"Migration is natural and a key factor in the global economy and development"

Dr. Dilip Ratha is an economist, professor, writer, researcher and associated with the World Bank. He also has a keen interest in economic policy and developing economies. In this unique interaction, he talks to Kanchan Banerjee about migration, remittances and innovative financing.

About half a decade ago, you were among the first in the world to figure out the first global tally of remittances, what was the result?

DR: The money that migrants send home turned out to be way larger than I expected, the finding actually stunned experts in the field. Gathered from a trickle of hard-earned cash, believe it or not, remittances are larger than $300 billion a year. Compare that with official aid flows which are just about $100 billion a year.

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Today you are a leading figure in the area of Migration and Development. What are the factors that attracted you to work on the two related areas of development in today's inter-connected world?

DR: As a migrant myself, I am deeply interested in the phenomenon of migration and remittances. Before Y2K, I was actually talking with friends about starting a money transfer service to India from the US! The main reason for my interest in migration is that it produces instant poverty reduction. And it does that without having to resort to corrupt practices. This enables a poor person to hold his/her head high in the society. When migrants send money, it helps not only the immediate family members and friends, but also indirectly the local community. I call remittances 'value-added money' because it is not only the dollar that comes in, each dollar also comes with advice on what to do with it. Also remittances are friends in foul weather they increase when the recipient is facing difficult times. There are about 200 million migrants worldwide, supporting as many if not more people at home. That suggests that remittances may reach almost a tenth of the world's population.

You believe that migration is not only natural but also is a necessity for a better world. Why is it so?

DR: Migration is the least developed aspect of globalization today as compared to foreign investment or trade. As it turns out, many rich countries are experiencing a decline in population which means there a lot of old people drawing pensions and in need of care, and there are not enough working age people in these countries to come to their rescue. In contrast, many poor countries in Africa and other developing regions have growing number of workers looking for jobs. In any case, the world needs to prepare for future global labour markets, which would require different skills sets than the ones we currently have. Movement of people across borders will be pertinent to meet these skill requirements.

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You propounded 'innovative financing' in the area of even remittances. How does the money transfer affect human life and economy and what innovation do you promote?

DR: While remittances are not new, there are new ways of leveraging these flows for improving financial inclusion of the poor and access to capital markets for banks and governments. One can imagine consumer loans linked to remittances. As people are drawn to a financial institution to send or receive remittances, they can be persuaded to learn to save and invest. Many countries have also raised billions of dollars in bond financing by using rights to remittances as collateral. There is also Diaspora bond, such as the Resurgent India Bond, which can be used by countries to tap into the wealth of the Diaspora. I can imagine that a bond targeted to the NRIs to raise financing for, say, a new railway line or a high-speed train passing through their home town can be very attractive to NRIs.

So the so-called 'brain-drain' is not necessarily bad?

DR: I believe one should be careful in using words, because attaching "drain" to any phenomenon would prompt a desire to stanch it. It is true that emigration of a large number of highly skilled people can reduce the availability of skills at home, especially in small countries. But this problem is rather rare in large countries. The real issue is what policies one might propose to increase the supply of skills at home. Stopping people from emigrating is an outright violation of the right to mobility. Also that would raise ethical questions such as, how do you choose which skill is more valuable to the society than others? In any case, stopping a particular skill category from emigrating does not preclude these workers from switching profession if they have no job satisfaction at home. Finally, one must realize that the possibility to migrate and earn several times more money actually attracts trainees in the profession concerned; without this possibility, enrollment in medical or IT sectors are likely to go down over time.

How are Migration and Remittances related?

DR: Remittances provide the most tangible link between migration and development, a relationship that has only increased in importance since the economic down turn.

What is your achievement so far in terms of making migration and remittance more meaningful and more impacting in the global economy?

DR: When I first came to the World Bank in the early 1990s, most economists saw remittances as small private sums that were irrelevant to development. There was also a feeling that remittances fueled so-called conspicuous consumption, and therefore, were not good for development. Through my work, I have pointed out that remittances are actually large and a dependable source of funding during hard times. We know now that consumption is not necessarily a bad thing. Remittances generate significant indirect benefits to the community at large. They are used to fund education of the children, health care for mothers, and food and shelter for every one. One area where we can make things better is to reduce remittance costs. I think this is an important issue in India where we also have very large internal migration from one state to another, and the cost of sending money is unnecessarily high. Also remittances can be linked to financial products, as I said before.

Besides drawing attention to the quality and importance of data on remittances and migration, I have also pointed out that migration is not only a South-North phenomenon, but that South-South migration is actually larger than South-North migration. For example, I believe that the largest migration corridor in the world may not be Mexico to US as commonly believed, but that it is Bangladesh to India.

In my new work, I am trying to argue that the relationship between immigration and border controls may actually follow the shape of an inverse-U. That would imply a different actually opposite set of policies to manage migration than currently practiced.

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What is your role in the World Bank today and what contributions have you made through this organization so far?

DR: I have been fortunate enough to work on many interesting aspects of global development finance at the World Bank. Prior to remittances and migration, I worked on South-South foreign direct investment, and relationship between official and private flows. I am continuing my work on innovative financing, which includes, among others, a model that predicts shadow sovereign ratings for countries. A remarkable finding from this latter line of work is that many unrated countries nearly 60 of them today appear to have the same rating as many emerging market economies of the early 1990s. In other words, they can potentially access capital from the international markets. These shadow ratings can be very useful in evaluating public-private partnerships in infrastructure financing.

During this economic crisis, you believe that remittances play a very positive role. Please explain.

DR: Historically, remittances have tended to rise in times of financial crisis or natural disasters because migrants living abroad send more money to help their families back home. For example, remittance inflows increased to Mexico following its financial crisis in 1995, to the Philippines and Thailand after the Asian crash in 1997, and to Central America after Hurricane Mitch in 1998. Now we know that remittances also tend to be resilient during crisis in remittance-source countries such as the US or the UAE. I was in Dubai recently (to attend a meeting of the World Economic Forum). It turns out that migrants are not returning in large numbers despite the economic crisis there. Many are trying to maintain the level of remittances by cutting consumption and rental. We expect remittances to fall only 6% in 2009 and recover in 2010 and 2011.

In the global downturn, fluctuations in currency rates have led to some surprising increases in remittance levels -- especially between India and the United States. Remittances meant for consumption will likely fall as the U.S. dollar appreciates against the Indian rupee, because the same basket of local goods and services in India can now be purchased with fewer U.S. dollars. However, the remittances meant for investment -- or the purchase of goods with long-term payoffs -- will rise as the depreciation of the rupee produces a "sale effect" for housing and other assets in India.

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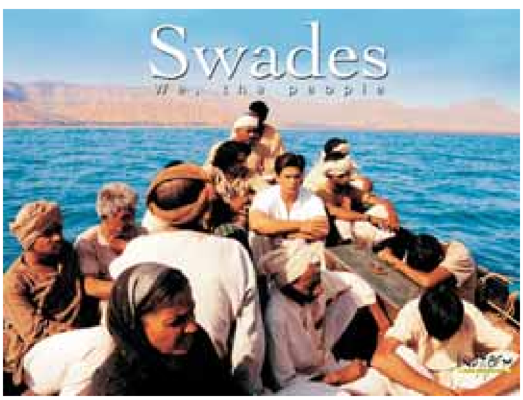
What picture you want to share with the readers about the future of Migration and the fate of remittances?

DR: In the near-term, I do not expect new migration flows to turn negative and return migration to be large, which means the existing migrant stock will continue to grow. At the same time, I do not believe that the record level of remittances seen in 2008 when India registered remittances of $52 billion would be breached any time soon. Slowing construction and a delay in the global economic recovery would imply that remittances will remain rather flat during 2010-11.



In the long-term, migration and remittances are set to increase. Besides the demographic imbalances alluded to earlier, falling travel costs and explosion of information flows will break down many economic and cultural barriers to the movement of people. I am hoping that one day we can think of many different concepts of national boundary: one for trade, another for national identity, and perhaps not many for the global labor markets. I am not sure that fences actually make great neighbors.

What do you propose to do about migration and remittances?

DR: To best leverage these flows for development, it is time to create an international body -- an "International Remittances Institute" -- that would monitor the flows of labor and remittances and oversee policies to make them easier, cheaper, safer, and more productive. Indeed, this could be an institution for migration and development more broadly. We are working on a proposed African Remittances Institute in collaboration with the African Union and the European Union. But a global institution is necessary to monitor and facilitate sizeable flows of people and money. I also hope that countries such as India would revamp their apparatus for issuing passports and regulate agencies that recruit unskilled workers. I am a strong believer in the multilateral process initiated through the Global Forum on Migration and Development. I hope India would host the Global Forum someday, perhaps in 2013, after the UN High Level Dialogue.

What impacts of migration and remittances you foresee in future for Indian Diaspora?

DR: As the crisis deepens, lack of jobs will force some workers home. But they will return with savings that are typically recorded in official statistics as remittance inflows. During the Persian Gulf War in 1991, for example, a large number of Indian migrants came back home from the Gulf, driving up the amount of remittances to India. Migrants not only bring back savings, but also business skills. First of all, they have to be welcomed back into the society and then have to encourage them in facilitating there entrepreneurial services.

In few decades, being the nation with largest number of young working age people, India will also be one of the largest suppliers of the migrants to the world. The Indian Government will start planning for this but for the whole not only in regards to current destination countries but also newer regions. India has to invest a lot in skill development of millions. At the same time an aggressive accreditation program for various educational institutes to maintain standard and employable graduates is also required, this also calls for possible collaboration with reputed foreign institutions.

The author is the Lead Economist in the Development Prospects Group of the World Bank and also a recognized expert on migration, remittances and innovative financing. He has a PhD in economics from the Indian Statistical Institute, New Delhi. For more info, please visit www.dilipratha.com.