Managing Labor Migration in the 21st Century

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The world is divided into about 200 nation states. Their per capita incomes in 2004 ranged from less than $250 per person per year to more than $50,000 (World Bank Indicators 2006:20–22), providing a significant incentive for especially young people to migrate from one country to another for higher wages and more opportunities. The 30 high-income countries had one billion residents in 2004, a sixth of the world’s population, and their gross national income was $32 trillion, 80 percent of the global $40 trillion.¹ The resulting average per capita income of $32,000 in high-income countries was 21 times the average $1,500 for the 5/6 of the world’s people in low and middle-income countries, and this 21–1 ratio has been stable over the past quarter century (Martin, Abella, Kuptsch, 2005).

About three percent of the world’s 6.4 billion people were international migrants in 2005 (UN 2006). These 191 million migrants included 62 million who moved from south to north (from a developing to a developed country), 61 million who moved from south to south, 53 million who moved from north to north, and 14 million who moved from north to south. In each of these flows, about half of the migrants were in the labor force of the destination area (ILO 2004), raising the question: what role can migrant workers who move from a developing to a high-income country play fostering trade and accelerating development in their countries of origin?

For most of human history, it was assumed that migrants contributed primarily to their new homes, not to their countries of origin. Historians debate the emigration mistakes of governments, as when the French expelled the Huguenots in the 16th century, helping to spark the Industrial Revolution in Britain. However,
there are more stories today of migrants abroad helping to transform the country they left behind. Taiwan, for example, invested little in higher education in the 1970s, so that those who wanted graduate degrees went abroad.

Many Taiwanese graduates stayed abroad despite rapid economic growth in Taiwan but, during the 1980s (even before the end of martial law), some began to return. To encourage returns, the government established the Hinschu Science Industrial Park in 1980 to create a rival to Silicon Valley in California and provided incentives to encourage high-tech businesses to locate in Hinschu, including subsidized Western-style housing (Luo and Wang 2002). By 2000, Hinschu was a major success, employing over 100,000 workers in 300 companies that had sales of $28 billion. Over 40 percent of Hinschu-based firms were headed by returned overseas migrants, and 10 percent of the 4,100 returned migrants employed in the park had PhD degrees.

Is Taiwan’s experience the exception or the rule? Can migrants increase their incomes by moving, increase employment in receiving countries, and foster trade and investment links with the countries they left behind, the so-called win-win-win scenario that prompted UN Secretary General Kofi Annan to call migrants “the motors of human progress.”

Migration’s 3 R’s

Moving workers from lower- to higher-wage countries can be a win-win-win situation, with migrants benefiting from higher wages, receiving countries benefiting from more employment and a larger GDP, and migrant-sending countries benefiting from jobs for otherwise unemployed workers, remittances, and returns (World Bank 2005). The first two wins are well established, as migrants demonstrate a strong desire to go abroad by taking enormous risks to move to higher wage countries. Most studies in receiving countries conclude that migrants slightly expand economic output by slightly depressing wages.

The third win, the effect of emigration on migrant countries of origin, has been in the spotlight recently, largely because migrant numbers and remittances are rising and, especially in the case of health care professionals leaving Africa, some sending country governments have demanded compensation for their country’s loss of human capital. There are two extreme scenarios involving highly skilled migrants and their countries of origin: virtuous and vicious circles. The virtuous circle that began with the emigra-
tion of Indian IT specialists resulted in the development of a new software and outsourcing industry in India, while the vicious circle that began with the exodus of African health care professionals is associated with deteriorating health care systems, lower worker productivity, and slower socio-economic development.4

There are obvious differences between IT and health care, including the government's role in shaping labor supply and demand. IT is largely a private sector industry, much training occurs on the job, and many standards are set privately. By contrast, the supply of health care services is heavily influenced by governments that support the training of doctors and nurses and license them, and the demand for health care services is influenced by the ease of access to and charges for health services. Migration's effects on countries of origin usually lie between these virtuous and vicious extremes, justifying a closer look at the 3 R's that shape emigration's effects on development.

Recruitment

Migration is not random: young people are most likely to move over borders because they have the least invested in jobs and careers at home and the most time to recoup their “investment in migration” abroad. Among young people, who migrates depends significantly on an individual’s human capital and network connections, but demand conditions in receiving areas are the dominant factor shaping labor flows. For example, if employers in destination countries want IT professionals and nurses, networks and recruiters will evolve to help them move abroad; if the demand is for maids and farm workers, networks and agents will evolve to move them over borders.

Migrants moving from developing to developed countries are different from the workers they left behind as well as the workers in the countries to which they move. About 40 percent of the world's workers are employed in agriculture, 20 percent in industry and construction, and 40 percent in services, and the world’s developing country migrants are drawn from societies that have this 40-20-40 distribution of workers (World Bank Indicators 2006). The industrial countries to which migrants move have about three percent of their workers employed in agriculture, 25 percent in industry, and 72 percent in services.

However, the 31 million migrant workers from developing countries in industrial countries in 2005 had a labor force distribution unlike that in sending or receiving countries. About 10
percent are employed in agriculture, 40 percent in industry and construction, and 50 percent in services. This distribution of developing country migrants reflects a tendency of three types of industrial country employers to request migrants: those in sunset industries such as agriculture and some manufacturing (sewing), those in industries that are difficult to trade, such as construction, and in many growing service-sector industries, from janitorial services to health care services.

Migrant workers from developing in industrial countries also have personal characteristics that make them different from other adults in receiving countries. Migrants differ in the best single determinant of individual earnings in industrial countries: years of education. In most developing countries, the distribution of adults by years of education has a pyramid shape reflecting a few well-educated persons on top and a mass of workers with less than a secondary school certificate or high-school diploma at the bottom.

Native-born adults in high-income countries, by contrast, have a diamond shape when arrayed by years of education. About 25 percent have a college degree, 60 percent have a secondary school certificate, and 15 percent have less than a secondary or high-school diploma. Migrants from developing countries in industrial countries have more of an hourglass or barbell shape. About 40 percent have a college degree, 25 percent a secondary school certificate, and 35 percent less than a high-school diploma. International migration from developing to industrial countries takes persons from the top and bottom of a pyramid distribution and adds them to the top and bottom of a diamond-shaped distribution.

Professionals and students

The migrants drawn from the top of the education pyramid of developing countries are often professionals and students (and legal residents) of industrial countries. Foreigners arrive in industrial countries via front, side, and back doors, with the front door representing presumed settler immigration, the side door allowing the entry of tourists, guest workers, and students for a specific time and purpose, and the back door representing illegal entries as well as foreign visitors who arrive legally and then violate the terms of their entry, such as tourists who go to work or overstay (Haines and Rosenblum 1999).

Over the past two decades, almost all industrial countries have made it easier for foreign professionals to enter as settlers or guest workers (OECD 2002). There are two broad approaches to select-
ing professional immigrants, so-called supply and demand systems. The supply-oriented systems of Australia, Canada and the UK give points to foreigners applying for immigrant visas that reflect their language ability, years of education, age and other factors presumed to affect earnings, and grant immigrant visas to those with sufficient points. The demand-oriented system of the US, by contrast, makes the major criterion for an immigrant visa having a job offer from a US employer.

There has been some convergence between supply and demand-oriented selection systems, as especially Canada has raised the number of points awarded for having a local job offer to avoid brain waste, the presumed lack of earnings due to immigrants employed in jobs that do not require their credentials, as when a doctor drives a taxi (Reitz 2005). Meanwhile, the US makes it easiest for employers to obtain immigrant visas for foreigners with a college degree or more filling a US job that requires at least a college degree.

Most of the world’s workers and most of the world’s migrant workers are unskilled. Many need help to cross national borders, and there has been rapid growth in the number of for-profit recruiters who move workers over national borders (Kuptsch 2006). The wage gap between countries motivates migration, and the recruiter’s share of this wage gap depends on a number of factors, including the difficulty of migrating illegally (or migrating without the help of recruiters) as well as prospects for settlement and upward mobility abroad. In most labor flows, recruiting fees are highest at the beginning of a flow, but after workers are established abroad, more potential migrants have access to information via social networks and may find alternative routes to travel abroad for employment, including going as tourists to visit relatives and staying to work.

In countries such as the Philippines, where most migrants leave legally, recruiters match half or more of the migrants being deployed abroad with jobs. The government tries to limit recruiting fees to the equivalent of one month’s wages for the typical two-year contract, 4.2 percent, but Abella (2004) concluded that “limits on fees [that recruiters] can charge to workers have been widely disregarded” because there is an excess supply of migrants. A migrant may leave the country with a contract stipulating that the recruitment fee is a month’s wage, but upon arrival is asked to sign another contract that raises the fee to 4 to 6 months’
wages. Migrants can refuse to sign the second contract, but if they do they may be forced to return without the means to repay recruitment debts.

Most migrants move over national borders under the terms of unilateral guest worker programs, meaning that employers who satisfy national government criteria for employing foreign workers can recruit them where and how they wish. Most countries do not sign bilateral agreements or MOUs with migrant countries of origin to regulate recruitment, even though the ILO favors recruitment under bilateral agreements, and included a model agreement in Recommendation 86 (1949).

Remittances

Remittances are international financial transfers from individuals to individuals. Most are derived from the earnings of citizens of one country employed in another, meaning that remittances replace what would have been earned at home if the individual had not migrated. There are three steps involved in a typical remittance transfer: the migrant pays the remittance to a money transfer firm such as Western Union in one country, the money transfer firm instructs its agent in another country to deliver the remittance, and the agent pays the recipient. Under the hundi, hawala, padala, fei chien and other informal remittance systems, no money need cross national borders immediately to have remittances paid to beneficiaries.

Remittances are the sum of workers’ remittances and compensation of employees payments recorded in Balance of Payments data. Workers’ remittances are monies received from nationals or usual residents of countries abroad more than 12 months (regardless of their legal status), while compensation of employees are funds from those abroad less than 12 months, including border commuters and seasonal workers. Not all countries report remittance data: 45 countries report both workers’ remittances and compensation of employees data, 14 report only workers’ remittances, and 19 report only compensation of employees data (GEP 2006:106), and many countries do not distinguish between monies from workers abroad more and less than 12 months. Most analyses sum workers’ remittances and compensation of employees to obtain a measure of formal transfers, and this sum is generally called remittances.

Major payers of remittances include the US, $39 billion in 2004, Saudi Arabia, $14 billion, and Switzerland and Germany, $12 billion each. Flows of money out of the country in which migrants
work should match inflows of funds to migrant countries of origin (unless migrants send remittances to third countries). This does not necessarily occur, in part because some countries do not (fully) report remittances and some remittances are transferred via informal channels, as when migrants return with cash, send cash with friends, via couriers or informal systems, or return with goods.

Volume and formalization

The World Bank’s Global Economic Prospects 2006 report estimated total remittances of $232 billion in 2005, including $167 billion received by developing countries, almost double the $86 billion in 2000. There are several reasons for rapidly rising remittances (World Bank 2005:xiii), including the increased scrutiny of remittance flows after the September 11, 2001 terrorist attacks, lower costs and expanding networks to move small sums over borders via regulated financial institutions, as well as better recording of fund transfers, more migrants, and the depreciation of the dollar, which raises the dollar value of remittances transferred in other currencies. Unrecorded remittance flows via informal channels “may conservatively add 50 percent (or more) of recorded flows” (GEP 2006:xiii), that is, an additional $84 billion in 2005, bringing total remittances to developing countries to at least $251 billion.

The major determinants of the volume of remittances include the number of migrants, their income abroad, and their propensity to remit to their countries of origin. International organizations such as the World Bank and IMF aim to increase and to formalize remittances in order to accelerate poverty reduction and improve the access of poor people in developing countries to financial services. Formal transfers may have favorable macroeconomic effects on recipient countries, as when banks can lend against remittance deposits or sell bonds based on anticipated remittances, increasing their multiplier effect; formal remittances may also deepen recipient country financial systems and strengthen country credit ratings. In many cases, if recipients pick up remittances at banks, they open accounts, which can have favorable impacts on bank profits as well as development.

Reducing formal remittance costs and easing access can be accomplished with regulatory changes such as (1) allowing and encouraging domestic banks to operate in countries where migrants are employed to overcome migrant distrust of unfamiliar banks and to ensure that banking services are provided in the migrants’
language (in some cases, capital requirements may need to be reduced to allow more foreign banks to operate in countries hosting migrants); (2) discouraging or banning exclusive arrangements between transfer agents such as Western Union or Moneygram and entities with dispersed facilities in migrant areas of origin such as postal agencies, thereby promoting competition in the so-called “last mile” of a remittance corridor linking two countries; and (3) encouraging the spread of cell telephone-based remittance systems, which promise the lowest-cost means of sending remittances while improving communications in migrant-sending areas.

All research agrees that the best way to increase and formalize remittances is to ensure that migrant-sending countries have sound economic policies, including an appropriate exchange rate and a banking system that is cost-efficient and friendly to remitters and recipients (World Bank 2005). Most remittances are spent on consumption, reflecting the fact that the breadwinner is abroad and remittances substitute for local earnings. However, the portion of remittances saved and invested in the home country can be increased if the savings and investment climate favors these activities, that is, there is little risk of devaluation or having local savings taxed or expropriated and there are opportunities to launch profitable small businesses.

Remittances and development

Formalizing remittances is the first priority of national governments and international institutions, and increasing the development impact of remittances is the second policy priority. With remittances rising faster than ODA, and flowing through private channels to often poor areas that send migrants abroad, increasing the portion of remittances invested in job-creating businesses could reduce future emigration pressures.

Targeted programs to increase the development impact of remittances are spreading. These include matching programs such as Mexico’s 3x1 program, which provides a federal, state, and local government match for remittance contributions invested in infrastructure improvement in migrant areas of origin.

In 2004, Mexican migrants in the US raised $20 million for such infrastructure investments, so federal, state, and local government governments added $60 million to fund e.g. infrastructure improvements in migrant villages. However, $80 million is less than half of one percent of $18 billion remittances received by Mexico, and the World Bank (2005:95) reported that most of the
Mexican Hometown Associations (HTAs) that raise funds for matching invest less than $10,000 in their communities of origin. The World Bank concluded that the development effects of matching program investments are “poorly documented.” Another complaint is that matching money usually comes from overall development funds, so if migrant and local development priorities differ, as when migrants want to restore the local church while local residents want a paved road or sewer system, migrant funds can lead to conflict over how scarce development funds should be allocated. This suggests that a growth- and business-friendly macro and micro environment holds more promise to encourage migrant investments than targeted programs.

Returns

The third R in the migration and development equation is returns. Ideally, migrants who have been abroad return provide the energy and ideas needed to start or expand businesses or return with the skills and discipline needed to raise productivity as employees. Migrants are generally drawn from the ranks of the risk takers at home, and if their savings from work abroad are combined with risk-taking behavior on their return, the result can be a new impetus for economic development.

On the other hand, if migrants settle abroad and cut ties to their countries or origin, or if they return only to rest and retire, migration may have limited development impacts. In the extreme, returning to rest and retire can slow development if workers acquire a work-abroad and rest-at-home mentality, and this mentality spreads to children. There may also be back-and-forth circulation, which can under some conditions contribute to economic growth in both countries.

Even if migrants to not return immediately, they can contribute to development at home by maintaining links with their countries of origin, increasing the probability of an eventual return and perhaps forging trade and investment ties. One way for sending countries to maintain links to their nationals abroad is to permit dual nationality or dual citizenship, which Bhagwati (2003) argues can lead to “a Diaspora model [of development], which integrates past and present citizens into a web of rights and obligations in the extended community defined with the home country as the center.” Bhagwati notes that migrants abroad can generate “political remittances,” including ideas that help to speed up change in often-traditional sending countries.
There are two caveats to the current enthusiasm for Diaspora-led development. First, it is often asserted that, instead of promoting returns with subsidies, dual nationality and other devices, sending countries should do more to retain migrants by reducing discrimination and other factors that prompt people to leave, as when only those from the tribe or political party in power are given access to university and good jobs; it is generally cheaper to keep potential migrants at home than to induce migrants abroad to return. Second, the Diaspora can be a force for conflict and economic stagnation rather than development at home, as when migrants abroad provide the funds to prolong civil wars or conflicts.13

Guest workers

With most of the world’s workers unskilled, and wage gaps between countries largest for unskilled workers, guest worker programs that move unskilled workers over borders may be the most immediate and contentious policy issue. Guest worker programs aim to add workers temporarily to the labor force, but not settlers to the population. Such programs everywhere fail, in the sense that the number of migrant workers becomes larger and lasts longer than expected and some migrants settle, leading to the aphorism that there is nothing more permanent than temporary workers.

The reasons why guest worker programs fail to achieve their temporary goals lie in the fact that the economic incentives of employers and migrants may be the opposite of guest worker program rules. Most guest worker programs aim to rotate workers in and out of the country, sending them home after a seasonal job ends or when a one or two year work permit expires. However, employers may want to keep a trained and proficient migrant longer, and a young and flexible migrant may want to stay abroad earning higher wages than return home.

The incentives of employers and migrants to prolong their relationship are examples of economic distortion and dependence (Martin 2004). Distortion means that the minority of employers who hire guest workers assume that migrants will continue to be available and make investment decisions that reflect this assumption, as when farmers plant fruit trees in areas with few people, assert that they will go out of business without migrants to pick their crops, and resist efforts to reduce the number of guest workers because doing so would reduce the value of their orchard investment.
Dependence reflects the fact that some migrants and their families as well as their regions and countries of origin assume that foreign jobs, earnings, and remittances will continue to be available. If the opportunity to work abroad legally is curbed, migrants may nonetheless continue to migrate to avoid reductions in their incomes and a loss of assets. Most researchers conclude that the US-Mexico Bracero programs sowed the seeds of subsequent unauthorized Mexico-US migration, via distortion in rural America and dependence in rural Mexico (Martin 2003:Ch. 2).

The realities of distortion and dependence should encourage governments to be very careful with any new 21st century guest worker programs, and to include economic mechanisms in such programs to minimize distortion and dependence. These mechanisms include taxes to encourage employers to look for alternatives to migrants and subsidies to encourage guest workers to return to their countries of origin as their contracts require. However, reducing distortion and dependence with taxes and subsidies will not have their desired effects on employers and migrants if unauthorized workers are readily available and labor laws are not enforced.

Conclusions

Does economically motivated migration from lower- to higher-income accelerate converging development, so that incentives to migrate are reduced over time? This paper reviewed the three major channels through which migration affects developments in migrant countries of origin, the 3 Rs's of recruitment, remittances, and returns. The greatest relative benefits to migrants and their countries of origin arise from moving unskilled workers over borders, since wage gaps are greatest for unskilled workers, they are most easily replaced at home, and they may be less likely to settle abroad. The emigration of foreign professionals and the tendency of foreign students to remain abroad, on the other hand, raises brain drain fears whose impacts on development are unresolved.

Remittances to developing countries surpassed Official Development Assistance in the mid-1990s, and may at over $170 billion in 2005 plus perhaps 50 percent more for funds that arrive via informal channels be several times the $110 billion in ODA. National governments and international development institutions are trying to increase the volume of remittances and the share flowing through regulated financial institutions. The UN, development agencies, and NGOs would also like to increase the development
impacts of remittances by increasing the share invested in migrant areas of origin in ways that create jobs.

The third migration and development R is returns. The optimistic scenario sees returning migrants as change agents, investing remittances and using skills acquired abroad to accelerate development at home, and a new literature outlines ways in which even those who settle abroad can promote diaspora-led development at home. The pessimistic scenario is that migrants who work abroad often return to rest and retire, limiting their impacts on economic development. If children of migrants believe they will earn more as manual workers abroad than educated workers at home or abroad, they may not acquire additional education even if emigration and remittances provide the resources for them to do so.

Notes

1 At purchasing power parity, which takes into account national differences in the cost of living, the world’s gross national income was $56 trillion, including 55 percent in high-income countries

2 Some maintained homes in both North America and Taiwan but spent so much time commuting that they were called “astronauts” to reflect the time they spent on airplanes.

3 Kofi A. Annan, “In Praise of Migration,” Wall Street Journal, June 5, 2006, wrote that migrants take risks when crossing national borders “to overcome adversity and to live a better life,” and that such migrant “aspirations have always been the motors of human progress.”

4 For additional detail on Indian IT and African health care migration, see Martin et al 2006:70–74.

5 Even if there is no bilateral agreement or MOU, there may be a social security agreement between labor sending and receiving countries. For example, China has social security agreements with Germany and Korea, but no bilateral labor agreements.

6 A third transfer over borders is migrants’ transfers, which represent the personal wealth of migrants who cross borders, as when the owner of IBM stock moves from the US to Singapore, and the value of the stock is transferred as well.

7 Note that 23 countries report all three indicators: workers’ remittances, compensation of employees, and migrants’ transfers.

8 The G-8 in April 2004 called on international financial institutions to improve remittance data, which led to a Technical Sub-Group on the Movement of Persons chaired by the UN Statistics Division. The TSG recommended that “workers’ remittances” in balance of payments data be replaced by personal remittances, which would include cash and in-kind transfers received by resident households from nonresident households, including “net” compensation of persons abroad less than a year. Finally,
the TSG recommended institutional remittances, such as from NGOs, be reported, so that total remittances would be the sum of personal and institutional flows. (GEP 2006:87).

9 The World Bank reported that some migrants in rich countries remitted more funds after September 11, 2001 so they would have funds at home if they were deported. Such "defensive remittances" help to explain the tripling of remittances to Pakistan between 2001 and 2003 (GEP 2006:92).

10 Another factor increasing formal remittances is the spread of banks from migrant countries of origin to migrant destinations, where they offer services in the migrant's language as well as ancillary services to migrant relatives at home.

11 Encouraging migrants to use banks is part of a larger anti-poverty strategy of providing banking services to the "unbanked" and spreading the reach of micro-finance institutions.

12 GEP 2006 asserts that Mexico's 3 x 1 program, begun in 1997, established projects worth $44 million by 2002, but concluded that "HTAs have not been very successful" in part because diaporas may not have good information on local needs or have different priorities for infrastructure improvements.

13 Some governments are reluctant to welcome home refugees, viewing with suspicion those who fled a conflict for refuge abroad.

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