Skilled Migration and Growth of Caribbean Nations

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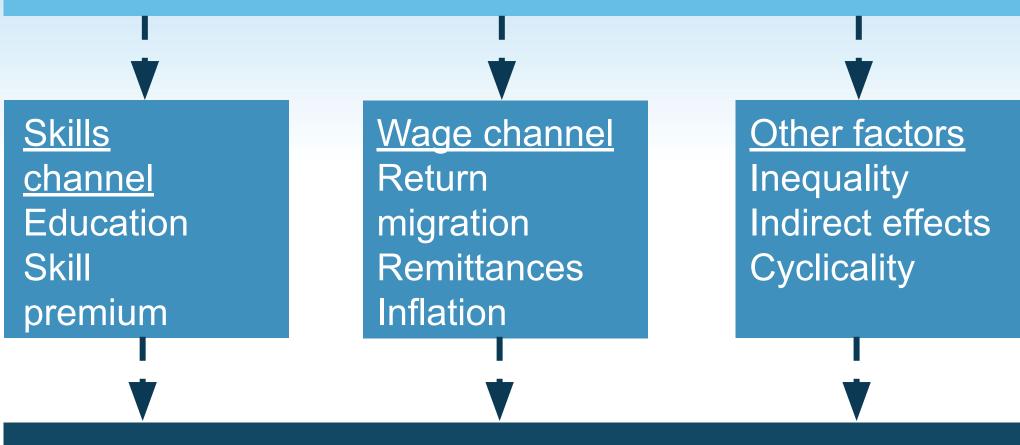


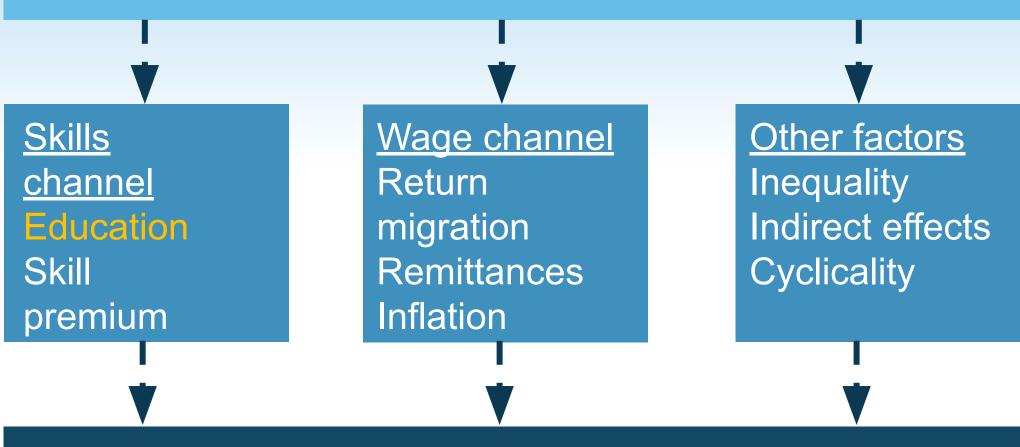
Migration links growth across nations

- Caribbean nations experience high outmigration of skilled workers, aka "brain drain"
- Remittances account for a substantial share of GDP
- Sending nations lack sustained economic growth and diversification, despite strong growth in receiving nations

Why is this link broken?

- Model of skilled migration and local growth based on Khanna,
 Murathanoglu, Theoharides & Yang (2022)
- Economic shocks to receiving nations, e.g. USA, pass through to sending nations, e.g. Jamaica
- Returns to education spill over to domestic workers skills channel
- Spending and investment raises domestic wages wage channel
- Today: outline and diagnose these channels





Barriers to education

Conceptual framework

- Migrant income can increase demand for education, leading to a more skilled workforce.
- Barriers to education, such as high costs and low quality, weaken this channel
- Existing evidence
 - Nursing schools in Jamaica cannot train nurses quickly enough (Salmon et al 2007)
 - Relative educational attainment has declined over 30 years (Docquier & Rapaport 2009)
 - Migration improved educational attainment in Haiti, but only for communities with access to good schools (Amuedo-Dorantes et al 2010)

Policy solutions

- Bonding policies can help by subsidizing education in exchange for local service
- Default rates suggest these policies are mispriced.
- Evidence gaps
 - What is the proper price of an education bond, considering both the direct cost of higher education and the indirect cost of losing skilled workers?

Skills Wage channel Other factors channel Return Inequality Indirect effects migration Education Remittances Skill Cyclicality Inflation premium

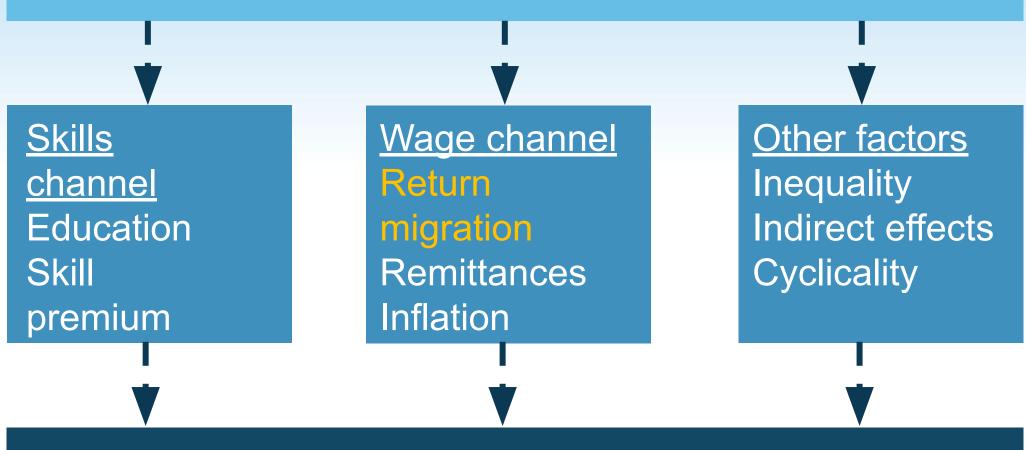
Domestic skill premium

Conceptual framework

- For a given change in the skilled workforce, a higher domestic skill premium increases total income.
- Lack of job opportunities for skilled workers can weaken this channel
- Existing evidence
 - Small population is the greatest predictor of brain drain rates across countries (Docquier et al. 2007)
 - Migration of Caribbean nurses driven by lack of opportunities (Almeida 2009)
 - Real wages for nurses remain low even in the presence of shortages (Carpio & Bench 2015)

Policy solutions

 Directly targeting the skill premium is not feasible except through public spending.



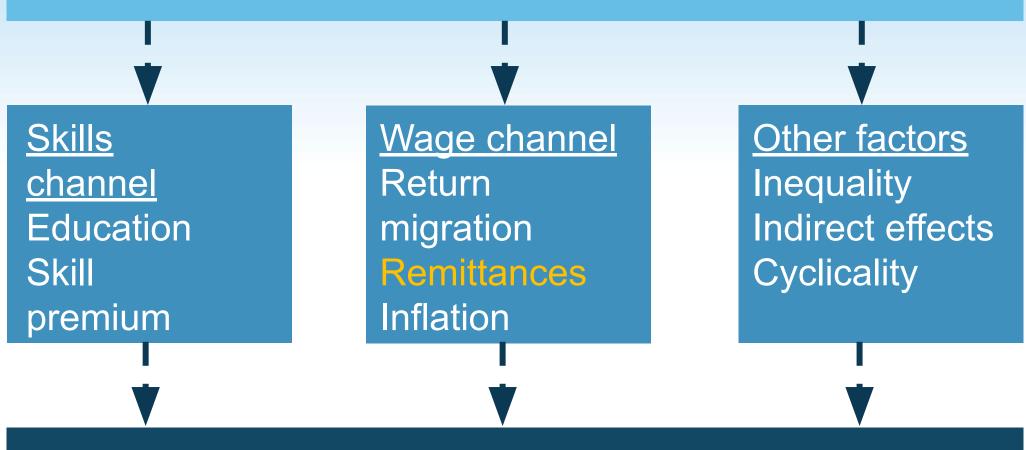
Productivity of return migrants

Conceptual framework

- Return migrants can enhance economic growth through skills transfer and entrepreneurship.
- Low labor force participation of return migrants can weaken this channel
- Existing evidence
 - Return migration rates are high, but involvement in local business is low (Gibson & McKenzie 2012)
 - Entrepreneurship is concentrated in tourism, with little impact on productivity (Plaza 2008)

Policy solutions

- Several policies encourage return migration through tax incentives.
- Strong take-up among retired workers limits contribution to productivity.
- Evidence gaps
 - What is the impact of return migration on local demand and investment?
 - How can we encourage return migration during working years?



Investment of remittances

Conceptual framework

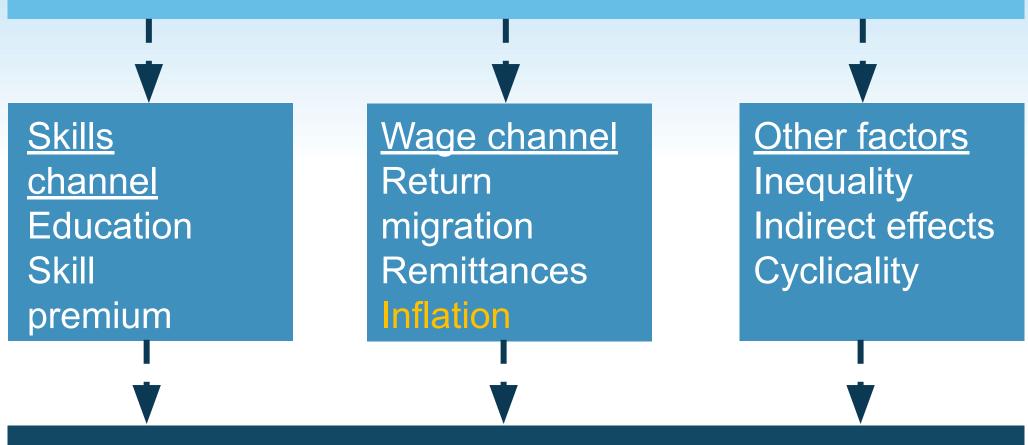
- Remittances can have a multiplicative impact through local demand and investment.
- This channel can be weakened through low remittance rates or poor mobilization

Existing evidence

- Remittances are moderate, but face transaction costs greater than 6% (Beaton et al. 2017)
- Remittances have little impact on local demand and investment (Jaupart 2023)
- Aggregate demand multipliers for remittances are estimated to be low (Oxford Economics 2021)

Policy solutions

- Several countries have taxed remittances to raise money for public investment
- Compulsory savings accounts increase incentives for return migration and investment
- Greater entry of fintech firms can drive down transaction costs
- Banks can introduce new financial products tied to migrant income
- Evidence gaps
 - None of these policies have been evaluated



Inflationary pressures

- Conceptual framework
 - Price of local consumption basket may increase from imported goods or skilled services
 - Rise in prices may offset nominal wage gains
- Existing evidence
 - Remittances are associated with inflation across many developing countries (Narayan 2011)
 - Some evidence that this holds in the Caribbean (Beaton et al. 2017)

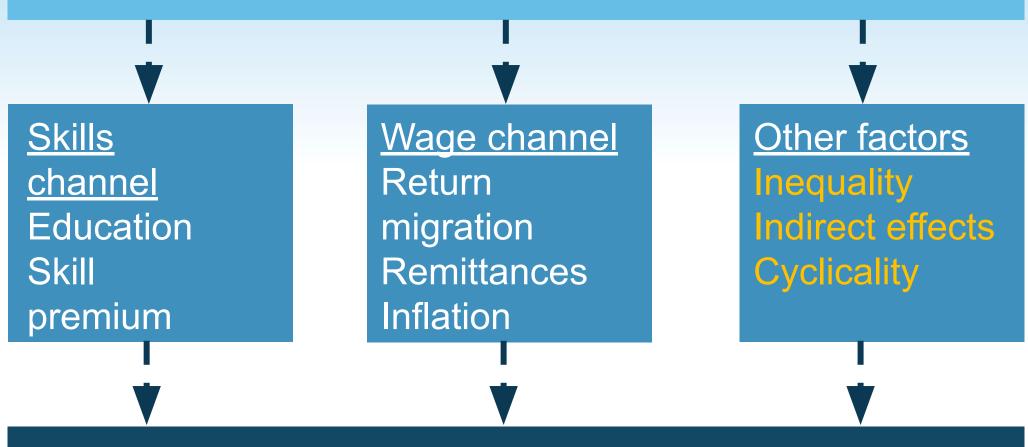
- Policy solutions
 - Given the weak link between remittances and demand, inflation is likely driven by costs
- Evidence gaps
 - Which components of the local price index are connected to remittances?

Skills Wage channel Other factors channel Return Inequality Indirect effects Education migration Remittances Skill Cyclicality premium Inflation Preferences

Migration preferences

- Conceptual framework
 - Growth of sending and receiving nations may change migration decisions
 - Strong migration preferences or high migration costs may weaken this channel
- Existing evidence
 - Evidence of high outflows of skilled workers and return flows of retired workers (Jaupart 2023)
 - Together with geographic proximity and language similarity, this suggest low migration costs

- Evidence gaps
 - How sensitive are migration flows to wage shocks?



Other factors

- Inequality
 - Differences in labor mobility reinforce the dominance of skilled migrants
- Indirect effects
 - Changes to local skills and wages may be mitigated by new outmigration
- Cyclicality
 - Remittances are countercyclical, which can smooth consumption shocks but limit long-term investment

- Policy solutions
 - Lowering barriers for unskilled migrants may spread the benefits of migration
- Evidence gaps
 - What is the net impact of shocks to sending and receiving countries?

Agenda for future work

- Gather data on drivers of migration
 - Conduct survey across countries and occupations
 - Identify drivers and outcomes of new migrants and return migrants
- Gather data on remittance utilization
 - Partner with regional banks to link deposit, credit, and loan accounts
 - Characterize demand and investment of skilled and unskilled non-migrants

- Evaluate existing interventions
 - Pricing of education bonds
 - Impact of incentives for return migration
- Implement new interventions
 - Entry of fintech firms
 - Financial products for investment of remittances

THANK YOU!



