International Migration and Remittances:

A Review of Economic Impacts, Issues, and Challenges from the Sending Country's Perspective

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International Migration and Remittances

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Motivations for International Migration

- ECONOMIC ASYMMETRIES
  - Push Factors:
    - "negative factors" that push people to migrate to other destinations where better conditions prevail.
    - Economic, social, demographic, political hardships especially in developing countries

Motivations for International Migration

- ECONOMIC ASYMMETRIES
  - Pull Factors
    - "positive" features associated with the host country that attracts people to move towards it. (e.g. high demand for nurses in US & UK)
    - Most pull factors for international migration include among others availability of job opportunities. higher compensation and better benefits, distance to potential destinations **(Schwartz, 1973, Greenwood, Ladman & Siegel, 1981)**, better quality of life, additional knowledge and an opportunity for increased personal growth **(IHPDS, 2005)**.

Motivations for International Migration

- **RESPONSES TO ECONOMIC ASYMMETRIES**
  - Demographic asymmetries arise from differences in the fertility and mortality rates among countries.
  - Demographic asymmetries can provide huge opportunities for international migration and allow a better allocation of the labor services across the world (Losch, 2008).

Motivations for International Migration

- **RESPONSES TO ECONOMIC ASYMMETRIES**
  - IMPACT OF DEMOGRAPHIC DIVIDENDS ON THE LABOR MARKET
    - Ross (2004) identifies that the main effect of the demographic dividend: enhance labor supply
      - generations of children born during periods of high fertility now join the working population
      - women now have fewer children to take care of, as well as better health, so they are free to take jobs and become more productive in the labor force.

Motivations for International Migration

- **RESPONSES TO ECONOMIC ASYMMETRIES**
  - RAPID POPULATION GROWTH & SURPLUS LABOR
    - Although the labor force is growing over time with increased population and participation rates, the level of unemployment is likewise increasing **(Tullao, 2008).**
    - Laborers that are not absorbed in the domestic labor market sought employment opportunities in the international labor market **(Tullao, 2008)**.
      - Manifestation that the Philippines has a labor surplus, because the domestic market is unable to absorb the additional labor force.

Motivations for International Migration

- **INVESTMENT IN HUMAN CAPITAL**
  - People are motivated to migrate because of their desire to improve their earning capacity.
  - Migration is a form of investing in human resources since individuals and households are able to derive returns from their venture and eventually maximize their income.

Motivations for International Migration

- **INVESTMENT IN HUMAN CAPITAL**
  - INDIVIDUAL DECISIONS & THE RATE OF RETURN TO MIGRATION
    - The greatest influence on deciding to migrate is the knowledge of a higher level of return.
    - For any particular individual, the returns to migration consist of a positive (or negative) increment to his earnings stream obtained by moving to another place (Sjaastad, 1962).

Motivations for International Migration

- INVESTMENT IN HUMAN CAPITAL
  - INDIVIDUAL DECISIONS & THE RATE OF RETURN TO MIGRATION
    - Another form of the return of migration is via the investment in education that improves productive capacity.
    - Two general perspectives: educated workers or relatively skilled workers migrate abroad because of the higher rate of return, and people migrate to other countries to invest further in their human capital.

Motivations for International Migration

- INVESTMENT IN HUMAN CAPITAL
  - INDIVIDUAL DECISIONS & THE RATE OF RETURN TO MIGRATION
    - Ramcharan (2002) finds that migration is greatly affected by the level and growth of educational attainment of the individual, and indicates that a certain "skill premium" increases the rate of return to migration.
    - This implies that as people further invest in their productive capacities, the greater their relative wage and together with the wage-differentials across countries, they have a greater incentive to migrate.

Motivations for International Migration

- **INVESTMENT IN HUMAN CAPITAL**
  – INDIVIDUAL DECISIONS & THE RATE OF RETURN TO MIGRATION
    - A huge amount of resources must be invested into the development of human capital since a high productivity is necessary to reap the full returns to migration.
    - The marginal return to additional migration is not high, but that substantial differentials in earnings may persist (Sjaastad, 1962).

Motivations for International Migration

- **INVESTMENT IN HUMAN CAPITAL**
  - HOUSEHOLD DECISIONS AND MAXIMIZING INCOME ACROSS TIME
    - The New Economics of Labor Migration Theory (NELM) highlights migration as an alternative for households to increase their source of income as well as "diversify their portfolio".
    - The NELM assumes that households use remittances from their migrants abroad to increase their liquidity and investment opportunities in the home country (Wouterse & Taylor, 2008).

Motivations for International Migration

- **CULTURE OF MIGRATION**
  - MIGRATION NETWORK
    - From a sociological and network perspective, **Massey** (1987) and **Martin** (2009) hypothesize that the chances of migration increase if individuals are related to someone in the destination country, or one who has extensive experience in international travel.
    - **Massey** (1987) further hypothesizes that once someone has migrated internationally, they are likely to do so again causing repeated movements over time.

Motivations to Send Remittances

- **ALTRUISTIC MOTIVES**
  - unselfish concern for or devotion to the welfare of others
  - Migrants send back remittances to their respective households according to the mutual care they experience (Alba & Orbeta, n.d.) because they derive a positive utility from the consumption of the family (Zanker & Siegel, 2007).
  - anthropological in nature

Motivations to Send Remittances

- **EXCHANGE MOTIVES**
  - does not bind the migrant by mutual ties but rather, by contractual agreement
  - Migrants remit for their own interests and these remittances are tied towards the maintenance of the migrant's assets in the home country, like his land, business, portfolio investments, and his dependent relatives.
  - remittances are for the sole purpose of the maintenance of his assets in the home country

Motivations to Send Remittances

- **EXCHANGE MOTIVES**
  - remittances increase as the migrant's income in the host country increases (although this usually changes according to the recipient household's bargaining power), and conjunctively, migrant income is derived from his contracted services in the host country
  - remittances react ambiguously to exogenous increases in the household's pre-transfer income

Motivations to Send Remittances

- STRATEGIC MOTIVES
  - Stark (1995) suggests that remittances is part of a sort of strategic interaction aimed at the positive selection of migrants.
  - agents remit since remittances are expected to increase as there is an increase in the amount that agents can inherit from their parents

Motivations to Send Remittances

- STRATEGIC MOTIVES
  - Studies in different countries (mostly in Africa) show that migrant remittances are larger when parents have greater capability of bequeathing land, cattle or other assets to their child (Lucas & Stark, 1985, Hoddinott, 1994, Sugui, Alba, Abdon, & Garde, 2007).
  - This particular motivation is likewise consistent with the self-interest motive since the amount they remit contribute to the development of their assets in the home country; assets that they will eventually inherit.

Motivations to Send Remittances

- **INSURANCE MOTIVES**
  - prevalent in households living in rural areas or those engaged in agricultural businesses
  - rooted on a perspective that household income as returns and labor resources as portfolio investments that are subject to risks

Motivations to Send Remittances

- **INSURANCE MOTIVES**
  - Households, assumed to be risk averse, will choose to lessen the degree of risk or variance in their annual income, and will choose to send at least one member of the household to an urban area (or to another country) so as to diversify their portfolio spatially.
  - This minimizes their exposure to income shocks in any one place, so even if an adverse shock hits the home country and income levels drop, households with at least one migrant will still have a steady inflow of income

Motivations to Send Remittances

- **INSURANCE MOTIVES**
  - The greatest cause of risk in agricultural and rural areas is weather, which is coined to be a productive input that has a stochastic, exogenous nature (Rosenzweig, 1988).
  - The advantage of migration is that urban and foreign jobs have risks that are generally uncorrelated to agricultural risk (Rapoport & Docquier, 2005). Hence, remittances from migrants would insure households against sudden drops in rural income.

Motivations to Send Remittances

- **INVESTMENT MOTIVES**
  - families send migrants because they are motivated to increase their wealth (given that investments increase income in the long-run) (Alba & Sugui, n.d.).
  - stems from the concept that families make use of interspatial differences in wages to increase their income potentials and it is necessarily in the form of an investment since initially, migration costs are very high (Rapoport & Docquier, 2005) and that costs prior to the migration itself constitute a lot of the investment.

Economic Impacts of International Migration

- **HOUSEHOLD LEVEL**
  - income of recipient households increase and is consistent with the different motives of remittances, especially the altruism and investment motives
  - remittance income is spent mostly on consumption and not much on investment, and that a number of studies show that there is no impact on household's investment income or number of investment activities (Orbeta, 2008).

Economic Impacts of International Migration

- **HOUSEHOLD LEVEL**
  - Other studies say otherwise: **Yang (2004)** finds that riskier investments were made despite drops in the peso value and that migrants' children are sent to better schools accompanied by other education-related investments; **Asis (2006)** finds that typical uses of remittances include land purchases, renovation of houses, increases in educational investments, entrepreneurial activities, as well as consumer durables and savings.

Economic Impacts of International Migration

- **HOUSEHOLD LEVEL**
  - acquisition of new skills, knowledge and experience brought back by migrants
  - cause spillover effects as these new methods are imparted to others which may in turn aid in improving local services **(OECD,** 2002).

Economic Impacts of International Migration

- **HOUSEHOLD LEVEL**
  - Opiniano (2007) identifies a negative effect of migration through the sending of remittances: households tend to develop a dependency on these remittances, causing misuse of these remittances.
  - Asis (2006) explains in a socio-cultural context that migration induces separation of family members which may in turn cause the erosion in the stability of the family unit, and perhaps raising concerns about marriages and parent-child relationships.

Economic Impacts of International Migration

- **NATIONAL LEVEL**
  - greater discrepancy between the effects of migration and remittances
  - migration significantly affects three economic components: income distribution, human resource development, and the labor market

Economic Impacts of International Migration

- NATIONAL LEVEL
  - HUMAN RESOURCE DEVELOPMENT AND INVESTMENTS IN HUMAN CAPITAL
    - very important since it can address poverty alleviation especially in developing countries
    - In general, expenditure shares on education and health are larger among households with migrants relative to households without migrants (Orbeta, 2008).
    - Tabuga (2007) further finds that richer households spend more on education and health resulting to increased inequality in human capital expenditures, which may be attributed to remittances.

Economic Impacts of International Migration

- NATIONAL LEVEL
  - HUMAN RESOURCE DEVELOPMENT AND INVESTMENTS IN HUMAN CAPITAL
    - Cattaneo (2008) posits that emigration, more accurately, the departure of skilled laborers, can decrease the productivity of other productive inputs, given that these laborers cannot be replaced instantly.

Economic Impacts of International Migration

- NATIONAL LEVEL
  - THE LABOR MARKET
    - An issue often cited in migration literature is that migration cultivates a culture of dependence among those left behind (Orbeta, 2008).
    - Other than being the outward transfer of skill and knowledge, it is implied that brain drain may arise if the remaining family members of a household with a migrant increase their demand for leisure, or lose incentive for being fully employed.

Economic Impacts of International Migration

- NATIONAL LEVEL
  - THE LABOR MARKET
    - Using simple comparative analysis, Tullao, Cortez, & See (2007) find that labor participation and employment rates are lower in remittance-receiving households relative to those who do not, however, problems appeared when there was no way of discerning individual and household level of employment and participation since the FIES dataset was used.

Economic Impacts of International Migration

- NATIONAL LEVEL
  - THE LABOR MARKET
    - Ducanes and Abella (2007a) came up with an improvement to Tullao, Cortez & See's (2007) study using labor participation and unemployment rates, and classifying households to those who have OFWs and those without (to represent households with migrants and not just remittances), and using the LFS dataset.

Economic Impacts of International Migration

- NATIONAL LEVEL
  - THE LABOR MARKET
    - They find that the participation is the same for both household classifications and they theorize that a back-bending supply curve occurs with higher income households with OFWs. Therefore, they disagree with the claim that migration decreases the labor supply of the remaining family members.

Economic Impacts of International Migration

- NATIONAL LEVEL
  - THE LABOR MARKET
    - Rodriguez & Tiongson (2001) open the floor for multivariate analysis. In determining the impact of OFW presence and remittances to labor participation, they find that the presence of an OFW does decrease labor participation, and postulate that the rational response of increased demand for leisure is at work here.
    - Increased remittances decreases full-time work hours as well.

Economic Impacts of International Migration

- NATIONAL LEVEL
  - THE LABOR MARKET
    - Cabegin (2006) on the other hand, studied the impact of the presence of migrants to the labor supply decision of the migrant's spouse.
    - She finds that implications for men and women are different, and that responses are significant and larger when it comes to remittances and children, respectively.

Economic Impacts of International Migration

- NATIONAL LEVEL
  - THE LABOR MARKET
    - Economic theory shows that the market's level of wage is one of the major factors affecting the labor participation rate.
    - the sending country will have to face increases in the reservation wage as well as the domestic wage when part of its labor force migrate to other countries (assuming that wages are indeed higher in destination countries).

Economic Impacts of Remittances

- **APPRECIATION OF THE REAL EXCHANGE RATE AND DUTCH DISEASE**
  - The Dutch disease connotes negative consequences that are tied with large increases in a country's income brought about by the huge receipts from the export of a commodity or service.
  - initially causes an increase in imports and a decrease in price competitiveness of exported goods as well as the amount of.

Economic Impacts of Remittances

- INFLATION
  - There is still an on-going debate over the relationship between remittances and inflation.
  - A large body of research show that remittances respond very strongly to prices (reflecting the need to supply more remittances when prices increase), implying that remittances are used for consumption.

Economic Impacts of Remittances

- GROWTH AND VOLATILITY
  - Barajas, Chami, Fullenkamp, Gapen & Montiel (2009) suggest that a two-way causality is expected of remittances and growth.
  - domestic economic performance can drive remittance inflows through the encouragement of emigration due to slow growth or through altruistic behavior of migrants
  - growth and remittance flows may be influenced by other determinants such as poor domestic governance or high economic growth in the host country

Economic Impacts of Remittances

- GROWTH AND VOLATILITY
  - Jongwanich (2007) identifies channels on how remittances can positively affect economic growth.
  - remittances reduce credit constraints of household receipts, causing increases in entrepreneurial activity and private investment (Yang, 2004, Woodruff & Zenteno, 2004).
  - remittances could improve a country's credit worthiness, thereby enhancing access to capital markets

Economic Impacts of Remittances

- GROWTH AND VOLATILITY
  - remittances could improve growth through multiplier-effect mechanisms as well as through positive externalities that remittance-receiving households may spillover to non-receiving households
  - However, concerns arise with regards to the significant and positive impact of remittances.

Economic Impacts of Remittances

- GROWTH AND VOLATILITY
  - Stark & Levhari (1982), and Ahlburg (1991) point out that remittances are primarily used for consumption (house construction, debt repayment, and financing future migration), and that there is lack in the investment of productive activities.
  - remittances are known to induce moral hazard problems through the reduction of the local labor participation of recipient-households, which definitely holds implications for growth

Economic Impacts of Remittances

- **GROWTH AND VOLATILITY**
  - remittances can cause the Dutch disease problem
  - As of the time being, despite the expected positive correlates between remittances and growth, the significance of the impacts is still contestable.

Economic Impacts of Remittances

- POVERTY AND INEQUALITY
  - There is an on-going debate on the effects of remittances on poverty and inequality, although most studies point toward the direction that remittances actually do reduce the incidence of poverty.
  - remittances reduce the level of poverty by increasing the income of recipients (Jongwanich, 2007)

Economic Impacts of Remittances

- POVERTY AND INEQUALITY
  - Cattaneo (2008) posits that at low levels, migration and hence, remittances actually add to the pre-existing inequality and do not really decrease the level of poverty due to the high risks and high costs of migration investments.

Economic Impacts of Remittances

- **SAVINGS, INVESTMENT, AND FINANCIAL DEVELOPMENT**
  - A number of studies on international migration concluded that remittances are primarily used for consumption spending and not investment.
  - Remittance-receiving households were found to have a hard time saving, although the reasons why this is so may vary according to the motivation upon which the remittance was sent **(Opiniano, 2007, Burgos & De Vera, 2005, Idang & Yap, 2002, Antonio & Perez, 2000).**

Economic Impacts of Remittances

- **SAVINGS, INVESTMENT, AND FINANCIAL DEVELOPMENT**
  - as identified by Cabegin (2006), remittances may not increase labor participation or the number of investment activities, but it increases the hours of self-employment and entrepreneurial activities, particularly capital intensive activities such as transportation, communication and manufacturing (Orbeta, 2008).

Economic Impacts of Remittances

- **SAVINGS, INVESTMENT, AND FINANCIAL DEVELOPMENT**
  - The relationship between financial development, remittances and growth may go in either direction: remittances can substitute for the lack of financial development vis-à-vis absence of credit and insurance markets in rural areas, and financial development can facilitate markets and augment the effects of remittances and growth.

Economic Impacts of Remittances

- **HUMAN RESOURCE DEVELOPMENT AND DEMAND FOR EDUCATION, HEALTH SERVICES, AND HOUSING**
  - Comparison of expenditure elasticities between remittance-receiving and remittance non-receiving households shows remittance receiving households are highly elastic when it comes to expenditures in housing, education, health care, durables, transportation and communications but lower elasticities for food regularly eaten outside the home (Orbeta, 2008).

Economic Impacts of Remittances

- HUMAN RESOURCE DEVELOPMENT AND DEMAND FOR EDUCATION, HEALTH SERVICES, AND HOUSING
  - This implies that remittances increase the demand for better education, better healthcare and better housing opportunities.

Conclusion

- The motivations of people to migrate can vary but they can be generally summarized in terms of push and pull factors.
- Although push and pull factors can be a candidate for a general theory of migration, it may not be relevant to have an empirical investigation on this possible general theory since people move for various reasons albeit in response to push and pull factors.
- Possible studies can be undertaken in the area of the family decisions to migrate and the culture of migration.

Conclusion

- Although the push and pull framework can be a likely candidate for a general theory of migration, it is quite problematic to craft a general theory of remittances.
- The link between education, migration and remittances has been refined, and now the question remains as to how the investment motive is enhanced by differences in interspatial purchasing power.
- The inter-spatial differences in purchasing power of remittances can integrate the altruistic motive with the investment motive of sending remittances.

Conclusion

- Because of the conflicting conclusions on the macro-economic impact of remittances there is a need to verify for the Philippines the empirical relationship of remittances with the inflation, the Dutch disease, reservation wage, labor participation rate and economic growth.
- Since decision to migrate is a family decision, the analysis of impacts and consequences and forces to migrate and remit should be analyzed at the household level.

Conclusion

- The basis of the study is to understand this phenomenon. It is a reality that has to be accepted given its positive contributions and its negative consequences. Thus, there is a need to mitigate its social costs while enhancing its positive contributions to the individual, household, community and society.

Conclusion

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The End

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