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Global Exchange and Poverty: Trade, Investment, and Migration

by Robert E.B. Lucas, Lyn Squire, and T.N. Srinivasan
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The editorial introduction begins by citing evidence that increased trade and foreign direct investment have reduced, and will continue to reduce, absolute poverty levels in developing countries. Laudably, the editors note that the cross-country regressions and simulations cited are rife with methodological difficulties. They urge the performance of detailed country studies.

The initial chapter by T.R. Srinivasan of Yale University provides a history of international negotiations regarding trade and investment (and the lack of negotiations on migration). His main point is that developing countries have not been very influential in these negotiations until very recently—partly because they had limited bargaining power and partly because many of them were suspicious of global integration. Consequently, tariffs on the commodities produced in developing countries often remained high. These countries often lacked detailed studies of their local economies on which to ground negotiating strategies. Thus, one purpose of the book is to identify priorities for developing countries to pursue in future negotiations.

The editors assume that developed countries do indeed mean to encourage development elsewhere. They thus hope that their book—and similar studies—will encourage developed countries to revisit policies that have a detrimental impact on developing countries. Yet political reality suggests that studies of developing countries can only have the desired effect if coupled with studies of how these policies affect the developed countries themselves.

The remaining nine chapters tend to be both country-specific and policy- and/or effect- specific. The contributors come from several different countries across South America and Europe (especially Eastern Europe), as well as the United States. These chapters do not attempt broad coverage of the issues identified in the opening chapter (and thus there is no concluding chapter) but rather serve as exemplars of the sort of research the editors hope to encourage. Three chapters each are devoted to trade, migration, and foreign investment. This review will focus on the three chapters on migration; these are similar in scope and quality to those on trade and investment.

Romanian economists E.V. Kallai and M.T. Maniu study the effects of remittances from Romanian migrants on poverty levels within the Romanian economy. They note that Romanian officials have oscillated between fear of brain drain and celebration of remittances, while receiving countries have at times welcomed cheap labour and at other times pursued various policies to restrict migration. Fears of a massive influx of migrants from transition economies have subsided in Western Europe but revive during times of high unemployment. The authors report (unquestioningly) projections that Romania's population will fall by several million over the next decades, and suggest that both return migration of Romanians and in-migration from Moldova and Ukraine are likely. The authors urge the EU to develop a sustainable migration policy (but do not discuss the many uncertainties that such a policy would have to grapple with). They briefly review the policies in place for the four most popular countries for Romanian migrants: Italy and Spain (where language problems are minimized), Germany (where it is increasingly difficult for low-skilled workers to migrate), and the United States (a target for permanent residency but too far for temporary migration).

Most of the chapter summarizes the results of a telephone survey performed by the authors in 2006, in which over 4,000 randomly selected households (weighted regionally to reflect population distribution) were interviewed. 13.9 per cent reported that a household member was currently working abroad, and 4.5 per cent that a migrant had returned within the last two years. 1 per cent reported both. These results suggest that temporary migration was some six times higher than estimated in 2002 (we are not told how), the year Romania entered the Schengen Agreement with the EU. Migrants are more likely to come from urban areas, and are more educated than the Romanian average. Unemployment rates in a region are a better predictor of migration than income levels. Two-thirds of migrants found jobs by networking, whereas only about 10 per cent utilized official government programs. The average migrant sends money home several times a year, with an average annual remittance of about $2,000. (The authors report that only 13 per cent of respondents refused to report the amount of remittances, but do not speculate as to whether there may be significant under-reporting.) Yet about half of migrants remit nothing—they do not seem to be different from remitters in any obvious way, such as their length of stay, or family need. Remittances have a significant impact on income distribution in Romania: 22 per cent of all households receiving remittances moved from the lower half of the income distribution to the upper half (but migration of skilled workers can worsen the income distribution since they already have above-average incomes). The authors note that many Romanian economists worry that out-migration may limit job growth at home, and report that 57 per cent of migrants were employed before leaving, but do not attempt any estimate of the degree to which this negative impact on domestic income might compensate for the benefits of remittances. Nor, despite remarking on economist fears that remittances are disproportionately spent on imports, do they appear to have queried households regarding spending habits.

A. Iara of the European Commission studies the degree of skill acquisition among temporary migrants within the European Union. Previous studies have found small but significant income increases among some subsets of return migrants (relative to non-migrants) in each of Hungary, Albania, and Ireland. Iara uses EU-wide data to examine the experience of return migrants across ten source countries in Eastern Europe. As with the previous studies cited, she attempts to control statistically for the possibility that migrants have other characteristics that might explain higher incomes. Though her data do not contain information on the jobs performed while abroad, she provides information on temporary migrant agreements that suggests training was an important part of many kinds of temporary work. Most of the chapter is devoted to discussing the econometric techniques employed and the data. (The chapter is a bit of an odd fit for a book motivated by the desire to move beyond complicated cross-country regressions.) The results suggest that return migrants earn roughly a third more than non-migrants with similar characteristics. If this higher income indeed reflects higher productivity, then source countries benefit a great deal from temporary migration (and if the skills or technology learned abroad are transferred to other workers, the gains may be even larger). Unfortunately, the benefits are small for those who were unskilled before they migrated (suggesting that they receive little training abroad). Since the increased incomes flow mostly to those already possessing skills, temporary migration may exacerbate earnings differentials.

S. Sayan and A. Tekin-Koru study whether remittance levels rise or fall during business cycle downturns in the home country; if they rise, both macroeconomic stability and poverty alleviation should be aided. In the case of Turkish remittances from Germany, remittances unfortunately seem to drop during recessions in the home country, but the fall in Turkish remittances cannot be explained by German recession. It is thus not clear why remittances fall. Mexican remittances from the United States rise during downturns in Mexican business cycles, despite the fact that recessions in Mexico are correlated with recessions in the United States. This result is again curious—though the authors seem unsurprised. One might worry that the complex econometric techniques employed to distinguish long-term trends from cycles in both economic activity and remittances, coupled with the mere two decades of data on each, have generated misleading results. The authors then study the effects of policy changes in destination countries on remittances. Changes in German immigration policy in the early 1990s encouraged longer-term migration; the authors argue that this may have made Turkish migrants less likely to help family members suffering from recession at home. Changes to United States immigration policy seem to have had no significant impact on remittances, arguably because they have had little impact on rates of migration.

For the most part, all three chapters suggest that temporary migration is good for source countries, though each raises important caveats. They differ with regard to whether unskilled migrant labour is particularly valuable. While they all urge a loosening of restrictions in destination countries, they do not provide clear guidance on which restrictions are most onerous. They do highlight how challenging it is to fully appreciate the economic effects of migration.