Bank i Kredyt 40 (6), 2009, 59-76

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Enhancing the development impact of migration

Luca Barbone*, Andrew Dabalen#

Submitted: 4 March 2009. Accepted: 15 September 2009.

Abstract

Migration is a phenomenon that reflects economic, social and demographic imbalances across countries and requires a multi-disciplinary approach to understand and manage. This paper offers some observations on the complex issue of the development impact of migration. It will do so by commenting on three broad questions. First, how and in what ways is migration important for development? Second, what are the costs and benefits of migration for developing and developed countries? And finally, what are the strategic choices that countries – both receiving and sending – are facing, and what do we know and not know on how to advise them?

Keywords: migration, migration policy, economic development, remittances

JEL: F22, J61, O15

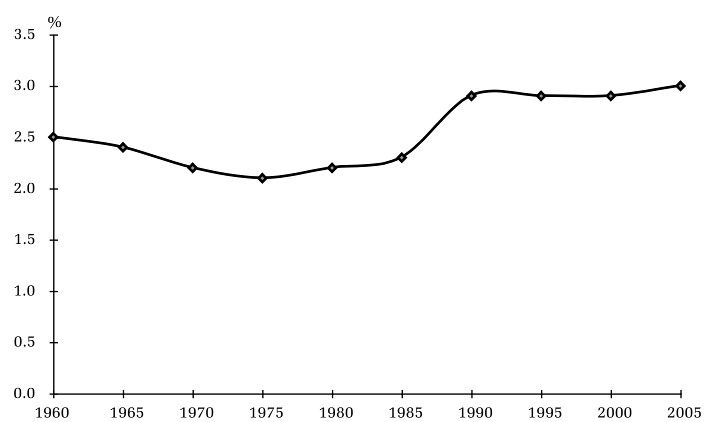
* World Bank; e-mail: lbarbone@worldbank.org.
# World Bank; e-mail: adabalen@worldbank.org.

1. Why is migration important for development?[1]

Judging by the scope of media coverage and public debate, migration has been one of the most contentious public policy issues in the developed countries in recent years. Spirited discussions on just how many immigrants are “too many” – or not enough – has headlined many of the most recent electoral cycles in developed countries – most notably Australia, Denmark, France, Switzerland, Austria, and the U.S. The charged nature of the discussion has stalled or scattered sound reforms. At the same time, at the international level, initiatives have abounded. Following the publication of the influential report of the High Level Commission on Migration in December 2005, the UN system, the IOM, the World Bank and several bilateral and multilateral organizations have moved to establish a global forum for migration and development to provide a platform for countries and development partners to “share information on ideas, good practices and policies regarding migration and development and to explore initiatives for international cooperation.” (United Nations 2006a). The second meeting of the Forum was just held in Manila, Philippines, with the participation of delegations from 160 countries and numerous and diverse civil society representation. This very conference here in Warsaw is a good example of the continuing heightened attention both on the academic and policy fronts.

But for all the public debate and heated discussions, it is worth noting that international migration is actually a very rare event, if you consider the numbers involved and the image of globalization that has taken hold in the world. First, it is true that between 1980 and 2000, migration accelerated as shown from the observation that the stock of immigrants in high income countries increased by 3% a year during that period, compared to 2.4% in the 1970s (United

Figure 1
Percent migrant in world population



Source: United Nations (2006b).

[1] The views expressed here are those of the authors and should not be attributed to the World Bank or its Executive Directors.

Nations 2006b) – a development that has resulted in the share of migrants in industrial countries' populations doubling (rising from 4% to 8%) from 1970 to 2000. Second, it is also true that unlike the past, that is 1960s and 1970s, international migrants are not all from the poorest, least developed countries since in recent years, voluntary international migrants have come from reasonably large countries with fast growing economies (World Bank 2009).

However, the fact remains that there is really still only a small fraction of the world population who reside outside their country of birth. Figure 1 shows that only 3% of the world's population (or about 200 million people) lived in a country different from their country of birth. Although this is the highest rate in the past 40 years, the figure also shows that this rate has not changed much in the last decade.

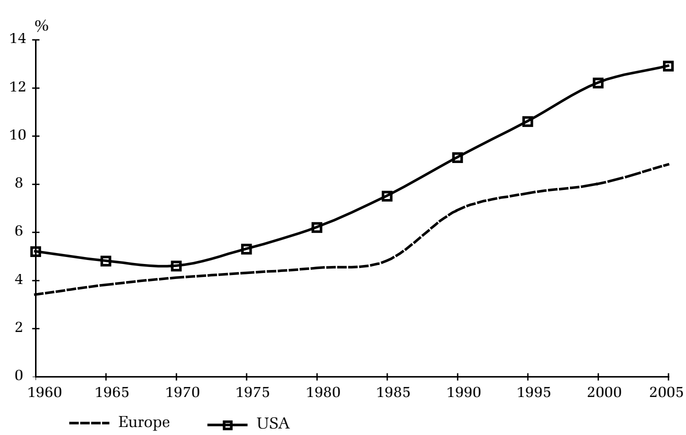
If globalization involves increasing international flows of goods, capital and people, then international flow of people pales in comparison to the volume of flows in goods and capital.

1.1. Four reasons why migration is controversial

But clearly the (relatively) small numbers belie a much more complex reality and one that makes it very important for the development profession.

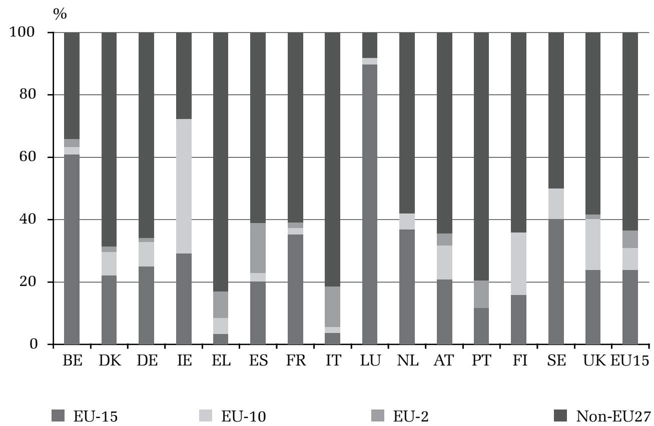
First, migration is not happening uniformly: large numbers of migrants leave from relatively few countries and move to selected destinations. This asymmetry is bound to breed social debate and unrest. Figure 2 shows the share of foreign population in total European and US population. Compared to Figure 1, the share of migrants in total population has been growing since 1960. It stood at about 13% in the US and around 8% in Europe by 2005. And within that, some countries in Europe – most notably Austria, Ireland, Luxembourg, UK, Sweden and Switzerland – have much higher rates than the European average, while others (Spain, Italy) have seen the massive emergence of foreign workers and guests where they were not really present (see Figure 3).

Figure 2
Percent migrant in population – US and Europe



Source: United Nations (2006b).

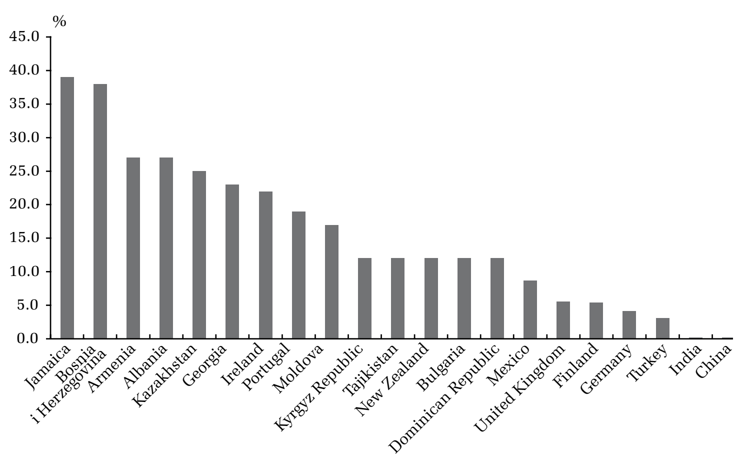
Figure 3
Share of foreign nationals in the EU-15 by broad group of citizenship, 2007



Source: European Commission (2008, Table 4).

Second, for several developing countries, out-migration involves a large fraction of the population. As Figure 4 indicates, the list includes large and small countries as well as developed and developing countries. Close to 40% of the population of some small open economies such as Bosnia-Herzegovina or Jamaica is out of the country. In Europe and Central Asia, Albania, Moldova, Tajikistan, Kyrgyzstan, Kazakhstan, etc., all have migrant population of between 15%

Figure 4
Emigration rates by country of origin, circ. 2006



Source: World Bank (2009); OECD (2008a).

and 30%. The list also includes some large countries with fast growing economies such as the UK. In terms of sheer numbers, of course, countries such as India, China, and Mexico rank among the highest senders of migrants.

Third, while the South-North migration captures the media attention, possibly an even larger fraction of migration occurs between developing countries themselves, or the South-South migration. As a matter of fact, it is fair to say that existing statistics vastly underestimate population flows happening among poor countries. The US, Germany, France and UK remain among the top receiving nations. However, the list of the 15-top receiving countries also includes Cote d'Ivoire, India, Pakistan and Jordan. While most of the international migrants, 37%, move from low- and middle-income countries to richer Northern countries, another 24% of all international migrants are between Southern countries compared to 16% between Northern countries. It has been clear for years now that most international labor moves between contiguous countries. More than half the international migrants from East Asia, Latin America and Caribbean, and North Africa and Middle East go to the OECD countries. By contrast, 40% of international migrants from South Asia and 60% of the same from Africa stay within region, and only 20% go to OECD countries (World Bank 2009).

Fourth (and finally), some of the largest movements of labor in the world occurs every year within countries. A glimpse of these internal migration patterns can be seen by the growth of concentration of economic activity within countries and the constantly changing spatial distribution of the population. The most important example of all is China, where policies to restrict the flow of internal migration (adopted among other things with a view to preventing the emergence of slums and shantytowns) have been unable to stem the movement of people, and have created a class of second-rate internal migrants numbering perhaps 250 million, i.e. more than all recorded international migration in the rest of the world.

To summarize, although international migration is still uncommon compared to other flows that measure the scale of globalization, for some receiving regions, especially Europe and North America, and individual countries in poor and middle income countries, it has been increasing and will, more likely, continue to do so because:

- Increasing globalization is leading to greater awareness of the gaps in living conditions and providing clearer incentives for migration.
- Improved access to transportation and communications is facilitating mobility of individuals while enhanced information flows are reducing uncertainty over migration prospects.
- A large share of the population in developing countries is under 14, and they are likely to be more responsive in the near future to migration incentives.
- Consolidation of Diasporas in higher income countries facilitates the information and social networks required to migrate.

Furthermore, while labor flows between wealthy OECD and poor- and middle-income countries often receives much of the attention, there is a much larger movement of people within countries (internal migration) and between poor and middle-income countries (the South-South migration). This section has documented the scale and distribution of migrants. But this background information begs an important question: what has been the contribution of migrants to the economic well-being of their families and host and sending countries. In the next section, we summarize some of the consensus ideas on the key benefits and costs of migration. However, because the benefits to sending and receiving countries take different forms, we take each in turn.

2. How important is migration for development?

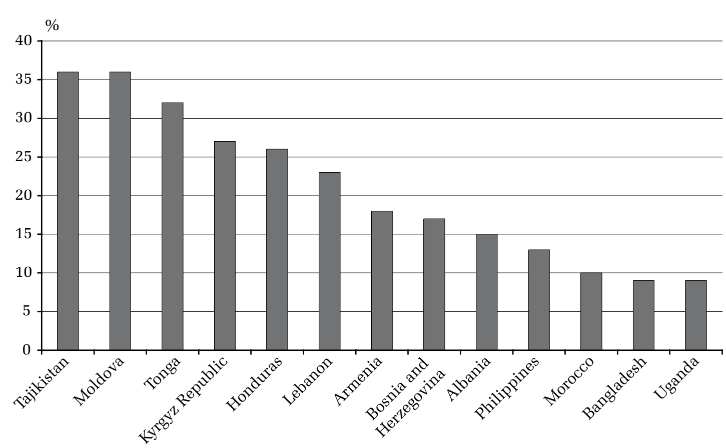
For sending countries, migration has been shown to increase capital inflows (in form of remittances), reduce household poverty, improve human capital investments, and expand business start-ups. The next section provides evidence on each of these issues.

2.1. Benefits for sending countries

Economic growth through increased foreign exchange. The most obvious benefit for sending countries is, undoubtedly, the flow of remittances (see Figure 5). Remittances are nearly three times the size of official development assistance (ODA) received by developing countries, except in Sub-Sahara Africa. Officially recorded remittance flows are expected to reach USD 283 billion in 2008, almost 7% growth compared to 2007, although in real terms, they are expected to decline from 2% to 1.8% of global GDP. Remittances were also greater than 65% of foreign direct investment (FDI) in all regions, except Europe and Central Asia (ECA). They are larger than capital flows in 36 developing countries, and larger than the most important single commodity export in 28 countries. In Europe and Central Asia, remittances amount perhaps to 36% of GDP in Tajikistan, 36% in Moldova, and important amounts (double digits of GDP) in several other countries (27% in Kyrgyzstan, 17% in Bosnia, 15% in Albania, 14% in Serbia, etc.).

Remittance flows are also generally more resilient than private or official capital flows, a feature that could prove exceedingly important amidst one of the worst financial crisis in decades. By providing a reliable source of foreign exchange, remittances lead to stable macro-economic conditions. Despite the low level of utilization of remittances for financing of investments, the spectacular growth in inflows has sustained high growth rates for considerable periods of time.

Figure 5
Remittances as percent of GDP



Source: World Bank (2009).

Income gains to migrants and reduction in household poverty. Through remittances, migrants share some of their earnings to enable receiving households to smooth consumption and to escape poverty. Recent research and the availability of better household-level data, has enabled us to have a much better understanding of the impact of remittances on poverty and income distribution. For instance, cross-country evidence shows that a 10% increase in per capita remittances leads to a 3.5% decline in the share of poor people (World Bank 2006b). But the impacts are much larger in micro-studies from specific countries across the globe. Households with migrants have been shown to be substantially better off in Uganda and Ghana in Africa (World Bank 2006a), Bangladesh in South Asia (World Bank 2006a), Albania and Moldova in ECA (World Bank 2007a; World Bank 2007b), Poland (Jonczy, Rokita 2008), and Philippines in Southeast Asia (Martinez, Yang, Yang 2005). In Thailand, remittances worked as a shock buffer during the 1996–99 crisis when poverty increased by 4.5 percentage points (World Bank 2006b; Ratha 2007), although it could have increased more without the remittances

Despite the accumulating evidence on the positive role remittances play in alleviating poverty, it is important to underline here that remittances are not an overall panacea for poverty reduction. Evidence from several countries, particularly in Latin America, points to the fact that the poorest households are less likely to be recipients of remittances – a reflection of the fact that migrants tend to be relatively better-off to begin with (World Bank 2006b).

Investment in human capital. There is also growing evidence that increased remittances and information sharing are associated with increased expenditures and investments in education and health. For example migration has been shown to:

- Reduce school dropout rates in El Salvador (Cox-Edwards, Ureta 2003).
- Increase investment in children's schooling in Ecuador (Leon, Bedi, Sparrow 2009), Haiti (Amuendo-Dorantes, Georges, Pozo 2009), Pakistan (Manzuri 2007), and Philippines (Yang 2008).
- Improve health status. In Mexico, children in migrant households have reduced mortality rates by 3% and increased birth-weight by more than 10% (364 grams) (McKenzie, Hildebrandt 2005).

Investment in business start-ups. Additional evidence shows that migration may help households overcome poor credit availability in sending countries. In particular, remittances have been shown to provide increased financial resources for entrepreneurial activities, especially those that have a high-risk/high return trade-offs:

- In China, remittances have been used to finance productive investment in rural households (De Brau, Rozelle 2008).
- In Mexico, remittances in 10 States represent about one-third of total capital in urban micro enterprises (Woodruff, Zenteno 2007).
- In Albania, households with international migrants have higher propensity for self-employment and those in agriculture were more likely to shift activities from cereals (low return) to fruits and livestock (high risk/high return) (Kilic et al. 2007).

2.2. Benefits for receiving countries

For receiving countries, migration has brought multiple benefits too. We highlight only a few of these benefits.

Improving economic efficiency and growth. Most migrants are typically moving from low productivity areas to high productivity regions; therefore, they should improve allocation of resources and global output. By entering sectors where demand for native labor is high and unavailable, migrant labor complements native workers and therefore makes native workers more productive. Recent research in endogenous growth indicates that concentration of high skilled workers (immigrants included) creates spillovers that fuel innovations. For instance, in the US, a 1 percentage point increase in the number of immigrant college graduates increases patents *per capita* by 9% to 18% (Hunt, Gauthier-Loiselle 2009). Overall, therefore, immigration should lead to better allocation of resources, higher productivity, and growth. Immigrants also create substantial economies of scale. An increasing population means ever larger markets – larger business, more division of labor and specialization, and makes possible major social investments (e.g. public transportation). In one of the only studies of its kinds, Boeri and Brücker (2005) show that a 3% increase in Eastern European (New Member States) immigration to the EU-15, at the given wage and productivity differences, will increase total EU GDP by 0.5%. If sustained over a long time, this is a huge boost to the GDP of the EU-15 countries.

Increasing labor supply. Many of the countries that are recipients of large influx of immigrants are also countries that are experiencing aging populations and are therefore in need of young workers to support the swelling ranks of the elderly. The projections for the Eurozone indicate that even current levels of migration may not be sufficient to stem a decline in population (European Commission 2008, Chapter 2, Chart 1) and indeed more migration may become necessary (Bijak et al. 2007). In such circumstances, migration has been shown to have been beneficial. Most of the benefits in receiving countries would go to owners of factors of production that are complementary to immigrants – including employers of immigrants and buyers of immigrant produced goods and services. This has been especially the case when immigrants and native workers are complementary and where most immigrants come with high skills and substantial labor market success in the receiving countries.

Slow down overall growth in wages and price level (inflation). The existing literature provides no general consensus on the labor market impact of immigrants in receiving countries. There is some agreement that immigrants displace and reduce the wages of low skilled natives. But after that, the majority of the studies find either no impact at all, or negligible negative wage and employment effects (Hanson 2008; Card 2001; 2005; see also Orłowska 2008 for EU), and the case studies of France, Germany and UK (Nickell, Saleheen 2008; Bailliet, Klein 2008; Felbermayr, Geis, Kohler 2008). If the latter is the case, it suggests that the main value of immigrants is to slow down wage growth – which surely must have been higher if the same level of economic growth were maintained and there was no migration. A slowdown in wage growth has the added advantage of slowing down overall price level since wage costs are a major determinant of price level in many countries.

Employment-creation in receiving countries. Proportionately higher numbers of immigrants become entrepreneurs, and in some countries such as the U.S., immigrants are 10 to 20% more likely to start a business. These immigrant businesses create employment in host countries (Bagwell 2006; Basu, Goswami 1999; Buss 2002; Kloosterman, van der Leun, Rath 1999; Saxenian 2002).

2.3. Costs of migration

Thus far, we have highlighted some of the benefits that migration and immigrants bring to both receiving and sending countries. The tale, were it to end there, would be a happy one, and for the most part it is. However, migration is not without costs and the latter are complex because they are layered (from the personal costs to immigrants themselves to social costs). So we mention three key costs related to migration.

Macroeconomic costs: the potential for Dutch disease. As just argued, remittance flows have come to represent very high proportions of national income and of capital inflows in a number of sending countries. While we stressed the potential for poverty reduction and protection from external shocks that such flows entail, we must also recognize that such bonanzas do not escape the laws of economics, and thus carry the possibility of undermining the competitiveness of small economies as real exchange rates appreciate as the result of the increase in the demand for non-tradable goods, thus undermining export diversification. Indeed there is some evidence that domestic wages of countries that are highly integrated, that is, countries with high emigration rates, are much more sensitive to exchange rate changes than countries that are not integrated (Mishra, Spilimbergo 2008). This poses hurdles for competitiveness of many such countries (most of whom are small open economies), and may already be happening even in Poland (Kalisiewicz 2008; Galica-Orzechowska 2008; Jankiewicz 2008; Szkudlarek 2008). We will return to this important issue shortly.

Individual costs. It is important to stress that differences in *per capita* incomes between sending and receiving countries overstate income gains to migrants. By some measure income gains that take the differences in per capita incomes overstate income gains to migrants by two to three times (Hanson 2006; Clemons, Montenegro, Pritchett 2008; Rosenzweig 2007; McKenzie, Gibson, Stillman 2006). But even these gains are gross returns to migration. Little information is available on the actual costs of migration such as transport costs to relocate or to cross border illegally, time and wages lost in changing labor markets and psychic costs of leaving home. Any one of these costs may be substantial and could reduce further the estimated gains from migration by large margins.

As an example, the full extent of cultural assimilation and therefore reaching the same level of psychological satisfaction as natives, may last as long as 30 years (Corbi, Freguglia 2008, although for a contrary view see McKenzie, Gibson, Stillman 2009).

Social exclusion. Some of the individual costs can spill over and turn into social costs. Money to migrate may have been borrowed which leads to household indebtedness, and as part of debt recovery, lenders may seize assets or even traffic some household members. In addition, long separations and absence of traditional heads of families could lead to a breakdown in authority and cohesion. These could lead to family dissolution, and potentially increased risk of social exclusion of young adults who may indulge in high risk activities like crime and drugs. Difficulty in assimilating to receiving country culture can lead to alienation, marginalization, and exclusion from many aspects of the society, including the labor market.

Deterioration of key social services. Intense brain drain can deplete the limited resources available for delivery of high value social services, such as in health and the education system. This is especially acute for small countries already having difficulty meeting their human resource needs in key sectors of the society. But it could also pose serious problems for relatively rich countries experiencing intense migration. There is a voluminous literature that argues many sides of this issue, and we will not attempt to summarize it here.

3. Strategic issues

The discussion of costs and benefits of migration reveals that the issues on the table are complex, and policies to enhance the positive impact of migration on economic development need careful thinking. As a way to conclude, it is worth raising one crucial issue to help us think about policy implications: How should sending countries approach migration policy?

3.1. How should sending countries approach migration policy?

In December 2005, the UN Secretary General's Global Commission on International Migration issued a report which called for concerted action to formulate a coherent global approach to the issue of migration. The report proposed six "Principles for Action" to accomplish that objective, and among them it called for "Reinforcing economic and developmental impact", along these lines:

"The role that migrants play in promoting development and poverty reduction in countries of origin, as well as the contribution they make towards the prosperity of destination countries, should be recognized and reinforced. International migration should become an integral part of national, regional and global strategies for economic growth, in both the developing and developed world."

3.2. How do these lofty principles stack against the reality in most countries?

With very few exceptions, sending countries have yet to incorporate migration policy in their overall economic development strategies. This carries risks as well as the possibility of missed opportunities. In some countries, indeed, it is virtually impossible to ignore the phenomenon, as it permeates every facet of socio-economic activities. But surprisingly in very few countries is migration seen as a holistic issue, and the discussion, if it indeed occurs, is often relegated to specific issues or to bilateral negotiations. In recent years, we have seen in some countries where the amount of remittances has grown exponentially, a certain complacency among policymakers has set in. Remittance flows appear to relieve external budget constraints and provide an avenue for easy economic growth, postponing the need for needed reforms.

But lack of appropriate positioning, or complacency in the face of availability of foreign exchange, carries its risks. Pros and cons of different strategies must be carefully thought through.

For the sake of argument, consider two possible migration strategies that could be adopted by poor countries already sending large numbers of migrants, and let us think through what the consequences could be in terms of policy choices. The first strategy which has been proposed explicitly for Nepal by Pritchett (2006), but which is also implicit in many of the high remittance-receiving countries around the world, is one of acknowledging the role of the country as an exporter of people instead of goods. In this model, a country, particularly if its birth rate is substantially higher than in receiving countries, specializes in exporting people, and finances its external accounts essentially through remittances. The country recognizes upfront that it will not be an export-driven economy, and takes the necessary policy steps to ensure that it remains competitive in the market for migrant work. A special role is for education, which should be patterned to match the potential demand from abroad. But other ancillary government policies are also important, such as those aiming at the protection of the rights of migrants, at the closing of information gaps in the international labor market, etc.

The objections to this strategy are many, and from many sides. Some are of a moral tone – a country should be able to provide for its citizens. Others are more strictly economic: it may not be feasible in the long run to continue to export labor force, and if the birth rate were to follow the demographic transition, the standards of living of those left behind might fall, risking a vicious circle that might call into question the viability of the country.

An alternative strategy, on the other hand, is one that regards migration – particularly the spike in migration that has occurred in the past 10 years or so as a temporary phenomenon, and attempts to pave the way for a future growth path based on domestic resource mobilization and export growth. This strategy would want to minimize the macroeconomic effects of remittances (assuming that this is possible, particularly in poor countries), and would want to concentrate on those things that will make the country more attractive to citizens to stay and/or migrants to come. This typically means committing to broader policy and institutional reforms to make the economy competitive and attractive (the behind the border issues). And to take the case of educational policies, the objectives here would not be to prepare a labor force for deployment abroad, but rather to provide the basic and higher skills that might be required for the economy of tomorrow.

As much as this second strategy may sound more appealing, it should be made clear that it is not an easy one to follow. Sterilizing the effects of remittances is extremely difficult, in view of the limited depth of capital markets in poor countries, and of the private nature of remittances. Unlike, say, oil revenues, remittances cannot practically be intercepted by the public sector (despite the recent advances in innovative ways of financing such as remittance bonds, which are still in an infant stage). And perhaps more importantly, there is a strong correlation between the quality of the business environment and the existence of migration flows, set at the root of the governance systems in the countries involved. To think that enlightened and capable governments might emerge that can discharge this important agenda appears unlikely at best.

Be that as it may, these two contrasting strategies are meant to suggest what kinds of questions should be asked by policymakers (and by international partners) when placing migration in a development strategy context. Unfortunately, the truth of the matter is that, in most countries, such a strategic thinking is yet to take place, and that often the advice of international partners seems to be a variant of strategy 2, but without much notice of the difficulties that it carries.

3.3. Strategic issues for the New Member States

Many new member states of the EU are net migration senders in the sense characterized in this paper. A number of studies have predicted the size of emigration from NMS to the EU-15 in the long run. These estimates range from a low of 2–4% of the NMS populations, which will add 1% to the EU-15 population (Bauer, Zimmermann 1999; Boeri, Brücker 2000; Alvarez-Plata, Brücker, Silverstovs 2003; Zaiceva 2006) to a high of 7–8% of the NMS population (See citation in Kahanec, Zimmermann 2008). However, these studies do not account for the Transitional Agreements (TA), which have had substantial restrictions on labor mobility from the NMS.

Recent accounts of actual post-enlargement migration flows show that the net emigration of NMS to the EU-15 has been modest (European Commission 2008; Kahanec, Zimmermann 2008). According to these studies, and as predicted, those EU-15 countries that imposed little restrictions saw substantial increase in migration flows. However, somewhat surprisingly, some of the countries that had tougher restrictions, such as Austria and Germany, also witnessed increases in migration flows. Partly this reflects geographic and cultural proximity and historical migrant networks. However, a bigger draw is almost certainly the huge income gap, measured at 50% in 2004 between the NMS and the EU-15 (European Commission 2008) and better employment opportunities in the EU-15.

A key unknown facing the NMS is the impact that the impending end to TA will have on labor mobility, especially given the fact that a substantial fraction of the population continues to have the intention to live in another member state to work (see Kahanec, Zimmermann 2008, Figure 4). Will these individuals act on their intentions? Will the labor flows be modest and benign as the accounts in the recent “Employment in Europe” report show (European Commission 2008)? Or will they resemble the patterns of emigration, especially from Poland and Baltic states, to EU-15 countries with open borders, witnessed after the 2004 enlargement?

From one perspective, the hope is that the open movement of workers after the TA would lead to convergence in living standards. That is, labor movement (sometimes called “brain circulation”) will lead to an efficient allocation of labor, improve productivity, accelerate technology transfer, and lead to overall improvements in welfare across member states. This indeed is the view shared by the most optimistic common market proponents. And yet, while labor movement may take place and while EU-wide economic growth improves, it is not implausible that convergence in welfare may not happen – at least not for a long time. This is echoed in a number of papers (see especially Brunner 2008; Wolszczak-Derlacz 2008). A scenario where high skilled workers emigrate from NMS to their competitors in EU-15 and lead to a widening of the productivity gap between the EU-15 and the NMS is not desirable but plausible (Lo Turco, Parteka 2008). In this latter scenario, there is a risk that the NMS will end up with more unequal societies, poorer than the EU-15 and unable to compete in the larger EU market. Therefore, strategic action may be required to prevent it. So we come full circle – whether the NMS are in a restricted environment for labor movement as now or in an unrestricted labor environment as would prevail after the TA comes to an end, the strategic issues raised above do not go away.

4. Conclusions

To conclude these reflections on the development impact of migration we now offer two final observations on the way forward.

First, as explored in this paper there is a lot more that we do not know about the effects of migration in its many facets. It is imperative for the international community to continue to support the efforts to close the information gaps and to increase our knowledge and understanding of these phenomena. This, as in many other areas, is the precondition for fact-based decision making, which is often lacking in matters concerning migration[2].

Second, the current financial crisis, with its unprecedented job losses and potential for long duration, is likely to exacerbate the migration debate, while putting an extra burden on the poorest countries and the migrants themselves. We are already witnessing large numbers of migrants returning to their countries as their job opportunities have suddenly vanished. As noted before, remittances are now expected for the first time to decline in 2009. While the dimensions of the world crisis are yet to be seen in their entirety, we should strive to add to the voices of reason and moderation so that the economic woes do not result in a backward step in the domestic and international debates on migration.

[2] In this respect, this conference and many such gatherings are a commendable effort to fill this gap. We in the World Bank are working actively, both on the research and the policy front.

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Acknowlegements

Earlier version of the article was presented at the Conference on Migration, Labour Markets, and Economic Growth in Europe after Enlargement, 8–9 December, 2008, Warsaw, Poland. We would like to thank Dilip Ratha, Sanket Mohapatra, Paulina Holda, two anonymous reviewersand conference participants for useful comments.