Commentary on Session I
The Migration, Trade, and Development Nexus

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International trade has become a contentious topic in many industrial democracies, including the United States. In sharp contrast to earlier periods, President Bush was barely able to secure fast track or trade promotion authority in the Trade Act of 2002. In the end, the act survived three votes in the House of Representatives, twice by a one-vote margin and once by three votes. Trade has also become more complex. It is no longer possible to think in terms of a developing world with largely homogenous interests. As the *New York Times* once noted, the world is now made up of the haves, the have some, and the have nots. Even the Brazil-led Group of Twenty that includes key emerging-market economies has significantly varied interests.

Like trade, migration has also become a more controversial subject in the United States and much of Europe. The current debate in the United States revolves around the question of legal and illegal status and whether immigrants are highly educated or less well educated. Some observers are concerned about whether the traditional melting pot model will continue to work. In Europe, the debate includes the pace of internal, European Union immigration as well as the growing number of Muslim immigrants from Africa.

In the early twenty-first century, there has also been a renewed focus on the importance of fostering more rapid growth in the developing world. In November 2001, the World Trade Organization launched the Doha Development Agenda as the latest round of multilateral trade negotiations. The emphasis on development was, in part, recognition that many of the least-developed countries felt that they had gained little from the last set of negotiations, the Uruguay Round.

A growing ease of travel and improved communications have made global poverty a reality that can be easily broadcast around the world. There is increasing awareness that any country is only one plane ride away from any disease. In the case of the United States and many other countries, the September 11, 2001, attacks on the World Trade Center and the Pentagon linked poverty, stagnant economies, and repressive governments to the conditions that create pools of candidates for radical action.

For the United States, trade, development, and migration have all become factors in an ongoing debate about the economic impact of the North American Free Trade Agreement (NAFTA). In part, NAFTA was described as fostering growth in and reducing immigration from Mexico. While added flows of trade, investment, and technology were expected, there was little, if any, discussion of the role of Mexican migrants in supporting development through remittances, returning with new ideas, or creating Mexican–U.S. networks.

There has also been recent scholarship on the impact of immigrants on the receiving country. In the U.S. context, the debate has been particularly sharp over whether low-wage immigration has had a negative effect on the wages and job opportunities of Americans, particularly low-wage Americans. There has also been a growing debate over the impact of temporary and permanent highly skilled immigrants on the wages of competing U.S. workers. Other scholarship has noted the contribution of foreign-born scientists and engineers to U.S. innovation.

In the early twenty-first century, the United States began to face global competition for scientific and engineering talent. Developed and emerging-market economies are both factors in the new competition. As opportunities grow in China, India, and elsewhere, foreign-born scientists and engineers who have studied and worked in the Unites States have begun to return to their countries of origin. In response, the United States has made some adjustments in its visa policy and has also begun putting greater emphasis on math and science education in elementary, secondary, and university education. The best U.S. companies, laboratories, and universities also continue to recruit highly trained people from around the world.

The world looks less ambiguous for immigrants who go from developing to developed countries—the move is almost always an economic plus for the immigrant. Where the immigrant is less educated and poor, there is also less of an economic loss for the sending country. In recent years, more attention has been paid to remittances and their potential for fostering growth. Returning immigrants can bring with them not only capital but expectations of better governance, an added appreciation for education, and a capacity for entrepreneurship.

The highly educated immigrant from emerging-market countries is no longer always seen as a simple case of brain drain. As Philip Martin points out in his paper, emigration of African health professionals fits the classic definition. But similar emigration of Indian information technology professionals has had more positive effects. Long-term, permanent Indian immigrants are forming pools of venture capital in

Silicon Valley to invest in India. Temporary immigrants are returning to the homeland with contacts and know-how about the American way of doing business that have helped bolster growth in India.

The Tower Center for Political Studies, the Department of Economics at Southern Methodist University, and the Federal Reserve Bank of Dallas are to be congratulated for convening a timely and important conference.

These sponsoring organizations have assembled four panels of experts to look at the interrelationships among migration, trade, and development. Specific panels also put the relationships in historic perspective, explore the impact of remittances, and examine the increasingly contentious politics of migration and trade.

Summary of the Papers

On the first panel, Philip Martin, Thomas Osang, and Raymond Robertson present three very fine papers. Each takes a quite different approach to exploring the links among migration, trade, and development. Each paper reaches useful conclusions and directly or implicitly suggests a course for future policy.

In "External and Internal Determinants of Development," Osang uses cross-section data, a panel-data approach, and several econometric tools to test migration as an external determinant of the factors of production that can define a country's comparative advantage. Following the work of Dani Rodrick, his findings confirm institutions as the dominant internal factor. Under specific measures, trade and migration also emerge as positive, but much less important, factors. Osang adds that remittances appear significant only for the larger recipient countries (as measured by remittances relative to gross national product).

In "Globalization and Mexican Labor Markets," Robertson explores the impact on Mexican wages and wage inequality of economic integration into North America. In general, he finds that integration has been positive both in terms of raising wages and reducing wage inequality. But he notes that wages did not rise more rapidly in the post-NAFTA period despite increased flows of trade and investment. He concludes that it was increased border enforcement by the United States that slowed the wage gains in Mexico. In addition, Robertson draws on Mexican and U.S. data to make wage comparisons and finds that low-wage production workers in Mexico are actually complements to rather than substitutes for production workers in the United States.

Robertson makes three specific policy recommendations: First, Mexico should seek further integration into the U.S. economy; second, Mexico should push for easier migration to the United States; and third, Mexico should continue to focus adjustment assistance on rural areas where adjustment to increased trade will be most difficult.

In “The Trade, Migration, and Development Nexus,” Martin examines how migrants from developing to developed countries affect trade and development in their home countries. He assesses the impact of immigration through the lens of recruitment, remittances, and the return of migrants to their sending countries. He finds that immigration is positive for the migrant and provides a win for the receiving country by “slightly expanding economic output by slightly depressing wages.” The sending country may benefit through remittances and the impact of returning migrants but lose through classic brain drain. Martin distinguishes between the case of African health care workers, who are often permanently lost to the sending country, and India’s IT professionals, who create export opportunities for the home country.

As part of his paper, Martin provides an overview of the differing approaches to immigration reform that passed the U.S. House and Senate. His paper, however, was completed before Congress adopted legislation to fund 700 miles of fence and other devices along the Mexican border.

Paper-by-Paper Comments

Thomas Osang

Osang’s paper is very clear about its purpose—to assess the role of migration as an external determinant of a country’s factors of production. He takes the reader through the more common proxies for institutions and other recognized determinants of growth. In developing his conclusions, he tries other proxies and finds they add useful insights.

Osang walks the reader through his reasoning in using a panel-data approach as well as cross-section data. He uses several different econometric techniques while also explaining the limitations of each. By making his assumptions clear, he allows interested readers to reach their own conclusions about a preferred approach. His fluency is dazzling—or at least dazzled this reader—but at times I found myself thinking back to President Harry Truman and his call for a “one-handed economist.” I would have found it more useful for Osang to explain why he preferred a specific technique in addition to presenting the results of different approaches.

His use of contract-intensive money as a proxy for institutions was interesting and, I thought, useful. He went on to choose natural logs of lagged values, but I did not see an explanation of what the lags were or how they were determined.

The paper left me with at least two other questions.

First, he uses the foreign-born share in the population as a proxy for the impact of migration. That particular measure would not have much relevance for Mexico, which falls well down his list in terms of countries ranked by percentage of foreign-born population.

Second, he finds that remittances are important only for the top half of remittance-receiving countries (as measured by remittances to GNP). Again, that would mean Mexico isn't a significant beneficiary of remittances even though official figures show its remittances lag behind only oil revenues as a source of hard currency earnings.

Osang's finding that institutions far outpaced the contribution of other factors would be consistent with the emphasis of the United States' Millennium Challenge Corporation and with World Bank President Paul Wolfowitz's determination to fight corruption in the developing world. While Osang's paper is written at a more abstract level, I would have welcomed his comments on these two policy initiatives.

Raymond Robertson

Robertson beneficially reviews the literature on the degree of U.S.–Mexican integration, the impact of integration on wage rates, and whether or not wage inequality has been reduced. He finds that economic integration increased Mexican wages and, since adoption of NAFTA, reduced wage inequality. In addition, he finds that low-wage workers in Mexico are complements to and not substitutes for American production workers. In effect, his work validates the common justification for several decades of favorable U.S. tariff treatment for the importation of goods produced by the maquiladoras.

Robertson finds rising wages in the NAFTA period but also notes that the 1999 level of wages is still slightly below the 1989 level.

In the midst of generally positive findings, Robertson notes that despite increased trade and investment in the post-NAFTA period, there has not been acceleration in the increase in wages. Robertson's explanation is an increase in U.S. border enforcement and, by implication, a reduction in emigration from Mexico to the United States. It would be helpful to have some estimate on whether or not immigration to the United States actually slowed or simply became more difficult and more costly.

Robertson could have disposed of three other possibilities. First, Mexico may still be at the point where past high birthrates are sending a still-rising flow of young adults into the labor force. Could that be holding wages in check? Second, Mexico is also a major conduit for undocumented workers from Central and South America. Have they stayed in Mexico for a sufficient time or in sufficient numbers to affect wage rates? Third, much of Robertson's analysis must rely on urban or industrial data. Could the flow of labor from the rural areas be holding down measured wages in the maquiladora or industrial sectors?

Robertson turns the reader's attention to two other important questions—China and the U.S. economy. Chinese competition has had a major impact on Mexican industry, with many maquiladoras closing as firms move their facilities to China and many U.S. and other foreign investors now looking east rather than south.

While favoring further Mexican–U.S. integration, Robertson asks whether "Mexico may be latching itself to a falling star." He might have added a paragraph on the large, persistent trade and current account deficits that have affected the U.S. manufacturing sector. The United States is also the only major industrial country that developed a private-sector welfare system, which now puts several U.S. industries and, hence, their Mexican suppliers at a disadvantage in international competition. Finally, a U.S. policy of benign neglect with regard to the Asian practice of keeping their exchange rates competitive has also had negative effects on Mexico's industrial prospects.

Philip Martin

Martin looks at migration from the sending countries' point of view, puts migration flows in a long-term context, and discusses the current U.S. response to rising legal and undocumented immigration. By taking a closer-to-the-ground approach, Martin complements the paths taken by Osang and Robertson.

Martin looks at three different phases of emigration—recruitment, remittances sent home, and the eventual return of the emigrant. In discussing recruitment, he notes how formal recruiters and informal networks both play a role. There are also, of course, many intermediaries to facilitate undocumented immigration. Based on anecdotal reporting in the financial press, informal or illegal networks have become specialized enough that they can deliver specific skills to a specific firm in a relatively short period of time. Recruitment is an area that will require a mix of interviews and scenario modeling to analyze more fully.

Martin contrasts the average emigrant from a developing to a developed country with the distribution of skills in the receiving country. He also provides some institutional detail on the current U.S. approach to temporary workers and notes that the temporary high-skilled immigrant often finds a path to permanent residency and citizenship. Noncitizen students finishing their doctorates can usually work for a year in the United States. They can then become recipients of H1-B visas, reserved for temporary immigrants with a college education or comparable skills and experience. The initial three-year H1-B visa can be renewed for another three years. At that point, the employer often can credibly claim that no available American can do the specific job currently filled by the H1-B visa holder. With permanent residency status, the former student may go on to secure citizenship.

In discussing professional or high-skilled immigration, Martin contrasts the U.S. demand-driven approach with the supply-oriented approach. He notes that in Australia, Canada, and the United Kingdom, points are awarded to potential immigrants based on various criteria, such as language ability.

In addition to distinguishing between the losses implied by the emigration of African health care professionals and the gains from the emigration of Indian IT professionals, Martin briefly discusses the efforts of the International Organization for Migration to encourage the return of the African health diaspora to the continent. Martin does not explore the policy implications for Africa, but he made this reader wonder if African countries should focus more on the African equivalent of the Mao-era Chinese barefoot doctors and reduce their investments in medical schools based on industrial country standards. Some grist for a future paper.

In economic terms, Martin stressed the gains for both the low-skilled immigrant and the receiving country. As previously noted, he sees a win for the receiving country by "slightly expanding economic output by slightly depressing wages." Beyond that phrase, however, neither he nor the other authors take on the debate over whether, or by how much, low-skill immigration depresses the wages or reduces the economic opportunities of U.S. workers.

Martin provides useful detail on the growing volume of remittances, noting that they now exceed foreign assistance by a significant margin. He discusses determinants of the volume of remittances and notes that policy and technology can reduce the cost of sending money to the home country. By implication, Martin is positive about the impact of remittances but left to the later panel the question of how or how effectively remittances are applied by the receiving family, village, or country.

The potential return of emigrants to their home countries can bring the added benefits of capital, training, and ties to a developed economy. Martin notes that modern travel and communications can help keep emigrants in touch with their home countries. The adoption of dual citizenship by the sending country can also help keep home-country ties. Martin does not discuss if the dual-citizenship approach is a plus for the receiving country.

In turning his attention to the specifics of U.S.–Mexican immigration, Martin provides some valuable history and contrasts the U.S. approach with the freedom of movement adopted in the European Union. He also provides an illustration of what he terms "The Migration Hump" (see his Figure 1). The figure traces increased immigration after a period of displacement caused by economic integration and shows how it is eventually offset by faster economic growth and a return to the home country. He suggests that once the wage differential in the receiving to sending country falls to four-to-one, significant migration slows. He does not, however, estimate how soon the slowing might occur. At some point, given falling birthrates, Mexico may face the same kind of retirement-versus-working age challenge that is prominent in Europe, Japan, and, to a lesser degree, the United States. Might the burden of future Mexican taxes continue to drive younger Mexicans north to help meet the needs of elderly parents?

Added Observations

China did appear in the papers, but without sufficient weight. Economic prospects for Mexico and many other countries are bound to be affected by the continued rise of China and other Asian countries. Conference organizers might even consider adding a paper putting Mexico in the context of global forces that include the rise of Asia.

Martin contrasts the emigration of Indian IT professionals and their contributions to India's growing computer-related services industry with the classic brain drain of African medical professionals to the industrialized West. It would be useful to explore the degree to which Mexicans with technical and professional training seek opportunities outside their country and to have some sense of whether that pattern fits the Indian IT or African health care cases.

The papers did not touch on how Indian success in providing business services might affect future growth in Mexico. Yet, Mexico is increasingly caught between low-cost manufacturing in China and the difficulty of moving into traded services against stiff competition from India and others.

Robertson, in particular, suggests thinking about North America as an economic unit. In a future paper, Robertson could explore what such a North American economy might look like and what policies Canada, Mexico, and the United States could pursue to move the nations in that direction.

For the most part, discussion of technology and innovation is absent from the three papers. Robertson does discuss the degree to which skill-biased technological change can explain wage inequality in Mexico but does not address the drivers of technological change. No one discussed the development of Mexican institutions that would improve the country's ability to use or generate new technologies. Given the likelihood of decades of low-wage competition from Asia and elsewhere, Mexico should consider following the Korean example of becoming more and more of an innovative power.

Finally, Mexican and other immigration to the United States cannot be discussed without looking at the potential impact of large-scale, low-wage, and relatively low-skilled immigration on the United States as an economy, a political entity, and a culture. That, of course, is the subject for a conference all its own.