International Migration

Dean Yang (University of Michigan)
Featuring: Gaurav Khanna (UC San Diego)

BREAD/IGC Virtual Course in Development Economics
Module 3: Migration

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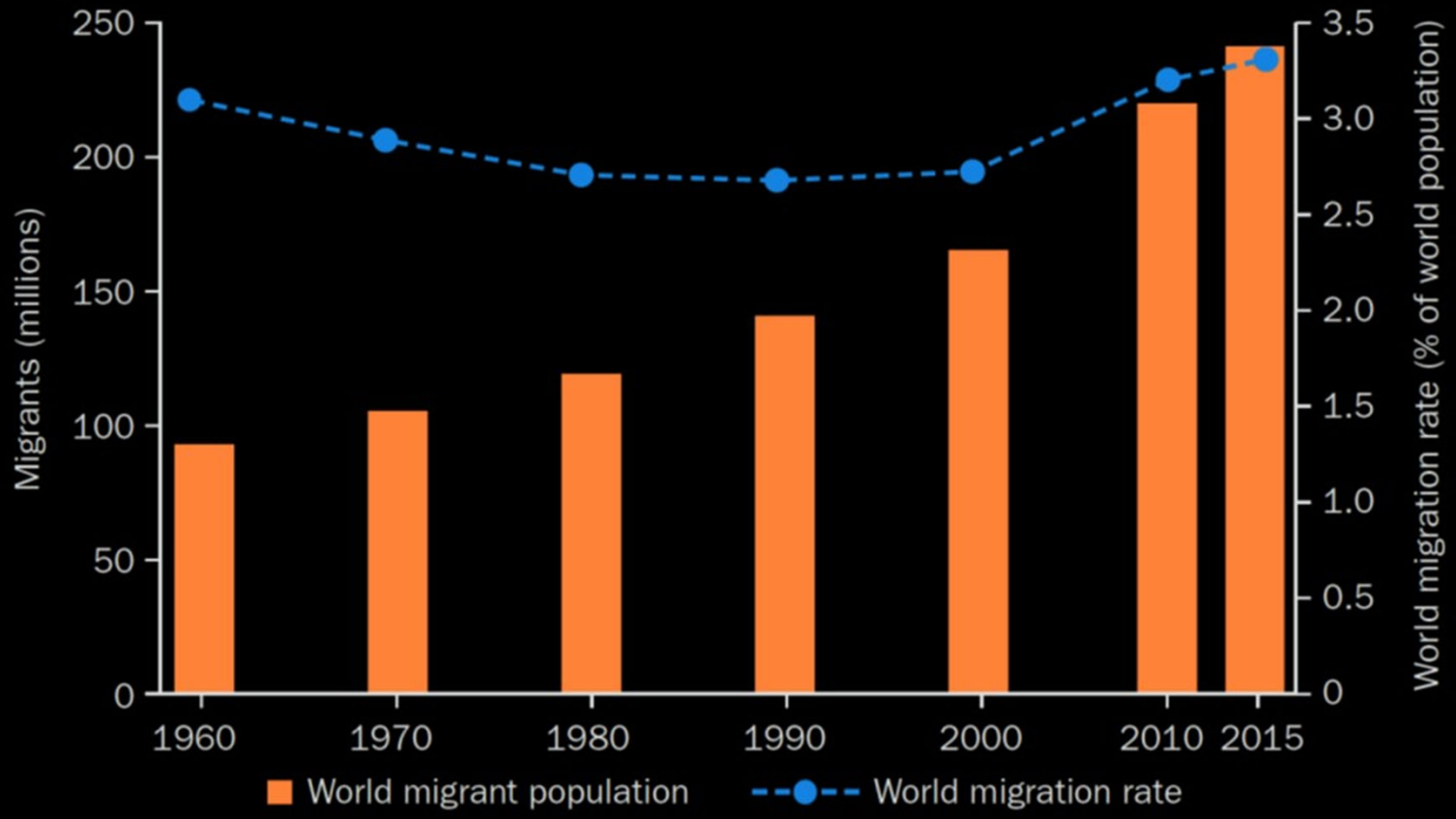
Migrants in the global context

- International migrants have been a stable share of world population, at roughly 3%

World migration, 1960–2015



Sources: Data from the World Bank Global Bilateral Migration Database (1960–2000) and the United Nations Global Migration Database (2010–15). Population data from United Nations World Population Prospects.

Source: World Bank 2018, *Moving to Prosperity: Global Migration and Labor Markets.*

Desire to migrate

- According to the Gallup World Poll, 13% of world population would like to migrate, but have not done so

Table B1.1.1 Potential migrants, by region

Region	Share of the population who would like to migrate, 2010–12 (%)
Sub-Saharan Africa	30
Europe (non-European Union)	21
European Union	20
Middle East and North Africa	19
Latin America and the Caribbean	18
North America	10
Australia/New Zealand/ Oceania	9
South Asia	8
East Asia	8
Southeast Asia	7
Global	13

Source: Gallup 2017.

Table B1.1.2 Top 10 destinations of potential migrants

Country	Share of all potential migrants (%)	Number (millions)
United States	21	147
Germany	6	39
Canada	5	36
United Kingdom	5	35
France	5	32
Australia	4	30
Saudi Arabia	3	25
Spain	3	20
Italy	2	15
Switzerland	2	13
Total	56	392

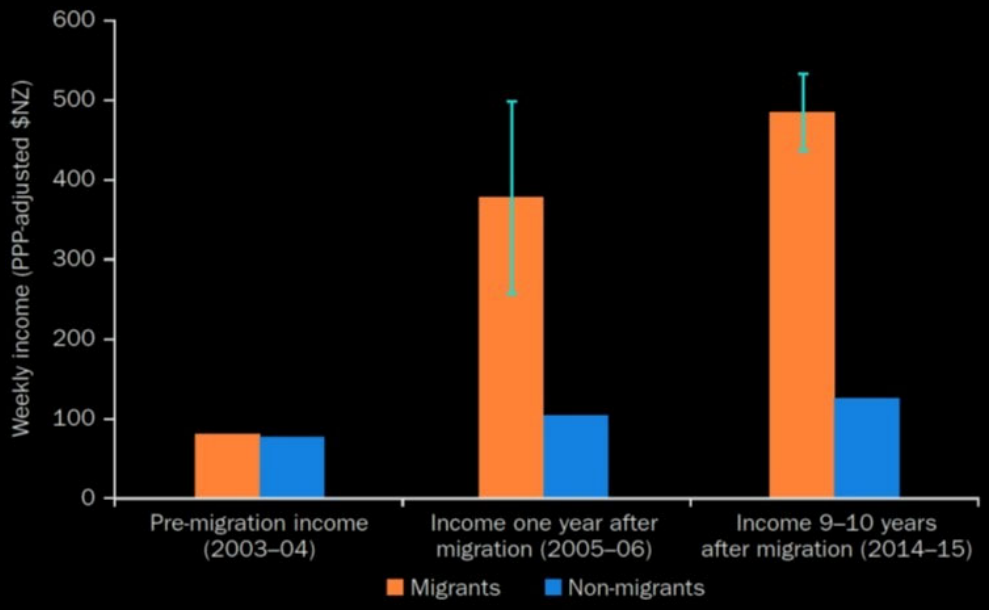
Source: Gallup 2017.

Source: World Bank 2018, *Moving to Prosperity: Global Migration and Labor Markets.*

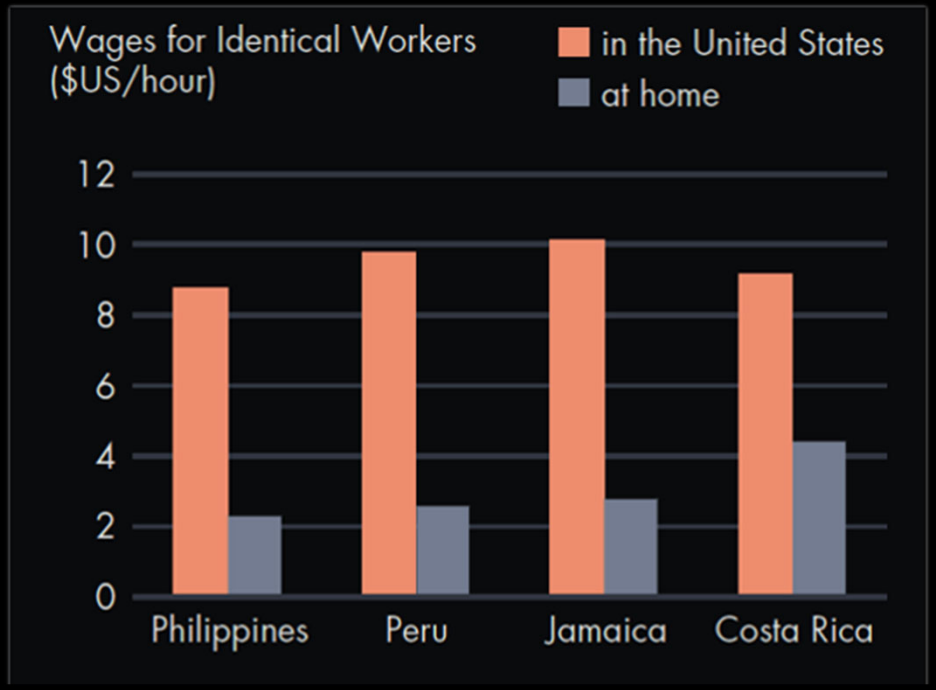
Income gains from international migration

- Income gains from labor migration from the developing to the developed world are immense

Figure 2.7 Wage gains due to migration: Quasi-experimental evidence for Tongans in New Zealand

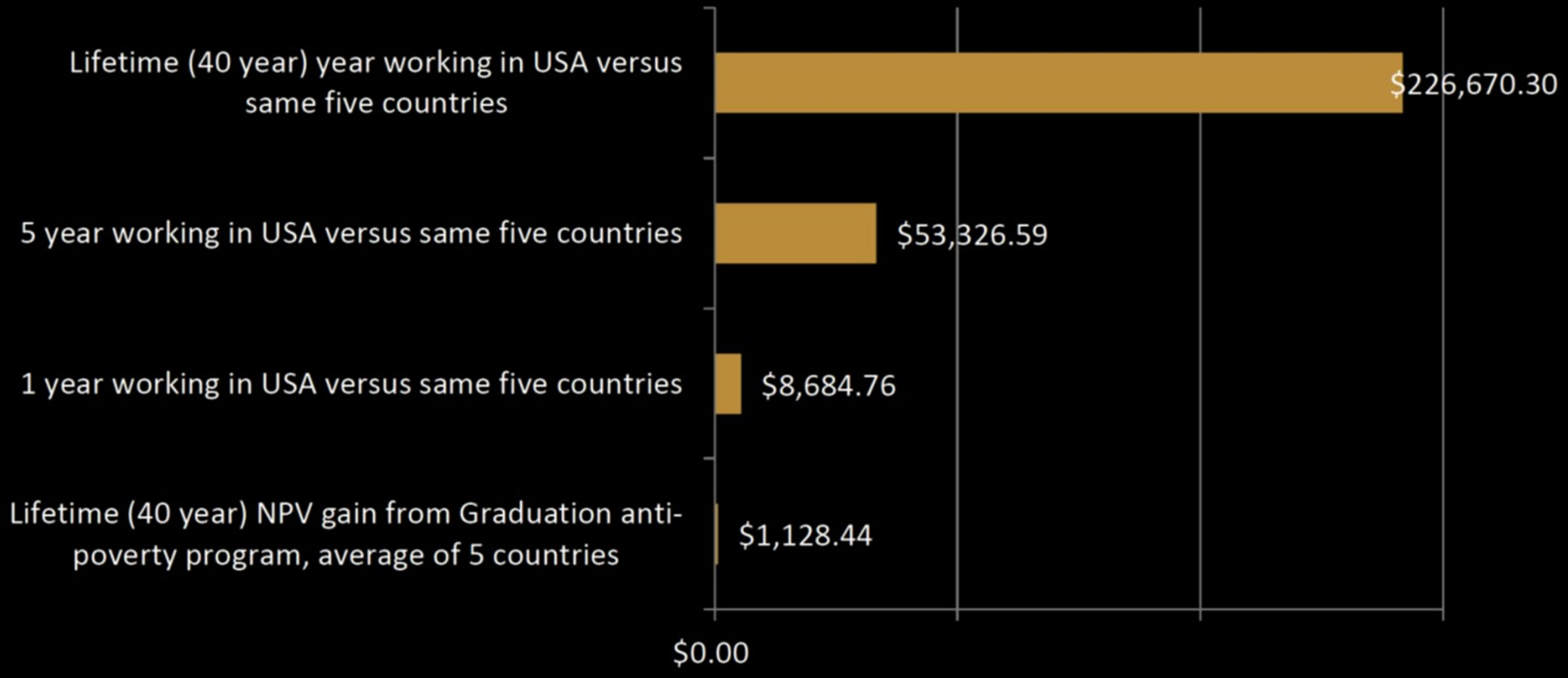


Sources: One-year results from McKenzie, Stillman, and Gibson 2010; long-term results from Gibson et al. 2018. Impacts shown are local average treatment effect estimates for impact of migrating; 95 percent confidence intervals shown for treatment effects.



Source: Clemens, Montenegro, & Pritchett (2019)

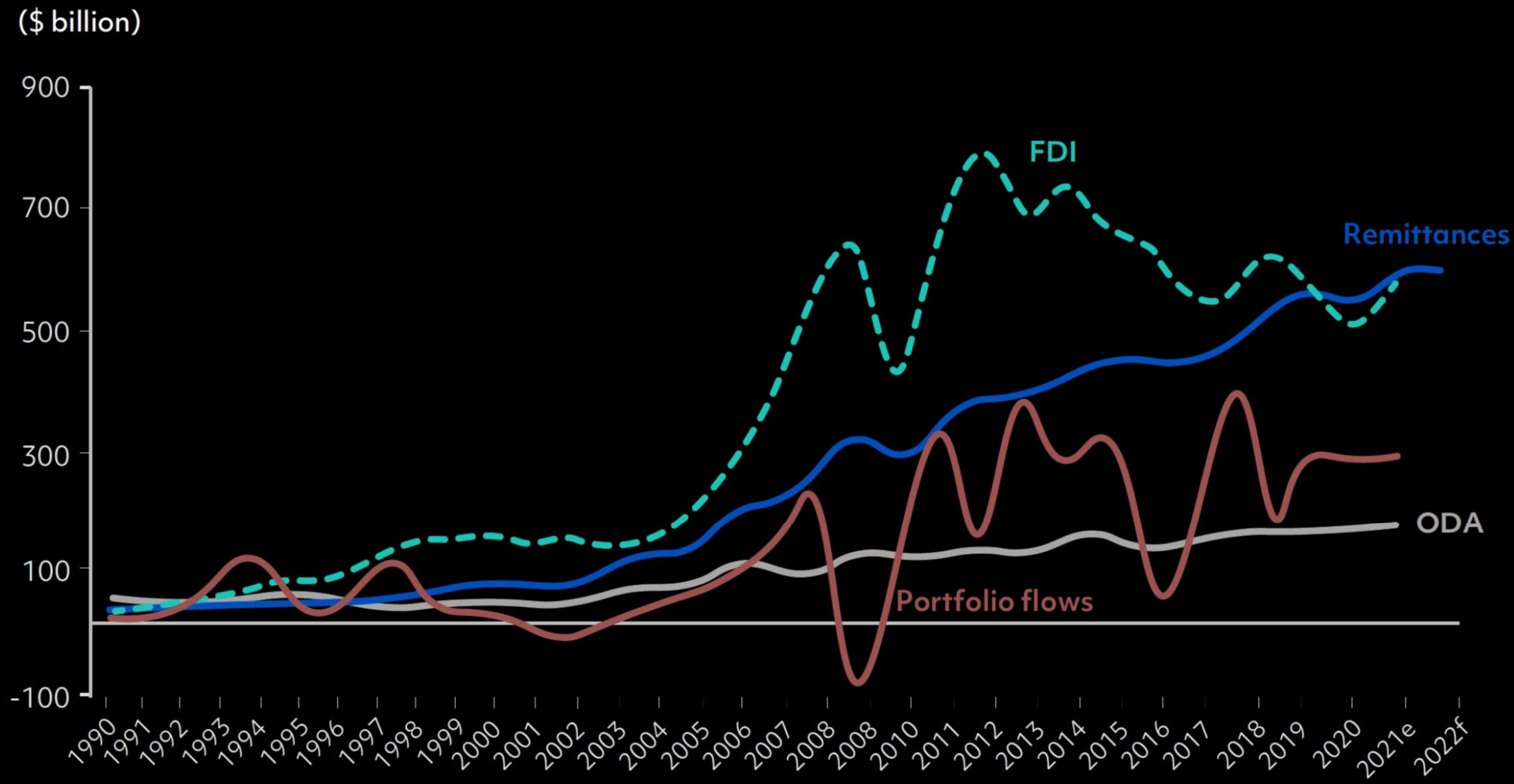
Migration vs. Graduation Program



Note: Graduation Program countries are Ethiopia, India, Ghana, Pakistan, and Peru.

Source: Pritchett and Hani (forthcoming)

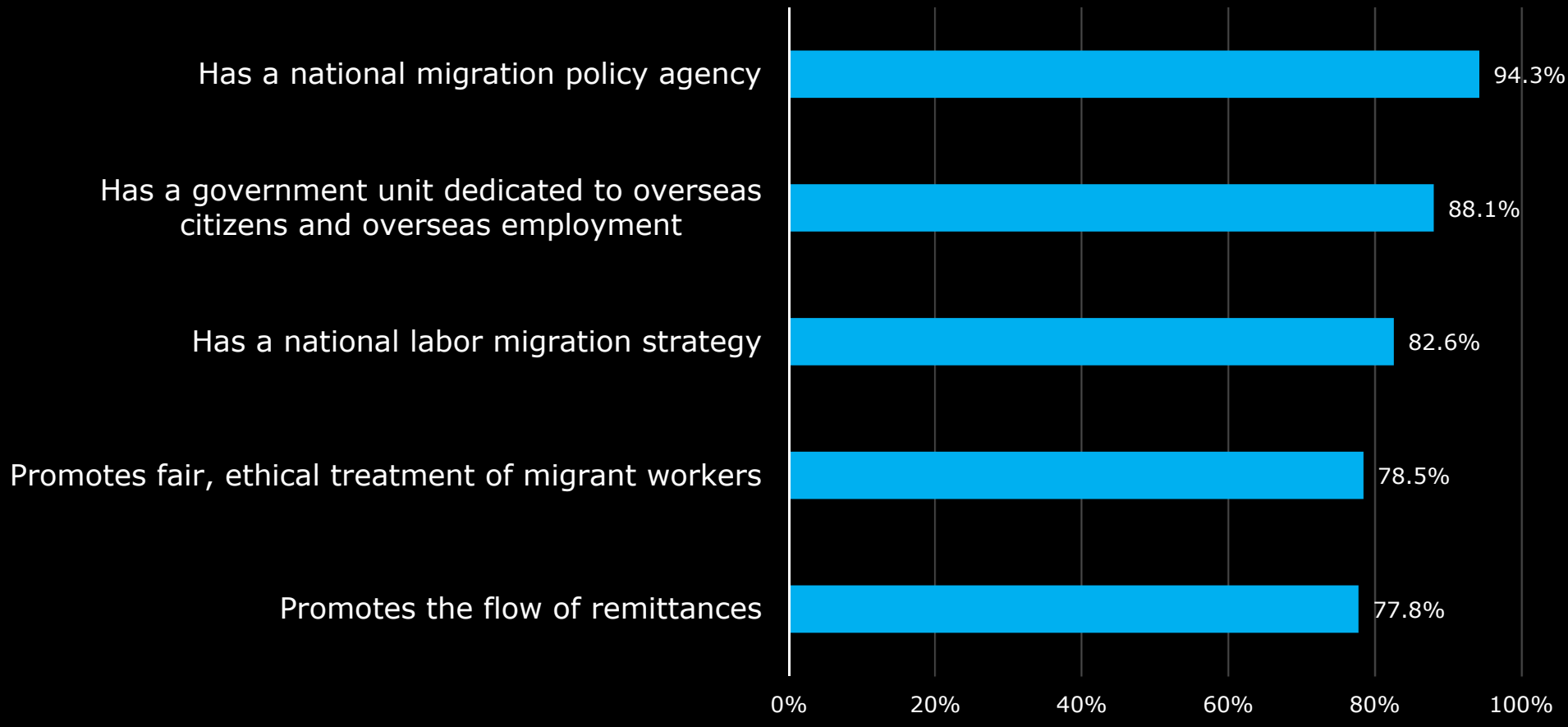
Financial flows to developing countries



Source: World Bank Development Prospects Group, "Migration and Development Brief 35," November 2021.

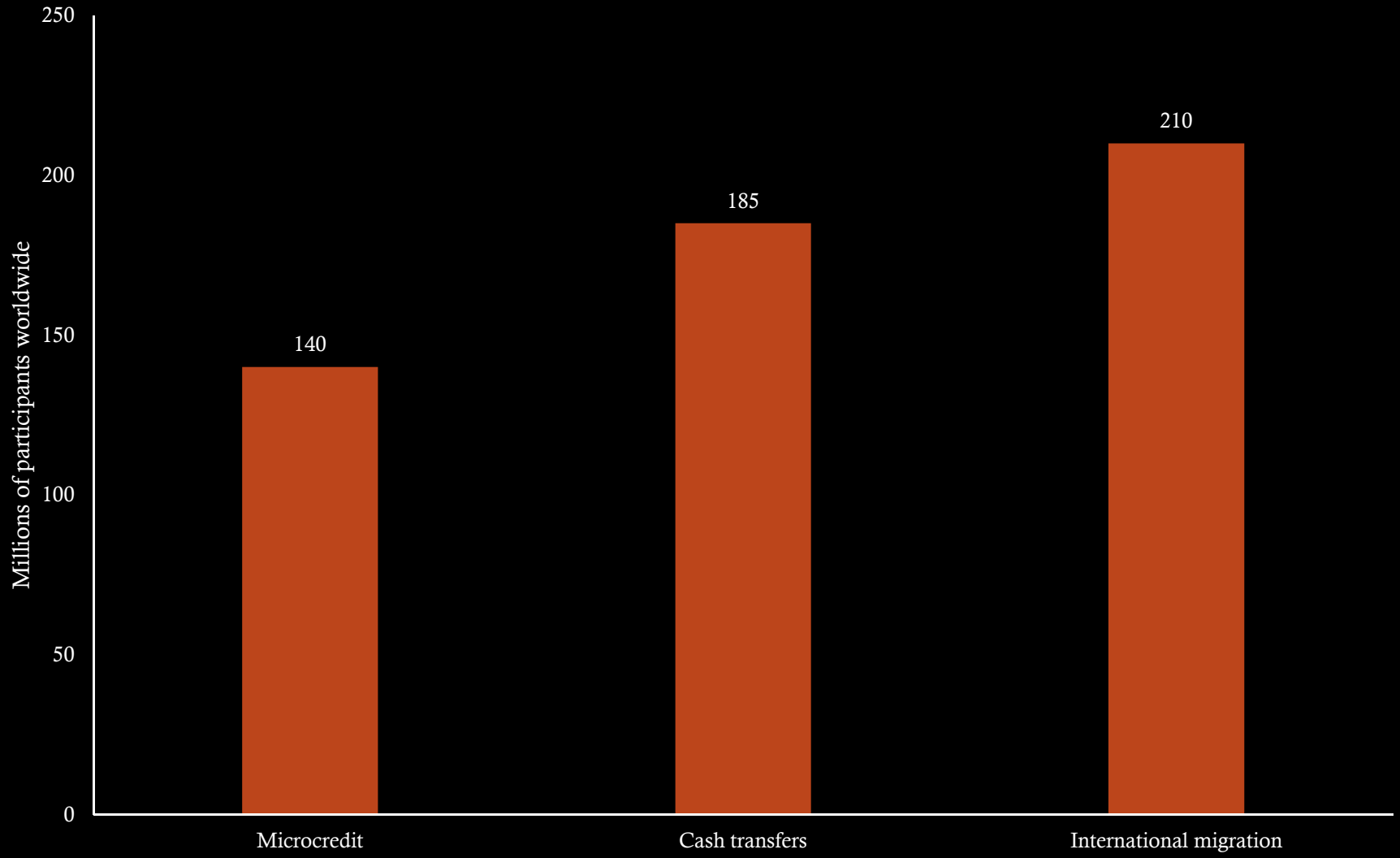
International migration policy

- Most developing country governments are incorporating international migration into their development policy-making



Notes: Statistics are authors' tabulations for 70 countries using data from UN survey of governments (UN 2019). 70 countries in sample are developing countries (as defined by World Bank) with at least 1 million population in 2020.

Microcredit, cash transfers, and international migration

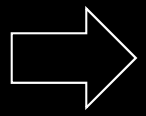


Number of participants of major anti-poverty programs in developing countries. Data for cash transfers is for 2018 (World Bank 2018), labor migration for 2019 (United Nations 2019), and microcredit is average from 2010-2017 (Convergences 2019).

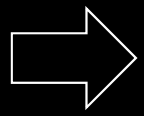
Agenda for today

How does international migration affect migrant origin countries?

Increase in migration or migrant income



Short-run impacts on migrant-origin *households*



Longer-run impacts on migrant-origin *areas*

Also: what financial innovations or interventions can help migrant households make better use of migrant remittances?

Effects on origin households

- In a context without significant market failures, we may expect consumption and leisure to rise (labor supply to fall)

- But if there are missing markets…
  - Migrant resources can alleviate constraints on investment (in human and physical capital)
  - Migrants can provide insurance

International migration from the Philippines

- International migration affects a substantial share of the population
  - 1-2% of population (reported in Census) works overseas, and ~5% of households have a migrant
  - ~25% receive remittances from overseas
  - Migrant income is 12.1% of global income in the Philippines

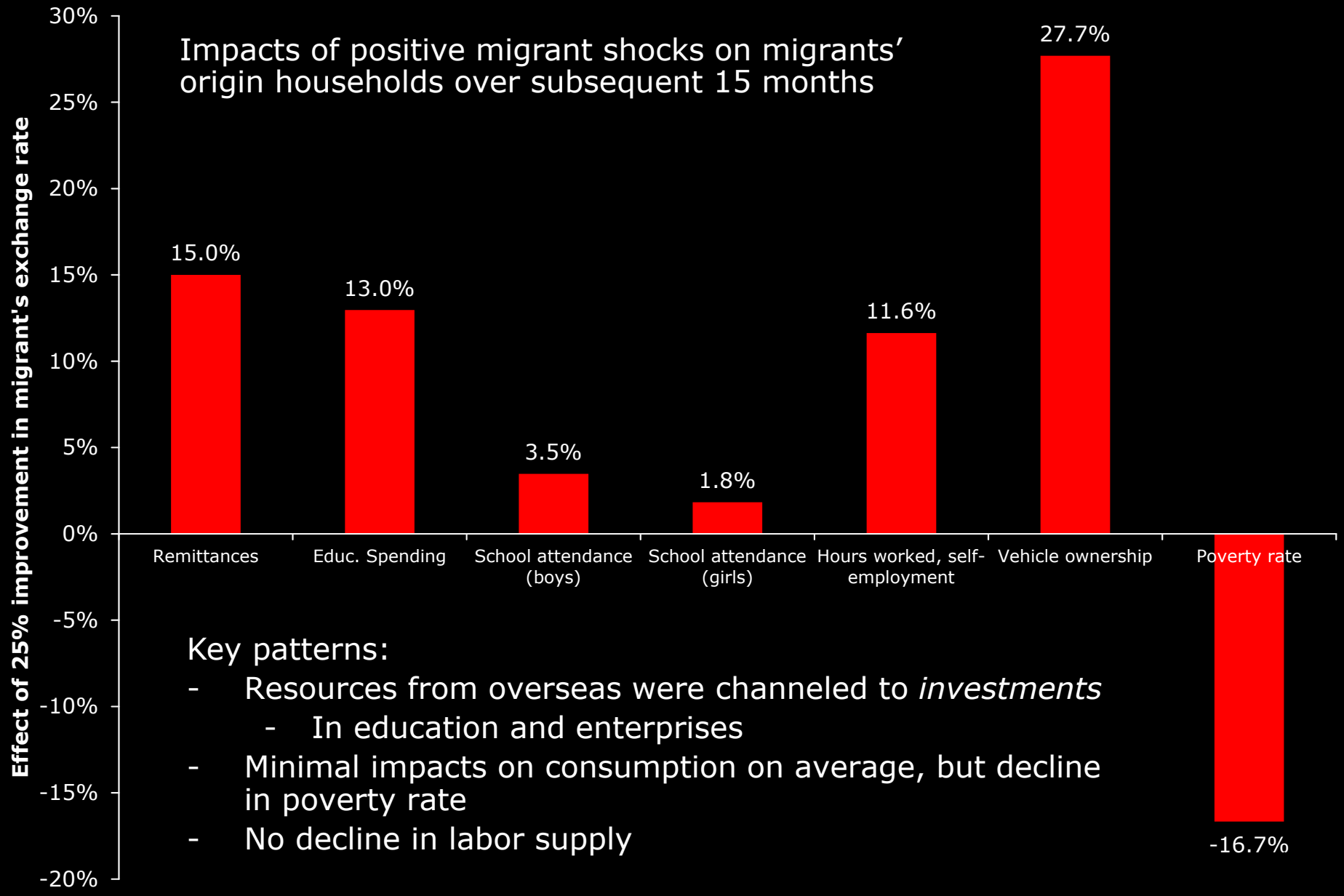
- Largely temporary and legal labor migration through licensed recruitment agencies, for short (~2 year) contracts
- Very diverse country destinations, due to well-developed institutions for international labor migration

A natural experiment among Filipino migrants

Exchange Rates in Selected Locations of Overseas Filipinos (Jul 1996 - Oct 1998)

Source: Yang (2008b)

Short-run impact of migrant income shocks



Key patterns:

- Resources from overseas were channeled to *investments*
  - In education and enterprises
- Minimal impacts on consumption on average, but decline in poverty rate
- No decline in labor supply

Sources: Yang (2008b), Yang and Martinez (2005)

Further insights

- Immediately after migration, initial impacts on household resources can be negative
  - Gibson, McKenzie, & Stillman (2011), Tonga-NZ visa lottery
- Left-behind women's decision-making power may improve
  - Clemens & Tiongson (2017), Philippines-Korea language test regression discontinuity
  - Mobarak, Sharif, & Shrestha (2021), Bangladesh-Malaysia visa lottery
- Households may pause demographic changes, such as marriage, fertility, new hh formation (Mobarak, Sharif, & Shrestha 2021)

Coping with risk

- Households in developing countries use a variety of creative strategies to cope with risk
  - Interhousehold transfers (informal insurance)
  - Informal credit
  - Savings, asset accumulation
- But these mechanisms can break down when shocks are *aggregate* or *systemic* (shared by all households in a locality)
- Migration can potentially help households cope with aggregate shocks
  - Remittances sent in response to shocks
  - Migration itself can be a coping mechanism

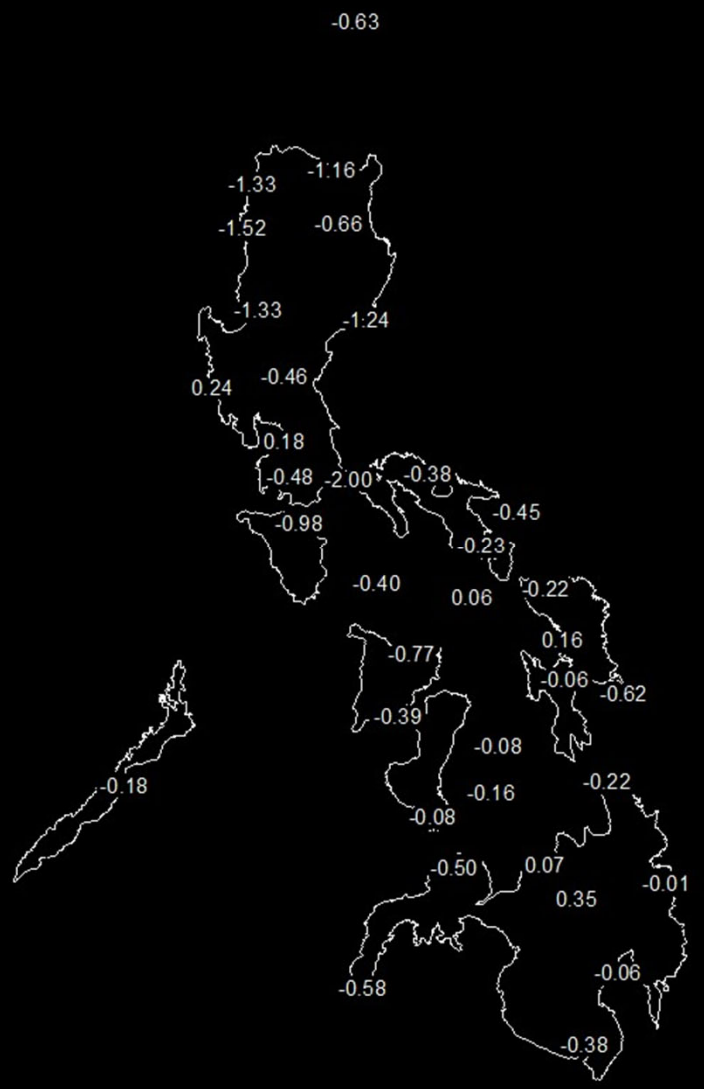
Remittances as insurance

For households with migrant members, income losses are largely replaced by remittance inflows

Replacement rate: about 60%

Households *without* migrant members become more likely to *send* a member overseas

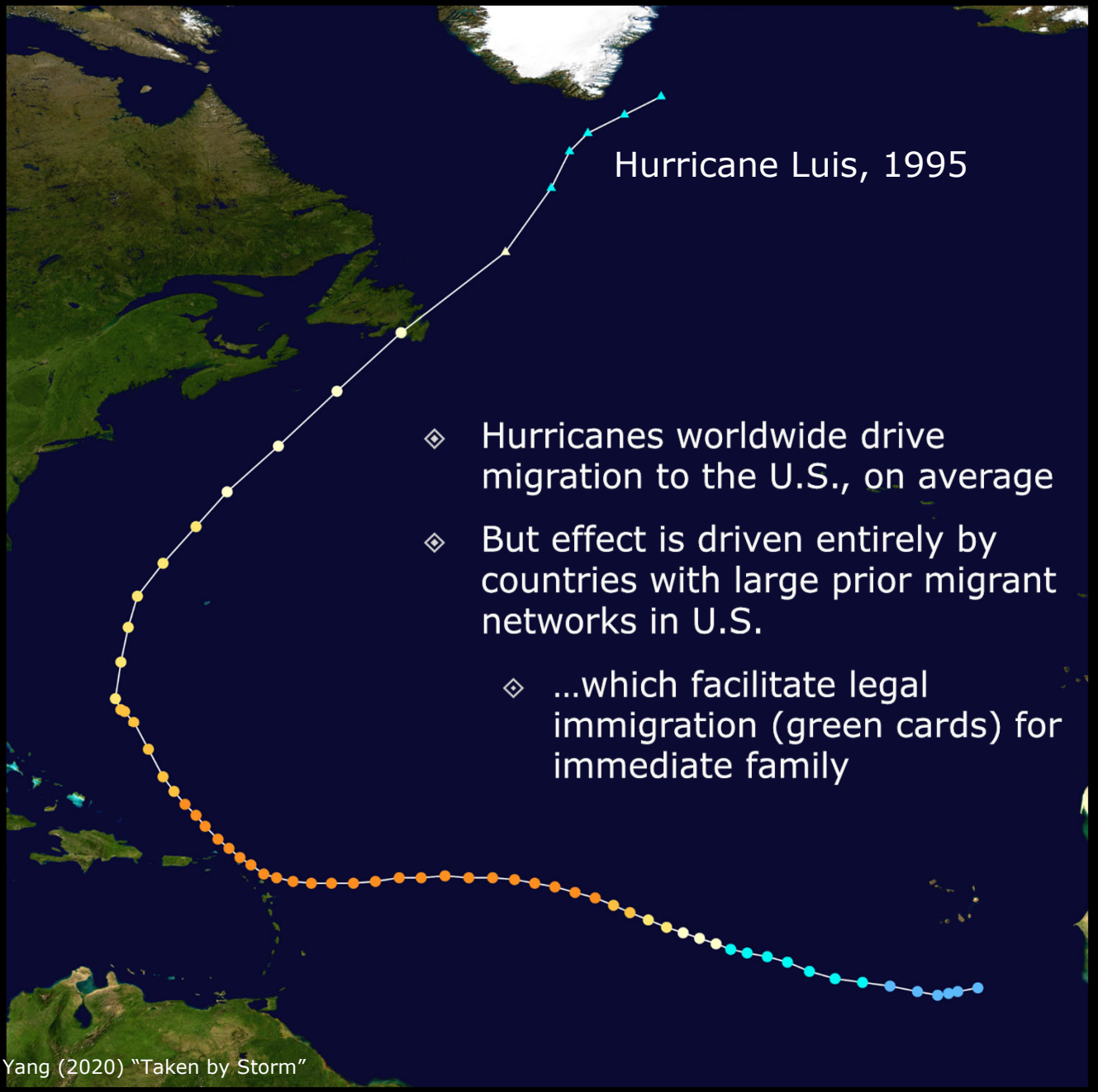
Wet season rainfall shocks



Notes: Rainfall shocks are change in rainfall (in 000 mm) between last season and current season. Shock is change from Jun 1996-Nov 1996 wet season to Jun 1997-Nov 1997 wet season. Each number in figure is centered at coordinates of a rainfall station.

Source: Yang and Choi (2007) "Are Remittances Insurance?"

Hurricanes and US immigration



Source: Mahajan and Yang (2020) "Taken by Storm"

Now, what about the long-run development impacts?

Brain Drain vs. Brain Gain

- Concern is that migration of skilled individuals leads migrant-origin countries to be worse off
- On the other hand, migration opportunities could enhance incentives and provide resources for human capital investment (Mountford 1997)
  - Could lead to higher skill levels in economy overall, as long as not all the highly skilled migrate
- Gaurav Khanna will directly address this shortly!
  - Also: presentation by Caroline Theoharides in the "Migration Policy" lecture on Thu May 5
    - Abarcar and Theoharides (forthcoming)
- Other key works
  - Brain gain: Batista, Lacuesta, & Vicente (2012) on Cape Verde, Dinkelman & Mariotti (2016) on Malawi, Shrestha (2017) on Nepal, Chand and Clemens (2019) on Fiji
  - Reduced incentives to invest in education: McKenzie and Rapoport (2011) on Mexico

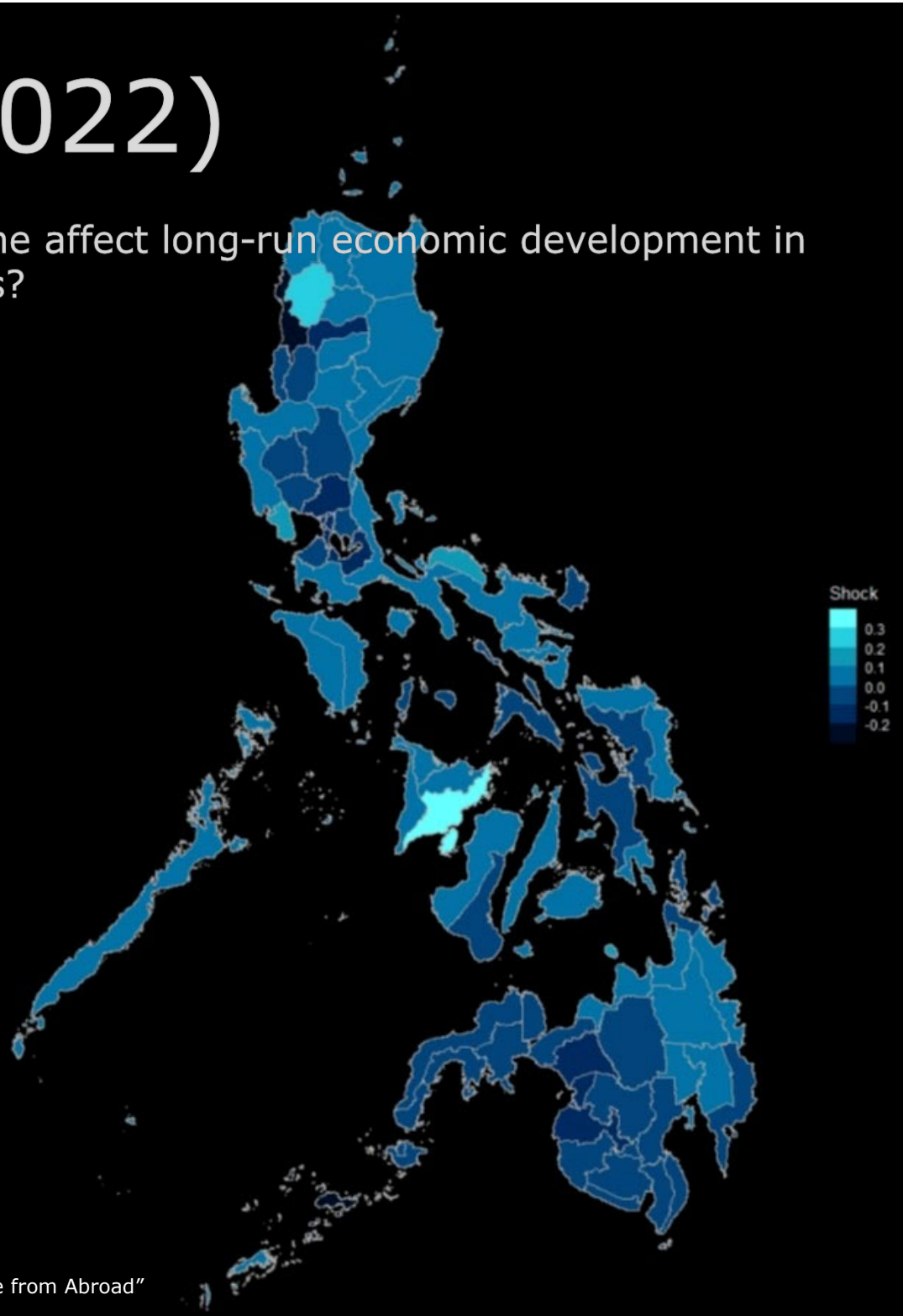
Migration and development: two aspects

- International
  - Participation and performance in international labor market
  - Skill upgrading, movement to skilled overseas occupations

- Domestic
  - Loosened constraints on investment (in education, enterprises)
  - Aggregate demand multipliers
  - Escapes from poverty traps

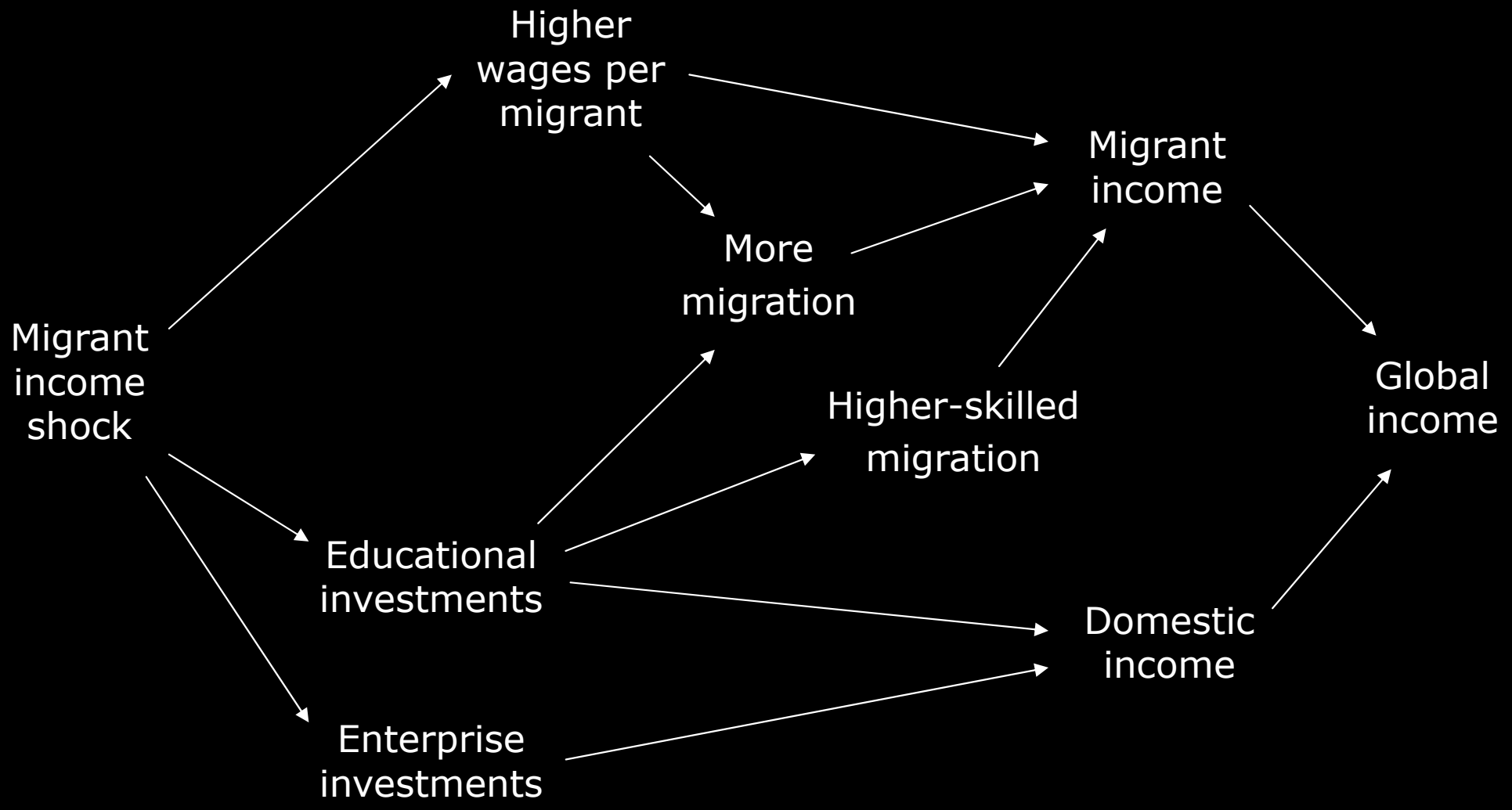
Khanna et al (2022)

- How does international migrant income affect long-run economic development in migrant origin areas in the Philippines?
- Shift-share identification strategy
  - Exchange rate shocks in migrant destinations, due to 1997 Asian Financial Crisis ("shifts")
  - Unusual admin data on migrant worker contracts ("shares" determining origin-area exposure)
- Examine impacts of *positive* shocks to migrant income on outcomes in 74 Philippine provinces, over three decades (1985-2018)
- Quantify mechanisms in context of simple structural model



Source: Khanna, Murathanoglu, Theoharides, and Yang (2022) "Abundance from Abroad"

Channels of long-run impacts



- The structural model allows us to estimate share of long-run impacts due to each channel (building on Bryan and Morten 2019)

Migrant income and long-run development

- There is a "virtuous cycle" in migration
  - Initial positive shock stimulates education investments
  - In the long run, this leads to higher migrant skill levels, and increased migration in higher-skilled, higher-wage jobs
  - This leads the initial shock to migrant income to be magnified *five-fold* over two decades

- There are then substantial increases in household *domestic* (Philippine) income per capita
  - 80% of increase in "global income" is from domestic income
  - 1-SD shock → 0.17-SD higher global income per capita
  - Corresponding increase in consumption per capita

- Structural estimates reveal that ~1/5 of global income gains are due to educational investments

Related work

- Closing a prior migration channel reduces household incomes and raises child labor in Philippine localities (Theoharides 2020)
- Historical access to migration leads to long-run structural transformation in Malawian localities (Dinkelman, Kumchulesi & Mariotti 2020)
- To come: Maria Caballero's presentation in "Migration & Networks" lecture, Thu April 21
  - Caballero, Cadena, & Kovak (2022)

Remittances and policy

- What policies or interventions can …
  - Encourage migrants to send more remittances?
  - Channel remittances towards uses with more long-term development impacts?

- Decentralized nature of remittances poses challenges for policy
  - How to encourage individual migrants to send more?
  - How to channel remittances to particular ends without choking off the flow?

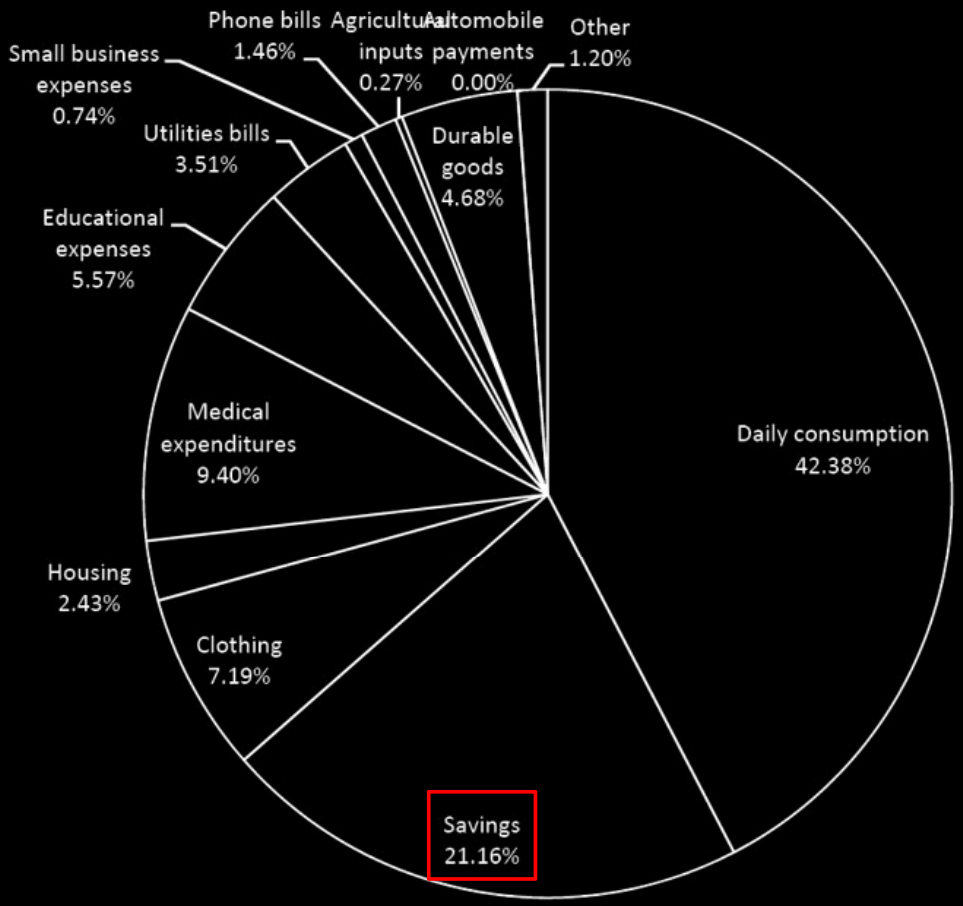
Market failures related to remittances

- Asymmetric information within the transnational household
  - Migrants can't fully monitor how remittances are used
  - Recipients don't fully know migrant's economic situation

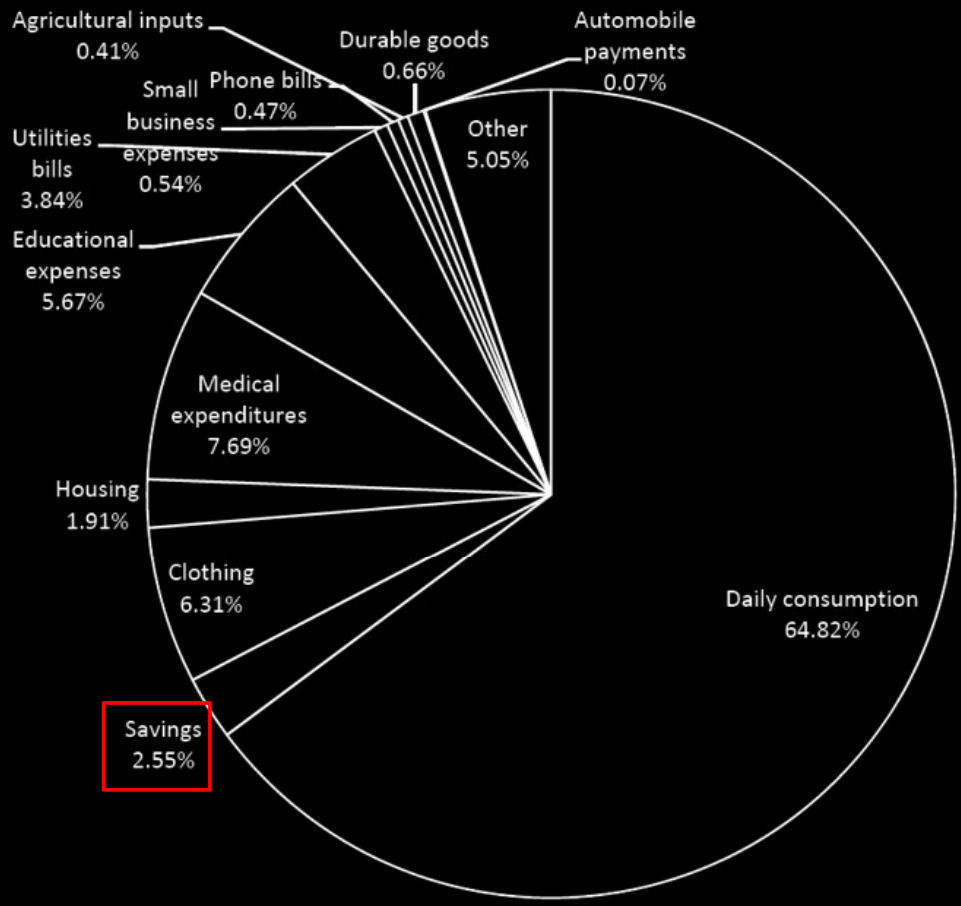
  → Both may lead to lower remittances sent

- Self-control problems (present bias)
  - On part of migrant
    - Migrants may plan to send more when thinking of future, but may send less in present
  - On part of recipient
    - May motivate pattern of high-frequency, low-amount remittances

Migrant vs. recipient remittance allocation



Migrant



Remittance recipient

Source: Ashraf, Aycinena, Martinez, and Yang (2015) "Savings in Transnational Households"

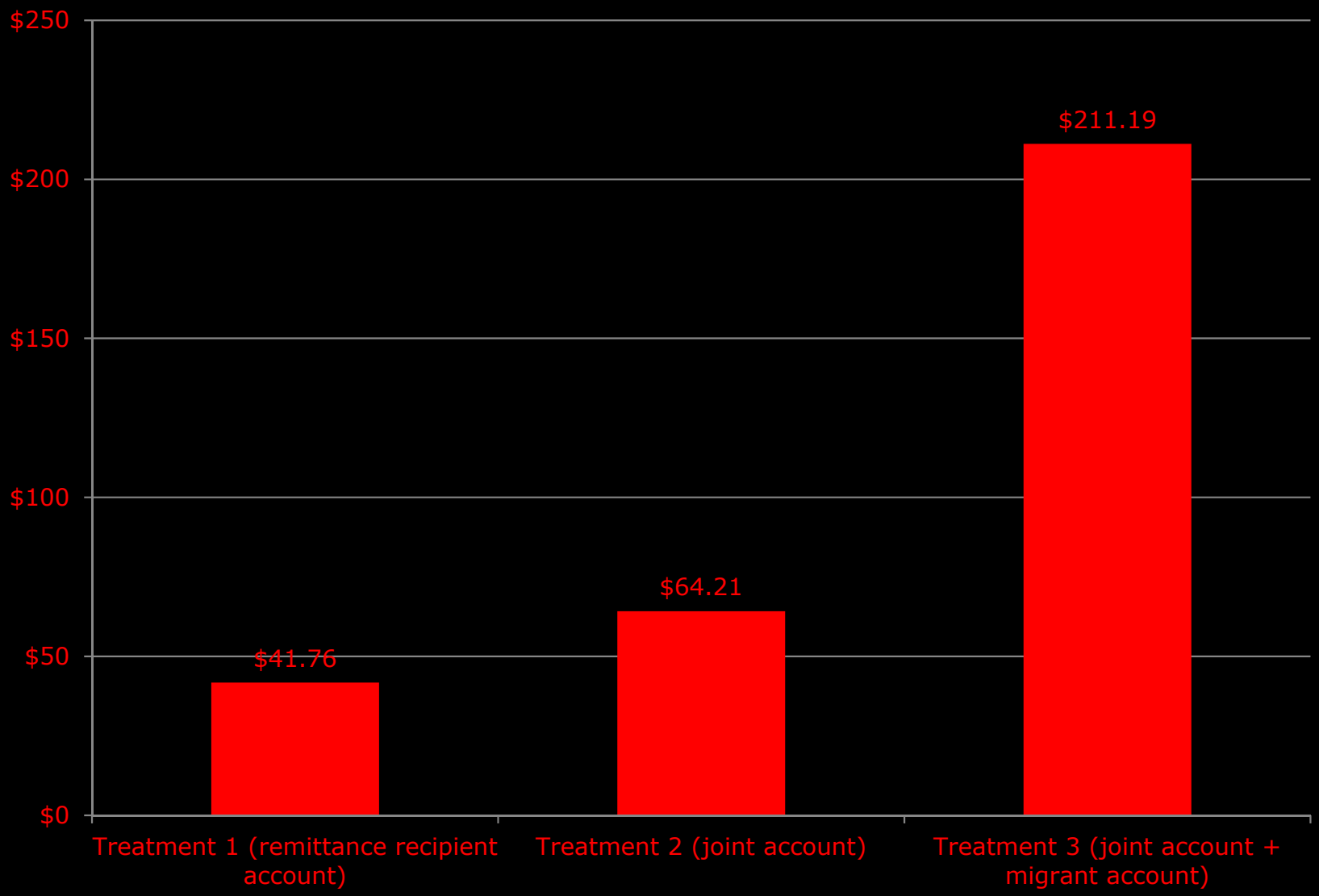
Promoting savings from remittances

- Offered Salvadoran migrants in Washington, D.C. the ability to directly channel remittances into savings accounts in El Salvador
  - In partnership with a Salvadoran bank, Banco Agricola

- In an RCT, varied migrant ability to monitor or control savings in El Salvador, by randomly assigning offers of different types of accounts to migrants
  - A control group was surveyed but did not receive any savings account offers

Partner bank branch, Falls Church, VA

Impact on savings in El Salvador



- Savings are at partner bank 6 months post-treatment
- Mean savings in comparison group (Treatment 0) is $13.70.

Source: Ashraf, Aycinena, Martinez, and Yang (2015) "Savings in Transnational Households"

Other studies on asymmetric information and remittances

- Observability of migrant income affects remittances
  - Joseph, Nyarko, & Wang (2018), Baseler (2022)
- Channeling remittances to education
  - Ambler et al (2015), DeArcangelis et al (2015)
- Migrants don’t value control over grocery spending
  - Torero and Viceisza (2015)

Policy implications

- Implications for foreign aid and development policy-making: if goal is to reduce poverty in developing countries, migration-related policy could be part of the policy toolkit

- Innovations in financial services – related to remittances in particular – may further raise gains from migration
  - E.g., mechanisms to channel remittances to savings, education, and small business investments

Some research directions

- Seek further insight into impacts on household enterprises and firms in migrant-origin areas
  - What constraints are alleviated? Credit/liquidity, insurance?
- Examine impacts on outcomes such as women's empowerment, social attitudes, political behavior…
- Study migration-related interventions
  - Financial interventions for remittances
  - Alleviate information imperfections in migration choices
  - Improve migrant integration in destinations