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# **Migration for Development: From Challenges to Opportunities \***

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## **Abstract**

This contribution investigates the opportunities of migration for developing countries. The benefits of migration for sending countries are often undervalued. But migrants may foster trade, remittances, innovations, investments back home, and even return home at some time with better human capital. Functioning diasporas can lead to stable factors of development. Policies in receiving developed countries towards migrants can enhance the positive impact of migration for development. Among those are measures to support the early integration of migrants into the educational systems and in the labor markets, including jobs for asylees. Dual citizenships and circular migration contracts are possible instruments. Migration policy can be an effective development policy.

Keywords: Remittances, circular migration, social remittances, diaspora economics, development, refugees, forced migration, dual citizenships, jobs for development, brain drain, brain gain

JEL-codes: F22, F24, F66, J61, O15

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## 1. Introduction

In the growing territory of an evidence-avoiding world, migrants (including refugees) and robots (including digitalization) are the gundogs of globalization bringing misery. Judging from the fierce debates about a perceived refugee crisis, migration seems to be the even more threatening phenomenon. Migrants and robots share many similarities: they can substitute native workers and depress wages. But a potential productivity effect through their complementarity in production may also generate jobs and raise income. And robots neither take up welfare nor they demand and consume goods and services.

While robots seem unstoppable, the advertised recipes against migration are walls ("fencing-in") and development aid. The idea is that through rising development expenditures the global mobility pressure in particular from poor developing countries can be stopped. This *fata morgana* ignores that the development policies of the past have been largely a failure. They have not generated the large decline in world inequality. And even if they would be successful, they would then increase, not decrease out-mobility. This is because the very poor and uneducated are not those migrating. The migration impetus does not come from misery or potential fortune. It requires financial means and talent inspired by development. It is fostered by ethnic networks and cultural closeness. The potential trouble with migration also increases with migration restrictions.

An alternative approach to the interactions between migration and development is that migration can stimulate development. A large share of the migration literature deals with the effects of immigration on a receiving developed world. An analysis of the opportunities of migration for developing countries reveals however that there are many mechanisms where emigration is instrumental to foster development in the sending countries. Migrants may stimulate trade, remittances, innovations and investments back home. They often even return home experienced at some time. Functioning diasporas can lead to stable factors of development. Those left behind in the labor markets benefit from an increased scarceness of labor.

Policies in the receiving developed countries towards immigrants can enhance the positive impact of migration for development. A large share of the immigrants, either through the work channel or as asylum seekers, are the emigrants of tomorrow. Educated and experienced as workers, they carry a development capital with them. Among those *indirect* development policies affecting emigrants ("onward migrants") are measures to support the early integration of migrants into the educational systems and in the labor markets, including jobs for asylees. Dual citizenships and circular migration contracts are other possible instruments. Hence, migration policy can be an effective development policy.

The paper takes up these issues in two selective steps: Section 2 explains the opportunities migration may have for developing sending countries. Section 3 discusses policies in receiving and typically developed countries that can enhance the positive impact of migration on development back home. Section 4 concludes.

## **2. How sending developing countries may benefit**

Over decades, the fear discussed has been that emigration leads to a "brain drain" leaving the country left behind depleted of its skilled human capital and in a worse situation. This seems to be intuitive if, what is often observed, migrants are highly-skilled or at least relatively highly-skilled with respect to the manpower of the country of origin. However, the term brain drain is often used more broadly describing the flow of human resources built up by raising and educating people, in particular in developing countries. Recently, however, more and more insights suggest that emigration might lead to benefits in the receiving countries (Yang, 2011; Plaza, 2013; Bansak, Simpson and Zavodny, 2015; Constant and Zimmermann, 2013, 2016a, 2016b; World Bank Group, 2016) and not depress wages and take native jobs away (Constant, 2014; Peri, 2014).

The purpose of this section is to better understand the background of this conjecture. The benefits have to do with the reactions of the labor markets, with remittances and social transfers, the effects on trade, investments, and the transfer of human capital, innovations, and return and circular migration. These potential benefits interact with the existence of diasporas defined as devoted ethnic communities of migrants still attached via their identities to their countries of origin. Diasporas explicitly or implicitly organize the relationships between sending and receiving countries and undermine the role of the traditional national state. Their affiliations with policies at home are often closer than under the left behind population. While it cannot be ignored that there can be also negative impacts, this section attempts to attract attention to the positive stimulus the out-migration of citizens can have for the country left behind, be it temporarily or permanently.

Emigrant laborers may leave from a job at home or as unemployed or previously non-employed. Absorbing excess-supply of jobseekers is a natural function of global labor markets and perceived to be beneficial. However, it is often the educated job-owners who are moving, building the image of a drain of talent. Nevertheless, this leaves jobs for those left behind, and there is an overall upward pressure on wages since labor is now more scarce in comparison to capital. If the high-skilled are leaving, standard micro theory suggests that the high-skilled remaining home benefit in terms of wages and job opportunities, while the low-skilled may suffer since their group size becomes relatively larger. This is the consequence of the law of relative scarcity, often named

"complementarity", which is implied by standard economic production theory. Hence, remaining workers benefit from emigration, although the actual impact depends on the concrete conditions.

At first sight the country perspectives might nevertheless be not good, if those leaving have a relatively higher talent which is often the case. Innovation and growth might not develop as in the counterfactual situation. However, the talent might be much more productive elsewhere, with positive effects for the home country later. A first factor is return-migration. Labor migrants often return home equipped with financial resources, human capital and knowledge. Typically, a large share of labor migrants either move on or return to their home country at some time, in particular if mobility is unrestricted. If migrants move back and forth, if they are circular migrants, then receiving and sending countries share part of the benefits from them (Constant, Nottmeyer and Zimmermann, 2013). Free mobility on the basis of a work contract is the best possible arrangement to ensure this.

Typically, the most powerful contribution of diasporas to the development of the countries of origin are remittances. Households in developing countries receive income from emigrant family members provided either as cash or as in-kind transfers. The migrants remit often substantial shares of their incomes frequently in small amounts (Yang, 2011). This is not surprising since emigrants are typically sent abroad financially supported by families or communities. For many countries, remittances are very large and sometimes even exceed foreign aid and foreign direct investment. As a few examples show, remittances as a share of gross domestic product in 2013 were 52% in Tajikistan, 25% in Nepal, 15% in Jamaica 11% in Senegal and 10% in the Philippines (Bansak, Simpson and Zavodny, 2015, p. 247).

Motives for remittances include repayment for migration costs, altruism for family left behind, income smoothing within families, savings for future entrepreneurial activities, among others. For instance, Akay, Giuliatti, Robalino and Zimmermann (2014) find evidence in their research on rural-to-urban migration in China that both altruistic and contractual motivations are present between emigrants and their families at home. These families gain well-being by comparing their received remittances with those obtained by their reference group (Akay, Bargain, Giuliatti, Robalino and Zimmermann, 2016).

Empirical evidence suggests (see Plaza, 2013 and Bansak, Simpson and Zavodny, 2015, for reviews) that remittances reduce poverty, stimulate home country internal consumption, foster local investments in small or newly-founded enterprises, improve educational attainment by making early school drop-outs less likely, alleviate liquidity constraints, and may strengthen investments in the health system. They have also the potential of stabilizing economic fluctuations in the home country through contra-cyclical movements in the amount of remittances in response to economic shocks. An example is that real exchange rates and remittances are negatively correlated (Yang, 2006).

Remittances inspire entrepreneurial activities (Yang, 2006; Plaza, 2013) after migrants return home. Giulietti, Wahba and Zimmermann (2013) show that return migration promotes also self-employment among household members who have not migrated. However, during the absence of the migrant, left-behind members are less likely to be self-employed when compared with those living in non-migrant households. Remittances compensate somewhat but not fully the negative effect for those left behind who might face a loss of labor supply and entrepreneurial skills due to the absence of the migrant.

A rising new strand of literature deals with the importance of social remittances, the transfers of norms and values back home during emigration or with and after return migration and the effects on social capital. An example is the recent study by Nikolova, Roman and Zimmermann (2016) using data from Bulgaria and Romania. The authors examine the link between the out-migration of relatives and friends and the pro-social behavior of the left behind in the two post-socialist countries. Close contacts abroad are found to be positively correlated with civic engagement. The strength of the civic engagement culture of the family or friend's destination country matters for the pro-social behavior of respondents in their home countries. This may suggest that a cultural transmission of norms from abroad drives those findings. Other studies have dealt with norm transfers concerning gender roles and fertility (see Bansak, Simpson and Zavodny, 2015).

A broad literature supports the conjecture that migration and trade are complements and not substitutes (Plaza, 2013; Genc, 2014). As Genc (2014, P.1) summarizes: "A 10% increase in the stock of immigrants can boost trade by an estimated 1.5% on average." The stimulus occurs through two channels: (i) the preferences of migrants and (ii) transaction costs operating both through diasporas. Emigrants generate demand for ethnic goods and products from home in the host country, their preferences are resulting in a rise of the exports from the country of origin. This will be strengthened by spill-over to preference formation among natives of the receiving country. An example is the expansion of Sushi restaurants run by Korean ethnics in many countries. Only if diaspora is establishing the production of goods and services in the host country, the preference channel might become weaker.

Diaspora further reduces the transaction costs for trade (Plaza, 2013; Genc, 2014), since migrants have a large knowledge capital of their country of origin concerning types of available goods, market practice, language, culture and legal restrictions. The advantage of the involved diaspora raises with existing informal trade barriers. Ethnic networks may help by providing market information and drive down trade costs. While preferences might only affect exports of developing countries, the transaction costs channel both trade flows between the sending developing country and the developed host country.

As it has to be expected, the size and nature of the total trade effects vary with the types of goods, the type of ethnicities, the skill-level of migrants, and the size of the devoted diaspora, as the diaspora policies of sending and receiving countries. For instance, the pro-trade impact of high-skilled migrants is larger (Genc, 2014). But the empirical findings are overwhelmingly consistent showing that migration is positively affecting trade.

This section finally deals with foreign direct investments (FDI), the transfer of human capital (knowledge, skills and technology) and innovations from developed to developing countries (see also Plaza, 2013). Uncertainty marks an important challenge for companies to invest and build up plants in particular in developing countries. Effective diaspora communities can therefore be very helpful to provide the necessary information to identify investment opportunities and to advice about regulatory restrictions, since they also understand the cultural background and the necessary languages. It is therefore common that multinational companies employ expatriates in executive functions. Through these mechanisms, diasporas decrease the information asymmetry for foreign investors.

Especially high-skilled migrants have an accurate knowledge about chances and risks in their countries of origin and therefore enhance FDI (Foley and Kerr, 2013; Kugler and Rapoport, 2007). However, low-skilled migration to the developed world seems to partially substitute FDI from there. In the short-term, the establishment and development of diaspora is an incentive for immigration into developed countries. But in the long run, successful investments are likely to strengthen local employment in the sending regions and therefore reduce the pressure for out-migration.

A potentially very important instrument for development policies are diaspora bonds (Plaza, 2013). They are provided by issuers in the developing countries to raise (in particular short-term) financing by their diasporas. This way, sending developing countries take advantage of the relative wealth of their emigrants. They may provide diasporas in return with higher interest rates than those the ethnic communities would have received by their banks in the developed world. Diaspora bonds can also be issued in the local currency of the countries of origin, reducing thereby the costs of emission, as diasporas are likely to be better informed about possible exchange rates risks. A potential strong commitment of diasporas to their countries of origin leads to a greater loyalty even in times of economic or political turbulences. They are also easier than normal investors to be mobilized to support development projects for improving infrastructure, health and education. A number of developing countries have already issued diaspora bonds, including India, Israel, Bangladesh, the Lebanon, Pakistan, Sri Lanka, the Philippines, Ghana and Ethiopia.

Diaspora can also be useful in the process of the transferring of skills and technology from the receiving developed to the sending developing countries (Plaza, 2013; Foley and Kerr, 2013).

This knowledge sharing can also foster research and innovation. "Increases in the share of a firm's innovation performed by inventors of a particular ethnicity are associated with increases in the share of that firm's affiliate activity in countries related to that ethnicity." (Kugler and Rapoport, 2007, p. 155) One mechanism is to draw on foreign educated students and either encourage them to return to their country of origin or to establish at least networks of knowledge exchange ("diaspora knowledge networks"). The diffusion of knowledge is known to establish innovations at home, and hence to foster economic growth.

### **3. The potentials of immigration policies**

The focus of this section is on how immigration policies in receiving countries may foster development in sending countries. The question is, to what extent can immigration policy act as development policy? Given the limited success, some call it even a failure, traditional development policies have achieved, it might be promising to think afresh. The standard concepts behind a design of immigration policies in receiving countries deal with how to (i) help immigrants to perform, (ii) make them profitable for the host country, and (iii) define the criteria for entry and exit, in particular encourage or force them not to arrive or to leave. The suggestion is to add a new category, namely how to (iv) make immigration to developed countries beneficial for the sending developing countries. This may imply dealing with the other three (traditional) channels.

The analysis in section 2 has shown that functioning diasporas can strongly foster development. However, the development of diaspora is also a consequence of immigration and integration policies.<sup>1</sup> If such policies aim at the assimilation of migrants (the full take-over of the native identity), then reality may be also confronted with separated ethnicities (the full identification with the ethnicity of the country at origin). As a result, one would either have no functioning diasporas at all (assimilation) or diasporas potentially hostile to the host country (separation). Under the model of "integration", where migrants identify with both the culture of the country of origin and those of the host country, a developed or integrated diaspora could also fruitfully organize communication between the country of origin and the receiving country. Currently, existing diasporas may more follow the model of separation and hence are considered to be problematic to the ethnic majority. But diaspora policies in host countries aiming at integration might be a useful instrument to support development.

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<sup>1</sup> Constant and Zimmermann (2013a) and Constant, Gataullina and Zimmermann (2009) discuss the policy regimes of assimilation, integration, separation and marginalization. Due to the need of an organized commitment to the country of origin, only the integration and separation regimes qualify as a basis for the successful formation of diasporas.



The migration debate in the public focusses largely on the inflow of migrants. This ignores that most labor migrants are temporary, they leave the country again at some time. Asylees and refugees are even temporary migrants by definition, at least in Europe. A substantial part of this inflow migrates on when the dangerous situation in the country of origin has improved or a better long-term perspective in another country comes up. Typically, all countries with substantial inflows show also substantial outflows. This has led to the conclusion that it might be a waste of resources to offer immigrants vocational training, education and early labor market access. However, such investments of the host country should be seen as development measures, since immigrants returning with qualifications, degrees and work experiences will be welcoming assets to the home country .

In general, immigrants were not found to be harmful to the labor market perspectives of natives, neither in Europe (Constant and Zimmermann, 2013; Zimmermann, 2017; Kahanec and Zimmermann, 2009, 2016) nor in the United States (Blau and Mackie, 2016). Diasporas could be activated for integration efforts during the recent European refugee crisis. Diasporas can strengthen the economic position of the receiving country as well. Therefore, it should be possible to activate diasporas also in the context of migration and development policies with the acceptance of the native population. To strengthen the position of diasporas (and the human capital of potential return migrants to the developing countries of origin), coordinated labor market and migration policies should reduce ethnic discrimination and increase early job-access for immigrants.

An example for ethnic discrimination on the labor market is ethnic hiring (Neumark, 2013; Krause, Rinne and Zimmermann, 2012; Baert, 2017). Labor economics has a long tradition to try to reveal such discrimination, which is known to affect the economic performance of the involved companies and that of the whole country. Recent popular methods to substantiate such a bias include correspondence studies and anonymous job applications. In correspondence studies, fictitious job applications, differing only in a randomly assigned discrimination factor, are sent to employers in response to real job openings. Biased subsequent call-backs are taken as indicators for discrimination. In the approach of anonymous job applications, the call-back rates observed on real job openings comparing real anonymous and non-anonymous applicants are studied. Results indicate that ethnic discrimination is widespread.

It is well known that early job access is crucial for the success of migrants in the labor market. Hence, the entry channel (work-related in comparison to family unification or refugee status) is important (Constant and Zimmermann, 2016b). This suggests that diasporas would be better positioned if all developed countries would establish a clear channel for work-related entry to transparently signal the conditions for a match. One successful instrument for such a legislation is a point system as established in countries like Canada or Australia.

Asylees and refugees integrate more slowly than work-related migrants, they have problems finding employment or getting self-employed; they also suffer from lower earnings (OECD, 2016). But this is largely the consequence of legislation and inflow regulation (Constant and Zimmermann, 2016b). For long, asylees (those who have filed an asylum application) in Europe were simply not allowed to work. Now there is a wide variation among EU-states ranging from immediate access to the labor market until work is possible. Most states allow work after 6, 9 or 12 months, only Lithuania and Ireland insist on the formal refugee status when working is generally allowed. On top comes the long delays which may happen between arrival in the country and the ability to file an asylum application. No wonder are the starting conditions to work in the refugee status poor, with long-term consequences for the performance in the host country, but also in the ability to support family elsewhere and to move onwards or back home if possible.

In the face of the large inflows of asylum seekers in 2015 and 2016, some states were excluding the access of asylees to work and education of citizens from declared safe countries. The argument has been that without a realistic chance for recognition as refugee such an access would not make sense. This position is doubtful, since even if the person is not recognized and has to leave the country at the end, the ability to finance himself and to obtain work and education, increases acceptance among the native population and can be seen as an investment in development. In general an early profiling of asylum seekers and the proper provision of access to the educational system and the labor market is in the interest of migration policies as development policies.

A forceful instrument to foster the creation and stabilization of integrated diasporas is the acceptance of dual citizenships (Plaza, 2013; DeVoretz, 2013). This enables migrants to engage more successfully in the receiving countries resulting in better paid jobs and more full-time employment, creating this way the economic basis for supporting economic activities in and for their countries of origin. Dual citizenships are often affiliated with fears about a limited loyalty towards the receiving country. This should be confronted, however, with the contrafactual of keeping the passport of the country of origin and staying in ethnic enclaves or just remaining a separated diaspora. Dual citizenships can also encourage return or onward migration, since the passport of the host developed country is a fallback guarantee for such a risky decision. Developing countries have seen for long the advantage to keep ties with diaspora, even if emigrants have given up their original citizenship. They allow diaspora members to enter the country without a visa (India), leave them most of the rights and privileges of a citizen (Ethiopia) and let them keep a position in the social security system (Philippines).

Dual citizenships could also establish easily a partial regime of flexible labor markets between developed and developing countries by fostering circular migration (Zimmermann, 2014; Constant,

Nottmeyer and Zimmermann, 2013). Since migrants have the right to work in both countries, they can decide for the more profitable situation depending on the individual and macroeconomic conditions. Circular migrants take advantage of typically better employment and payment opportunities in the host country. They optimize and re-optimize their income, savings and assets strategies, and this improves their economic, social and personal situation. For the developed countries, circular migration is attractive, because it may help to alleviate labor market shortages by matching typically excessive demand in host countries and excessive labor demand in sending countries. But during phases of economic downturn or depression, with higher unemployment in developed countries, migrants can take a time out and return to their countries of origin until the situation improves. Countries of origin benefit either from remittances of the migrants and the transfer of knowledge and new ideas when they come back, even if only temporarily. Dual citizenship-circular migration is the elaborated case of a circular migration regime since it cannot be regulated much by governments. It is more flexible and market oriented than the circular international migration of natives, who may face potential restrictions internationally.

Managing migration to build up diasporas is a difficult task.<sup>2</sup> Limiting labor migration does not necessarily stop immigration, particularly circular migration, as previous experiences (for instance US-Mexico, and Germany after 1973) have shown (Zimmermann, 1996, 2014; Massey, Durand and Pren, 2016). Hindering labor migration through fences and legal constraints haven been shown to have the potential to generate even larger stocks of migrants. This may be caused by a decline in return migration and induced family and social migration, which changes the nature of the process. In general, the importance and impact of emigration from the host country is misunderstood and underestimated in public debates.

Point systems as entry mechanism provide transparency for both the migrants and the host country population. They have been shown to be effective to screen and guide mobility. The criteria of such point systems could include integration indicators, such as education, job characteristics, language proficiency and social activities. A more controversial, but also effective approach is to use the labor market as a filter mechanism for admission into a country. A work contract enables the entry into the country, and the immigrant may stay as long as the work relationship persists. Those who cannot obtain a permanent residence permit and lose their job would have to leave the country after a transition period. Those who overstay illegally may lose their right to return at another time. Circular migration contracts between countries may ease such temporary relationships. To keep successful foreign students in the host country labor market is probably the most effective long-term labor

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<sup>2</sup> For a broader discussion of the challenges and benefits see Zimmermann (2017).

immigration policy. The labor market as more short-term filter and organizer of circular migration and the recruitment of permanent migrants in particular as former students could be strong elements of an immigration policy that establishes diaspora and return migration.

#### **4. Conclusions**

In a recent analysis of the migration and development nexus, the World Bank has summarized: "Efficient allocation of labor provides one of the most critical paths for development. Many countries stay poor and suffer from inequality because their labor force is stuck in low-productivity locations, occupations, and sectors. Migration lowers unemployment and underemployment, and creates access to more-productive and higher-paying jobs. In short, migration is a powerful tool for development. The creation of better, more productive and higher paying jobs - regardless of where those jobs are and whether workers are high-or low-skilled - is important for development. This idea needs to occupy a general role in the migration policy debate, especially for low- and middle-income sending countries." (World Bank Group, 2016, p. 16)

The World Bank evaluation is in line with the message of this paper. Migration and development are complements and not substitutes. The more the underlying dynamic processes are hindered by governments, the costlier it is for the welfare of nations and their people. Migration has the potential to foster trade, remittances, innovations and investments in the country of origin. The effects are likely the strongest the more integrated diasporas are in the receiving countries. This implies that migrants neither assimilate nor separate culturally, but play a respected role as a group in the labor markets, in the financial sector and in the society of the receiving countries. Diasporas interact with their countries of origin, can be motivated for diaspora bonds and care about family left behind. Migrants also often return home experienced at some time or for some time.

Therefore, functioning diasporas can lead to stable factors of development. But there are also challenges arising from this. Ethnic tensions and ethnic rivalry can make policies more complex in receiving countries, in particular if countries at home are non-democratic and use diaspora as the radical arm of national interests. In any case, diasporas have the potential to undermine the traditional national states.

A further focus of this paper has been to understand the potential development effects of migration policies inside the host countries. One aspect has to do with the creation of a productive diaspora. If migrants, either as workers or refugees, are integrated early and well on the workplace and in society, then the corresponding diasporas can act more forcefully to support international economic and political relationships. They also contribute better to the economy of the receiving countries and thus reduce tensions against immigration. A significant share of the migrants today

emigrate tomorrow back to developing countries, and hence carrying education, experience, financial capital and innovations back home. Return migration, temporarily or permanently, can be strengthened by dual citizenships and circular migration contracts.

In the long-term, a prospering and developing world is in the common, also national interest. Hence, development and migration policies are not only following altruistic motives. They nevertheless need particular efforts to achieve broad public support. Populations in receiving countries tend to substantially overestimate the size of the migrant stock and misunderstand the economic values diasporas have (World Bank Group, 2016; GMF, 2015). A well-designed outreach about the potentials of migration as powerful tool for development through print and social media combining facts, analysis and communication techniques is needed to fight misperceptions. As Sides and Citrin (2007) have shown, such an approach has prospect. It can be based also on a rising literature that investigates the background of negative attitudes against migrants which are typically based on a misperception of the economic benefits of migration (Bauer, Lofstrom and Zimmermann, 2000; van North, 2016).

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