International Migration and Development: Evidence from Bangladesh

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Extended Abstract

International labor migrants comprised over half of the world's migrant population with remittances in low- and middle-income countries surpassing USD 450 billion, which is more than three times the size of official development assistance (IOM, 2018). For populous developing countries like Bangladesh, international labor migration (hereafter referred to as migration) can provide macroeconomic benefits by easing unemployment pressure and augmenting capital inflows through remittances sent by migrants abroad. This makes international migrant an attractive development strategy for the state as reflected by the well-established ministries dedicated to promote international labor migration in countries like Bangladesh, Indonesia, the Philippines amongst others where remittances account for more than 5 percent of the countries' GDP. Furthermore, given that remittances augment household income and provide micro-economic benefits, there is populous support for such policies.

Despite this broad acceptance of migration as a development strategy, questions still remain on the widespread effects of migration on households in communities disproportionately exposed to out-migration especially with regards to socio-economic indicators (McKenzie, 2017, McKenzie and Yang, 2015; Taylor et al, 1996). The broader socio-economic impact of migration is particularly relevant for developing countries like the Bangladesh, Pakistan, Nepal and the Philippines, that engage in promoting large temporary migration programs through bi-lateral agreements as part of the governments' active labor policy (Ruhs, 2006).

A large body of research has explored the impact at destination countries or regions (Borjas 1994, 1995; Hu, 2000; Chiswick, Lee and Miller, 2005) and focused on impact on native wages and assimilation trends in immigrant communities. There is a rapidly growing scholarship on the developmental impact of migration in origin countries, where outcomes focus mainly on migrants and their households (Gibson, Mckenzie and Stillman, 2011; Gibson, Rohorua and McKenzie, 2013) and this paper aims to contribute to this literature. Results have shown that

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migrants themselves benefit from wage improvements. Even migrant households have shown improvement in income and consumption based on the study of participants in a small-scale bi-lateral program of seasonal migration between New Zealand and Pacific (Gibson and McKenzie, 2014).

The question of how the local communities from where migrants originate are affected remain ambiguous, particularly in the case of migration driven by large-scale bi-lateral agreements in countries like Bangladesh where on average 700,000 migrants travelled on temporary work contracts in the past ten years. Economic theory (Lewis, 1954; Harris and Todaro, 1970) would suggest that the local labor market conditions in communities with high emigrant population should tighten, increasing wages of households that remain. However, the welfare gains of this out-migration effect depends on who migrates and the duration of migration. For example, if high-skilled migrants leave disproportionately and permanently, then countries may experience brain drain and a subsequent loss in productivity whereas the negative effects may be moderated if migration is temporary or migrants comprise of low-skill workers.

While many older studies (see review in Taylor et al, 1996) have concluded that the bulk of remittances are spent on consumption, there are more recent studies indicating that investment from remittances may be spent on investment capital. For example, Yang (2008) shows that a positive shock in migrant remittances lead to increased levels of investment in entrepreneurship in the origin household in the Philippines that can induce positive spinoffs in communities more dependent on migrants.

There can be a direct impact of out-migration on the local labor market with regards to employment and wages. Older macro-models (Taylor and Adelman, 1996) predict negative short income effects at origin since out-migration can increases wages, reducing local demand and adversely affecting subsistence and medium holder income (study compares Kenya, Java and Mexico). However, not only do these models rely on assumptions around labor market tightness, but they also do not account for long run effects that can dampen or reverse the negative effects (Dineklman and Marriotti, 2016). Akram et al (2017) find general equilibrium effects connected with migration, showing that increased seasonal out-migration increases wages and the availability of jobs in migrant-sending villages while pushing up food prices. On net, rural households benefit directly by the earnings of migrants (when migrants are present) and indirectly through tightening village labor markets. While prior literature indicates migrant wages may be binding due the demand conditions at the destination countries, there might nonetheless be impact in the local community on the extensive margin by having larger shares of migrants. For example, positive economic shocks at destination increase total migrants and migrants' household assets while not changing wages (Theoharides and Yang, 2015; McKenzie, Theoharides and Yang, 2018).

As noted in Taylor et al (1996), simply looking into remittance use studies to understand the community effects of migration as in most empirical studies, can restrict understanding the community level impact of migration since the complex interactions between migration and development lie outside their purview. Consequently, my paper, by extending the scope of analysis to compare household outcomes more broadly, overcomes this limitation and contributes to the empirical literature on migration.

The cost benefit trade-offs can vary in the case of temporary migration relative to permanent migration episodes (Dustmann and Gorlach, 2016; Djajic, 2014). For example, while the social costs of integration and assimilation into the new communities maybe less significant due to the temporary nature of the migration episodes (Castles and Ozkul, 2014), the shorter period has implications on how much time migrants have to compensate for the monetary costs and financial debt incurred for migration purposes (Taylor et al. 1996). While a review of policies indicates some moderate success of bi-lateral migration agreements for countries where workers have limited options, the empirical evidence on the community level impact of migration remains limited (Mckenzie, 2015).

In this paper, I propose to study the impact of outgoing international labor migrants from 2012 to 2019 on households in regions with differential exposure to migration. Although theory predicts that migration can lead to significant socio-economic benefit at the micro-level, the endogenous nature of migration proves to be a challenging empirical constraint. Consequently, a simple comparison of communities with high and low levels of out-migration can lead to biased estimates since both measurable and un-measurable characteristics (such literacy and culture of learning, respectively) can simultaneously drive differences in regional migration levels and developmental outcomes like educational attainment of children in the households.

To address the issue of endogeneity in the migration measure, I will exploit the variation in the exposure of regions to out-migration to different destination countries in the prior decade combined with exogenous shifts in the national level of migrants to these respective destinations in order to predict the number of outgoing migrants at the regional level. This strategy has been used in a number of contexts including estimating the labor market effects of trade (Autor et al, 2013) and immigration (see Jaeger et al, 2018 for a review), firm productivity due to migration (Imbert et al, 2019), and land conflict.

I focus on household level outcomes that measure socio-economic, labor market and entrepreneurial indicators using panel data from an integrated national survey. Using this shift-share instrumental strategy (see, e.g., Bartik (1991), Card (2001), Autor et al. (2013)), I am able to identify benefits in rural communities that are greater likelihood of being impacted by outgoing international migration.

The above strategy enables me to estimate the effects of migration on outcomes (educational attainment; food security and consumption; entrepreneurial income and investments; and, gender effects.) for migrant and non-migrant households in communities differentially exposed to migration shocks enabling me to contribute to the growing literature on migration and development.

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