



The Global Economic Crisis and International Migration: What Explains the 2008-2009 Sudden Drop in Remittances?

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[with Rui Esteves, University of Oxford]

I. The 2008-2009 Sudden Drop in Remittances

The impact of the global economic crisis on international migration

Increase in unemployment

(immigrants more affected than native workers)

+

Hardening of migration policies

(less work permits, more deportations, return programs)

=

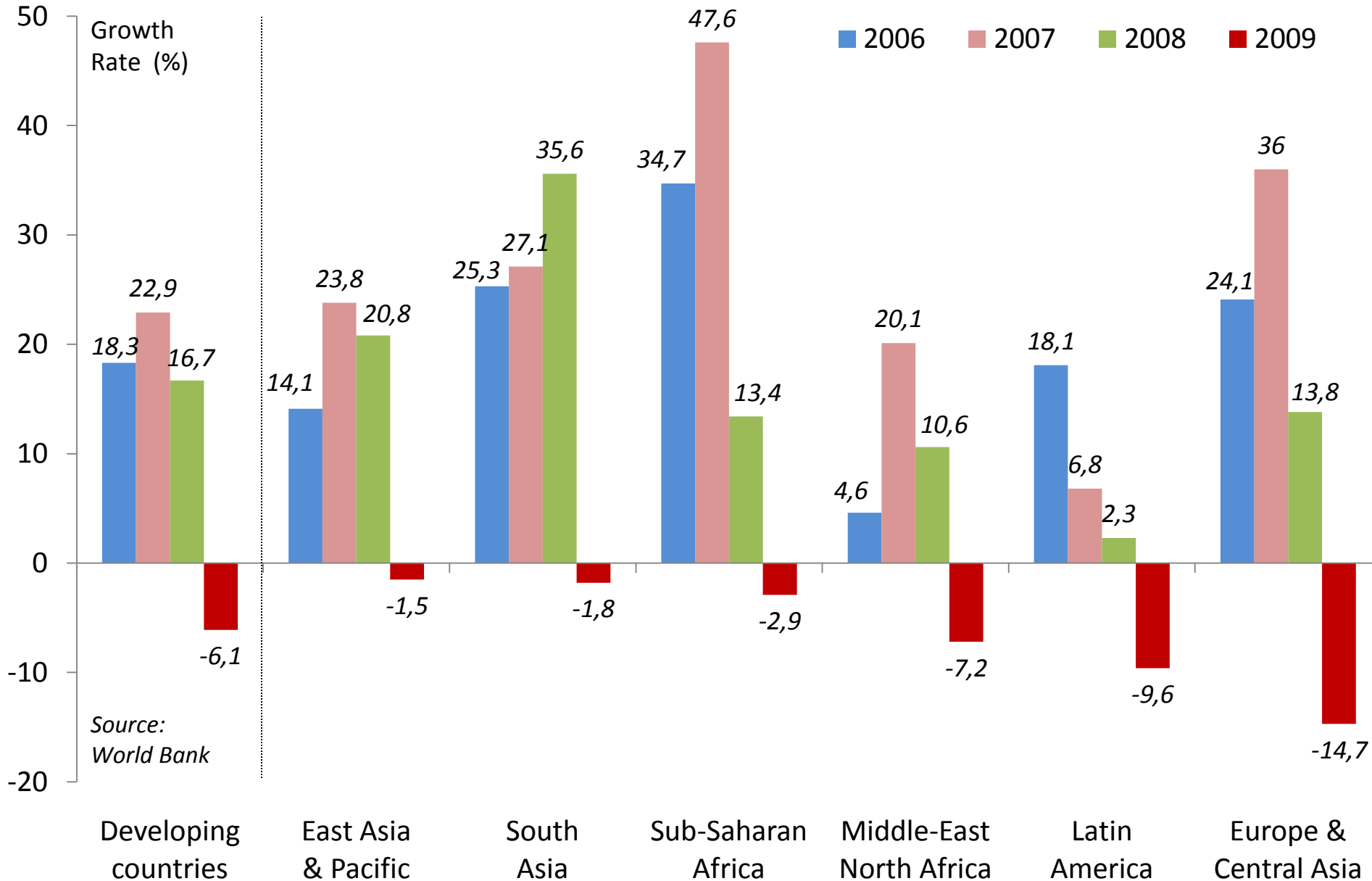
Decrease in migration flows

& increase in return movements

⇒ Drop in remittances



Remittance flows to developing countries



Why does it matter?

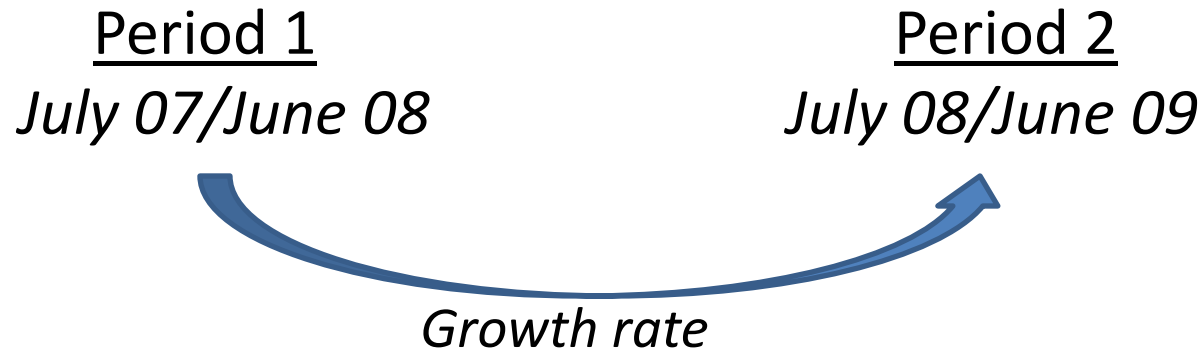
- Problem of dependence
 - At the household level (remittances as a substitution income)
 - At the macro level (Dutch disease)
- Developing countries also hit by the global crisis
 - Trade
 - Capital flows
 - FDI
 - Aid
 - Tourism
 - Remittances
- Risk of destabilization
 - Increase of competition on labor markets
(return migration + increase of unemployment)
 - Emigration cannot play anymore its role of safety valve
(more restrictive immigration policies)

II. Country-level Determinants of Remittance Growth Rates

Literature on the determinants of remittances

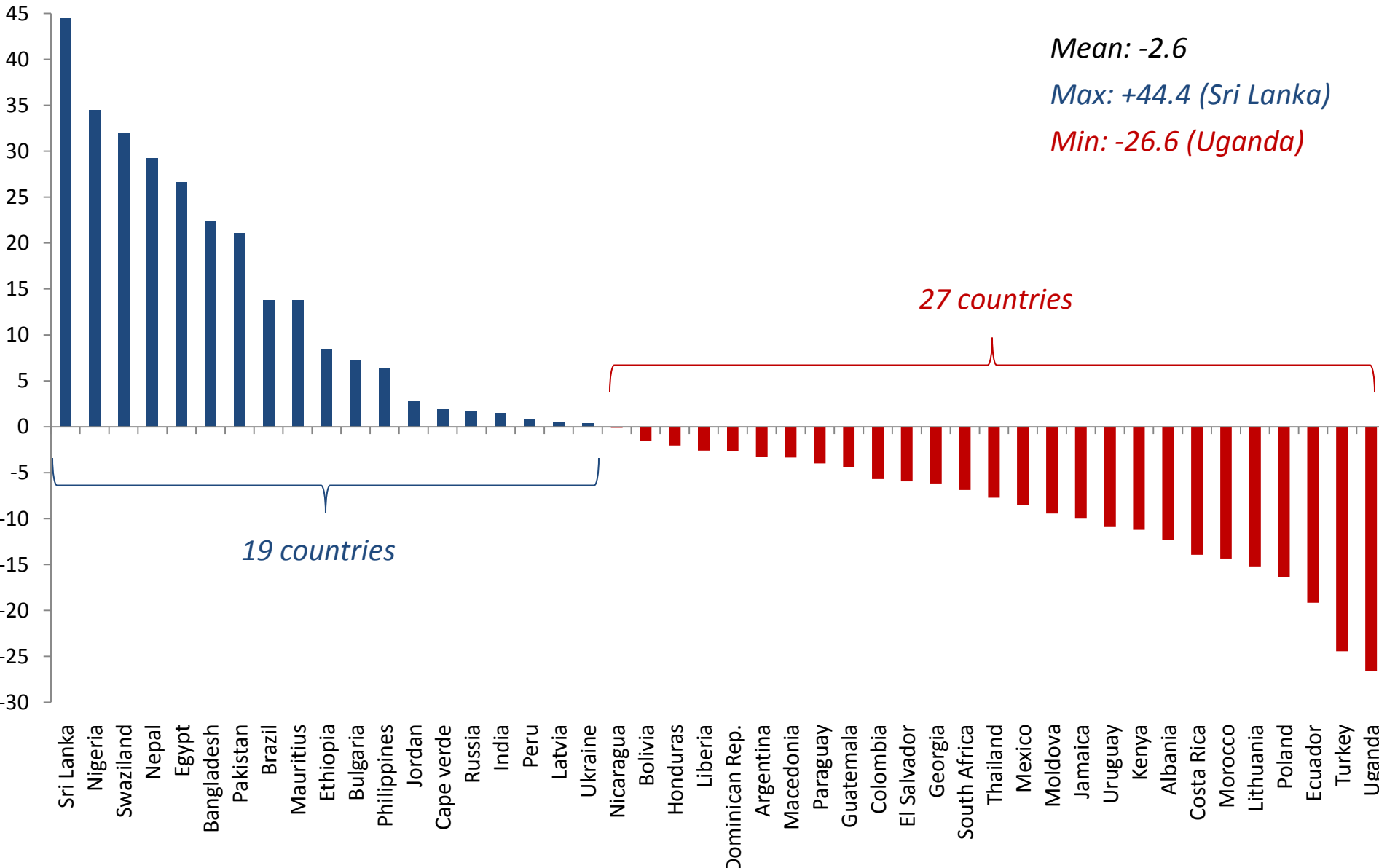
- **Micro variables**
 - Altruism vs self-interest
 - Cost of sending remittances
- **Macro variables**
 - Economic cycles (counter/pro-cyclicality of remittances)
 - Competitiveness of interest and exchange rates
- **Meso variables**
 - Economic environment
 - Political stability

Remittance data



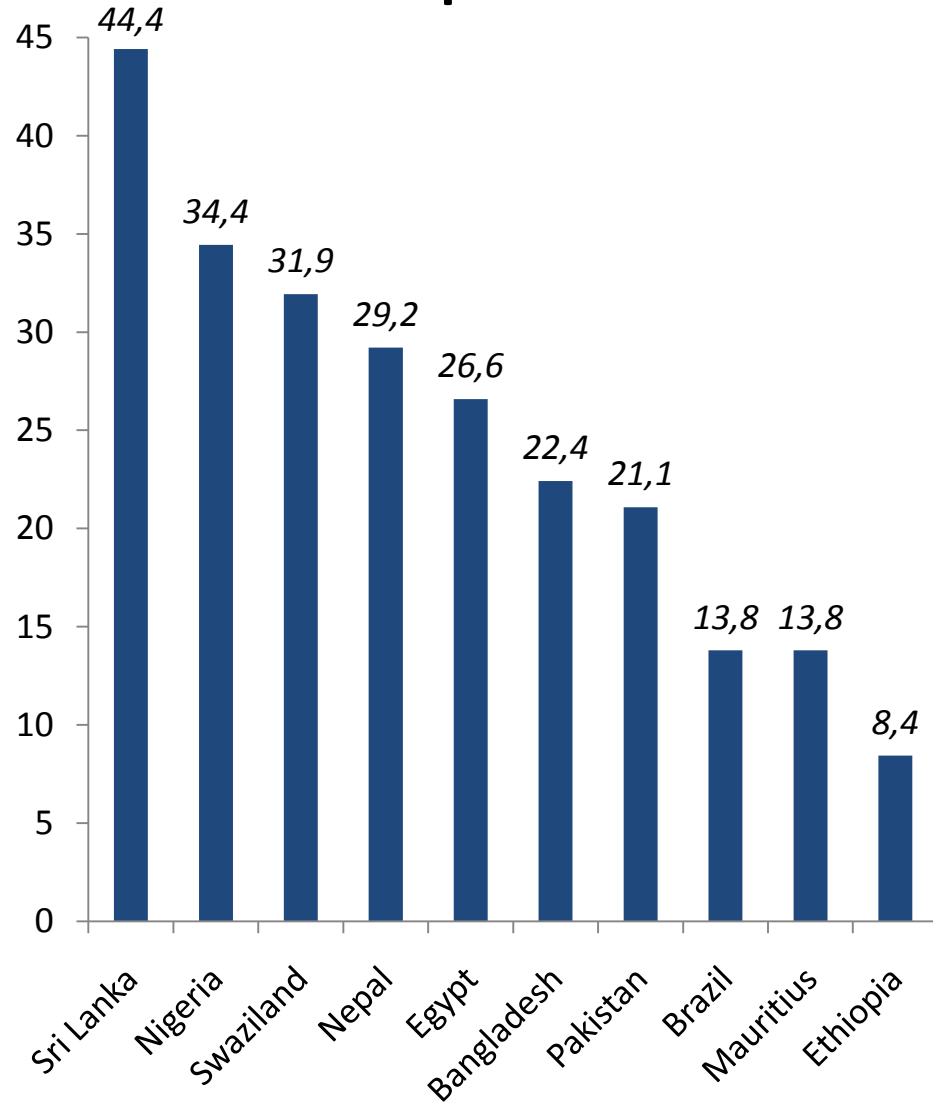
- ✓ **Definition:** Officially recorded remittances
 - Current account: - Compensation of employees (less than a year)
- Workers' remittances (more than a year)
 - Capital account: - Migrants' transfers (at the time of migration)
- ✓ **Number of countries in the sample:** 46
- ✓ **Sources:**
 - Central banks websites
 - World Bank database

Remittance growth rates

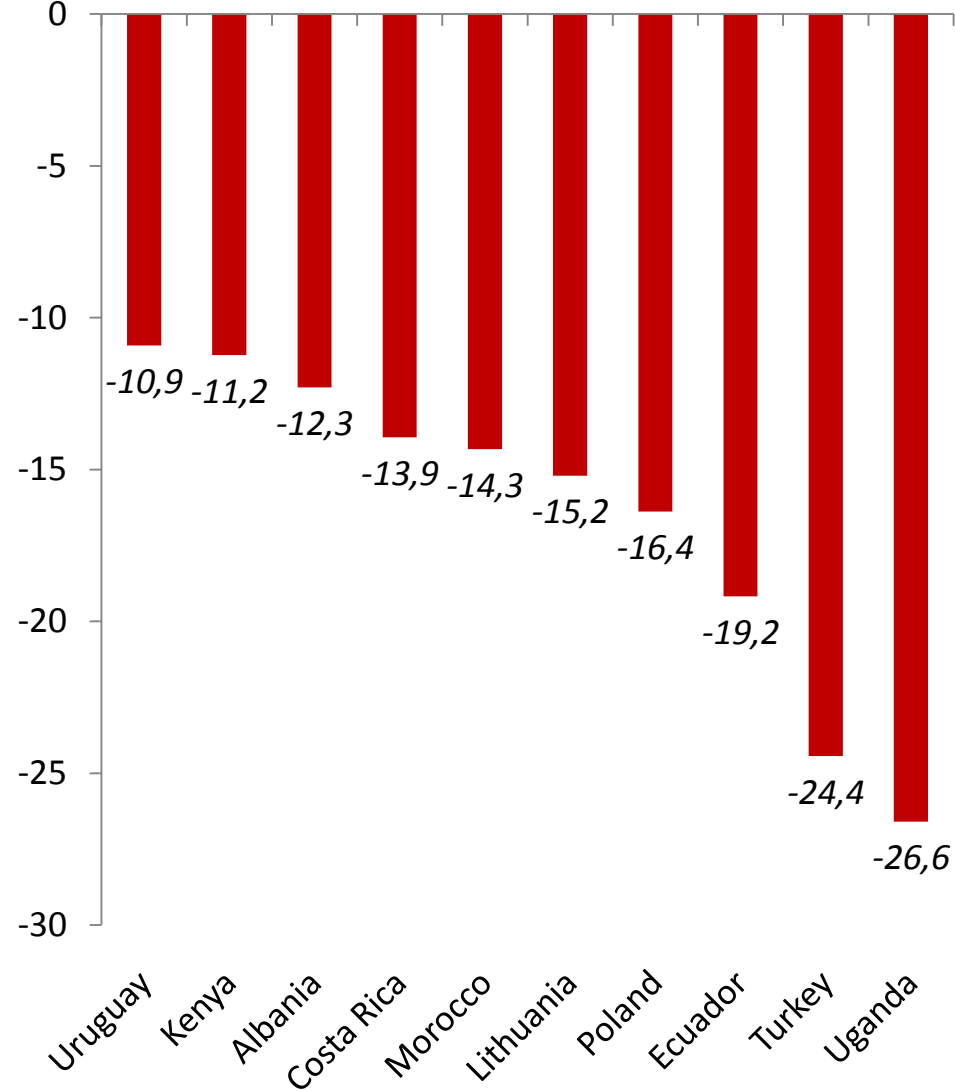


Top Remittance Growth Rates

Top increase



Top decrease



$$\dot{R}_i = \alpha_i + \beta_1 macro_i + \beta_2 mig_i + \beta_3 dev_i + \varepsilon_i$$

\dot{R}_i *Remittance growth rate*

α_i *Country fixed-effect*

Macro variables

- $macro_i$
- GDP growth rate in emigration countries (2008 & 2009)
 - GDP growth rate in host countries (2008 & 2009) [main and weighted 5 main]
 - Exchange rates (growth rate) [main and weighted 5 main]

Migration variables

- mig_i
- Stock of emigrants
 - Level of education of emigrants
 - Distance [main and weighted 5 main]
 - Border

Development variables

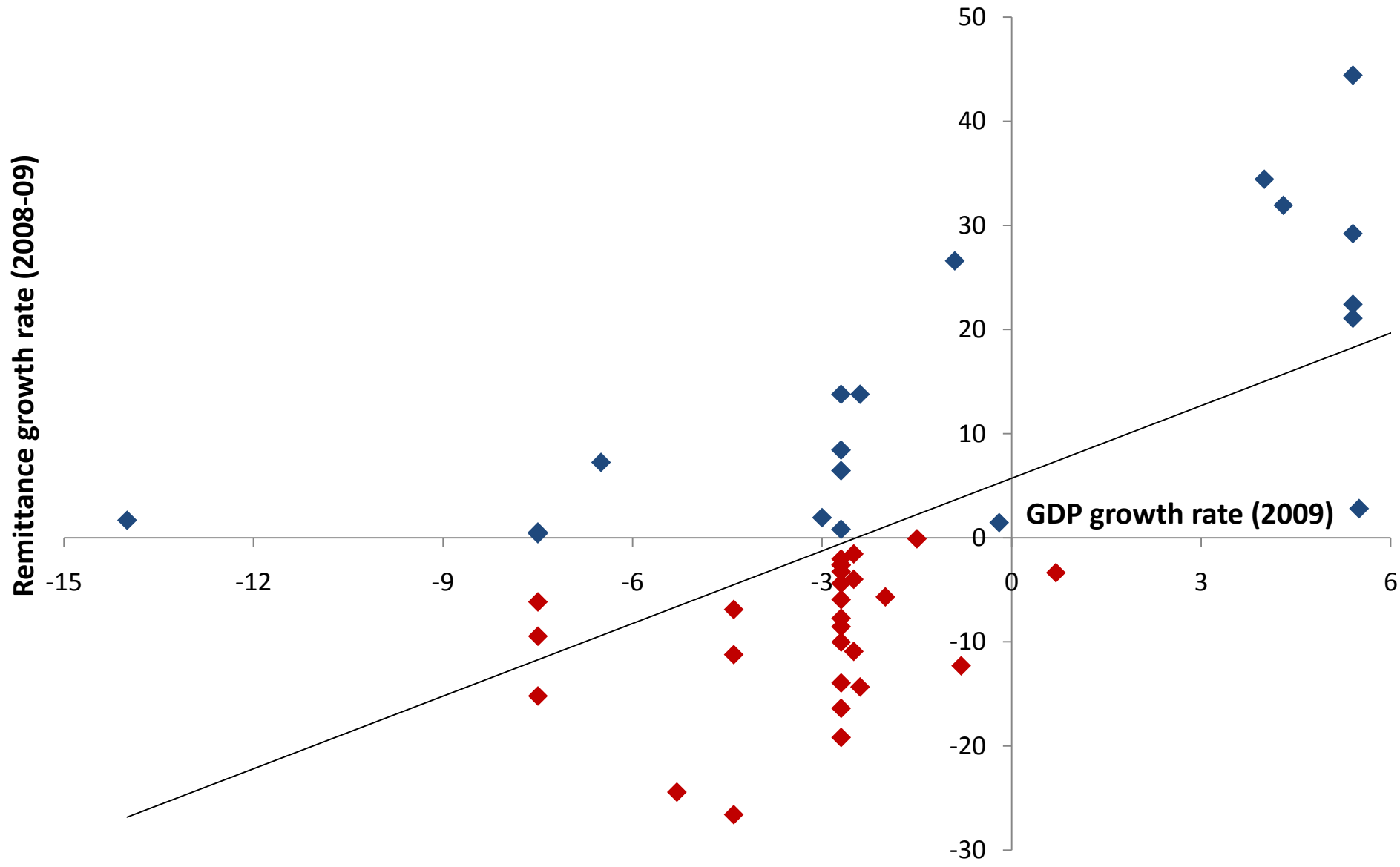
- dev_i
- GDP per capita
 - Quality of institutions
 - Financial development



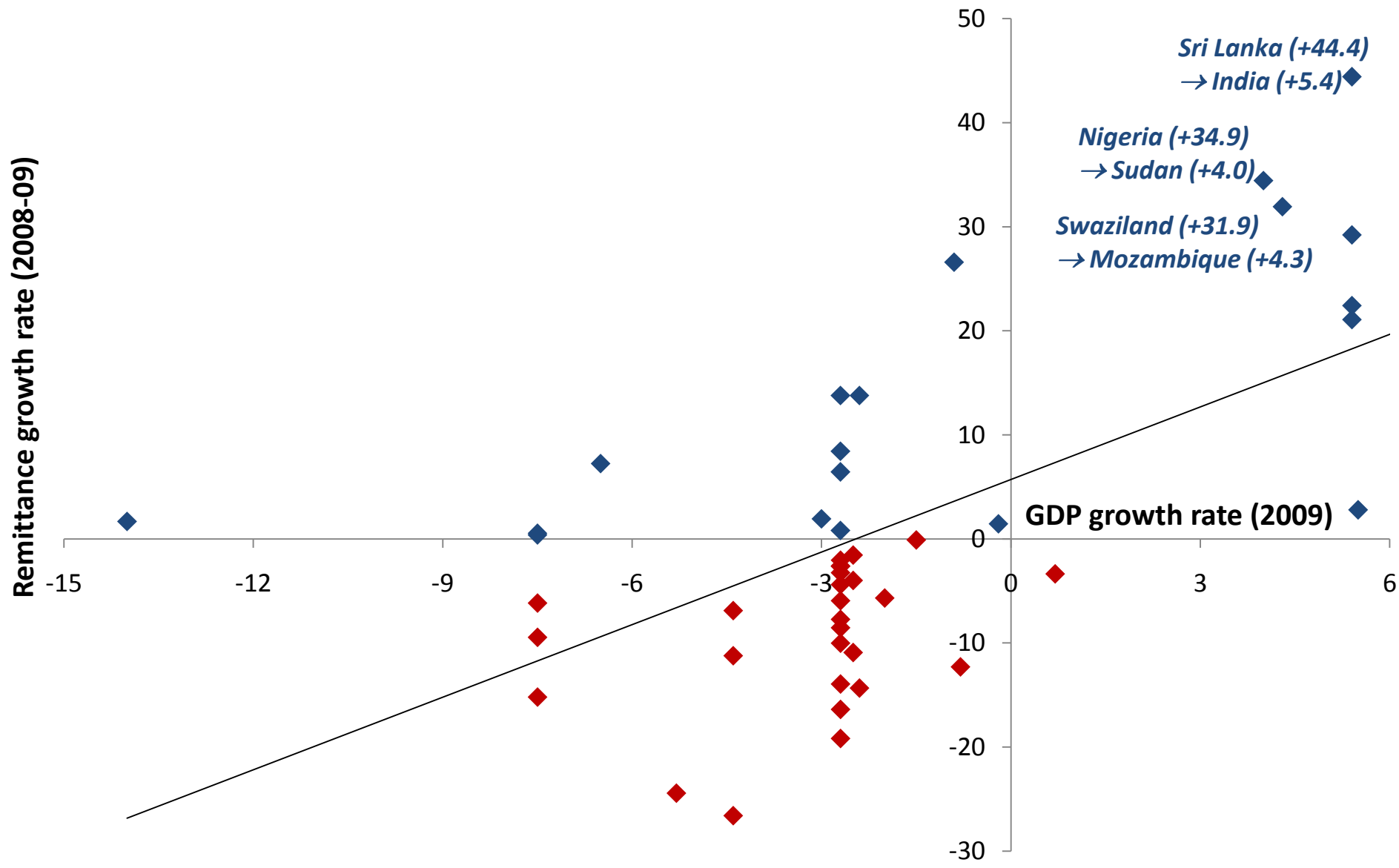
Results (1)

- Macroeconomic variables
 - GDP growth rate in receiving countries
 - *Positive and significant*

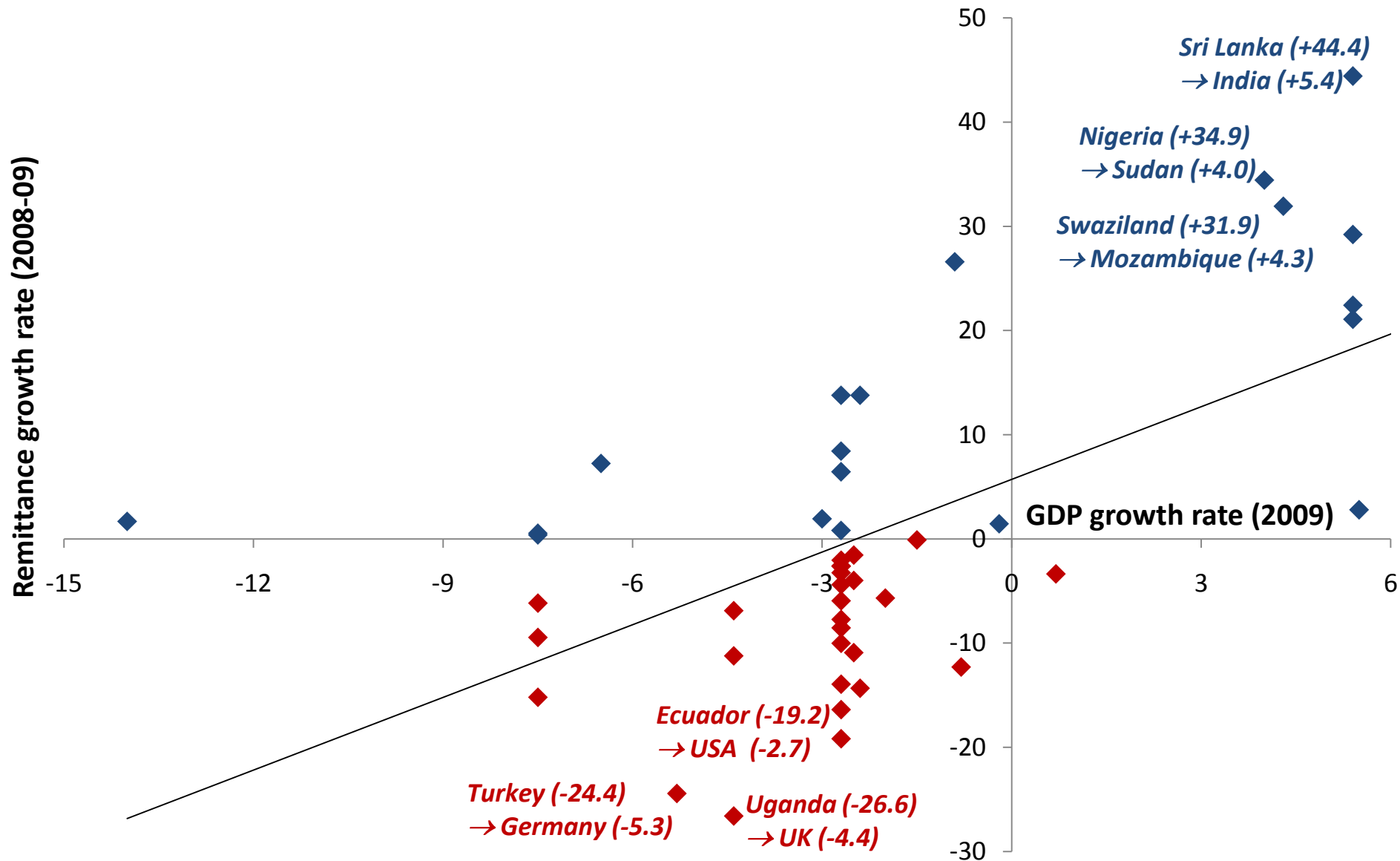
Remittances and the GDP growth rate in the main emigration country



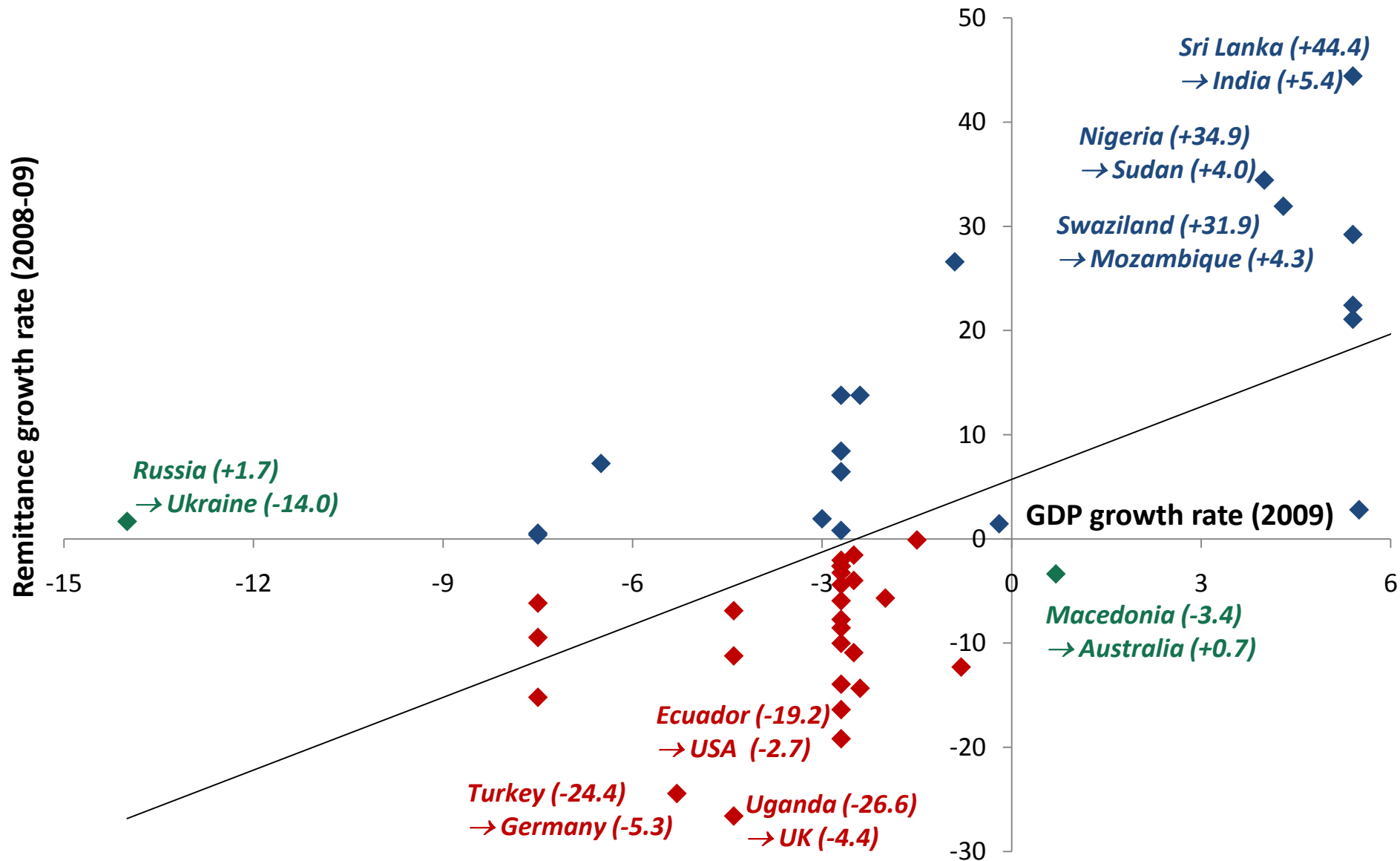
Remittances and the GDP growth rate in the main emigration country



Remittances and the GDP growth rate in the main emigration country



Remittances and the GDP growth rate in the main emigration country



Results (1)

- **Macroeconomic variables**
 - GDP growth rate in receiving countries
 - *2008 & 2009: **Positive and significant***
 - *The coefficient of the GDP growth rate in 2009 is higher than the 2008 one*
 - *Economic conditions in main receiving country more important than the average of 5 main receiving countries*
 - GDP growth rate in emigration countries
 - *2008 & 2009: negative but insignificant*
 - Exchange rate (growth rate)
 - *Negative (?) but insignificant (both for the main host country and the 5 main host countries)*



Results (2)

- Migration variables

- Stock of emigrants

- *Positive but insignificant*

- Level of education of emigrants

- *% of low-skilled emigrants (less than 8 years of schooling): negative but insignificant*

- *% of high-skilled emigrants (more than 15 years of schooling): **positive and significant***

- Geography

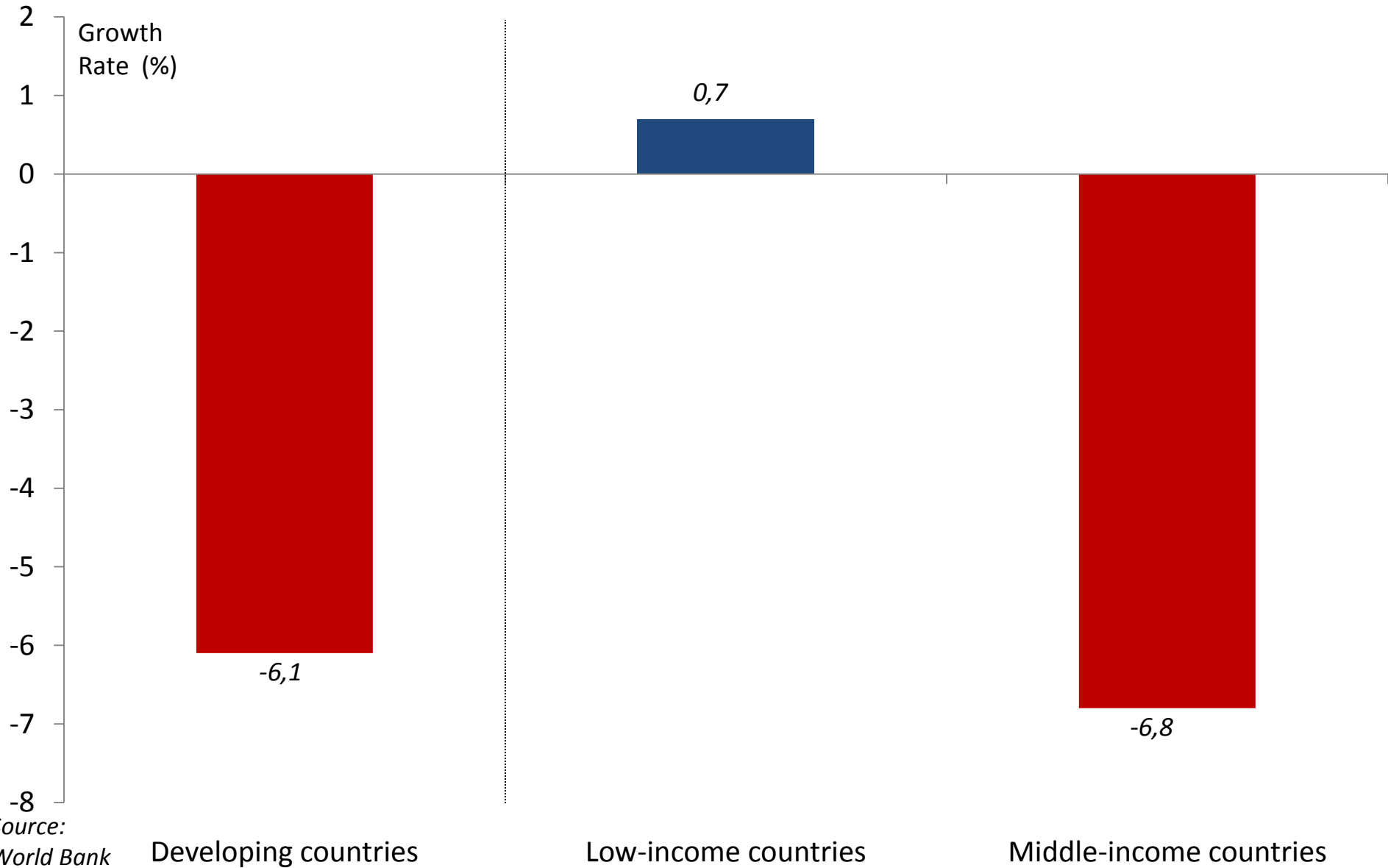
- *Distance: negative but insignificant*
 - *Border: positive but insignificant*



Results (3)

- Development variables
 - GDP per capita
 - *Negative and significant*

Remittance flows to developing countries (2009)



Source:
World Bank

Results (3)

- Development variables
 - GDP per capita
 - *Negative and significant*
 - Quality of institutions (Polity IV)
 - *Negative and significant*
 - Financial development (claims on private sector as a share of GDP)
 - *Positive but insignificant*

CONCLUSION (1)

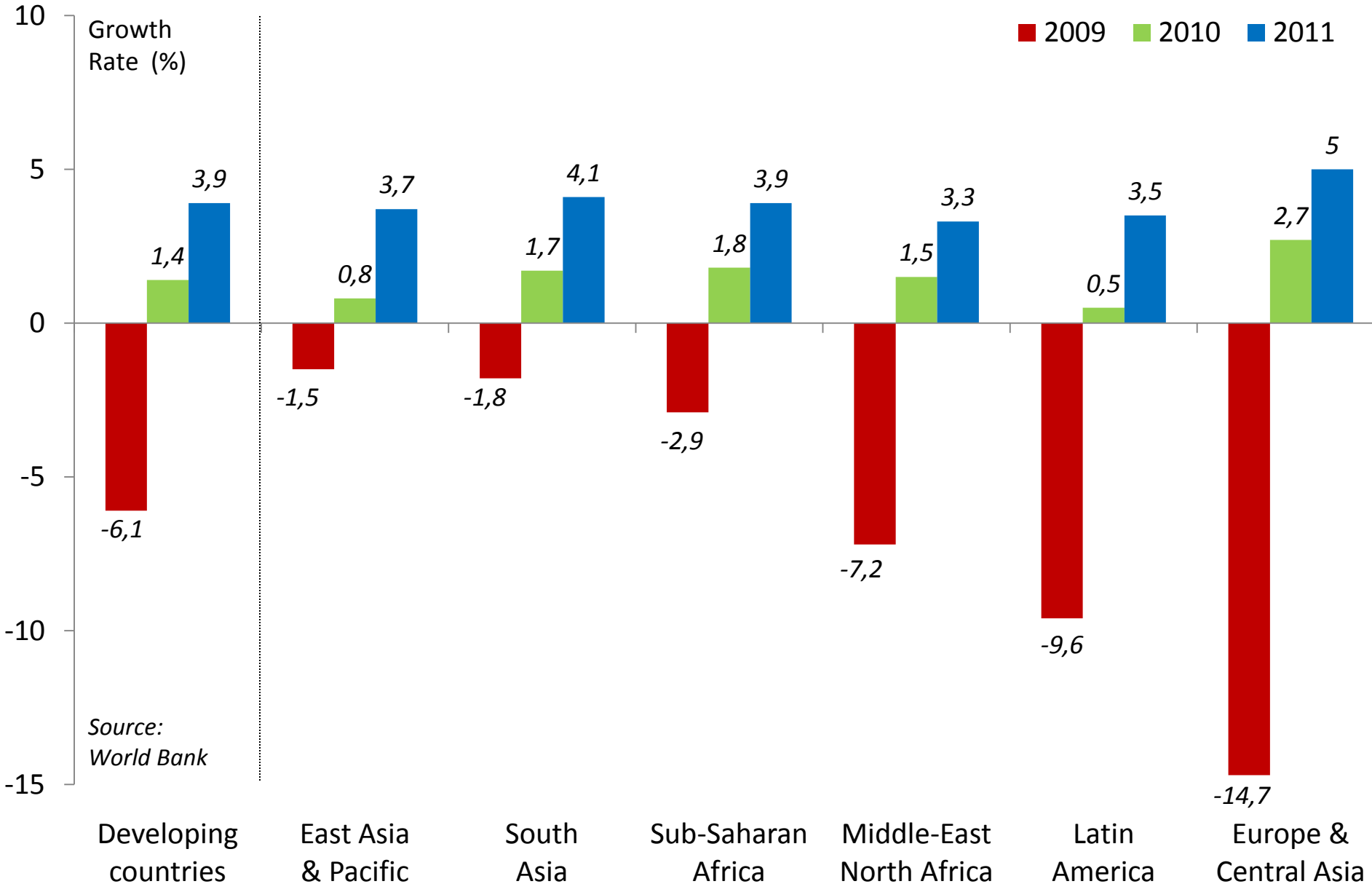
- What explains the 2008-2009 sudden drop in remittances?
 - ✓ Business cycles in receiving countries more important than economic conditions at home
 - ✓ More educated emigrants send more (probably less affected by the crisis)
 - ✓ Emigrants have remitted more to low-income countries (are emigrants from these countries more altruistic?)
 - ✓ The cost of transferring money does not seem to play a significant role in the context of the crisis (neither distance nor financial development are significant)



CONCLUSION (2)

- Perspectives
 - ✓ The economic recovery should contribute to increase remittances in 2010

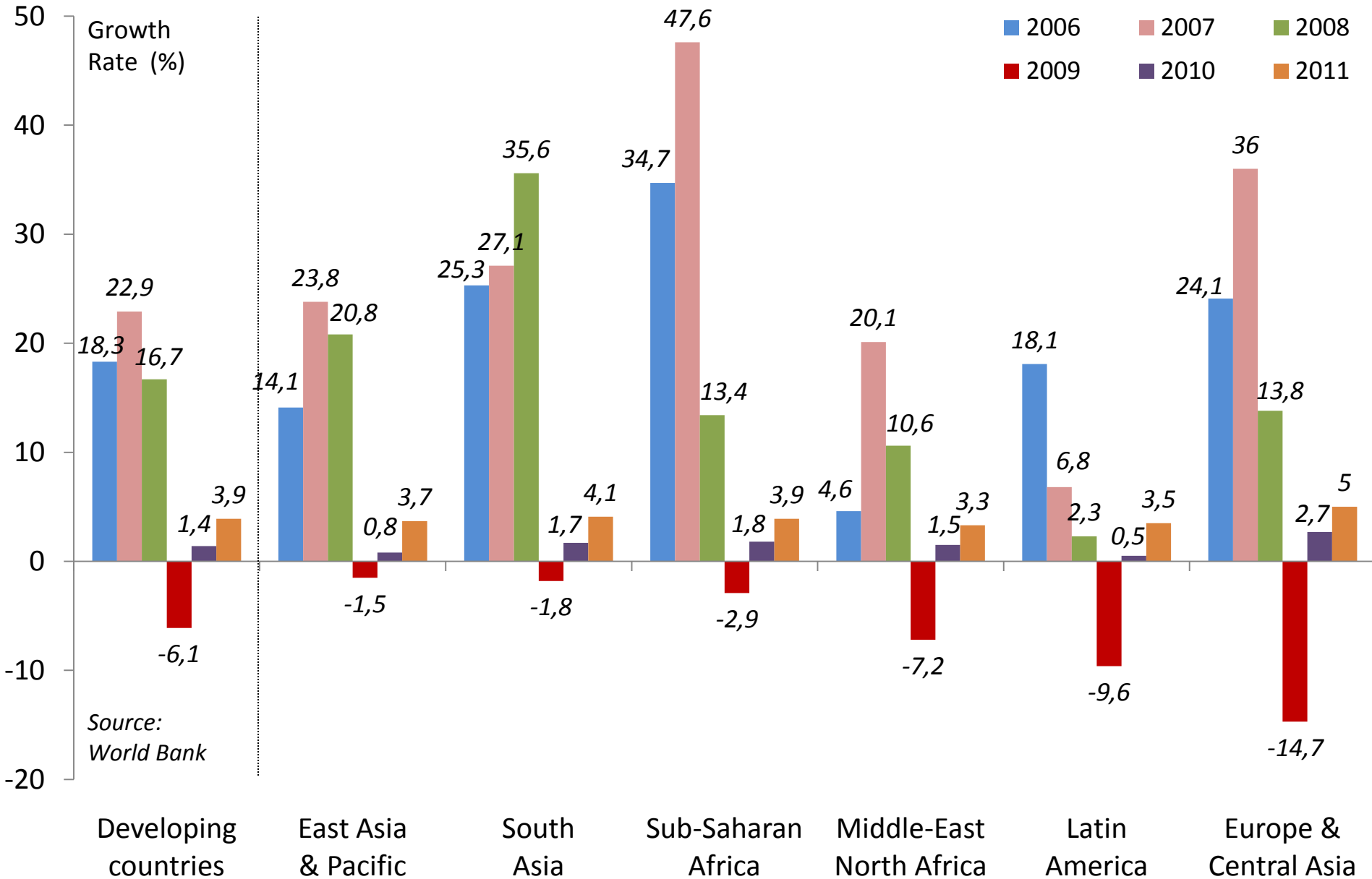
Remittance flows to developing countries



CONCLUSION (2)

- Perspectives
 - ✓ The economic recovery should contribute to increase remittances in 2010
 - ✓ However, high unemployment rates in industrialized countries could limit the increase

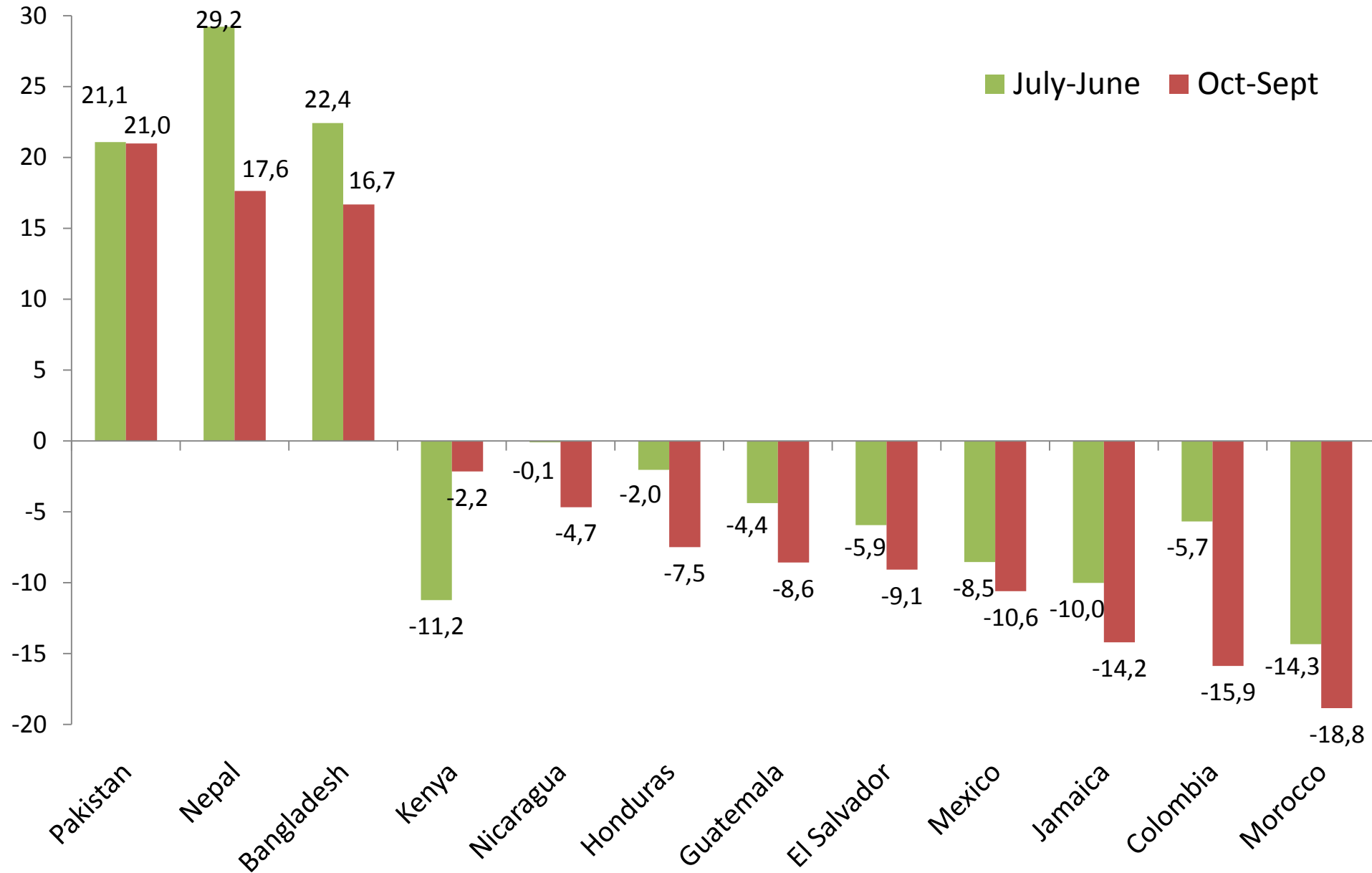
Remittance flows to developing countries



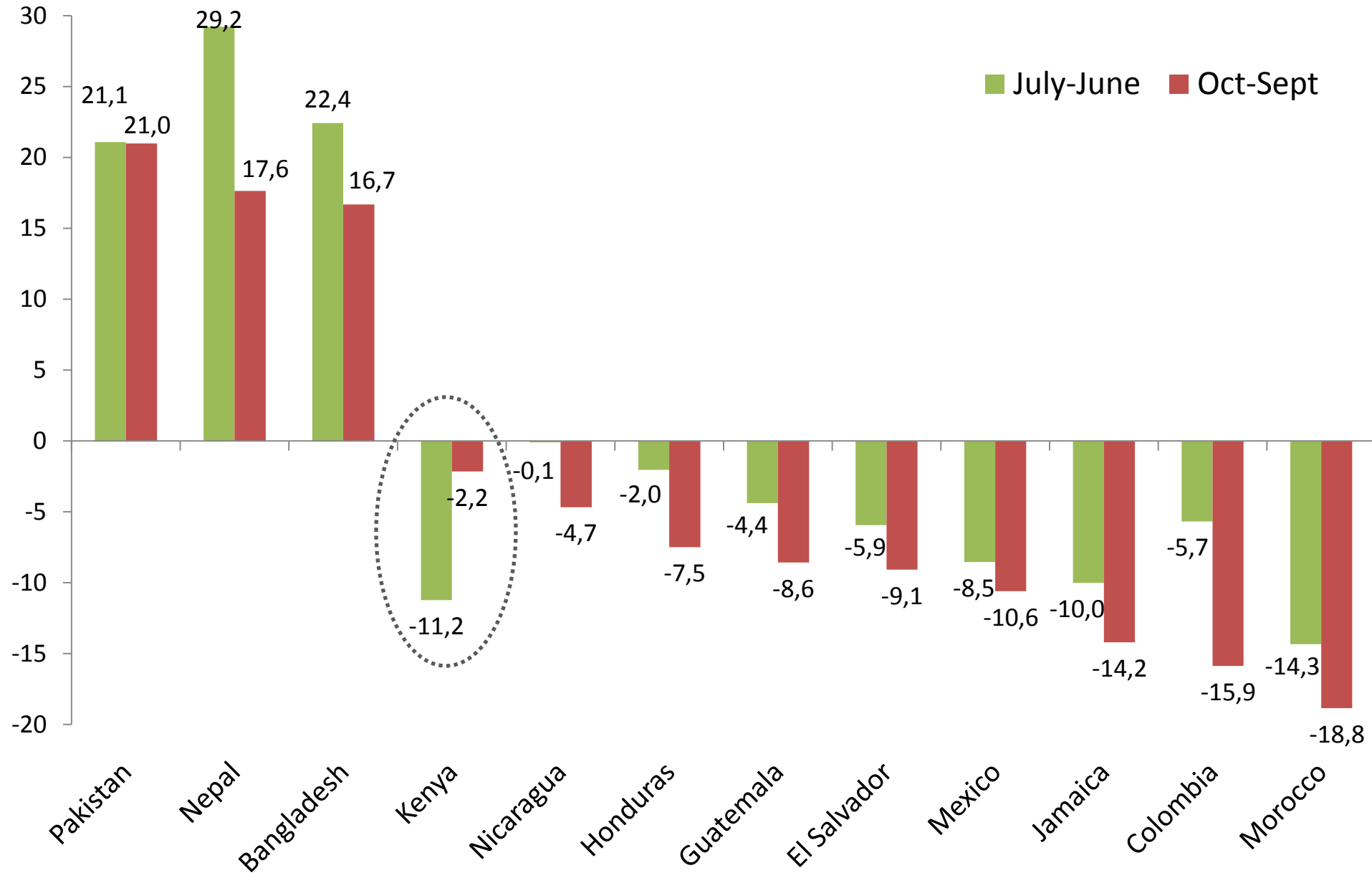
CONCLUSION (3)

- Our paper
 - ✓ More data on remittances
 - Until December 2009

Data on remittances (update)



Data on remittances (update)



CONCLUSION (3)

- Our paper
 - ✓ More data on remittances
 - Until December 2009
 - More countries
 - ✓ More explanatory variables?



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