Migration, Trade, and Development: An Overview

James F. Hollifield, Pia M. Orrenius, and Thomas Osang

Migration and trade are more prevalent today than ever before in the history of the world. The United States is the recipient of about one-third of the world's migrants and accounted for a quarter of the world's output and 13 percent of the world's trade in 2005. But the global significance of the U.S. economy is slowly declining, and while the effects of migration and trade on the U.S. economy have been examined time and again, questions concerning the impact of migration and trade on development in low-income countries are of growing importance.

Simple, neoclassical economic models predict that prices should drive factors such as labor and capital across regions and countries toward their most valuable use. As this happens, developing countries, which are typically labor-rich and capital-scarce, should experience more rapid growth, higher income, and eventually convergence to industrial world levels of well-being. This process is happening slowly in some cases, but in other cases not at all.

Do migration and trade speed this convergence? If so, how? If not, why? These questions are addressed from different perspectives in the following papers presented at the conference "Migration, Trade, and Development," held in Dallas in October 2006.

The Migration, Trade and Development Nexus

While international migration and trade are often looked at in isolation in terms of their impact on development, this session looked at their individual as well as their joint roles for growth and development.

The paper by **Philip L. Martin** of the University of California, Davis, opened the conference. First, Martin analyzed three major channels through which migration can affect development in the workers' countries of origin: recruitment, remittances, and returns. The greatest benefits to migrants and their countries of origin arise from the emigration of unskilled workers, since they are most easily replaced at home and less likely to settle abroad. Remittances surpassed Official Development Assistance in the mid-1990s as a source of foreign exchange in developing countries and continue to grow. Conflicting views exist on the role played by return migrants. The optimistic scenario sees returning migrants as change agents, investing remittances and using skills acquired abroad to accelerate development at home. The pessimistic scenario states that migrants who work abroad often return to rest and retire, limiting their impacts on economic development. In the second part of his paper, Martin looked at the link between trade and migration. Since free trade agreements speed up economic and job growth in all participating countries, they tend to reduce unwanted migration into high-wage countries in the long run. However, trade agreements may trigger more migration in the short term, because freer trade can immediately speed up labor-displacing change, while time is required to generate new jobs.

Southern Methodist University economics professor **Thomas Osang** presented an empirical paper that examined the joint role of external (trade and migration) and internal (institutions and geography) development factors. He found that both internal and external determinants matter for development. The internal measures exhibited the expected signs: Good institutions have a positive impact, while proximity to the tropics hurts development. Among the external determinants, trade is typically significant, with the expected positive impact on development. The two migration measures used yielded conflicting results. The first, the foreign-born population share, matters positively for development. The second, remittances, appears to contribute little to development unless the sample is restricted to countries with a relatively large remittance share in GDP.

Raymond Robertson of Macalester College surveyed the recent literature on the impact of North American integration on the Mexican labor market. Globalization integrates labor markets through trade, capital flows, and migration. Focusing mainly on several of his own studies of Mexico's manufacturing sector, Robertson showed that Mexico's integration with the U.S. since NAFTA has potentially positive implications for Mexican workers. In particular, rising trade has coincided with rising Mexican wages (relative to U.S. wages) and falling wage inequality within Mexico. The studies also indicate that Mexican and U.S. workers are complements rather than substitutes and that North America probably should be thought of as a unified market in terms of production.

The Politics of Migration and Trade

Throughout history, migration has been controversial. In the past, newcomers were often viewed as competing for scarce resources, typically land, and accused by natives of forcing up land prices and pushing down wages. With the expansion of international trade in the past few decades, it too has been the topic of controversy. Critics have cast trade as a force that displaces workers and undercuts domestic production by bringing in cheaper goods. As a result, the politics of migration and trade are complex.

Marc Rosenblum of the University of New Orleans focused on the obstacles to cooperation between the U.S. and Mexico on the issue of immigration. He described the U.S.–Mexican migration relationship as one of complex interdependence. Policymaking in this area is multidimensional, involving complicated rules and regulations governing entry and settlement in the U.S. and multiple actors and institutions. In this sense, the migration relationship is far more difficult politically than the trading relationship. Rosenblum laid out the history of Mexican migration to the U.S. from its beginnings in the nineteenth century to the present, sorting through the shifting interests of each state. The U.S., he argued, has traditionally viewed Mexican migration through an economic lens, whereas Mexico's concern has been for emigration's effects on sovereignty and independence and for the rights of Mexican nationals in the U.S. The change in the strategic relationship that occurred under Salinas de Gortari ushered in a period of greater cooperation and less hostility between the two countries, especially with the passage of the North American Free Trade Agreement in the 1990s. But just when it appeared that there was an opening for greater cooperation on migration, the 9/11 attacks again altered the relationship, pushing security issues to the fore. Rosenblum delved into the domestic politics of migration in Mexico to explain why cooperation with the U.S. remains elusive.

SMU professor **Valerie Hunt** explored the role public opinion plays in shaping U.S. immigration policy. She pointed to the profound ambivalence Americans have had historically toward immigration—as a nation of immigrants, wanting to have a welcoming attitude toward foreigners, but at the same time fearful of the social, economic, and political consequences of high levels of immigration. She looked specifically at the impact of the 9/11 attacks on U.S. perceptions of the threat posed by immigration. The attacks heightened the awareness of immigration among Americans and further complicated the prospects for reforming immigration policy, introducing a new security dynamic into a debate that had been dominated by economic concerns. Hunt used the Pew and Tarrance Group surveys to document the rise of immigration in the public consciousness and as an electoral issue pre- and post-9/11. She outlined various immigration bills, documenting how public opinion is driving the reform process in Congress and the White House. The result, she argued, is that immigration has moved higher on the political agenda than at any time in recent American history.

The Circulation Migration of the Skilled and Economic Development

Mark Rosenzweig, Yale University professor and conference keynote speaker, discussed one of the most pressing issues in migration and development: the effect of the brain drain. Within the framework of his skill-price model, Rosenzweig showed that the big puzzle in development economics is not so much the difference in skill levels between countries as variation in skill prices (wages). Higher skill prices slow out-migration, but higher schooling levels can speed it up. To retain skilled workers, developing countries must raise their skill prices by, among other things, acquiring new technology, raising investment, and improving institutional quality.

Migration and Development: The Role of Remittances

In his contribution, **Dilip Ratha** of the World Bank discussed how migrant remittances have become a major source of external development finance and play an effective role in reducing poverty. In a message to policymakers in home and host countries, Ratha wrote that because remittances are personal flows from migrants to their friends and families, they should not be taxed or directed to specific development uses. Instead, the focus should be on making remittance services cheaper and leveraging these flows to improve financial access of migrants and their families in origin countries.

San Diego State University professor **Catalina Amuedo-Dorantes** provided an overview of her work on the effect of remittances on recipient households in Mexico, Central America, and the Dominican Republic. She discussed the characteristics of remitters, the motives for remitting, and remittances' effects on recipient households. Remittances appear to increase well-being by increasing consumption and reducing labor supply, at least among women, and also by raising spending on health. Amuedo-Dorantes also showed that some of the disruptive effects of migration, such as on children's schooling, are offset by remittances.

J. Edward Taylor, professor at the University of California, Davis, presented a series of paradoxes and puzzles in the migration-trade-development nexus. He pointed out, for example, that brain drain can be good for the home country because it raises the incentives to go to school. He also made the point that the least skilled don't migrate because they are poor and migration costs are prohibitive.

Consequently, in the short to medium term, development and income growth in less-developed countries are often positively—not negatively—correlated with migration. This result throws into question a common policy prescription for solving the immigration "problem," namely, to invest in and develop the home country.

The Historical Relationship Between Migration, Trade, and Development

Jeffrey Williamson, Harvard University professor, presented evidence showing that in the first global century, up until 1914, trade and especially migration had profound effects on both low-wage, labor-abundant Europe and the high-wage, labor-scarce New World. As labor migrated to the United States, working conditions improved in Europe and inequality declined. The opposite took place in America. Williamson argued that these developments eventually led to the U.S. high school revolution—intense investment in public schooling of American youth and a commensurate reduction in wage inequality.

SMU professor **James Hollifield** asked why states risk migration in the absence of an international regime for migration, comparable to regimes for finance (International Monetary Fund), trade (World Trade Organization), and development (World Bank). He explored the differences in the political economy of trade and migration and explained why it is so difficult for states to create an international migration regime. He looked at coordination problems from the perspective of three schools of thought: realism, globalization or transnationalism, and liberal institutionalism. He argued that an international regime for governing migration must deal with the issue of rights (status of foreign nationals) and cannot be based purely on an economic logic. But he was not sanguine about the creation of such a regime in the near term. Receiving states are likely to remain trapped in what Hollifield called a liberal paradox for decades to come—the economic logic for migration is one of openness, while the political and legal logic is one of closure. As for many of the sending states, they have incentives to push for greater openness to reap the benefits of remittances and possible return migration. The nexus between trade, migration, and development remains tight; but the international politics surrounding each issue makes it unlikely that states will be able to overcome coordination problems.

Gustav Ranis, professor at Yale, examined the costs and benefits for both origin and destination countries, while differentiating between skilled and unskilled immigrants. The migration of unskilled workers represents the largest potential benefit to global welfare, even though the distribution of gains between origin and destination countries remains controversial. The origin country benefits from unskilled migration because the country receives remittances without losing much productive capacity. For the destination country, the costs and benefits are more complex. While consumers and social security systems benefit, domestic unskilled workers experience a wage decline. The impact of skilled worker migration on the origin country is equally complex. Although the country benefits from remittances and return migration, the loss of human capital is costly in the short run. In contrast, the destination country appears to benefit from skilled worker immigration due to a reduction in specific labor shortages and more entrepreneurial energy and technological change.

Conclusion

In the long run, economic forces should act to iron out, not exacerbate, international income differences and improve national incomes in all countries. Cross-country interaction, be it through migration or trade, should help this process along and improve global well-being. Presenters at this conference examined the various dimensions in which trade and migration affect economic development, whether individually or jointly, through economic or political forces. Despite the public controversy over the free flow of goods and people, the message of the papers collected in this volume is simple and clear: The net benefits from opening borders to foreign goods, services, and people are positive and substantial in most cases. However, not all benefits will materialize immediately as economies transition toward more open borders. Nevertheless, policymakers interested in advancing the national well-being ought to pursue those policies most likely to promote long-term economic growth and prosperity. Policies aimed at helping goods, services, and people overcome national borders are clearly among them.