Solidarity or Exclusion? Migrants and Migrant Communities

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I. Is it desirable to incentive migrants to invest remittances into productive activities in countries of origin?

In a recent communication, the Commission of the European Communities proposes concrete steps for improving the impact of South-North migration on development (2005b). Regarding remittances, the Commission identifies two policy actions: firstly, making transfers cheaper, faster and safer, and secondly, enhancing their development impact in recipient countries, by investing more remittances in productive and business activities. The first policy action is clear, very important and desirable. The second proposal, instead, not only is that ambitious to appear unrealizable, but also it may be undesirable.

Over the past few years, economists and policy-makers paid an increasing attention to migrants'remittances for their big size (see Table 1) as well as for their positive effects. In 2004, migrants' fund transfers to developing countries amounted to US$ 160 billions, compared to US$ 166 billions of Foreign Direct Investment (FDI), to US$ 136 billions of Private debt and Portfolio equity and to US$ 79 billions of Official Development Assistance. The World Bank (2006) estimates that the true size of remittance flows may be 50% higher than the official estimates, due to the extent of unrecorded flows through formal and informal channels.

Most of the theoretical and empirical literature has focused on the link between migrants' transfers of funds and poverty (Docquier and Rapoport, 2005). Analysis at household level show that remittances increase income levels considerably, especially for the poor, and are spent in investment in human capital (increased education and health/nutrition expenditure) as well as in investment in physical capital (Özden and Schiff, 2006). Chami et al (2005) find a negative correlation between remittances and GDP growth, indicating that remittances are not profit-driven capital flows, as FDI, but are compensatory transfers. Remittances are sent in order to help family avoid shortfalls created by poverty or poor economic condition. Remittances have an important poverty reduction effect, and all the efforts to make transfers cheaper and safer are very important.

Remittances are much more stable than other capital flows (IMF, 2005), because they are mostly driven by altruistic reasons, that is migrants want to enhance the welfare of relatives still living in the country of origin. A recent work by Bugamelli and Paternò (2005) finds that workers'remittances increase financial stability in developing countries by reducing the probability of current account reversals. They find that when workers' remittances reach 3-4 per cent of GDP, their contribution to financial stability becomes much stronger and neater. The rationale is that a high level of stable and a-cyclical workers' remittances might make a given worsening of fundamentals (e.g. lower reserves, higher external debt) less worrying for foreign investors, who will not suddenly stop to provide capital.

Regarding enhancing remittances' development impact in recipient countries, the Commission (2005b) believes that action can be considered in the following areas: 1. Improving the investment climate and fostering good governance; and 2. Extending financial intermediation in developing countries. Once the business climate is favourable to investment and the system of financial intermediation is efficient, migrants would be willing to invest in their home countries as well as many other investors. Without these, efforts to create incentives to attract more remittances in productive investment have little chances of success and European scarce resources would be better used in pursuing different goals. Remittances as compensatory transfers have an important impact on poverty reduction, increase investment in human capital (e.g. better education, sanitation) and, being more stable than other capital flows, reduce the probability of financial crisis. Finally, an open question remains: Will the remittances invested in productive activities, if any, be additive to the existing flows of money ("remittances creation") or will they be diverted from their present destination, i.e. to increase families'income ("remittances diversion")?

II. The tightening of the EU(15) immigration policy: a neglected effect of the EU enlargement on Latin American countries

During the past few years, several studies about the impact of the last EU enlargement on Latin America and on relations between Latin America and the EU(25) have been carried out. They mainly focussed on trade and FDI, finding little expected impacts. The migration issue has been neglected, even if it is an area with potential major effects.

Legal immigration into the EU from third countries is regulated at the national level and the recent evolution of these national migration policies in the EU involved tighter restrictions (Boeri and Brücker, 2005). Boeri and Brücker present immigration policy indexes, with larger values of the indexes denoting tighter regulations. As shown by Figure 2.1., it is mainly requirements to be fulfilled for being granted an entry visa and national quotas which are getting tighter. Some relaxation is occurring in terms of years required to obtain citizenship and assimilation policies are sometimes being strengthened, but entry is becoming increasingly more difficult.

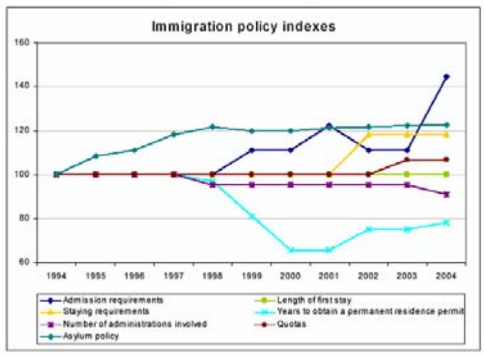
Figure 2.2. plots the value of the aggregate policy index obtained by taking the average of the six indicators displayed in Figure 2.1., in the initial and final year for which observations are available. Most countries are above the bisecting line through the origin, denoting a tightening of regulations.

The tightening of migration policies within the EU(15) since the 1990s could have had a negative impact on Latin American potential migration towards the EU. More research in this area is needed.

Before the enlargement to the new countries, Member Countries of the EU(15) adopted on average more restrictive immigration policies. Boeri and Brücker argue that there was a "race to the top" of migration restrictions with 12 out of the 15 Member States of the European Union reneging on their previous commitment not to restrict worker flows from the new members. The few EU-15 countries that ultimately opened their labour markets for workers from the new member states at least partially restricted instead access to welfare by migrants.

Regarding the future, the prospects for Latin America do not appear much better since the priority for the EU member countries will probably be the abolition of the temporary derogations to the free movement of workers from the new EU members before relaxing legislation favouring the immigration of third-country workers.

Figure 2.1 Trends in Migration Policies



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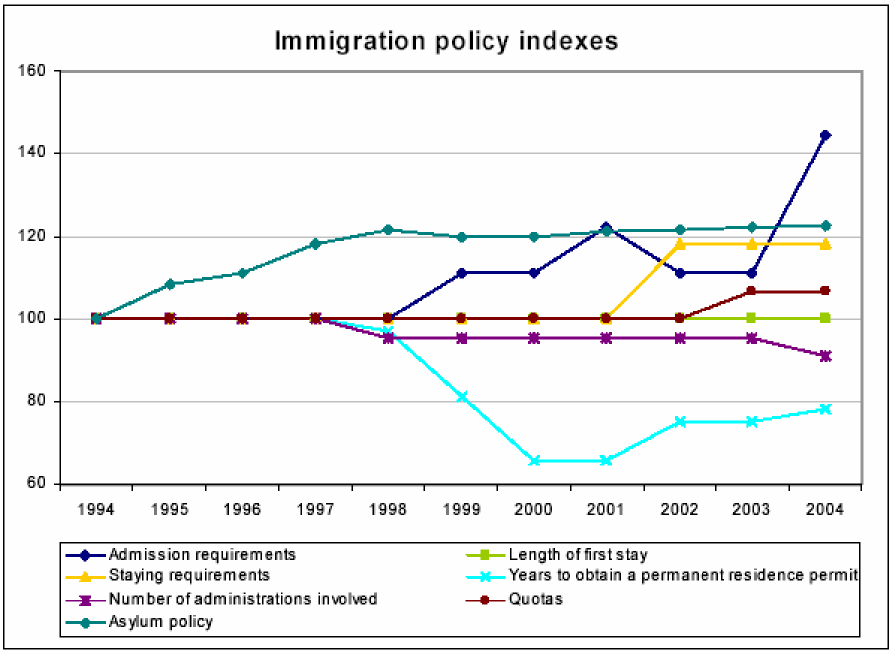

Figure 2.2. Convergence in immigration policies?