

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

Shock to receiving nations

```
graph TD; A[Shock to receiving nations] --> B[Skills channel]; A --> C[Wage channel]; A --> D[Other factors]; B --> E[Growth of sending nations]; C --> E; D --> E;
```

Skills channel
Education
Skill premium

Wage channel
Return migration
Remittances
Inflation

Other factors
Inequality
Indirect effects
Cyclicalty

Growth of sending nations

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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?

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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.

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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?

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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

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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?

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Preferences

Growth of sending nations

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?

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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
- Cyclicalities
 - 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!



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