Fact-Sheet on Contribution of Migrants to Development: Trade, Investment and Development Linkages

A. Introduction

Migration has become an integral part of globalization processes associated with increasing integration of national economies, internationalization of production and ownership in goods and services, demographic changes, and emerging employment patterns. Modern communications and transportation has made migration more accessible to the worlds poor. **Economic migration has deepened** as labor deficits and mismatch are increasing in the North with ageing populations and declining birth rates, and as population growth rapidly outpaces job creation in the South.

According to estimates from the United Nations DESA, over the past 50 years the number of the world's international migrants has more than doubled, the number of migrants could reach 214 million in 2010, or 3.1 percent of global population. Economic migrants account for over 85 percent of total migrants with the rest being refugees. It is probable that future migration flows will increase as processes of urbanization and globalization continue their advance, and the full impact of climate and population changes take effect. Global migration flows are fairly balanced in three directions: South-to-North (33 % of total flows), North-to-North (28 % of total flows) and South-to-South (33 % of total flows).

B. Key findings

Migration contributes to economic growth and development by enhancing its trade, investment and development linkages including by serving as a channel for development finance (remittances), the transfer of skills and ideas, and the establishment of commercial and cultural networks.

Migration is not free from **economic and social costs**. The costs to sending countries in terms of "brain drain" in high-skilled labor, including engineers and medical doctors, can be significant. For receiving countries, migration requires regulatory frameworks and supervision and can be a source of social friction particularly during periods of unemployment.

C. Trends and Evidence: the trade, investment and development linkages of migration

Economic benefits at the national level in sending countries contribute to benefits in the global economy, including the economies of receiving countries. Sending countries benefit from remittance inflows and foreign exchange earnings. Through diaspora networks they may **increase their participation in international trade of goods and services**. Receiving countries benefit by meeting unmet labor requirements in many lower pay, lower skill level jobs such as those associated with domestic and agricultural work and in high skill jobs in the services sectors, which cannot be met by national workers alone. Migrants also make sizable contributions to receiving economies in terms of **domestic consumption and the payment of taxes**.

Migrants contribute to the expansion of global trade with their knowledge of home country markets as the case of Chinese, Mexican and Indian diaspora indicate. A more recent linked trend has been reverse outward investment by major Indian and Chinese companies to Europe and the United States arising from a combination of business opportunity, trade relations and diaspora networks.

Migrant workers returning to their home countries are **important transmitters of knowledge, technology, skills**, the provision of services, and external commercial networks, which in turn can provide opportunities for trade and investment. However the impact of skill transfer produces different effects depending on the sector and countries' levels of development and skill endowment. UNCTAD's *Least Developed Countries Report 2007* emphasizes that international migration negatively affects human capital stock in least developed countries which have low skill endowments unless migrants later return home to transfer knowledge and skills. Developing countries have to continue to strengthen their base of human capital while also ensuring that their labor exports result in a net brain gain rather than a brain loss by promoting temporary and circular migration.

The current global economic crisis has adversely affected migration as sectors employing a large number of migrant workers such as financial, distribution, construction and tourism services, as well as in manufacturing have been severely hit. However several sectors (e.g. healthcare, domestic service and education) have witnessed a growing labor demand. With the widespread and deepening economic downturn, global unemployment is projected by the ILO to rise from 5.9 % in 2008 to a level of between 6.5 to 7.4 per cent in 2009. There has been corresponding **deceleration in the growth of the number of migrants**.

Representing one of the largest private sources of external finance for developing countries, **remittances are the main transmitter of migration's development benefits to sending country economies**. Remittances flow directly to households and are widely distributed throughout the economy, providing direct income for the poor and stimulating consumption of basic education, healthcare and nutrition needs. Remittances can also be an important source of investment in productive sectors. In developing countries they are directed at small scale investments such as homes, farms and SMEs, and can generate employment in critical services sectors. Moreover, in contributing to foreign exchange earnings, remittances can spur economic growth by improving sending countries' creditworthiness.

According to recent World Bank estimates, officially recorded remittance flows to developing countries in 2008 reached $338 billion; well over half the value of estimated FDI inflows ($490 billion) and over three times as large as official development aid received by developing countries. Several developing countries and transition economies are critically dependent on remittances as a source of income and foreign exchange. While remittances increase income, it is yet to be proven empirically that they stimulate economic growth especially when one takes into account associated transaction costs such as high transfer and recruitment fees. Developing countries must also guard against an over-reliance on these flows as sources of finance, investment and foreign exchange earnings. **Remittances and outbound migration, especially of skilled personnel, are not a substitute for endogenously powered domestic economic growth.**

The World Bank estimates that remittances to developing countries have declined by 6.1% in 2009 and are projected to **significantly decrease in 2010 due to the financial crisis.** It is notable that while other private capital flows such as private debt, portfolio equity and FDI fell dramatically, remittance flows remained relatively resilient, acting as a "crisis smoother".

Financial sector development is central to facilitating remittance transfers and its use as a source of productive investment. This requires expanding the number of users of banking services and introducing innovative funding schemes, so the large amount of savings and remittances by diaspora communities can be effectively captured by the banking system and channeled into investment in the productive sector.

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Foreign direct investment (FDI) can help reduce migration pressure through the development benefits it generates by enhancing economic growth and supporting employment creation. Through the tangible and intangible assets it brings to host countries, FDI can offer alternatives to labor movement. Related are important non-equity links between transnational corporation and local enterprises, e.g. subcontracting arrangements, which can help dampen migration by providing additional employment opportunities in the local economy. Also of importance is the less tangible effect that increased FDI inflows, economic growth and employment can result in a greater sense of economic opportunity, reducing the desire of people to migrate.

While FDI has helped reduce migration pressure in the majority of middle- and upper-income developing countries and countries with economies in transition, a threshold level of domestic development is usually required for countries to benefit fully from the potential for economic growth, opportunities-enhancement and reduced migration pressure that FDI can provide. Some developing countries that have entered the global outsourcing market by providing low-cost information and ICT-enabled services have attracted related FDI that has in turn helped reduce migration pressures by expanding domestic opportunities for employment. The financial crisis may have setback some of these positive developments as preliminary UNCTAD estimates indicate global FDI inflows plunged by 54 % in the first quarter of 2009, and FDI inflows to developing countries, after reaching $549 billion in 2008, were estimated to have fallen by 25 % in 2009.

Diaspora networks can provide potential benefits and opportunities for trade, investment and development links between migrants' countries of origin and their communities abroad. Such networks make it possible to generate demand for developing countries' exports produced by small and medium-sized enterprises (SMEs), thereby enhancing their participation in trade activities. National policies have an important role to play in nurturing and institutionalizing diaspora networks as the experiences of India, Mexico and the Philippines demonstrate. However, notwithstanding their potential, with the exception of the successful networks developed by India and China, relatively few developing countries have established strong links between their economies and their migrant communities in receiving countries. As a result, many trade, investment and development benefits and opportunities associated with diaspora linkages continue to go unrealized.

D. Challenges: Maximizing the trade, investment and developments linkages

Return and re-integration of migrants including through temporary migration has been proposed as a policy framework to enhance the development benefits of migration. The opening up of more legal avenues for labor migration directly reduces irregular migration flows. Also referred to as "circular migration" when it is facilitated through private, government and/or international programmes, temporary migration provides sending countries with greater overall development gains than remittances alone. World Bank estimates indicate that gains from more open temporary migration could generate global welfare gains greater than expected gains from the completed Doha Round negotiations in trade in goods. Circular migration can mitigate the risk of brain drain by facilitating the continuing return of migrant workers to their home countries. Incentive-based, rather than sanctions-based, national policies and bilateral cooperation mechanisms have proven to be more effective in promoting circular migration. Data suggest that temporary migration may be becoming more prevalent. In developed countries, temporary migrants outnumber permanent migrants three to one, and between 20 and 50 percent of migrants leave their destination country within 3-5 years.

Aspects of temporary labor movement can be **supported by labor cooperation arrangements as well as multilateral and regional trade agreements**. There has been a **significant increase in bilateral recruitment and labor agreements**, with 176 bilateral agreements signed by OECD countries in 2004. Many countries choose to enter into bilateral labor agreements as they offer an effective method for regulation, recruitment and employment of foreign workers, can be tailored to specific supply and demand characteristics and can provide effective mechanisms for protecting migrants. Agreements cover areas such as short-term employment, recognition of qualifications, and technical and cultural exchange, among others. Agreements on short-term employment allow for the temporary migration of workers, often for periods of less than one year, to help parties meet seasonal labor requirements in sectors such as agriculture, tourism and construction. Bilateral agreements for the employment of seasonal workers exist between France-Morocco, Tunisia-Canada and several Caribbean countries.

Temporary migration is also facilitated by trade-related agreements including the World Trade Organization's (WTO) General Agreement on Trade in Services (GATS) in the context of movement of natural persons or mode 4, as well as bilateral and regional trade and investment agreements. The importance of mode 4 lies in its ability to provide a mutually beneficial framework which is temporary and responsive to labor markets. Developing countries continue to seek commercially meaningful mode 4 commitments where gains are estimated at $150 billion – $250 billion, especially from movement of low-skilled workers. However, Mode 4 commitments made during the Uruguay Round of negotiations have not produced the expected results for developing and least developed countries. One reason for this is that the categories of natural persons found in most schedules (intra-corporate transferees, business visitors) do not optimally match the supply potentials of many developing countries as they mainly open mode 4 to senior executives, managers and highly qualified specialists while providing no or limited openings for lower skilled workers. Also, limitations such as numerical quotas, economic needs tests, and residency requirements are common.

Delivering on development provisions and objectives of GATS and the ensuing negotiations as they relate to Mode 4, is thus important. Further work is necessary to improve understanding with regard to mode 4 issues such as the definition of temporariness under GATS, market access barriers, ways and means to support supply capacities, technology transfer and FDI through fuller implementation of GATS, development provisions under Article IV and XIX, domestic regulation, LDC preferential market access, and mutual recognition of qualifications.

An increasing number of **regional trade agreements** also address trade in services and temporary movement of natural persons under Mode 4. The manner in which RTAs treat labor movement varies across regions, ranging from full labor mobility to no effective provision at all. Many RTAs are yet to achieve their full potential through increased mode 4 commitments facilitating labor mobility. Most RTAs still focus on facilitating the movement of higher-skilled workers and do not go very much beyond the GATS mode 4 commitments or unilateral programmes to attract skilled workers. Experiences of increased migration following the formation of RTAs point to the need for RTA partners to institute cooperative mechanisms to effectively manage initial increases in migration when new trade agreements are introduced.

E. Conclusions and Recommendations

Strengthening the contributions of migrants to development by enhancing migration's positive trade, investment and development links has become an increasingly important and timely endeavour, as the scope and depth of globalization has advanced. Policy interventions introduced through national policies and international cooperative mechanisms are critical in increasing beneficial effects of temporary migration. The **high transaction costs of migration** can be reduced by regulating recruitment fees and introducing greater transparency to increase competition in remittance transfer markets. Bilateral, regional and multilateral trade and cooperation **agreements can be redesigned to facilitate temporary and circular migration**. Developing countries can also provide **incentives for circular migration to reduce brain drain** and promote skill transfers within their domestic economies as well as incentives to encourage investments by migrants' in their home communities. They can also focus greater attention on **building stronger links with their diaspora communities** by strengthening relevant national institutions and outreach programmes. Trade and investment liberalization agreements can also be geared to **increasing inward FDI flow** to developing countries to create enhanced employment opportunities in the home countries of migrants and potential migrants.

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Prepared by: UNCTAD

For further information, please contact: Mina Mashayekhi: mina.mashayekhi@unctad.org
Deepali Fernandes: deepali.fernandes@unctad.org