

**Remarks of Dilip Ratha on May 26, 2009 in Washington, DC at the conference
*Beyond the Fence: Research Lessons on How Immigration and Remittances Shape Global
Development***

Well, professor – Dr. Hausmann, Professor Pritchett, Mr. MacDonald, friends, thank you for giving me an opportunity to talk about migration and development. Thank you especially to Anne and the organizers for putting me – letting me speak ahead of Lant. (Laughter.) But, you know, it's kind of – you couldn't avoid it, I guess, but I had to speak after Ricardo, so he has already spoken quite a bit about what I wanted to say but I'll show you some facts here to show what he said.

I had a lot to say and I was actually throwing pennies at the rains, to pray to the rain god that Lant's flight would be delayed, but he's here right on time. So I'll try to go through a lot of material fairly quickly and hope that you can see the PowerPoint because I'll rely on that a lot. I will start with actually three stylized facts – so these are facts – and then I will talk a bit about development implications of migration, and then, the third part of my presentation will be on what we can do about migration policy implications.

Stylized facts: only 3 percent of the world's population migrate; 97 percent of the world's population stay and live and die where they were born. Migration is more the exception rather than the rule. Second fact: out of these 3 percent of the world's population, which is about 200 million people, who are international migrants, out of this 200 odd million international migrants, over 93 percent – over 90 percent of them are actually economic migrants which means that these people migrated because somebody out there was there to employ them. They did not migrate because they liked the weather or the – (inaudible) – or the fridge, or I don't know what it is.

I still wonder about the Inuits out there, why they haven't all moved to Toronto. And I also worry about the Oriyas, where I come from. Orissa is a state of – in India. Orissa is one of the poorest states in India. And the income in Orissa is on an average about a sixth of the income in Goa. There are no barriers to move there. Goa has a nice weather as well, but the Oriyas are still there. The floods keep coming, the cyclones keep coming, the droughts keep coming. They're still there.

So people move when they are desperate because they can't live there anymore, and see that people die out there, that families die, or themselves die. They move because they're pushed out somehow. There are no opportunities. And in that process, somebody out there is there to employ them. That's why they move which means migration must be a win-win for all sides.

The third fact is that South-South migration is as high or maybe even larger than south-north migration. This slide shows one of the first estimates of south-south migration. About 47 percent of the migrants from developing countries – and here, south is defined not only as the

narrow definition of developing countries as defined by the World Bank. This does not include the Gulf countries, for example.

According to that narrow definition of South, about 47 percent of the world's migrants are in the South, meaning that migrants from developing countries are in other developing countries. That includes countries like South Africa, Russia, Malaysia. It also includes countries like India, and it also includes countries like Malaysia, and it also includes countries like – (inaudible) – Morocco, I mean, you name it.

Every country in the world is both a sending country and a receiving country. You cannot say that we, the North are the receiving countries, you, the South, are the sending countries. So we should worry about integration issues, you should worry about creating jobs for the migrants which is the kind of thinking that is going on right now. That is wrong. Every country in the world is both a sending country and a receiving country, and I'll show you some facts.

Just wanted to point out that the so-called high-income, non-UAE city, meaning mostly the Gulf countries, the GCC countries, are becoming large destinations for migrants. We were in Dubai recently and found that out of a population of anywhere from five to six million people, something like – I would say, 4.5 to 5.5 million, meaning 80 percent, more than 80 percent of the people there are migrants. The largest Indian city outside and the most developed Indian city outside – the most developed Indian city in the world is Dubai.

This is an interesting chart that has not been explored enough. I know you cannot see it very well. I can't see it very well either. It shows basically bilateral migration data. On one axis is the sending country; on the other axis is the receiving country. And then we have the spikes which are showing the number of migrants as a percentage of the sending country's population.

What is remarkable about this chart – and by the way, this data is really bad and I really urge everyone to first really feel this data before we talk about big policy messages and all that because we really have no sense of where people are. That's why we had all these strange things like we the receiving country and you the sending country. I have remittance data to show that Australia may be a net recipient of remittances. The U.K. may be a net recipient of remittances, so it's not clear who is the receiving country and who is the sending country. I think every country in the world is both.

This chart, what is remarkable is that as you look at the poor countries, so the number one there – closer to the origin there, that's the four countries going to poor countries. And the farthest corner would be rich country people going to rich countries. What is remarkable are the big gaps all over the place. It's partly a data problem but I don't think it is really only a data problem. It actually shows that a lot of people from the poor countries are going to other poor countries. This is the South-South migration. And Nepal is in India, the Zimbabweans in South Africa, the Tajiks in Russia. That's the story.

What is also interesting is that the poor countries, they are not all swamping rich countries. They are not there in rich countries. In fact, as you look at the poor countries and see where the migrants are going, mostly they're stuck in the other developing countries, in other poor countries, whereas, in the rich countries, most of them have come from the rich countries, so we have the Irish in U.K., you have the British in Canada and in Australia, Australians in U.K. and in Canada. You have the French in Germany, Switzerland. That's the sort of story that is going around.

Poor countries are sending migrants, or let's put it this way, migrants from poor countries are going to other poor countries. Migrants from rich countries are going to other rich countries. Rich countries are receiving migrants from other rich countries, and poor countries are a free-for-all. It's just that rich people don't go there but it's free-for-all. This tells me that partly – the lack of migration from poor countries in rich countries is partly a function of border controls. But I think there is a genuine fact here that a lot of poor country people are just not comfortable in rich countries. They just don't want to go there.

So open borders, they may not come. Development impact of migration, that's the second part of my presentation. Migration benefits all parties because it's an economic phenomenon. Three percent of the world's people migrate; 93 percent of that 3 percent are economic migrants, so migration is win-win. Migration benefits everyone. The migrants, for sure, we know that. It also benefits the destination country because as new people come in the size of the pie increases, labor supply increases. They bring diversity. More importantly, they bring – the most important fact is that they bring additional labor – additional cheap and flexible labor and that benefits everyone because everyone in – the pie increases.

That's the main fact. In the origin countries, also there are benefits. And benefits to the origin countries are mostly felt through remittances. On the point of what sort of global gains one might see if border controls were reduced and if more immigrants were let into the rich countries – again, this line of research has always assumed that the dichotomy is there, the North, the receiving North versus the sending developing region, that dichotomy is there.

On that basis, a lot of this research now shows that, you know, even if industrial country labor force were increased by 3 percent through immigration from the South, the so-called South, global income gains might be as high as \$360 billion. This was the kind of estimate produced by the World Bank in the "Global Economic Prospects" report of 2006. This line of work was tackled by Alan Winters.

And his later estimates show that the global income gains might be actually \$675 billion. And that would actually – in both estimates, the gains would be much larger than gains from total trade liberalization. The gains from migration would be much larger than gains from complete trade liberalization. And how much time have we spent talking about trade and not talking about migration?

Now, of course, Michael here and Lant have done some fabulous work which Ricardo referred to before, and we'll probably hear more about that hopefully today, this is the fact that – I'm just quoting from their paper, "a conservative estimate of the welfare gain to a moderately skilled worker moving to the U.S. is – (inaudible) – dollar terms \$10,000 per worker." Is that correct? Per year. That's the gains to the person who is moving.

And then, the new paper by Dickson and Reimer – this paper was presented about a month ago, actually a few weeks ago and is in the public domain now – they estimate that if you look at two policies, one scenario where border controls are tightened and another where there is a guest worker program with a visa charge on people coming in, then the annual gains might be as high as \$260 billion to the U.S. This is the story of U.S. allowing migrants from outside, \$260 billion to the U.S.

So we talked about global gains to everyone. We talked about gains to the migrants themselves from migration and we are talking about gains to the U.S. people for receiving migrants. The message is very clear that if you have open borders, relatively open borders, I mean, if you let people move, that would be a win-win. The point about benefits to the countries of origin is mostly – the benefits to countries of origin are mostly through remittances. This is a point of norm. What is relatively not norm is the size of remittances.

You know, in 2008, we estimated remittances to be about \$305 billion and that included a revision, upward revision in our remittance estimate for India, the largest remittance recipient country, from 30 billion (dollars) to 45 billion. We had an estimate of 30 billion for India for 2008 as remittances received. We revised it up to 45 billion because that's what the new data showed. And with that, the number will be 305 billion.

But as soon as we published an estimate, we started getting calls from all over the world including from hedge funds who are investing in Western Union, MoneyGram, and Euronet stocks that our estimate might be wrong, because India, the number might be much more than what the estimate is. So it's not the 50 percent increase revision in data. It might be much larger than that. Now, if India gets \$50 billion a year, \$50 billion a year, Mexico gets \$26 billion. It got to \$26 billion last year. If India gets \$50 billion a year, compare that with all the other kinds of flows that come into India. Remittances of \$300 billion, as officially recorded, are already three times the size of all official aid in the world. That includes my employer, the World Bank as well.

When you include remittances going through also informal channels, then the size is much larger. An indication of that is coming from countries like Nigeria where our estimate – by the way, that's the estimate that has been featured in our \$300 billion estimate – Nigeria, we estimated remittances to about \$3 billion and then they reviewed it about three weeks ago that remittances to Nigeria are about \$17 billion.

And that shows – I don't think it is all coming because of this classification. The definition is definitely – wrong definition is definitely a problem but I think some of it is simply

that they were not visible before. Now they are visible. Informal channels are very important in the remittance market and remittances flowing through informal channels are sizeable. In some countries, they are still much larger than what is recorded in official statistics. So the \$300 billion number I point out is a gross underestimate.

If you then think about what can be done about remittances, and one important point that comes up all the time is facilitating remittances by reducing remittance cost. If you think about remittance channels, then whatever we do about remittance channels will affect all the retail payments, small-value retail payments of a cross-border nature. That would include small trade payments. You know, you bought a carpet or the handcart and you are making the payment. That would be also in the retail payment, the small remittances.

Small investments – paying the mortgage back home – that sort of things for a migrant who is living abroad – they also will be part of retail payments. Small-value retail payments together with remittances would probably work out to about \$1 trillion or so. So if remittance costs are, let's say, 10 percent, and they are still in this 10 percent range, by the way – you know, 10 cents you pay to the remittance agency to send \$1.

If 10 percent is the cost of sending remittances and if you reduce that by let's say, by half, and the total size of the flows that will be impacted is about \$1 trillion, you do the calculation, what kind of additional resource flows will be there to developing countries a year. And I actually personally believe that remittance costs can be zero or even negative. If you feel like talking about it, we'll talk later.

The other point I want to highlight here about remittances is that – that's the red line over there, recorded remittances – is that they tend to be stable over time compared to private capital flows, especially debt flows. And in fact, they can be countercyclical during times of crisis in the receiving countries, many remittance-receiving countries. What we have now discovered, especially in the context of India and now also in the context of Mexico, and we see it worldwide in the context of Tajikistan as well, we have now discovered if in during crisis in the remittance source countries, remittances tend to be resilient.

They don't fall; they don't collapse like private capital flows do. That is because the migrant over there wants to stay on as long as they can and they have the ability to send more money home, send some money home. They might send a little less but they will try to send money as long as they can and they can send money because if you skip a meal in Washington, that might feed five people in Mexico, and maybe – I don't know – 10 people in Nepal. So migrants are sending money home.

The top recipients of remittances are India, China, Mexico, Philippines with the numbers like \$45 billion, 30 billion, 26 billion. But actually, when you control for the size of the economies, the countries that have the highest remittances at a share of GDP are countries like Tajikistan, Moldova, Tonga. In many of these countries, remittance is over a third or in some cases half of their GDP.

As soon as we published this number, around the same time, we had a conference call with a number of policy-makers from Europe and Central Asia region and we were told that remittances to Tajikistan might be actually 64 percent. I've heard a woman talk that it might be the Russian – R-kind of factor that is – I said 46 and they've heard 64 or something, but actually, that's true. Remittances to Tajikistan this year are likely to be over 60 percent of their GDP. The same story goes for Haiti and Somalia. Remittances provide a lifeline to countries during times of disasters, financial crisis, and during periods of protracted conflict, political conflict.

Nepal is a case to point out that remittances provide a lifeline to the poor there. In the case of Nepal where the economy has gone from bad to worse during the '90s and more recently, poverty rate has declined and it is believed that nearly half of the reduction in poverty head count ratio in Nepal might be due to remittances, and in this case, remittances from India, another poor country.

The crisis has impacted migration and remittance flows, but we have not seen any major decline in migration stock. There is always a confusion out there especially in the press but in the mind of a lot of people that because of the crisis, migration stocks are falling. What is happening is migration flows are falling. If 100 people are going abroad before, maybe 40 are going abroad now, but migration stocks are still rising. It is the migration flow that is falling. And because migration stocks are still rising, that brings us a huge amount of persistence to remittance flows.

The third part of the development impact is about brain drain, the so-called brain drain. And it is the fact that when skilled people migrate from a country, then it has very complex implications. And I personally believe that this issue is mostly a small country phenomenon. And if in a small country this is not that big a deal, because they don't have the jobs there and when they go away and earn 100 times more and they send a lot of money home. And Michael has done a lot of good work in this area. You know, I wouldn't talk much about that. In fact, I really don't like the word "brain drain" because the moment you attach the word drain to anything, you feel like stopping it. I don't know who came up with that word.

Best for us can be if remittances had a way of tapping into the income the income stream of the diaspora, and there might be ways like diaspora bonds that can be a way to tap into the wealth of the diaspora, and the wealth of the diaspora can be sizeable, as you know. El Salvadorians in the U.S. have a larger income level than the GDP of El Salvador. Diasporas can provide also business contact, trade network, technology transfers, and, of course, the diaspora bonds.

I'll just show you a quick chart here about diaspora bonds, which is part of a book that Ricardo pointed out. It's the fact that Israelis and Indians have tapped the diaspora in a significant way. Israelis did that on a sustained basis. Indians did that only during times of crisis to raise funds. They have raised about \$40 billion between them. And usually, they have been able to raise funding at a discount.

Policy implications: the international remittance agenda, this is how I put it: monitoring, analysis and projections, retail payment system, linking remittances to financial access, and linking remittances to raising bond financing through securitization to – I know people don't like securitization these days but I'm talking about a different kind of securitization. I'll let you read these things here.

And then, of course, with the crisis, there is a lot of protectionism now. And almost all countries in the world, almost all countries in the world are thinking about protectionism, trying to erect tighter immigration controls. They're tightening immigration controls. This is what they are trying to do everywhere in the world. This also includes countries like India and South Africa and Russia – not only U.S., and U.K., and Australia.

So here is the final part of my presentation: Do border controls actually work? Do immigration controls actually work? Let's see a few facts. This one shows illegal immigration according to estimates from Passel and Seurut. They're the only ones who come up with these estimates all the time so they are the authorities on this topic. And this shows illegal immigration into the U.S. and border controls in the southern border I guess. And you don't see a relationship.

On the other hand, actually, this is a later version of the same chart: illegal migration and then border control. And this is from a later more recent paper. This one actually seems like there's a perverse relationship: more border controls, more illegal migrants coming in. That's their data. On the other hand, if you go back to the old data that ends in 2005, the cyclicity of illegal migration into the U.S. tends to follow the U.S. unemployment rate, or rather more the employment rate. The chart is in the biggest order, so you have to be careful, but basically, the point is, when the job market is good here, people come in; when the job market is not good, they go back.

The only thing that border controls have done is they have actually increased coyote fees, a very strong correlation – this is from the Mexican Migration Project data, a rich set of data. Coyote fees have gone up significantly from \$400 to about \$1,600-\$2,000. And interestingly, that data set shows that coyote fees could be as low as \$5. And there was one figure that showed it was \$15,000 for the coyote fees. I was wondering if the guy wanted to come in an air-conditioned howdah or something, you know. (Laughter.)

Apprehensions in the U.S.-Mexico border – that's the red line – which is supposed to be an indicator, a rough indicator of the number of people trying to cross the border and border patrol agents – again, you don't see much of a relation there. So border controls don't seem to work. If I plot the same chart, I just put it under two dimensions. I plot apprehensions against border control agents, this is how it looks. So you kind of see an inverse relationship, and that line – I didn't draw it – it's actually generated by the system, so it just said add a polynomial trend line. That's how it looks. As border control increases, migration rises, reaches a peak and then falls.

So when we are thinking about – take three minutes more. When you are thinking about migration and border controls – you know, let's not confuse stock and flow and let's think about the stocks change overtime through the flows. And the flows are two kinds: return migration and new migration. So the migrant stock today is existing migrant stock minus returned migration plus new migration. This is the capital investment equation kind of piece. This is not a new thing but it's important to bear that in mind to see it that way.

Now, what happens with return migration and then what happens to new migration when you tighten border controls? Return migration: here is some evidence. As border patrol agents, the number of border patrol agents has gone up, border controls have increased in the U.S.-Mexico border, the duration of migration has also – Mexican migrants in the U.S. has also increased significantly from somewhere around six, seven months in the early '80s, now it is more than a year.

So if there are 12 million Mexican migrants here and they go home for a month every year, that's one million effectively less people adding to the job market here. Now, if they're staying on and not going home, there's one million more people. That's one way to look at it. So more border control makes people stay longer here and effectively actually keeps them here in the workforce.

So return migration is falling. Even during the crisis we haven't seen a lot of – so return migration is falling and duration of migration has gone up. As the crisis has affected the job market here, we still have not seen people going back. And one reason they are not going back – and they say that when you talk to them – is because they're afraid that if they go back they won't be able to come back. You do see occasionally somebody – I have talked to a few people occasionally who have gone back for the 15th birthday of their daughter. Yes. But very few people are doing that now and that is because the border control which is supposed to work like a one-way valve is not working like the one-way valve. A door is a door. You don't want to exit if you know that you can't come back in.

And that same thing happened in the case of capital flight problems in Chile and all that. Remember when Chile actually imposed – to attract capital back, Chile actually liberalized outward capital control. So Chileans were keeping money out because they knew that if they brought it in, they can't take it out. It's just the exact opposite of that argument here. I would say is a very similar argument here that if you have a door, even if it opens one way, people wouldn't go out because they may not be able to come back in.

Now, new migration. Here, I have a point that you know, let's think about new migration as willingness to migrate which is a function of developmental gaps, income gaps mostly. Remember my point that most of the migration is actually economic migration. And then, the ability to migrate which is a function of the border controls. What is important and missing in the literature so far is that border controls also create developmental gaps. This is

sort of known but it's not in the policy-making yet. So let's think about how border controls affect income difference. It's just a stylized fact here.

At zero border control, when it's one country, there will be not so much income gap. There will be income gaps because of this special – these sort of endowment differences and all that, that that will be poorer, river valley would be richer. That's fine. But if you now put a border there, I think the income gaps will even diverse further. That's the point. So the kind of income gaps that we worry about that drive migration is small when it is one country, when there are no borders. It is the maximum when the borders are fully effective. So income difference actually rises when border controls are imposed.

Here is some evidence of that fact: Soviet Union. Prior to the breakup – these are the examples of when borders are created when they did not exist before. They had some de facto, some sort of border they really didn't have a lot of borders there. It was still a lot of integration among the countries in the former Soviet Union. After the breakup of the Soviet Union there has been a divergence in the income levels. This chart shows that cohesion of the ratio of the GDP of a bunch of countries in the former Soviet Union. India, Pakistan, Bangladesh, again, after the creation of borders incomes have diverged.

If you look at now the other side, when borders were eliminated – this is the situation of Portugal's accession to the EU in 1986, income gaps with France narrowed. Again, if you look at the unification of East and West Germany, income gaps narrowed. Look at the new countries in the EU, the new accession countries. The coefficient of the ratio of income has fallen significantly after their unification in 2004.

So how do I see the migration to border control relationship? Imagine a world when the border controls are fully effective: by definition, migration is zero. Imagine a world when border controls are not there, it's one country, there is no incentive to migrate. So again, migration is zero. Then, in the middle, it is positive. So, by continuity, migration must rise and then fall as border controls increase.

This is what the old chart I showed about apprehensions and border controls, it rises and then falls. What is important then is to think about, you know, which side of the curve you are in when you are thinking about tightening border controls? Are you on the left or on the right? If you are on the left, more border controls will mean more migration, not less. That would also have an interesting policy implication that actually, you know, if you are on the left, and, you know, you are spending a lot on border controls, you might as well shift some of it to development aid. That might work wonderfully.

And the two largest migration corridors in the world – the largest one in the world is Bangladesh to India. It's not Mexico to the U.S. That's my strong belief. We don't have data to show. We will hope to get the data – we are hoping to get the data soon. But Bangladesh to India is the largest migration corridor in. And India is building a 4,000-kilometer long walk.

Mexico to U.S. is the second largest migration corridor and U.S. is building a 700-mile strong, long, walk. And 55 billion is that estimate that we saw.

The point is you want to reduce border control and shift the money to development need if you know that you are on the left of the curve. But I don't know whether they are on the left. My suspicion is that both corridors are on the left of the curve, of the migration curve. And before we think about tightening migration policies, immigration policies, we really need to know where we stand. That's where I will end.