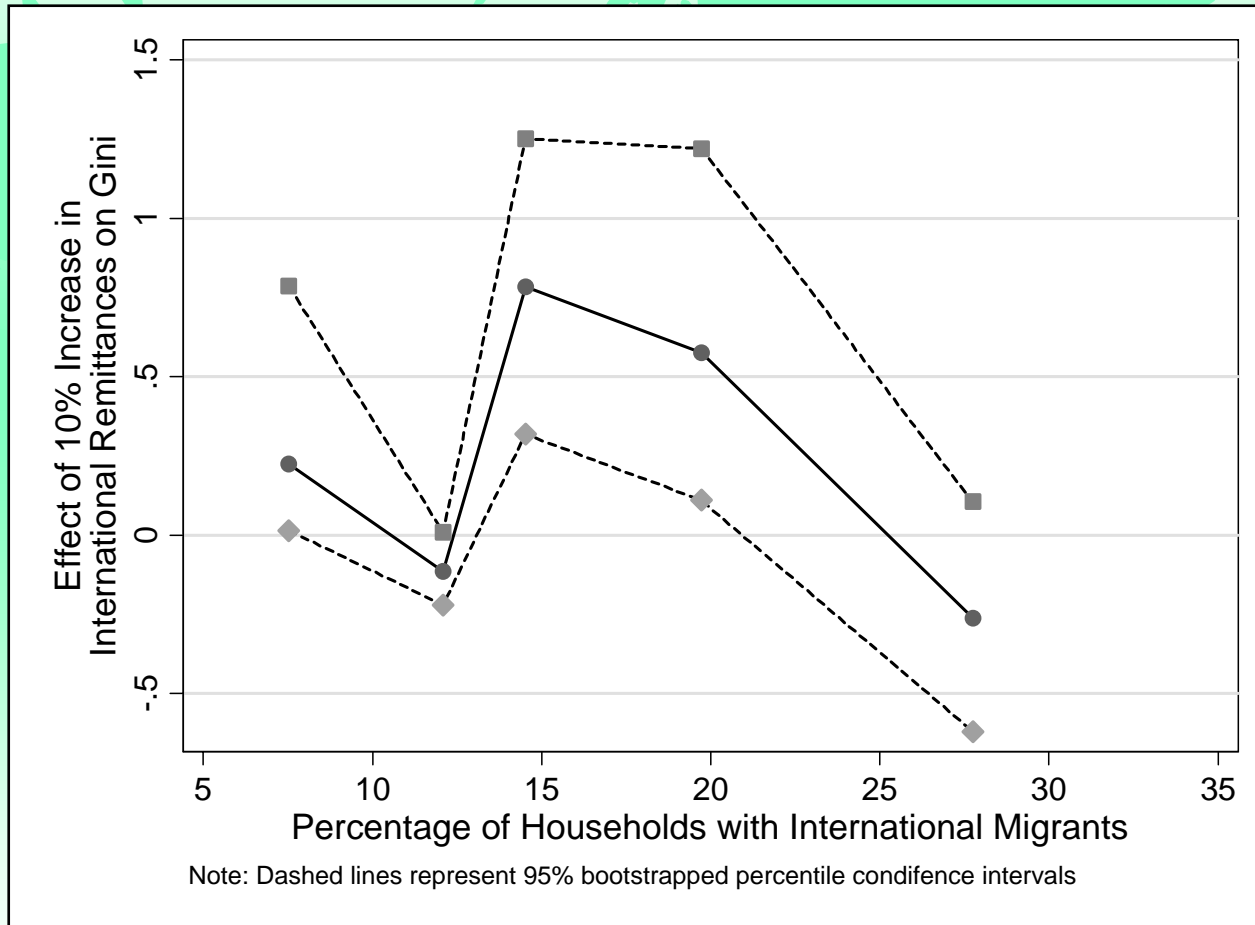
- ◆ The Poorest of the Poor Usually Do Not Migrate Abroad
- ◆ They have the incentives
  - Gap between earnings abroad and at home
- ◆ ...but too many constraints
  - Costs of travel, recruiters/smugglers
  - Risks
- ◆ Another income paradox

# 5. Networks Drive International Migration



- ◆ “Pioneer” migrants send home not only remittances but also information
  - How to migrate
  - Where to look for work
  - What labor recruiters or smugglers to trust
  - What wages to expect
  - How to overcome migration costs and risks
  - Support for new migrants at their destination.
- ◆ Networks are more important than policy in N. America
- ◆ As the share of households with networks increases, migration costs and risks fall

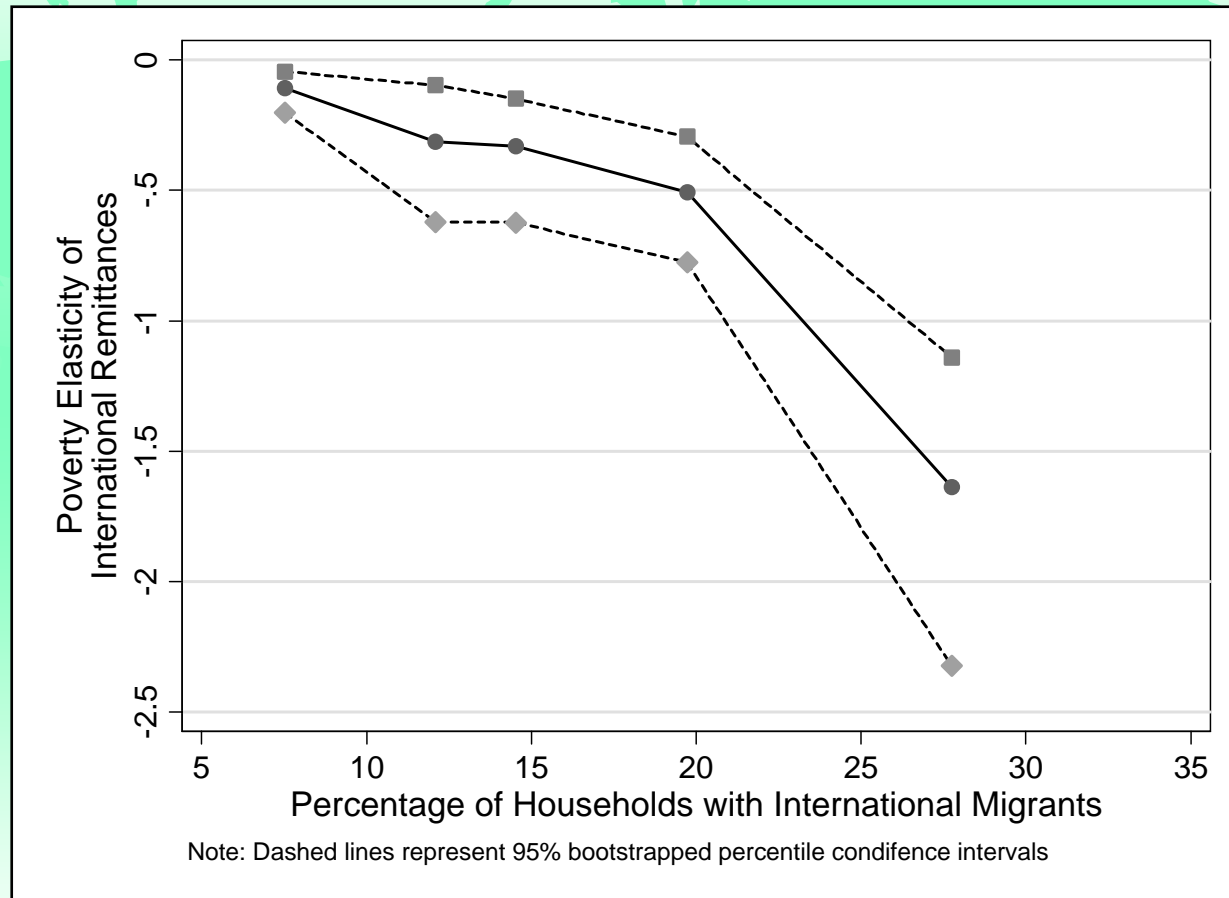
# ...Remittances Become More Equalizing



Findings for Rural Mexico. Source: Taylor, Mora, Adams and Lopez-Feldman (2005)



# ...and Have a Bigger Effect on Poverty



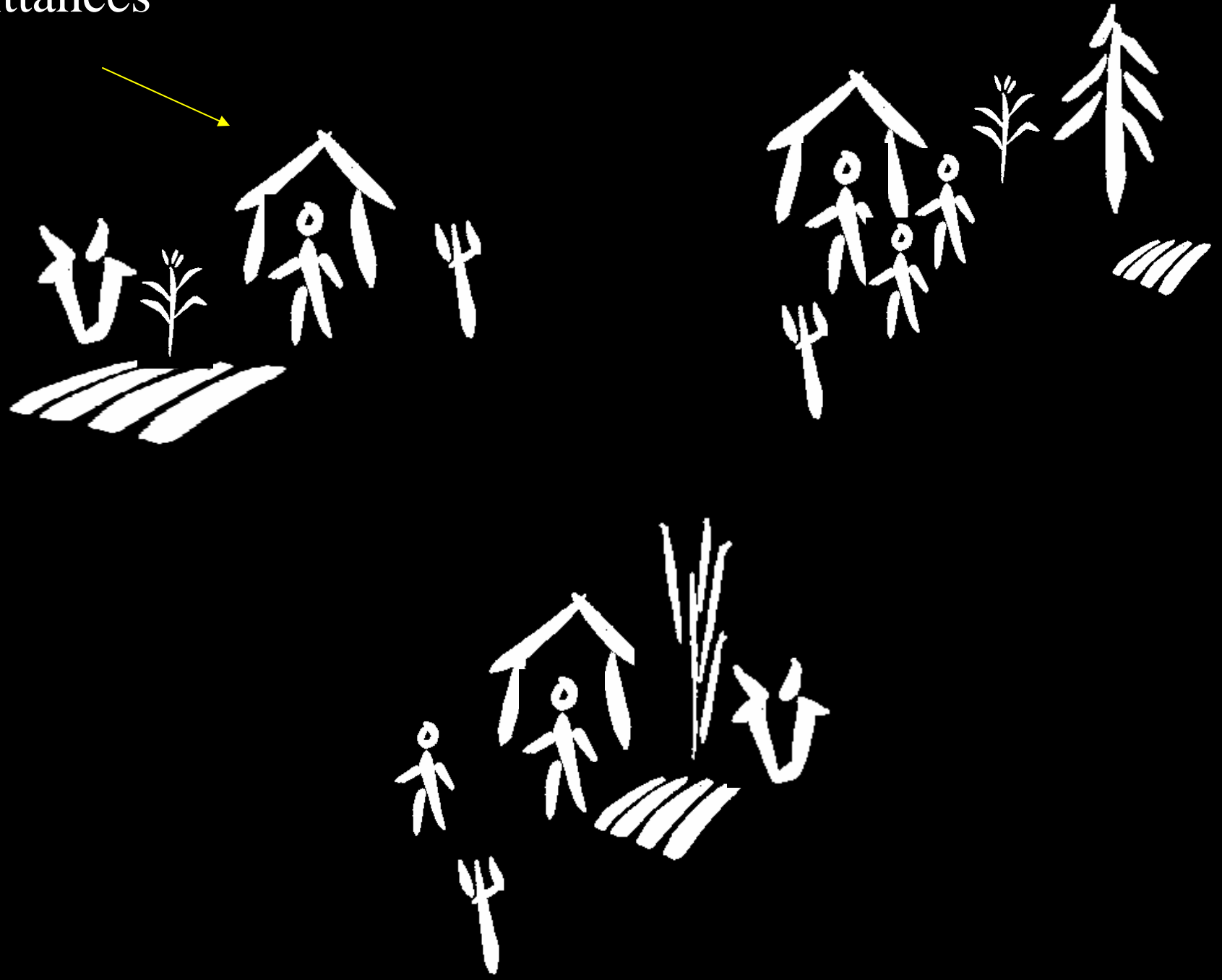
Findings for Rural Mexico. Source: Taylor, Mora, Adams and Lopez-Feldman (2005)



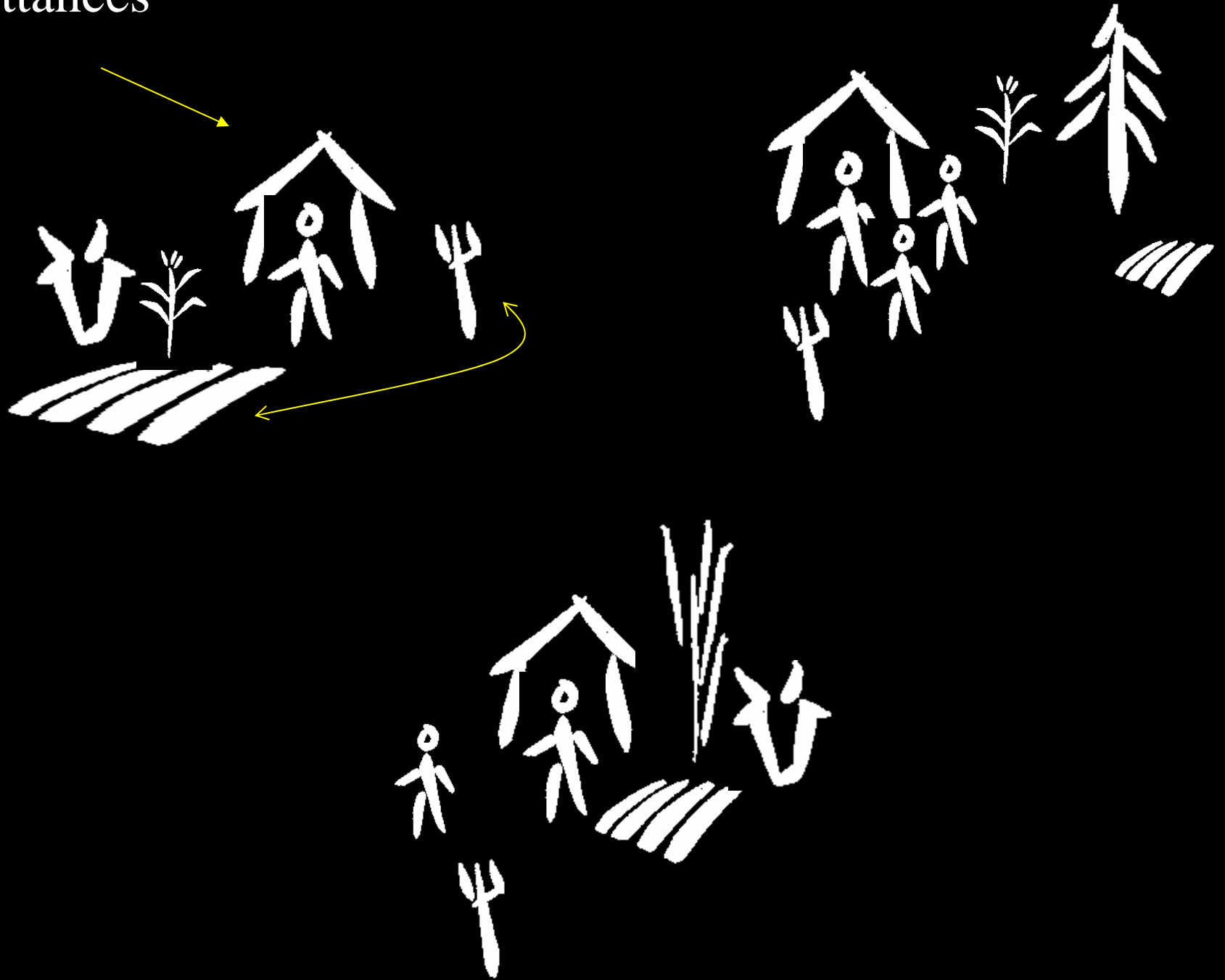
## 6. Many (Perhaps Most) of Migration's Impacts Are Not in the Migrant Households

- ◆ Think Outside the Box (of the Migrant Households)

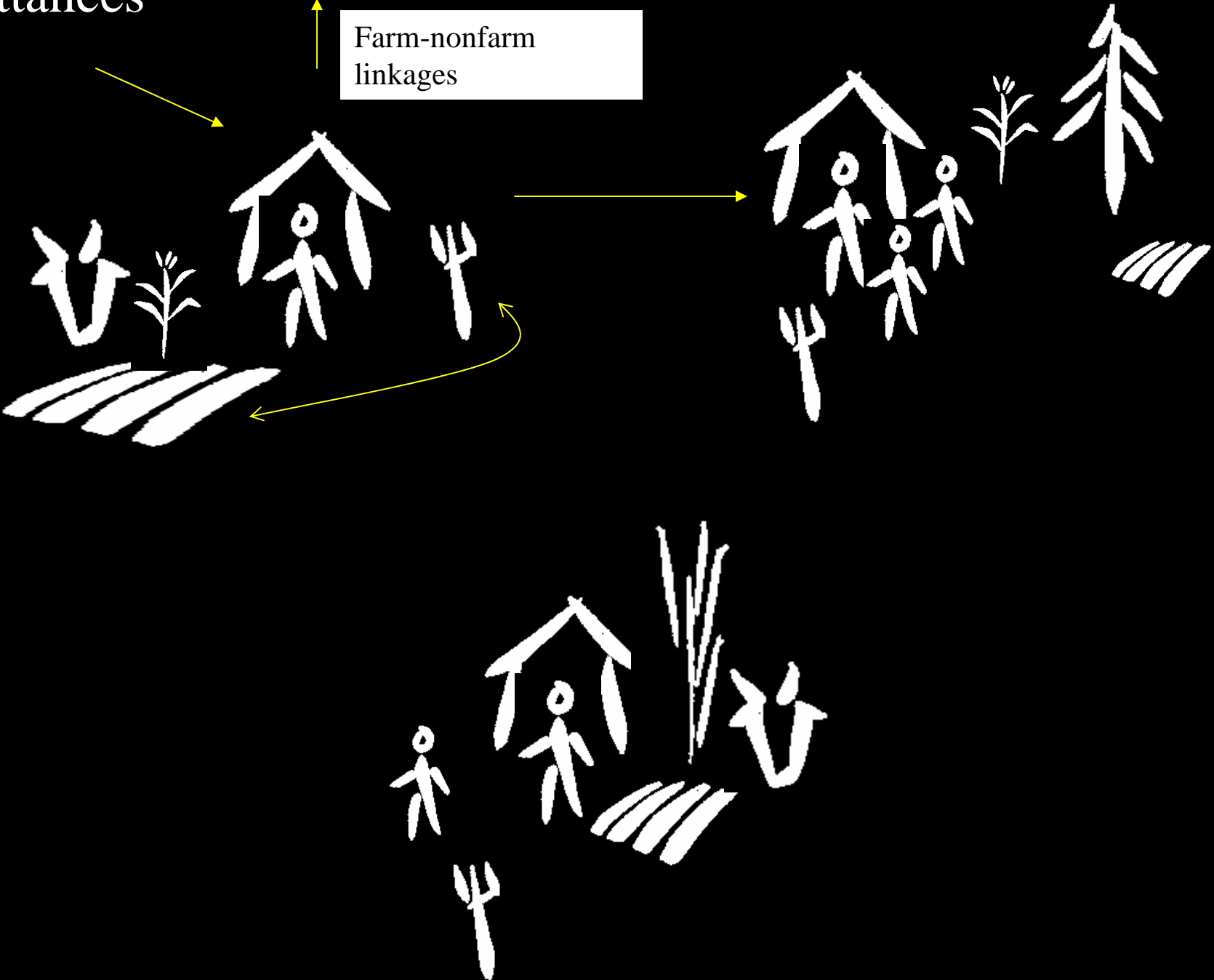
# Remittances



# Remittances



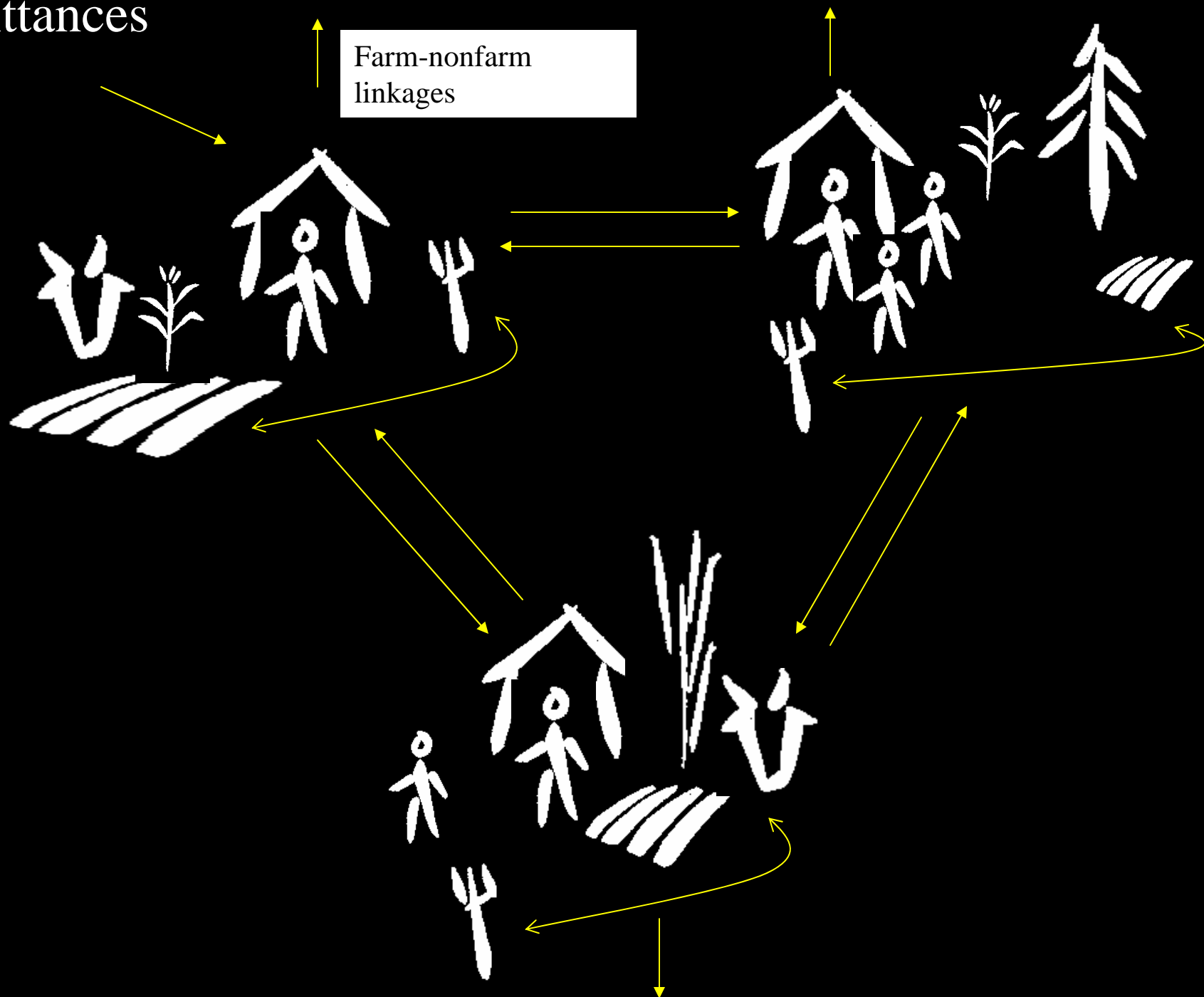
# Remittances



# Remittances



# Remittances



## 7. Remittance Use Is Not Very Useful

- ◆ Studies find that remittances are often used for consumption
- ◆ So is most of my income
- ◆ We don't care how remittances, themselves are used, but how they (and migration) affect spending
- ◆ One person's spending is another's income





# What Does this Mean for Policy?

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# Invest in the Linkages



- ◆ Create investment incentives, alleviate constraints on migrant households
- ◆ Develop markets to connect households
- ◆ Bring in the non-migrant households, especially the poor

# Provide a Stable Macroeconomic Environment



## ◆ Economic (and Political) Instability

- Shakes people's confidence in future at home
- Discourages remittances
- Who would invest in an unstable environment?

# Improve Access to Product Markets



- ◆ High transaction costs cut access to markets
- ◆ NAFTA and maize in Mexico
- ◆ What are these costs?
  - Transportation (when roads are poor)
  - Information (Where are buyers? Quality?)
  - Marketing (getting into supply chains)
  - Contract enforcement



# ...and Input Markets

- ◆ Input delivery in space and time
- ◆ Land (institutional constraints)
- ◆ Access to new technologies

# Micro Credit is Critical



- ◆ Why make the same household do the migrating and the investing?
- ◆ Huge efficiency losses from not getting liquidity into hands of those who can use it
- ◆ Community-based micro-credit (Grameen bank, others)

# Create Security in Diversity



- ◆ Insurance nonexistent; many reasons for this (moral hazard, monitoring)
- ◆ Some experimentation with government insurance, mostly failed
- ◆ Best insurance: Income diversification via off-farm employment
  - International migration offers income insurance
  - Rural economies becoming less agricultural
  - Mexico: 60% of rural household income is wages
- ◆ ...but the jobs have to be there



# Invest in People

- ◆ Human capital is the key to:
  - Raising productivity
  - Getting nonfarm jobs
  - Mobility
  - Responding to new policy and market incentives
  - Creating opportunities at home



# International Migration Can Help, But It Is Not the Solution

- ◆ Migration and Remittances Can Create
  - Liquidity, security for migrant-sending Households (Migrant as insurance policy)
  - Demand for goods and services from other households (if input/output markets work)
  - Liquidity for other households (if capital markets work)

# Maximize the Benefits from International Migration



- ◆ First maximize the remittances
  - Remittance transaction costs, leveraging
  - Stable macro-economy
- ◆ Create incentives to invest
  - An economic climate conducive to investing
- ◆ Extension to help people use markets better
  - Getting into the supply chain
- ◆ Creation of micro-credit and market infrastructure
- ◆ Community based development

# “En-Gender” Migration and Development Policies



- ◆ Female share of international migration is nearly one half
- ◆ Migration determinants, policy impacts, remittances, cultural norms, personal security issues, etc., often are different for women than men
- ◆ Networks are gender-specific
- ◆ Gender of those left behind matters
  - Women as agents of migration and development in many cases—so development policy must be gendered

# Developing Lands Hit Hardest by 'Brain Drain'

By [CELIA W. DUGGER](#)

Published: October 25, 2005

Poor countries across Africa, Central America and the Caribbean are losing sometimes staggering portions of their college-educated workers to wealthy democracies, according to a World Bank study released yesterday.

... likened a skilled immigrant's getting a visa to work in a rich country to winning a lottery, because the income gains from moving are so great.

...in Mexico, children in migrant families actually got less education than those of nonmigrants, possibly because their families believed that they would eventually migrate to the United States.

# Brain Drain



- ◆ Can be a *static* cost of international migration
- ◆ Solution: Create incentives to invest in schooling (...certainly not the opposite!)
- ◆ Migration can create incentives to invest in human capital
  - IT in India, China
  - Skilled internal migration in Mexico
  - Nurses in Philippines

# Caribbean

## “Bat Drain” or “Bat Gain?”

(Dedicated to Ozzie Guillen and the people of Venezuela)

**More than 1 in 5 Major League Baseball Players Come from the Caribbean**

Country	Number	Percentage of...	
		Foreign-born Players	All players
Dominican Republic	91	37.6%	11.0%
Venezuela	46	19.0%	5.5%
Puerto Rico	34	14.0%	4.1%
Other	71	29.3%	8.6%
Total	242	100.0%	29.2%

Source: Major League Baseball ([www.mlb.com](http://www.mlb.com))

# The Migration Dilemma

- ◆ LDCs lack resources to invest. You have to send migrants to get remittances.
- ◆ Emigration may compete with local production (like the “Dutch disease”)
- ◆ Economics offers a solution: Raise productivity of those who stay behind.
- ◆ Remittances alone will not do it.
- ◆ What opportunities does migration leave in its wake? Options for those who do not wish to go?



# International Migration Is Neither a Panacea Nor a Threat

It is part of the development process and  
needs to be dealt with as such