Population Economics

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The Socio-Economic Impact of Migration Flows

Effects on Trade, Remittances, Output, and the Labour Market

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Preface

During the recent decades the process of globalisation has significantly increased international migrations, especially to rich countries. The study of migrants and their economic motivations and consequences has become a very important item in the international research and policy agenda. The ageing of the population, the growing demand and decreased supply for personal and household services in rich countries have increased the demand for foreign workers who can fill those gaps. At the same time, highly educated workers, especially scientists and engineers, have increased their international mobility driving an international competition for talent, needed to fuel innovation in science, technology and their applications to advanced sectors. Migration therefore has been a phenomenon of great relevance in broadening the opportunities and sustaining socio-economic change in advanced market economies at the beginning of the twenty-first century. Both skilled and unskilled immigrants have been playing an important role.

Even from a pure demographic point of view, immigration was responsible for 40 % of the population growth in OECD countries over the years 2001–2011. In this context, studies on demography and migratory flows have been increasingly relevant to understand the potential demographic future of rich countries. Important international institutions such as the International Labour Organization (ILO) and the United Nations have been devoting more resources to study and documenting the effects of migratory flows in sending and receiving countries. In recent weeks, the OECD, the White House and the European Commission have all put out calls to national legislative bodies to pursue immigration reforms that may improve policies making them more efficient and able to manage migratory inflows in the twenty-first century.

Following this spirit, this book extends our knowledge on the effects of international flows of people, both in terms of the opportunities that they create for the receiving country and for the migrants themselves, and to improve our understanding of the constraints and hurdles that characterise the international migration processes. To achieve this goal, we explore the socio-economic impact of migration flows, placing particular emphasis on four main issues: the analysis of the linkages between flows of people and flows of goods and capital (international trade), the study of causes and consequences of remittances, the measurement of the impact of migration flows on macroeconomic variables at the country level and the exploration of those factors that affect assimilation of foreign workers at the level of the labour market.

The book is divided in four self-contained parts. Part I, that includes first three chapters of the book, studies the linkage between migration and trade flows. In Chap. 1, Andrés Artal-Tur, Vicente Pallardó-López and Francisco Requena-Silvente analyse the role of migrants' networks in creating new trade flows. Despite the widespread diffusion of new technologies, information costs still play a crucial role in shaping the world trade patterns. Social and business transnational networks led by immigrants are likely to alleviate information failures that may still limit trade exchanges. They can also substitute organised markets in matching international buyers and sellers, as well as in spreading the knowledge of new business opportunities. The chapter explores these issues focussing on Portugal, Italy and Spain during the period 2001–2010. Recently, these three countries have experienced large growth in the inflows of immigrants that has increased the number of foreign residents by a factor of 2, 3 and 4, respectively. One novelty of the investigation is that it applies province-level data in the analysis. This detailed geographic data increases the ability of the model to account for the spatial scope of immigrants' networks at the country level. Results show in general that immigrants' networks are very important in generating new trade flows especially with distant countries. Distance can be thought of in geographical terms, as well as in terms of differences in culture, level of economic development or institutional structure characterising the country.

In Chap. 2, Frances Ortega and Giovanni Peri focus on a central question in international economics: how do international flows of people and goods affect economic performance of the receiving countries? In particular how do these forms of globalisation affect growth of income per capita of countries? The authors employ a unified framework to analyse the effects of migration and trade on income, making a useful decomposition of the channels at work. One of the novelties of the study is that they provide joint estimates of the effects of trade and migration on income per person on a panel dataset. Specifically, the study decomposes the impact of trade and immigration on employment rates, on capital intensity and on total factor productivity (TFP). The analysis uses 30 OECD nations over the period 1980–2007. Results suggest that immigration and trade do not have a significant effect on income per capita in the short run. However, trade openness seems to reduce capital intensity, while increasing TFP at the country level. This is consistent with trade encouraging the specialisation of OECD countries in knowledge-intensive industries and away from traditional capital-intensive manufacturing sectors. As for immigration they find that increasing inflows of people result in an increase of the employment rate of the receiving economy, but, at the same time, it appears to reduce TFP. The authors relate all these findings to the existing literature on trade and migration.

In Chap. 3, Selim Çağatay, Murat Genç, Bernd Lucke, Süleyman Değirmen, Onur Koska and Perihan Ö. Saygın get deeper understanding of the trade migration nexus by studying its effect on product diversification for the EU, Mediterranean countries and Eastern Europe areas. They start by delineating the institutional structure in the EU that may facilitate international trade with the Mediterranean and Eastern European countries. Then, they investigate the impact of migration to the EU on international trade patterns and product diversity in the EU Member States. Their focus is on Mediterranean Partner and Eastern European countries as the migration originating regions, and migrants are not only considered as labour suppliers but also as economic agents (consumers) that demand goods and services as well. They analyse how their demand affects current export/import patterns and diversity of production. Bilateral trade covers both aggregate exports and imports, separately, as well as industry-level exports and imports; and product diversity is measured by industry-level number of establishments and employment. Following their results and the current institutional structure, they search for the type of institutional reforms warranted to facilitate international trade and to increase product diversity. Almost in all cases migration is found to have a significant impact on both exports and imports. This outcome supports and accepts the "information bridge hypothesis" which boosts trade via lowering transaction costs. Their empirical evidence also shows that migration could affect product diversification in some industries which justifies the existence of "transplanted home bias" that boosts imports from the home countries and motivates production in some industries at host countries.

In Part II of the book we focus on disentangling the causes and consequences of migrants' remittances. According to the World Bank, more than 215 millions of people lived and worked outside their country of birth in 2012, representing around 3 % of total world population. People working abroad sent amounts of money and goods to their families in the home countries. Those transfers, called "worker remittances", totalled \$519 billion in 2012, with \$389 billion going to developing countries. Such an amount of capital flows represents around 1.1 % of GDP of developing and emerging countries. Non-recorded flows of remittances could be significantly larger than the official estimates. Some calculations found that, for the recipient countries during the last decade, remittances were equal to 20 times the government transfers, 18 times official capital flows, more than twice the level of private capital inflows, and around 40 % of total exports. Besides their large value, a pivotal feature of remittances is also their relative stability as a capital source. Even during the recent Great Recession, the decline in remittances to low and middle-income countries was pretty modest (−4.4 % in 2009), compared to downturns shown by other international flows such as world exports (−20 %) or international foreign direct investment (−35 %). Remittances show significant ability in smoothing the impact of macroeconomic fluctuations for less developed countries, and, even more relevant, provide them with a cushion against economic shocks, such as the recent rise in world food prices.

Chapter 4 of the book, by Sule Akkoyunlu and Boris Siliverstovs, investigates how remittances influence the economic performance of countries, with an application to the case of Turkey. The study is motivated by ambivalent findings from the existing literature. Some authors have found that remittances negatively affect economic performance of receiving countries, reducing growth of the economy. Other reported a positive contribution of these capital currents to economic growth. In this chapter, authors improve the methodology of analysis for this literature by employing updated co-integration analysis for testing Granger causality between remittances and output at the country level. Reconciling the findings of previous studies, they find no statistical evidence that remittances are Granger cause output. In turn, they also could not reject the null hypothesis that remittances are not Granger caused by GDP.

Chapter 5 analyses the factors driving inflows of remittances in developing countries. Andrés Artal-Tur, Jordi Bacaria-Colom, Selim Çagatay and Vicente Pallardó-López analyse such an issue for the Middle East and North African (MENA) region by following a macroeconomic approach. The model reviews the role that macroeconomic conditions play in this process, also accounting for additional socio-political (demographics, institutions) and individual-related (education) variables as determinants of the migrants' behaviour. Results indicate that the state of the business cycle, the characteristics of households (fertility, income per capita) and those of the migrants themselves (mainly their education and their endowments) are the leading factors influencing the volume of such capital flows. Institutional factors appear to play a secondary, although significant, role. Estimates suggest that altruism, insurance and investment are the key motives driving remitters' behaviour in the case of MENA region.

Part III of the book includes two chapters dealing with the macroeconomic effects of migration flows. The first one focus on the pivotal issue of the brain drain for small developing countries, while the second presents a methodology for computing the macroeconomic impact of an external positive shock on the labour factor, and how it may affect the whole economy.

Encouraging human capital accumulation has usually been considered as an important policy to promote growth in developing countries. However, such policies cannot be effective if countries suffer from a large brain drain. This is particularly the case for small countries where the average brain drain rate exceeds 50 % and where emigration decisions are strongly responsive to economic conditions. In Chap. 6, David de la Croix, Frédéric Docquier and Maurice Schiff document this phenomenon for Small Island Developing States, and then study the bi-directional links between brain drain and development. When large brain drain in the form of migration of highly educated begins, it may have damaging effects on the economy and induce other waves of high-skilled emigration. On the contrary, when a significant return movement operates, it gives incentives to other waves of emigrants to return home. Indeed, a situation of high brain drain and low development can be the outcome of a coordination failure. The authors identify the cases of coordination failure and show that moving to the superior equilibrium could raise wages and GDP per capita by more than 100 % in the most affected countries. These countries would then require sustainable development policies aimed at retaining or repatriating their high-skilled labour force.

In Chap. 7, Rafael de Arce and Ramón Mahía develop a procedure for evaluating the economic impact of immigrant workers on macroeconomic variables at the country level, combining dynamic Ghosh and Leontief models. A technical input–output scheme is developed, emphasising how to take into account, in its different stages, specific features in relation to migration dynamics in the receiving country of analysis. The procedure is applied to illustrate the case of the Spanish economy during the years of economic boom, where more than five million immigrants entered the country. The authors show the macroeconomic effects of such inflows on employment, GDP growth and related macro-variables.

Finally, Part IV of the book considers the consequences on the labour markets of migration flows in receiving countries. While much of the literature on immigrants' assimilation has focused on countries with a large tradition of receiving immigrants and with flexible labour markets, very little is known on how immigrants adjust to other types of host economies. With its severe dual labour market, and an unprecedented immigration boom, Spain presents a very interesting case to analyze the immigrants' assimilation process. In Chap. 8, Núria Rodríguez-Planas, Miguel Ángel Alcobendas and Raquel Vegas, using alternative datasets and methodologies, provide evidence of a differential assimilation pattern for low- versus high-skilled immigrants in Spain. Their key finding is that having a high-school degree does not give immigrants an advantage in terms of occupational or wage assimilation relative to their native counterparts.

Overall, this book covers a full range of migration topics, both from a theoretical and empirical view. Chapters include recent research made by authors who have been prominent contributors to the advancement of our knowledge in the field. The chapters build on up-to-date research methodologies and new datasets, and they have important and significant policy implications and lessons. At the same time, the style of the volume makes it accessible for both non-experts and advanced readers interested in this very debated topic at the center of so many current political and economic discussions.

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