

Piracha, Matloob

**Article**

## Occupational choice of return migrants

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## Occupational choice of return migrants

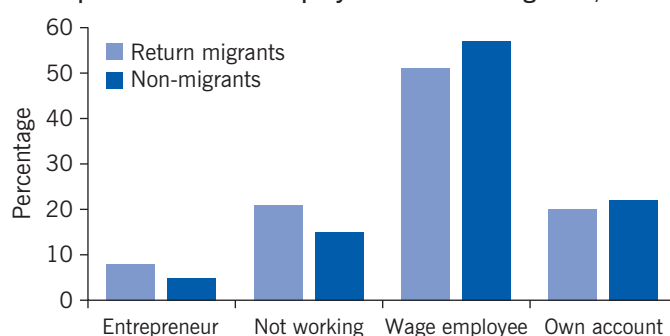
### Migrant-sending countries can significantly benefit from the type of occupation chosen by return migrants

Keywords: return migration, occupational choice, selection

#### ELEVATOR PITCH

The occupational choice of return migrants is important to their home country. Return migrants are likely to have acquired human capital while abroad, either through formal training or by working in a more efficient labor market. The employment of these newly acquired skills in the home country can have important economic implications. Examining the choice of return migrants to engage in wage employment, self-employment, entrepreneurial activity, or to remain out of the labor market makes it possible to ascertain whether the initial migration decision benefited the home country as well as the migrants and their families.

In Albania, return migrants are more likely to be entrepreneurs or non-employed than non-migrants, 2005



Source: World Bank. *Albanian Living Standard Measurement Survey, 2005*. Washington, DC: World Bank, 2005.

#### KEY FINDINGS

##### Pros

- ⊕ Migrants who return to their home country are likely to benefit from higher wages than they would have earned had they not migrated.
- ⊕ Return migrants are more likely than non-migrants to invest in entrepreneurial activities.
- ⊕ The survival rates of businesses established by return migrants are likely to be high.
- ⊕ Optimal migration duration and occupation-specific labor market experience for higher-skilled return migrants are likely to result in higher wages upon return and help in their transition to formal employment.

##### Cons

- ⊖ If migrants choose not to work when they return home and consume their savings instead, potential gains from migration will be lost.
- ⊖ Depending on the duration of the migration experience, return migrants may lose their social network in the home country.
- ⊖ For return migrants who stay abroad too long, the reservation wage in the home country is likely to be higher than for those who return after a shorter period; this can result in long spells of non-employment after return.

#### AUTHOR'S MAIN MESSAGE

The occupational choice of return migrants is important for them, their families, and for the home country, which can benefit economically from the reintegration of return migrants. To capture these benefits the home country needs efficiently functioning institutions to encourage return migrants to engage in formal work or entrepreneurial activity. Thus, governments should help return migrants reintegrate in the home country labor market by facilitating contacts with established entrepreneurs and employment agencies and by encouraging them to rejoin social networks. Governments should deal with impediments related to corruption, business regulation, and financial constraints.

## MOTIVATION

Migration as a means of accelerating development and reducing poverty has been an important area of research, especially because of concerns about potential brain drain from the migrant-sending developing countries. Within this framework, it is important to analyze the impact of return migration on the home country economy, especially where there is a high level of temporary and circular migration.

A key element to consider is the economic adjustment mechanism after return, as it is crucial in understanding how return migrants can contribute to economic development through their occupational choices in the labor markets of their home countries. One key contribution to the home country economy could occur if return migrants become entrepreneurs, something which can have a positive effect on job creation and economic growth.

Migration impact can be captured in several ways, ranging from analysis of the labor force participation of return migrants to differentiating the effect of the three main forms of migration: long-term, temporary, and circular movements.

## DISCUSSION OF PROS AND CONS

### Higher returns to returning

The human capital approach to migration posits that migrants relocate to maximize lifetime earnings. Therefore, migrants are likely to choose to relocate to a country where they can expect higher wages and to return to their home country when they foresee a potential to earn a higher income there.

Establishing whether migrants actually benefit from their time spent abroad by earning a higher income after they return requires analyzing not only the earnings differences between migrants and non-migrants but also what the differences between them would have been had the non-migrants decided to migrate or the migrants decided not to migrate. It also requires identifying differences among return migrants in their choice of occupation and their earnings.

Several studies have examined different aspects of the economic returns to returning. For instance, migrants who left Albania following the collapse of the Soviet Union and subsequently returned earned almost 9% more than non-migrants. However, had the non-migrants migrated and returned they would have earned higher wages than the return migrants [1]. Nevertheless, there is a clear earnings advantage to return migration. For instance, female return migrants to Hungary in the late 1990s earned on average 14% higher wages than women who never migrated [2]. Similarly, evidence from Egypt shows a wage premium of 16% for return migrants over non-migrants [3].

Furthermore, and perhaps more important, are findings that international migration helps overcome credit constraints in the home country. Migrants' savings and remittance behavior while abroad is shown to be an important avenue for understanding their occupational choice when they return home, particularly their choice of becoming either self-employed or an entrepreneur [4]. Studies using data from Albania, Egypt, Moldova, Pakistan, Tunisia, and Turkey have found that migration is a way to overcome capital market imperfections that result in borrowing

constraints. Thus, remittances and savings from work abroad become important factors in enabling return migrants to engage in entrepreneurial activities. In addition, there is evidence that the survival rate of entrepreneurial activities is higher for return migrants than for non-migrants [5]. However, for the better-skilled return migrants, migration does more than overcome credit constraints by enabling migrants to accumulate human capital while abroad. Enhanced human capital is shown to have a direct impact on the choice of becoming an entrepreneur in the home country.

When analyzing the occupational choices of return migrants, it is important to consider all the options available to them. These depend on the characteristics of individual return migrants as well as the home country. Some of the most common options in both the formal and informal economies are non-farm wage employment, farm employment, own-account self-employment (no non-family employees), entrepreneurship, and voluntary unemployment (or non-participation). Economic theory suggests that those who take up wage employment or self-employment in the informal sector are biding their time until they are able to move to the formal sector. However, in a number of countries (Moldova for example), it is better to be in the informal sector, because wages are higher for employees and returns are higher for those who are self-employed (due partly to the tax structure) [6]. In addition, “comparative advantage in human capital, age, and other endowments are the critical determinants of choice of self- over waged employment” [7] and entrepreneurship over own-account self-employment.

### **How the form of migration affects occupational choice**

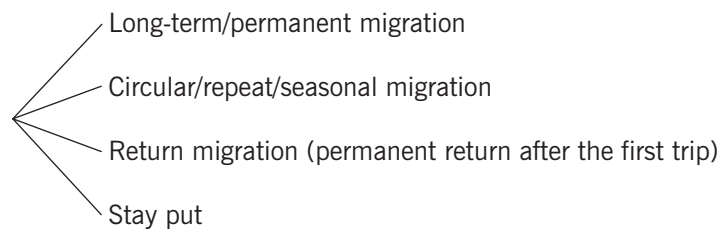
The occupational choice of migrants when they return is influenced, among other factors, by the form of migration (long-term, temporary, or circular); the duration of migration; and the reason for return [8]. Economic theory posits that if people migrate because of higher unemployment in the home country (a strong push factor) or higher wages/income in the host country (a strong pull factor), there is no reason to return for those who earn higher rewards for their skills in the host country. However, return migration is much more prevalent than theory suggests.

There are multiple reasons why a migrant may choose to return to their home country. Migrants might return because they have a preference for consumption in the home country (location-specific preferences) or because the returns to the human capital they accumulated abroad are higher in the home country than in the host country, or because of higher purchasing power in the home country. Another possibility is that the decision to return is affected by conditions in the host country. For instance, migrants might fail to achieve their migration goals, or they may find it difficult to adjust, which might force them to revise an original decision to move permanently to the host country. Finally, relative deprivation might be a key determinant if migrants find their ranking in the income distribution to be higher in the home country reference group than in the host country reference group.

The migration process can be conceptualized within two basic frameworks. In the first framework, individuals maximize their well-being (utility) by considering their goals and options before they migrate and by returning once they have achieved or failed

to achieve their goals. They plan the time path of residence across home and host countries and decide on the appropriate form and optimal duration of migration. They migrate because of higher (expected) returns to their skills in the host country and return because they have a preference for living in their home country for the reasons discussed earlier. This framework is illustrated in the decision tree in Figure 1. The occupational choice upon return depends on the original objectives of migration and the length of time a migrant remains abroad. If the objective was to raise funds for investment back home and migration was considered a way to overcome home country capital market constraints, then it could be that the decision to return is based on having achieved the savings target from income earned abroad. If acquiring human capital motivated migration, the migrant is more likely to be in wage employment than in other types of employment upon return because return migrants can expect to earn higher wages at home from their newly acquired skills [9].

Figure 1. Migration and return integral to the initial migration decision

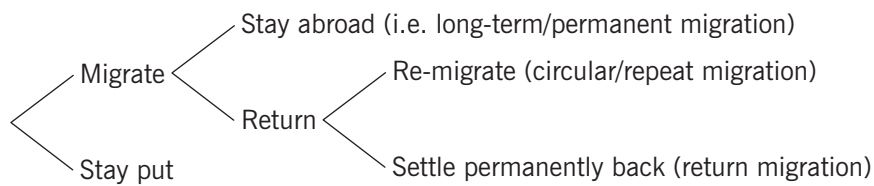


Source: Vadean, F., and M. Piracha. "Circular migration or permanent return: What determines different forms of migration." In: Epstein, G., and I. Gang (eds). *Migration and Culture*. Castle Hill, Australia: Emerald Press, 2010 [9].

In an alternative decision process framework, migrants alter their plans after arriving in the host country. There are several reasons for revising the initial decision. The main reason is that migrants lack full information about the host country labor market and therefore are uncertain about the prospects of obtaining the kind of job they want. This uncertainty, however, also pervades the decision to return. A migrant who has been abroad for any length of time may no longer be current on conditions and prospects in their home country—and the longer the migrant has been abroad, the greater the uncertainty. In this second framework, the decision to return is based largely on conditions in the host country.

Once a migrant has decided to return, there is the possibility of migrating again (repeat migration), depending on the occupational outcome in the home country. In this case, being unemployed may not be a choice, and the migrant might opt either to work in the informal sector or to migrate again. Another possibility is that the migrant did not achieve the savings target they initially set (for example, saving enough to start a business) and therefore decides on a further stint abroad. The decision process for this framework is illustrated in Figure 2. Thus the duration of migration, which might initially have been intended as long-term or permanent, is instead determined by constraints in the host country, and the migrant returns to try the job market in their home country.

Figure 2. Multiple revisions of the migration decision



Source: Vadean, F., and M. Piracha. "Circular migration or permanent return: What determines different forms of migration." In: Epstein, G., and I. Gang (eds). *Migration and Culture*. Castle Hill, Australia: Emerald Press, 2010 [9].

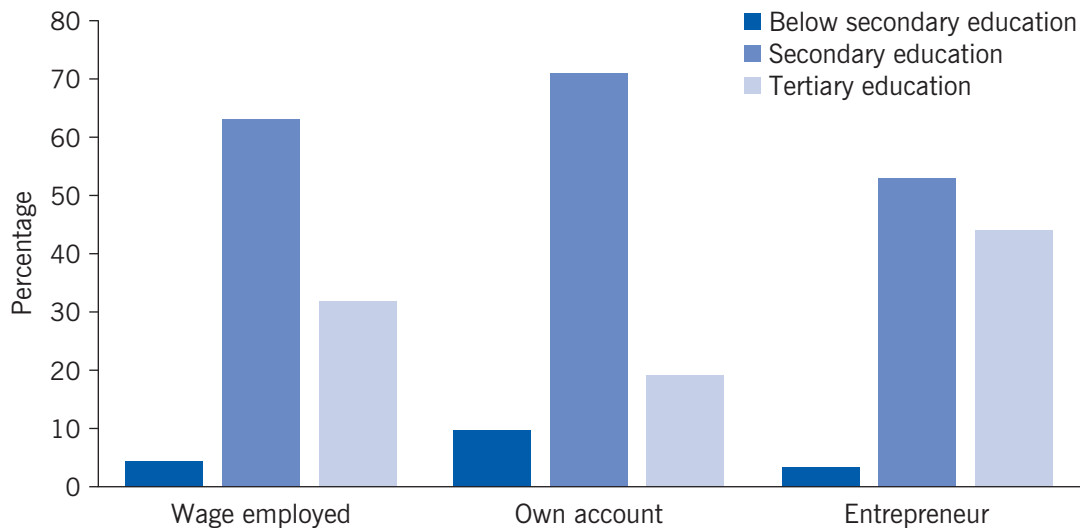
Several factors can affect the occupational choice of return migrants. These include the migrant's occupational experience (including non-employment) before migrating, employment experience in the host country, savings accumulated while abroad, reasons for return, migration duration, time in the home country after return, and any future migration intentions. For instance, evidence from Pakistan shows that migrants' self-employment experience before migration has a significant effect on the choice to become self-employed after return [7]. Migration experience and retained savings seem to be even more important than pre-migration experience, as demonstrated by cases in which migrants change their occupation after return, including choosing not to participate in the labor market. For example, 47% of Turkish migrants and 46% of Hungarian migrants did not participate in the labor market on their return home [2], [8].

Self-employment is also higher among return migrants, especially among migrants who acquire formal and informal training while abroad, who spend a longer time in the destination country, and intend to resettle permanently in the home country [10]. However, it is also possible that return migrants who intend to re-emigrate after a short period at home do not feel a need to commit themselves to wage employment in the home country and have returned just to start or oversee a business that is usually run by a spouse or other family member. This decision process is depicted in Figure 1: the migrant decided from the start to make a few trips abroad, but with no intention of settling abroad permanently. Moreover, at the time of arrival back in their home country, migrants who were unsuccessful in their migration venture as well as those who had been successful in accumulating enough savings are more likely to be self-employed [10]. Unsuccessful migrants generally choose self-employment at first but then switch to wage employment as they spend more time in their home country, demonstrating the "parking lot" hypothesis: people work in the informal sector only until they can move to formal-sector wage employment. For the successful return migrants, who have accumulated their target savings, choosing self-employment is consistent with the hypothesis that individuals who face credit constraints in their home country use migration as a strategy to accumulate enough funds to start entrepreneurial activities in their home country [11].

The level of human capital also strongly affects the occupational choice of return migrants. Evidence from data collected in selected Eastern European and Central Asian countries (Bosnia and Herzegovina, Bulgaria, Georgia, Kyrgyzstan, Romania, and Tajikistan) shows that return migrants with a secondary education or higher

are much more likely to be self-employed or wage employed in their home country, with secondary school educated migrants much more likely to be own-account self-employed than migrants with less than a secondary education or those with a college education (Figure 3) [10].

Figure 3. Return migrants with at least a secondary education are more often self- or wage employed than those with less education



Note: Figures are for selected Eastern European and Central Asian countries, 2005.

Source: Lianos, T., and A. Pseiridis. "On the occupational choices of return migrants." *Entrepreneurship and Regional Development: An International Journal* 21:2 (2009): 155–181 [10].

One of the key elements in the analysis of return migration and occupational choice is the inclusion of counterfactuals to account for the possibility that return migrants who found higher paid employment after they returned or who started a business are more motivated or have higher abilities and would have done better regardless of migration. In other words, migration may not be the determining factor. One way to separate the role of migration from other factors is to estimate a thought experiment: What would have been the occupational choice of return migrants had they never migrated? Several studies have conducted such thought experiments. Evidence from Albania shows that return migrants are significantly more likely to be non-employed or to become entrepreneurs and less likely to be in wage employment or an own-account worker than if they had decided not to migrate [1]. While there are some weaknesses in these analyses of the counterfactual, they do show that the migration process has a direct and significant effect on the occupational choice of return migrants, which in turn has a direct impact on the economic returns to returning, not only for the migrants and their families, but also for their home country.

### Occupational inactivity as a choice

How migration and return migration affect occupational choice is important to the impact of return migration on migrants and the home economy. For instance, when

return migrants do not participate in the labor market, there are potential negative impacts as they use up their retained savings. The country also loses the productive capacity of the return migrant's human capital, which is generally thought to be higher than that of non-migrants. This outcome is similar to the moral hazard aspect of dependence on remittances when they are used solely for consumption and thereby enable the receiving household to remain out of the local labor market. In the case of return migrants, the dependency is on the savings that return migrants bring with them from abroad. However, since migrants earn abroad and consume at home after returning, even the non-participating return migrants could have a marginal positive impact on the home economy through increased demand for products and services—as long as it is met with increased production capacity. Otherwise, the increase in demand could result in higher inflation and might even adversely affect the balance of payments [1].

Another potential negative effect, this time for the return migrant, comes from the loss of social capital. People who migrate have limited contacts in their home country while they are away, which could weaken their relationships with family and friends and acquaintances. These contacts are one of the key means of gaining information about the labor market on return and also play an important role in entrepreneurial activity [4].

### **How emigrant profile and migration duration affect occupational choice**

Not only is the form of migration (temporary, circular, long-term) an important determinant of occupational choice after return, but so is the return migrant's profile (education, type and level of skills acquired abroad, savings accumulated abroad, legal status) and the amount of time the migrant spent in the destination country. All of these variables are difficult to assess because many data sets do not report the histories of migrants. Most of the survey data collected in home countries do not record migrants' profiles in detail or over time; there are almost no panel data that capture individuals' migration experiences in a systematic way.

Still, some studies that have worked with data that include some of this information have found that migrants' occupation-specific experience abroad, especially whether they found employment in an occupation that matched their skills, has a significant effect on their wages when they return home. For instance, evidence using data from the Mexican Migration Project shows that Mexican migrants to the US who worked in a job that was commensurate with their skills earned a wage premium of up to 8.7% when they returned home [12]. Similarly, analysis using data for 10 Eastern European countries that joined the EU in 2004, along with Bulgaria, Romania, and Turkey, found that working in Western European countries earns the relatively better-educated return migrants a wage premium of about 33% over the earnings of non-migrants. In contrast, the relatively less-educated return migrants fared worse than the non-migrants [13].

Both studies found that migrants' self-selection did not significantly affect the returns to returning. It was mainly the exposure to an industrialized country's labor market that led to the higher wages among return migrants. Thus, the evidence indicates that better-educated migrants who work in jobs commensurate with their skills and thus



can expect higher returns to their skills when they return home are much more likely to be in wage employment than migrants who work in relatively lower-skilled jobs while abroad.

Migrants who have accumulated higher savings while working abroad have a higher probability of being self-employed after their return [11]. They may be able to return home sooner if the home country can provide access to credit, which the migrant could combine with the retained savings to support a business venture in the home country.

The legal status of migrants can also affect their occupational choice when they return. For instance, among Mexican return migrants who worked in the US, undocumented workers earned less when they returned than migrants who had entered the US legally [12]. Migrants with legal status are more likely to get a job that matches their skills.

Finally, the duration of migration is also important to the return migrant's occupational choice. Migrants who spend more time abroad are likely to have fewer chances of gaining employment when they return to their home country than migrants who have a shorter work experience abroad because the reservation wage (the lowest wage they would accept for a particular job) of long-duration migrants may be higher. In that case, an individual may decide to stay non-employed until a job with a higher wage is available [12]. It is also possible that these return migrants will leave the formal employment sector altogether and go into self-employment.

## LIMITATIONS AND GAPS

Several factors affect the occupational choice of return migrants. Fully assessing the contribution of migration to the occupational choice of return migrants requires detailed and precise data that capture the characteristics and return behavior of migrants and also provide information on the initial migration decision and occupational choice in the destination country. Only a few data sets capture all this information, so there is a danger of over- or under-estimating how return migrants fare compared with non-migrants and migrants who did not return to their home country. Recently, some relevant data sets have become available, but more information is needed to analyze migration and its impact in geographical and economic dimensions.

## SUMMARY AND POLICY ADVICE

The impact of return migration on the home economy needs to be differentiated by many factors: by type of self-employment (own-account work or entrepreneur), by form of migration (long-term, temporary, or circular), by migrant profile, by type of skills acquired in the destination country, by achievement of savings targets, and by duration of migration, among other factors. Each has a different impact on the return migrant's occupational choice. Target savers make the strongest direct contribution to employment generation and growth because they have the highest odds of becoming entrepreneurs when they return. This finding suggests that reducing financial constraints in the home country could have positive effects for

the economy. The provision of micro-finance can help those who have accumulated some savings abroad but might still need further financial assistance. In addition, because migrants are likely to lose their social capital while they are abroad, schemes that could help return migrants reintegrate could ease the transition to a productive economic adjustment in the home country. These could include holding employment fairs to help return migrants form networks with established entrepreneurs and employers and establishing employment agencies to help return migrants find jobs.

Staying abroad longer raises the reservation wage of return migrants, which could result in their remaining non-employed, at least in the short term. However, those who do find jobs in their home country are better paid than those who spent less time abroad. The relatively better skilled, especially those who acquire occupation-specific work experience while abroad, gain the highest returns from return migration. Those who are better-skilled are also more likely to engage in job-creating entrepreneurial activities when they return. Therefore, removing or at least minimizing other constraints such as political instability, corruption, lack of business regulation, poor access to and the high cost of finance, and lack of good infrastructure would greatly facilitate the returns to returning. In a number of developing countries it can take months to start up a company, so a policy recommendation would be to remove obstacles to starting a business, such as stringent business regulations and procedures that can take months to complete before a new company can open for business. Removing obstacles can help the process go more smoothly and can encourage greater entrepreneurship.

Also, the legal status of migrants can affect their occupational choice when they return. Migrants with legal status in their destination countries are more likely to get a job that matches their skills. Hence migration policies that favor temporary work permits that are not tied to a particular employer are likely to increase the chances of migrants obtaining occupation-specific experience that can help them gain better-paid employment in their home country and reduce the time they remain non-employed.

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### **Competing interests**

The IZA World of Labor project is committed to the *IZA Guiding Principles of Research Integrity*. The author declares to have observed these principles.

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