



**CHARLES UNIVERSITY IN PRAGUE**  
**FACULTY OF SOCIAL SCIENCES**

**MASTER IN**  
**INTERNATIONAL ECONOMIC AND POLITICAL STUDIES**

**MIGRATION AND REMMITANCES: HINDERING**  
**DEVELOPMENT OF LESSER DEVELOPED NATIONS?**

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## **Abstract**

As migration has become recently one of the highlights for studies in sociology and economics and is becoming ever more apparent in the political discourse world-wide, the objective of this study is to widen our understanding of its effects on culture, politics, economy and development, particularly in Latin and Central America. It can be considered that the accelerated migration after the fall of Communism will not be slowing down, as economic inequalities within nations keep putting pressure on populations and as the levels of globalization open-up new spaces into which the former primary pressure for migration can be absorbed. An interaction of these two factors thus propels both the supply and the demand for migration.

Statistics compiled by the World Bank show that about three percent of the world's population live outside of their country of birth (World Bank, 2005). A further expansion of this share is a phenomenon, which is bound to have serious effects especially on the nations of origin. The concept known as brain drain, in which skilled workers or rather skilled minds from a nation of origin migrate to another nation - because of a variety of factors including wage differences, violence in their home nation, corruption or high costs of living - certainly having also some positive effects on the nation of origin. E.g. the remittance inflow can compensate for the losses in labor capacity. However, there are also many negative effects caused by the phenomenon which this thesis seeks to dissect. This thesis seeks to understand both sides of the migration phenomenon and investigate to what extent migration is hindering the development of Latin American nations that fall under the attraction of some more developed world powers and which subsequently lose the status of a self-

sustaining economy. The study analyzes the case of migration of Central American workers primarily to the United States, focusing on remittances and brain drain and revealing its costs/undercurrents and its benefits. The study compares information with previous investigations which have strived to provide thorough examinations about the effects of migration.

### **Bibliographic Note**

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Migration, remittances, Central America, new economics of labor migration theory, relocation

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## **DECLARATION OF AUTHORSHIP**

1. The author hereby declares that he compiled this thesis independently, using only the listed resources and literature.
2. The author hereby declares that all the sources and literature used have been properly cited.
3. The author hereby declares that the thesis has not been used to obtain a different or the same degree

Prague, 05.01.2018

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# Master Thesis Proposal

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## Proposed Topic:

**Brain Drain: Hindering Development of Lesser Developed Nations**

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**Topic Characteristics:** Brain drain, the migration of skilled workers from their nation of origin to another usually more developed nation, is a phenomenon that is difficult if not impossible to prevent. A recent study shows that about 3% of the world's population lives in nations outside of their country of birth. Brain drain occurs in a variety of fields. Brain drain has negative consequences for the country of origin of these professionals, who have covered the cost of educating them and then watch their professional expertise be reaped by a foreign nation. Push and pull factors come into play when investigating the reasons for mass migration, in which many times the receiving country has professional aspects that the country of origin is not prepared to offer skilled workers and therefore these workers are "pulled" into foreign lands. The influence of brain drain is not up to debate in recent times, many developing countries rely on remittances sent back from these skilled workers even to a larger extent than they do foreign aid. But brain drain remains detrimental to host nations in the short run, and this essay seeks to explore what consequences the migration of skilled workers has on their countries of origin. The essay seeks to focus on the social development of these nations, exploring the tangible effects the phenomenon causes. The flow of remittances and their potential positive and negative effects on these nations will be explored: are some nations becoming too overly dependent on remittances? To what extent are remittances hindering national development? Also, the paper seeks to deconstruct the role of international organizations as possible players in the brain drain phenomenon. Are they working to mitigate the effects of it in any way or are they encouraging migration from nations where conditions are not optimal? Finally, the role of states of lesser developed nations are explored: how do governments compensate their nation (if they do at all) for a sizeable loss of skilled workers?

## Working hypotheses

1. Brain drain is detrimental to the nation of origin of the people migrating
2. Remittances entering the nation of origin of migrants are not sufficient to cover the cost of losing skilled workers
3. International organizations are contributing by not intervening and by encouraging worker migration
4. National governments must have programs in place to compensate their state for losses of skilled workers

**Methodology:** Descriptive statistics reviews, inferential statistics based on data of migration flows and remittances, qualitative analysis of interview data and correspondence. My interest in the role of international organizations in brain drain is exploratory, the subject is to be examined by myself.

Calculating the opportunity cost of working at home instead of migrating.

Calculating the transaction costs of migration.

1. **Brain drain description**  
**Literature Review**
2. **Migration Global Information**  
**Main departure countries, host countries**  
**Link between migration and brain drain**
3. **Remittances Global Information**  
**Link between brain drain and remittances**
4. **Supranational Bodies and Local Government Regulation of Brain Drain**  
**Who is doing what about brain drain? VB: Reasons for supra-national regulation vs national regulation...**
5. **Conclusions about brain drain**

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## **1. Introduction**

Migration is an integrated part of today's globalized world and modern history. The movement of people has played a key role in the transformation of economic, social and political scenarios, it has fueled urbanization and complemented the expansion of the world economy. Migration is not a phenomenon that occurs randomly, it is linked to historical, political and economic circumstances. Communication bonds and networks are an important factor in migration, as well as origins of ethnicity and territory, and many of these individuals receive news of available employment opportunities through their family members who have decided to migrate and settle down in a new country before them. Remittances, or sums of money sent in payment or as a gift to another nation, are a clear indicator of how important migration really is: global remittances in 2015 reached a stratospheric \$586 billion, a 0.4 percent increase compared to the previous 5 years before. Most of these funds went to developing nations who received around \$440 billion in transfers in 2015 (United Nations Migration Report 2015). Contrasting with official aid numbers, DAC (Development Assistance Committee) countries contributed to \$97,813 million net in official aid in the year 2004 (OECD, 2006). Migrant communities have become the base for many world economies to function, as shown by the fact that remittances are the largest contributor to gross domestic product of some countries considered to be developing or underdeveloped.

This work aims to study the relation between migration and remittance flows and their relation to development in migrant-sending nations in Central America. To use as a framework for the analysis, the work will use the tenants of the new economics for

labor migration (NELM) approach to migration and apply them to the geographical area of Central America to investigate the impact of both flows have had on the development of the region.

The new economics of labour migration (NELM) emerged as a response to neo-classical economic theories of migration. The NELM studies, also known as the new economics of professional migrations theory, pioneered by the likes of Stark (1984; 1991) and JE Taylor (1986) considered the household as the main decision making unit for migration considerations, as opposed to the more ancient neo-classical microeconomic and macroeconomic migration approaches, which considered the individual as the sole decision maker and portrayed him as a utility-maximizer seeking to make profit from wage differentials between nations, first and foremost<sup>1</sup>. The NELM, a more collective approach than the neo-classical models, explains that the household decides to send one of the family members abroad in order to gain certain advantages not available in local markets because of market failures. These market failures can deprive local individuals of proper access to the labor market but they may also include insurance and credit markets which cannot properly be accessed locally because of poor infrastructure, for example (Taylor, 2006). In cases such as these, the household would consider the benefit of sending a family member abroad a sort of insurance, since they would theoretically be able to settle down abroad, earn a wage and send remittances or save money for investments in their home country.

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<sup>1</sup> The neo classical microeconomic theory especially holds this approach, considered one-dimensional in modern studies. In this microeconomic theory, the individual's incentives are strictly wage related (Todaro 1976; 1989; Borjas, 1990)

The NELM also presents the argument that households decide to send a family member abroad in an effort to improve their income with respect to other households, a theory known as the relative deprivation theory (Stark and Taylor, 1989, 1991; Stark, 1991). Inequality levels being very high in the region of Central America contribute to individuals' decisions to migrate, this thesis will look at this point through the theory of relative deprivation presented by the NELM. The NELM also maintains that expected gains in income will have a different effect on households' decision to migrate depending on which point on the income distribution they are in; both poverty and inequality can be directly related to the boom in Central Americans' decisions to migrate to the United States starting in the 1990's, as well as can other factors affecting the life and work conditions of Central American citizens.

A comprehensive look at the social, economic and political context of the home countries of migrants will allow for a more complete analysis of migration in Central America and the causes and effects (both positive and negative) of migration. The idea of development cannot be separated from these causes. This thesis seeks to evaluate the following hypotheses:

- 1) Migration is detrimental in various aspects to the development of Central American countries sending migrants abroad.
- 2) Remittances are detrimental in various aspects to the development of Central American countries sending migrants abroad.

## **1. Methodology**

The first part of this thesis is devoted to a literature review of the migration studies ever since the field started becoming more relevant in the 1950's. The thesis will go through the different approaches to migration, including a detailed overview of the oldest theories that can be related to migration, the neo classical microeconomic and macroeconomic theories. The thesis' first section will then be devoted to theoretical analysis and organization of the available literature, and the available descriptive material. Qualitative data will be prevalent in the thesis as the focus is not only the economic impact of remittances on development but also the cultural, social, and political effects that migration and remittances can possible have on a developing nation. Empirical data will be combined with the available theoretical knowledge on migration and remittances to test and attempt to prove the hypotheses.

The thesis is a case study of Central American development and therefore I hope to find relevant information on this region and illustrate the effects of migration throughout the development of the region using the new economics of labor migration approach/theory, developed during the 1980's as a response to neoclassical migration theories. A case study on the region using the tenants of the new economics of labor migration (NELM in its abbreviated form), also known as the new economy of professional migration theory, developed by Oded Stark in the 1990's, has not been developed. I will rely mainly on secondary sources which have used empirical analysis and apply these findings to the case study of this particular geographical region. Primary sources, such as information from the World Bank statistics, the United States

Census Bureau and the International Monetary Fund, as well as news articles will also be used for the sake of the study at hand.

The NELM's tenants will be applied to Central American population and its individuals to give clarity on the complex circumstances that surround migrants' decisions to relocate. Applying such a theory (approach) to the region's present day will, hopefully, shed some light on the possible hindrances resulting from the migration phenomenon on developing nations, apart from the positive effects of it. The possible shortcomings of one-dimensional migration studies will theoretically be eliminated by using the NELM, a comprehensive method which views households as units and seeks to analyze their decisions in the context of their wider communities. The region of Central America is underexplored and although the importance of migration on its countries is widely known and reported, there have been few academic works focusing specifically on it. GINI coefficient, a statistical index meant to represent the dispersion of wealth and also a measure of the inequality levels of a nation, poverty indexes, crime and homicide indexes, population statistics, and wage statistics, among other data, will aid in proving this thesis' hypothesis.

One of the challenges to this study is finding concise and unbiased statistics on the region of Central America, a region where media cites questionable sources and reliable data on official numbers is affected by political interests. To overcome such shortcomings, this thesis will use information from official sources (primary and secondary). The academic articles in English about the region are rare, as well.

## 2. Literature Review

We have an idea about the international money transfer involved in the process of migration, but we must also investigate why these people migrate in the first place. Less economically developed nations are the usually ones from which more people migrate from and they are characterized by many of the same causes. The International Migration report conducted in 2015 finds that the larger part of the migrant population originates from countries which are considered to be middle income countries. “Between 2000 and 2015, the number of migrants originating from middle-income countries increased more rapidly than those from countries in any other income group. The majority of migrants from middle income countries were living in a high income country”, the study pointed out (United Nations Migration Report 2015).

Robert Chambers (1995) characterizes middle income countries which suffer similar disadvantages in development, or rather how he names them, dimensions of deprivation. These dimensions characterize undeveloped nations. Here, we will only name the ones considered relevant for the migration study at hand:

- Poverty, which “includes but is more than being income poor”
- Isolation, which can certainly be a geographical isolation but also isolation from amenities which are available in a modern world like being able to access social services and markets or being taught to read at a young age;
- Physical weakness, in which areas are so economically poor that population is malnourished and weak and obviously not being able to achieve their professional or social potential

- Vulnerability: Against external shocks of any sort including health, social circumstance, economic hardship or psychological harm, to name some examples
- Powerlessness, in which many times citizens are helpless under the social rule of another class and are “easy to ignore and exploit”

Many of the nations whose populations decide to flee (often illegally) in search of more advantaged circumstances fall under these categories, and often, qualified minds from these nations prosper in other nations, producing the diaspora effect known as brain drain. There are two world tendencies that play a crucial role in the migration community, both in the receiving nation and the sending nation: the first is related to restrictions of migration through a variety of “obstacles” that make it possible for popular receiving countries to be selective about who they wish to accept into their borders. These are usually a result of state projects which wish to restrict incoming migrants. Examples of these “obstacles” which make migration less free are border controls, migration controls (visa requirements), exclusion and even discrimination. This first tendency is in clear contrast with the second, which is related to more flexible migration situations, such as what is found (theoretically, at least) inside the EU: free movement of people, free labor mobility, and the opportunity to relocate without as many difficulties (Taylor, 2006).

A diaspora is a community of migrants established permanently in a nation other than their birth nation, but who still remain conscious of their nations of origin and maintain strong ties with it. The word diaspora comes from the Greek word meaning “to disperse”. In 2015, India has the largest diaspora population in the world, with 16 million diaspora inhabitants inside its territory. Mexico is the second nation with the

largest diaspora population, comprised of 12 million inhabitants (United Nations Migration Report 2015).

There is the question of how well migrants assimilate this sudden change of culture, and the question of the ethical effects of migration is important today. Migrants may have strong cultural ties and may want to conserve these ties even when living in a foreign land, perceiving that assimilation into a new culture would mean loss of identity or betrayal of a homeland. This situation could bring clashes with the local population, which may or may not be welcoming. Differences in language or work market are two of the potential obstacles faced by emigres.

Individuals might migrate because they benefit economically from obtaining employment in another nation (most times settling in a densely populated urban area) where they are likely to earn more by providing jobs in construction, transport or other low-wage employment opportunities than the wages they were previously earning in their nations of origin. Asymmetry in the distribution of benefits offered by international economy, whether it be because of a lack of human capital or knowledge, changes in the role of the State into a population's social life or in general because of deficiencies in structural development are some of the catalysts for relocation. Migrating increased their livelihood and their chances of financial success are greater in their new host nations. Filipino and Indonesian citizens who move abroad, for example, earn on average four to five times more than they earned at home according to a 2009 study (Orbeta, 2009). However, reaching general conclusions about migrants' advantages are tricky because the study should be properly linked to context. Migrants in South Africa travelling to the United Kingdom legally are not migrating

for the same reasons as Guatemalan citizens crossing the border illegally to settle in the United States. However, there are some common denominators which do join these people together, as pointed out by Chambers' "dimensions of deprivation". Said populations are likely to be of scarce resources and probably experience starvation or food insecurity at some point in their lives, while also suffering from health deficiencies and resorting to survivalist measures in order to get by (Chambers, 1995) Furthermore, these migrants are exposed to social inequalities and discrimination of females and female violence in developing nations. Typical scenes of violence against women in these nations include but are not limited to dowry related murders, bride killings (particularly in Southeast Asia and the Middle East), forced abortion and sterilization, forced prostitution, and evidently a lack of equality in workforce opportunities, which in some places can be the mildest form of female discrimination. All of these factors play into the migration factor to more developed nations where the role of women is more integrated and social services are the norm (World Migration 2003). Armed conflicts have become one of the main reasons for migration, where habitants with the means to do so decide to flee their country or origin seeking refuge in other peaceful nations. The same happens in nations under dictatorial rule, where oppression occurs and individuals are forced to flee.

The leading nations in brain drain contributions in the world are China and India and the countries with the highest number of incoming migrants are the United States and Saudi Arabia (United Nations Migration Report 2015). We can see examples of brain drain through all of human existence, and have the example of our host nation of the Czech Republic and Eastern Europe with its population yearning to escape the Soviet

rule and settle elsewhere as a classic contextual condition in which living becomes unbearable for the population of the origin nation who seeks to move. One difference we have today comparing to the historical cases of migration due to political conditions or social unrest is that we live in a modern world where communication runs freely and information is transferred much more easily than in the 60's or 70's, for example. The explosion of the internet has made it easier to read about more developed nations which entice individuals to take a chance and decide to move to another country which they consider will enable them with more acceptable living opportunities and even opportunities of university or high school education. The same phenomenon has made it easier for developed countries to promote tourism into their territory, whether it be by use of the internet or even through television and films, which paint an ideal picture about life in those prospering nations. This idea that individuals have of life in a developed nation is many times idyllic and they feel a desire to participate in this ideal society. The globalization of the mediums of communication not only implies an easier access to information, but also has as a consequence the homogenization of aspirations and the creation for a certain standard of living expectancy inside developed nations. Faster and more complete access to transport and ways of travel has also made it more accessible for migrants to travel from one country to another, as evidences by the fact that, for example, the number of nationals of countries with economies in transition residing in Germany changed from 756,000 in 1980 to 2,055 million in 1998 (United Nations Migration Report 2015). Transportation systems by land and sea have multiplied opportunities of migrating.

When attempting to analyze the link between migration and development, we must first ask ourselves what is meant by **development**. Development is not a clearly defined concept, it is a dynamic one which implies growth and progress, and it is certainly not only linked to economic factors. A nation achieving proper development should enable a proper living environment for its population, in order for individuals to be productive and creative and able to set the groundwork for future generations to come, with everything this implies.

Historically, extensive research has been conducted in an attempt to find links between migration and development, with varying conclusions. The nature of studies such as these has changed throughout the last half of a century, as pointed out by the study *Migration and Development: A Theoretical Perspective* by Hein de Haas of the University of Oxford. De Haas provides a historical perspective on migration studies; he draws a line between “migration optimists” and “migration pessimists” (Taylor, 1999), associating each with a different branch of development theory and social theory.

The earliest approaches in the field of migration are the neo-classical economics micro and macro theories of migration, which have shaped much of the thinking in migration studies and over which other, more modern theories have been built. The neo-classical economics macro theory implies that the main driver for migration between nations is wage differentials, and that the elimination of such wage differences will eliminate the movement of labor (Harris and Todaro, 1970). In the context of international migration, workers are to move from a country paying lower wages in their field into a country paying higher wages in their field, put very simply. Subscribers to the neo-

classical economics macro theory also state that the labor market is the only driver for migration, and that no other market plays a role in the international migration phenomenon; thus, by regulating labor markets in sending or receiving countries of migrants, the migration phenomenon itself can be regulated (Todaro, 1976; Lewis, 1954). The neo classical economic micro theory corresponds to a micro economic model of an individual's choice to migrate (Todaro, 1976; 1989; Borjas, 1990). According to the tenants of this microeconomic theory, the individual the potential migrant performs a cost-benefit analysis in order to relocate to another nation. The costs associated with relocation involve both economic (the most important) and non-economic costs: travel fees, dangers associated with relocation, the time it would take to find a new employment in another nation, the emotional costs of leaving your family behind may be taken into account in this cost-benefit analysis. One of the main tenants of the theory is that aggregate migration flows are the sum of all individual moves between nations, in other words the individual is as the center of this theory, with his ability to transfer capital and knowledge back to his home country. Wage differentials also play a key role in the microeconomic neoclassical approach, which explains that wage differences can be due to a variety of factors such as worker productivity of the geographical location of the countries involved. (De Haas, 2010; Todaro, 1976)

Attitudes towards migration changed throughout the period between the 1970's and the 1990's, in which growing skepticism related to migration began to gain relevance in the world view, the "closing" of borders being the popular tendency in international relations: the study of migration shifted to a "negative" view on migration. Authors such as Papademetriou (1985) and Baldwin (1970) argued that by losing some of their

most skilled minds and workers, sending countries were being deprived of individuals who would potentially become some of the communities' most productive members. It is important to emphasize this point because in underdeveloped areas with limited access to education and income and a strong dependency on farming and agriculture, the loss of young men fit for doing arduous physical work is very relevant. According to these works, migration aggravated underdevelopment (De Haas, 2010).

The "migration pessimist" post-60's studies shifted towards structuralist, and more importantly, neo-Marxist dependency theory which brought to the table the idea that migration was a phenomenon that increased disparities and hindered development, encompassing everything from monetary inequality to unemployment to loss of culture suffered by the sending country or area. These migrant pessimist theories did start to take into account remittances, which were already comprising a large part of many nations' inflows (World Migration 2003).

Some of the migration pessimist studies, some of which are considered to be Neo-Marxist, prescribe to the notion that regional and national economies are undermined and exploited by more industrialized nations and capitalist groups who are in need of cheap labor and coax it out from the rural areas and lesser developed nations. . The dependency theory focused on the development between rural and urban areas as well, portraying them as conflicting processes. The process increases peripheral areas' dependency on core areas (urban zones and developed nations) and a vicious cycle occurs that would result in an asymmetric growth (De Haas, 2010; Almeida, 1973; World Migration 2003). The asymmetric growth is even more pronounced because of the fact that it increases the deprivation of non-migrant families, who are not normally

the ones from which migrants come from (these come from the families which have most access to education or employment within the community).

Furthermore, these “pessimistic migration” studies conclude, migration has negative influences on sending areas’ culture by promoting foreign tastes and crowding out local tastes and traditions. According to these studies, migration promotes a consumerist culture which becomes more widely spreadable with the globalization boom of the past couple of decades, a consumerist culture which breaks down traditional family structures and values, as well as systems of community and solidarity (De Haas, 2010).

Portes’ world systems theory of the 1980’s holds capitalistic systems accountable for the migration phenomenon, as it is portrayed as a natural step in the globalized environment that is occurring in the capitalist world. Similarly to the dependency theory, the world systems theory subscribes to the fact that migration shifts growth from rural areas to urban areas, taking away power from industries such as the agriculture industry in rural areas (World Migration 2003).

The “pessimistic studies” mentioned, deemed to be deterministic, are criticized by many who view them as leaving no space for a heterogeneity that they believe is crucial in understanding the role of migration in development (De Haas, 2010). They believe these deterministic studies to intentionally avoid empirical evidence which demonstrate positive developments brought on by migration. Optimists, or pluralists as they have been deemed because of their expansive studies which include plurality of political and social tendencies, argue that it is implausible for migration to increase inequality ad infinitum with no counter mechanisms that regulate or change the

process over time. They ask themselves, “how far can poverty go”? At one point, they explain, such an extreme inequality would make even migration impossible.

Possibly, the most important conclusion reached by the “migration optimist” studies in question is that the link between development and migration (specifically out-migration) is non-linear, and this is a point which this study would like to highlight. The effect of migration on development depends entirely on the society in question, a unified theory can be seldom applied to distinct societies and obtain results that are valid. What does this mean in relation to the preceding studies? It does not mean that they are not valid but that they are overly rigid, and altogether ineffective in predicting a general developmental outcome of migration.

Throughout the 1980’s and 1990’s, with the emergence of the New Economics for Labour Migration (NELM), the heterogenous, dynamic nature of migration was studied in a new light (De Haas, 2010). NELM emerged as a response to the neo-classical theory of migration and it includes approaches which are softer than the more rigid tenants of neo-classicism which are considered by NELM to be unfit for dealing with the diverse realities of migration and development. Stark (1991), one of the pioneers for new economics of labor migration, proposed to view the phenomenon through various entities which affect the decision making process of the individual, one of these entities being the household. He explains that this new approach is necessary since neo-classical theories tend to consider the individual merely as a utility- maximizer. According to him, the household is to evaluate the risk of sending a family member abroad and the decision for a family member to migrate will often be beneficial for households in poor countries. This approach basically focuses on the

household as opposed to the individual, and considers migration decisions from the viewpoint of a family unit which would consider one of its' members' migration as Pareto-optimizing and as a way of overcoming market constraints in the areas where they are from. Migration may stimulate production indirectly by enabling economic agents to overcome their capital constraints and risk constraints for example, but if there are no such constraints, the indirect effects of remittances could be minimal. Livelihood strategies taken by households, as highlighted by the NELM, tend to be heterogeneous because they differ greatly from household to household, but they hold the common denominator of being organized within a social context (Massey et al., 1993; Stark, 1991).

Jennissen (2007) ties in the decision making process of the household with the relative deprivation theory: if households perceive other households to be benefitting from sending a family member abroad, they will be more incentivized to do so as well. Similarly, if there are considerable differences between earnings of a migrant and a non-migrant, the non-migrant will be more likely to decide to migrate in the future.

The NELM takes into account indirect ways in which migration affects sending areas' development, for example taking into account the strong communication ties households maintain with their migrant member long after he or she has left the household, the key being that the development contribution is not necessarily linked to the return of this migrant individual. Economically, there is always risk associated with a migration move: if there is a surplus of labor in the sending area, the migrants would have zero opportunity cost, but if there is a shortage of labor the migrant could possibly have made a positive contribution had he decided to stay. These

considerations would be difficult to analyze from a strictly individualistic, profit-maximizing analysis. A key difference between the neo-classical economic theory applied to migration and the NELM is that the latter considers the return home of the migrant individual as part of a natural process, or rather a successful culmination to the process of migrating, while neo-classical theory considers the migrants' return home as a failure of the goal he/she set out to achieve as a profit or utility-maximizer.

The new economics of labour migration has contributed to analyze more in detail the reliability of remittances as an economic injection, and that they have proved to be an “increasingly important, less volatile, less pro-cyclical and therefore more reliable source of foreign currency than other capital flows to developing countries” (De Haas, 2010). This does not however, mean as a rule that they help to alleviate poverty in these countries. For this to occur and nations to develop (with migration and remittance help), governments must instill policies that shape favorable conditions for development to occur.

In his academic study assessing the importance of remittances from a NELM perspective entitled *The New Economics of Labour Migration and the Role of Remittances in the Migration Process*, J. Edward Taylor (1999) also further enforces the importance of a comprehensive view on remittances and migration, one that encompasses the entire community and the family, and one that views surveys (one of the most common methods of study when it comes to the effects of migration/remittances) as naïve and unfit. This study seeks to follow suit and provide a comprehensive analysis about the effects of migration on a concept as complex as development in the context of 2017.

### **3. Theoretical Framework**

The following pages will present the theoretical framework of the new economics of labor migration approach (NELM), also known as the economics of professional migrations theory. Following this theoretical information will be the migration and remittance sending phenomenon in Central and Latin America related to the NELM framework.

There are some key points which this thesis seeks to point out and use in the context of Central American migration that will help illustrate migrants' behaviors and their decisions to migrate in the first place. They also play a key role in understanding the possible drawbacks and benefits migration has on the origin nation involved. These major points appear in the NELM's seminal work by Oded Stark and David Bloom, *The New Economics of Labor Migration* (1985).

Free will and feelings- Previous theories, especially the neoclassical economic theories of migration, although a useful groundwork for what would later become the new economics of labour migration, portrayed the actors in migration in a somewhat simplified manner, ascribing their behavior to trade theory and wage differentials. The NELM ascribes these actor's feelings and free will and introduces the idea of relative deprivation to illustrate how important perception can be in an individual's decision to migrate. The "psychic costs" created when a member of a community compares his wages with another member and realizes that his earnings are not to be disregarded, they can be as important as the wage differentials themselves. As Stark and Bloom

point out, “membership in a low deprivation group may be preferred over membership in a high deprivation group even if the wage is lower” (Stark and Bloom, 1985). The importance of the relative deprivation theory is expanded in nations or communities where there is a high degree of inequality- such as Central America, where a large part of earnings are assigned to a small percentage of the population- if high deprivation individuals come into contact with low deprivation individuals within these nations, the probability of migration becomes higher.

Household- One of the main tenants of previous theories was that individuals were the decision-making units in migration, an assumption which has been mentioned before in this study. The NELM was the first major theory to place the household as the leading decision unit. As stated plainly, “just as it is clear that neither a brick nor a bottle of wine can decide to move between markets, so it should be equally clear that a migrant is not necessarily the decision making unit accountable for his or her migration” (Stark and Bloom, 1985). This means two things: the first is that the individual is subject to externalities, opportunities and obstacles associated with his or her possible migration, and even if their wish is to migrate or not migrate, this wish might be overcome by necessity or simple opportunity. The second is that the decision to migrate is made jointly by the migrants and other non-migrants, usually in the family of the migrant individual. In this sense, it is important to point out that according to the NELM, the decision for an individual to migrate makes both parties better off, both him and his non-migrant relatives. Remittances, in this sense, are explained as an “intertemporal contractual agreement” between these parties, not as an altruistic endeavor (Stark and Bloom, 1985). The agreement is Pareto-fulfilling.

Agreements- the NELM specifies the fact that migrants enter into agreements with their families, and not with a third party, because of the evident benefits of mutual gain with them. In this sense, both the bargaining power of the family and the necessity of the family (as well taking the *relative* necessity into account) will have an effect on the quantity of remittances sent back by the migrant individual. By undertaking migration, the family realizes economies of scale through their migrant individual, and they are able to participate in markets which are negatively correlated, or not correlated at all to their local markets (Stark and Bloom, 1985). This explains both migration and non-migration decisions by the rest of the family.

Networks and cooperation- Another major points stated by the NELM is that migrant individuals who cooperate together yield better results than migrants who decide not to cooperate together. The arrival of new migrants is helpful for earlier migrants who benefit from networks and increases communication and cultural identity with individuals from their countries of origin. More importantly, having new migrants in their network allows earlier migrants to increase their proportions of trade and therefore yield a higher profit in many cases (Stark and Bloom, 1985). This simple observation explains the altruistic behaviors apparent in many migrants. The last points applies to the migration phenomenon from Central America and Mexico to the United States, where several already established migrants provide help in border-crossing or job hunting for new individuals who decide to relocate to the United States.

#### **4. Migration Information**

International migration is the mobilization of people from the country of origin to their countries of destination with the intention of remaining there for a prolonged amount of time. Migrants are those who remain in a foreign nation for over a year and do not include tourists, business travelers, people seeking medical help or people traveling for religious or spiritual purposes. International migrants are divided into the categories of migrant workers, migrant families, and foreign students (World Migration Report 2003). The migration phenomenon has accelerated in view of rapid movement of capital, goods and services, and of exponential growth in transport and communications technologies. As stated earlier, many factors come into play in decisions to migrate, such as job opportunities, poverty, family unification, natural disasters, and demographic pressures (Taylor, 1999).

Migration has become an integral part of many societies and economies worldwide. According the United Nations International Migration Report of 2015, in that year there were 244 million immigrants living worldwide in countries where they were not born. This is a 41 percent increase from the numbers of year 2000. Of these immigrants, about 20 percent of them are refugees. As part of the total percentage of population, the ratio of immigrants vs. non-immigrants differs according to continent and country, proof that the migration phenomenon is non-linear and highly dependent on economic and political context. In Europe and North America, immigrants comprise approximately 10 percent of the population as a whole, while in Africa, the Caribbean, Asia and South America, they comprise less than 2 percent of the whole population (United Nations Migration Report 2015).

An interesting fact to take into account and proof of the migration phenomenon's sheer size is that if all of the world's migrants were to be joined together and conform one unified nation, they would be the nation with the fifth largest population in the world today (United Nations Migration Report 2015).

In terms of total immigrants welcomed into their nation, the worldwide leader is the United States, holding 19 percent of the total migrant population worldwide. They are followed by Germany, adopting an open migrant policy in contrast to several other European nations, and housing 12 percent of the total migrant population. Russia (11,6 percent), Saudi Arabia (10,2 percent) and the United Kingdom (8.5 percent) follow in terms of numbers (United Nations Migration Report 2015).

A total of 3,8 million people emigrated to one of the member states of the EU during 2014, while about 2,8 million emigres left EU states during the same period. This does not represent total migration flows for the EU during that period, as it does not take into account flows between member countries, but it does give an accurate picture of the phenomenon. In 2015, there were 34.5 million non-EU natives living inside EU countries. Only in Hungary, Ireland, Czech Republic and Luxembourg was the number of people born in other EU states larger than the number of people from non-EU states living inside the nations' territory (United Nations Migration Report 2015).

Developed nations such as the United States and Germany are offering integrating policies to make them more enticing for skilled workers, who decide to relocate even though the cost of relocation is often times very costly, economically speaking. Britain has increased the availability of work permits for skilled migrants in recent times and Germany has a point system in place that rewards skilled workers, so the destinations

become very attractive, even for those who have obtained an education in their home nation. Relocation is not exclusively linked to poverty and underdeveloped nations are not the only ones being affected by an outward flow of skilled migrants, although this study will focus more on underdeveloped countries. Many developed nations see skilled immigration as an additive to an already healthy economy while underdeveloped nations see brain drain as another problem in unstable economies, often times bordering extreme cases of poverty (ECLAC). Table 1 shows the relation between emigration (the sending of migrants) and immigration (the receiving of migrants) in six of the world's nations. Proportionally, nations like Mexico and China are largely migrant sending nations while the United States and Germany are migrant receiving nations.

In recent years, the Caribbean Islands and Latin America have become a huge source of the world's migration population, and its peoples destinations are varied and distributed all around the world. In the year 2000, one out of ten of every 150 million migrants was born either in a Latin American or a Caribbean nation, and this number does not even take into account those individuals who travel illegally and undocumented (United Nations Migration Report 2015).

According to a 2014 report conducted by the Economic Commission for Latin America and the Caribbean (United Nations), more than 28 million people from Latin America and the Caribbean lived outside of their home country on that year. This is in high contrast with the number of immigrants living in Latin American and Caribbean territory, which according to the same report was 7.6 million people, only 1.1 percent of the area's total population (ECLAC). In turn, 70 percent of the 28 million migrants

who left Latin America/ Caribbean were located in United States territory (ECLAC). United States was the nation housing the highest quantity of migrants from the region in 2014 by far, with Spain coming in second place with a considerably lesser 8 percent (ECLAC). One of the most important reasons for this mass mobilization is the organized crime phenomenon which greatly affects Latin America. In Central America in particular, organized crime affects security levels regionally and nationally, with a dramatic increase in crime and violence levels particularly in the nations of Honduras, El Salvador and Guatemala. The humanitarian impact of this crisis is difficult to measure and practically invisible, since there is a lack of precise information which can properly measure the magnitude and tendencies of forced migration in this region. This causes the age of migrants to be very low in parts of the world such as Latin America and the Caribbean, where the median age of migrants is shown to decline (United Nations Migration Report 2015).

The 1980's for Latin America are known popularly as the "lost decade"- a period of severe financial crisis in which many countries in the region were deeply indebted and were not able to pay out their foreign debt because of an oil price shock which affected the whole region. The US Federal Reserve had to intermeditate in this issue and it paved the way for what would become the first real migration boom in the region since the beginning on the century. Prior to the financial crisis, Latin America was a region which took in millions of migrants from around the world; this tendency quickly changed after the "lost decade". After the considerable emigration spike in the region in the years of 1980-1985 because of said crisis, history has seen similar tendencies occur after some of the most important financial crises in the region. Ecuador's 1999

banking crisis, in which a several private banks closed down or were subject to bailout by the Ecuadorian government or the 2001 crisis in Argentina, which was arguably fueled by fiscal reform and foreign economic policy are two of the catalysts for emigration spikes that have occurred since the 1980's Colombia or the Dominican Republic have also suffered similar economic shocks which have caused a large part of their population to emigrate (Fajnzylber and Lopez; 2006). Most emigres from Latin America travel North, to the United States or to Europe. The United States is the leader in the world in this sense, holding the largest percentage of emigres from Latin America.

The migration phenomenon in today's world and its relation to development has been subject to wide debate, with social scientists and international organizations weighing in on the debate and positioning themselves as viewing migration either in a positive or negative light (De Haas, 2010). Sociologists, for example, tend to hold a more pessimistic view of migration within the structuralism subscription, while neo-classical economists hold a more optimistic, functionalist perspective, subscribing to the viewpoint that migration presents several growth opportunities for nations in process of development. Such a viewpoint is also held by prominent international organizations such as the World Bank and the Inter-American Development Bank. Theories from both sides prove that the effect of migration on development is multifaceted and complex.

The migration situation in Central America is particularly complex, since it is a region which since the beginning of the 1970's has been affected by a combination of economic and sociopolitical effects. To already existing emigrational tendencies

present since the 1970's, the area has undergone such negative tendencies such as forced movement of people in various sectors of Central American nations due to turmoil and conflict, and unfavorable political environments which have put lives at risk and impulse migration prematurely, so to speak. Forced movement of people due to conflict remained until the beginning of the 1990's and slowly diminished with the peace agreements signed in Nicaragua, El Salvador and Guatemala in 1990, 1992, and 1996, respectively. The peak of the forced movement of people due to conflict was reached during the 1980's, but starting with the Esquipulas Agreement of 1987 signed by all Central American presidents in a call for regional peace, combined with the fortifying of democratic processes in the region, allowed for migrants to return home after they had been forced to flee (Tienda and Sanchez; 2013).

The inter-region conflicts of the 1970's and 1980's accelerated migration due to the severely unstable political environment in which Central America was submerged; today, this same migration is being fueled by the lack of economic opportunities and high degree of violence experienced in nations of the region such as Guatemala, Honduras and El Salvador (Tienda and Sanchez, 2013). According to 2015 statistics gathered by the United States Census Bureau, approximately 3,385,000 Central Americans lived inside of United States territory in the year 2015 (United States Census Bureau). The area of Central America is comprised of six nations whose migrant contribution to United States population in the year 2015 is divided as shown in Table 2.

El Salvador, Guatemala and Honduras are by far the Central American Nations sending most migrants to the U.S. - El Salvador counts over 1,300,000 migrants sent

to American territory (United States Census Bureau). Some of the main reasons identified as the catalysts of migration include family reunification, protection from gangs and organized crime, and high homicide rates in nations of origin (UNIDC, 2012).

As discussed previously, a large part of the migrant population entering the United States from Mexico and Central America do so illegally. This has repercussions for both the sending nations and the receiving nation, the United States. For the latter, the phenomenon must be addressed using fiscal policy, and is a heated political discussion topic. Recent debates have called for increasing government spending on border protection in lieu of the seemingly easy to overcome obstacles between United States and Mexican borders (Demographics of Immigrants in the United States Illegally Data, 2014). In reality, migrants who decide to cross over illegally from Mexico put their lives at risk and many perish in dangerous attempts to cross over. They do so with the help of intermediaries at the border known as “coyotes”, who assist them in getting across in exchange for a fee which has increased considerably over the past years precisely because of increased border patrol. “Coyotes” will usually charge an illegal migrant between 200\$ and 400\$ for assistance in crossing over illegally (Ratha, 2003). The U.S. states with the largest migrant populations are California, Texas and Florida as of 2012, naturally, since they are the southern states directly accessible through illegal border immigration from Mexico (Demographics of Immigrants in the United States Illegally Data, 2014). Of the illegal workers in the United States calculated in 2012, the largest portion of them also came from Mexico, followed by El Salvador, Guatemala and Honduras. The case of the latter is highly influenced by the Hurricane

Mitch which gravely affected its territory in 1998, its emigrant history is much more recent than that of the other Central American nations.

Homicides are one of the main reasons for migration from Central America to the United States. Using information from the year 2012 by the United Nations Office on Drugs and Crime, we see to what extent the violence issue has affected the area of Central America; we also compare their homicide rates per 100,000 inhabitants to the homicide rates of the United States and to European nations such as the Czech Republic and Austria. We can see that Honduras had the highest homicide rate in the area in 2012, with approximately 90 violent homicides per 100,000 inhabitants. Guatemala (39.9 homicides per 100,000) and El Salvador (41.2 homicides per 100,000) also have very elevated homicide statistics, as well as Mexico (UNIDC, 2012). These three nations comprise what is popularly known as the “violent triangle”. Table 3 shows the homicide rates for Central American nations and Mexico. The “violent triangle” nations sending the most migrants into the United States all have high homicide rates per 100,000 population, as do Belize and Mexico.

Latin America is the leading region in the world in women’s homicides, with seven of the ten countries with the highest rates in this category being located in Latin America (El Salvador and Guatemala being in the top five with 8.9 homicides and 6.2 homicides per 100,000 women, respectively). This is partly due to human trafficking and gang related crimes; these crimes largely remain impune in nations of Central America (Yagouh, 2016). Many women have turned to illegal migration as a way of overcoming gender crimes in Central American nations; however, these forms of migration involving “coyotes” or smugglers are prone to specific kinds of gender

abuse in themselves. Women in Central America are vulnerable to abuse due to the fact that a large part of them work in clandestine environments and are unprotected by government and national security systems (World Migration 2003). These negative environments for women and girls and patriarchal settings would point to a trend showing a massive outflow of women from Central American nations, however, the results are inconclusive: in a study by Massey (2006) it is shown that in more patriarchal nations of the region, females displayed low rates of out-migration compared to more matriarchal nations such as Dominican Republic which were categorized as more matriarchal nations. Women's decisions to migrate or not migrate differ depending on circumstances, both national and in terms of the household. Previous migratory experience is an important consideration for women migrants in matriarchal nations, while the possession of documents and the husband's migrant status is not (Massey, 2003).

The intense manner in which Latin American nations experience migration is also due to the region's lack of institutional development, lack of security and inequality. A study by De Ferranti using data from the World Bank showed that during the decade of the 1990's in Latin America, the richest 10 percent of the population received approximately 48 percent of the total income of the region, while the poorest 10 percent received only 1.6 percent of total income (De Ferranti, 2006). Inequality in the region is the second highest in the world, second only to Sub Saharan Africa. The Gini coefficient, which measures the wealth distribution among a country's residents and therefore, its level of inequality, on average is 51.8 for Latin American nations, comparing with an average of 31.8 for European nations (World Bank 2005). The

shattering statistics on inequality in the region can also be proven by the fact that the proportion of people living in extreme poverty has diminished faster in the past 50 years than in the past 500 years, but the quality of life between the richest and the poorest part of the population keeps widening.

Concerning unemployment, it is not only the quantity of jobs which is lacking in the region but more importantly, the quality of the jobs available is not sufficient to support a population with high poverty levels. Jobs are often informal and do not provide access to formal credit markets or public health care systems (Tienda and Sanchez; 2013). The inability to create jobs often stems from the unavailability of resources for productive investments, whose potential is diminished by States' considerable foreign debt payments and also by permanent deterioration of exchange rates (Braido, 2001).

The relation between migration and development remains complex and often times, contradictory. There are a few ideas that are important to highlight about the link between migration and development: Migration is not born out of lack of development or economic growth, it is born out of development itself. Contrary to popular belief, when it comes to nations sending migrants internationally, the nations sending the most migrants are those which are immersed in a development process, they belong to the developing world. Nations such as Mexico, China or the Philippines are counted among these, examples of nations in which economy grows rapidly and fertility rates have recently decreased. A large part of these nations' population migrates abroad, but it cannot be said they do so because of lack of development, economic or otherwise, inside their home countries (Taylor, 1999).

Migration is a result of social, political and economic integration processes which take place across international borders. The free economy and opening of new markets many times dictate where migrants will choose to move. They do not decide to migrate randomly, rather they relocate to places to which they are already integrated socially, economically or politically (Ratha, 2004). Such is the cases with migrants from Central America relocating to the United States territories where many of their compatriots are already settled, considerably reducing the time it takes for them to adapt into a new territory. Social integration is widely related to student exchange programs, multinational corporation activities, and also tourism, to name some examples. Economic integration is conducted through commerce, multinational commerce becoming more common and eliminating borders through globalization and communications. Political integration stems from official agreements between nations concerning their populations and the possibilities offered by cooperation.

When migrants relocate to developing nations, they fulfill a demand that is intrinsic in the structure of post industrial nations. In the current, technologically advanced marketplace, markets have become segmented into jobs that are considered “attractive” or “not attractive” to locals. Employers later use migrants to fulfill the latter kind of job. Their recruitment is usually conducted directly and requires no intermediaries. There is such a market for these jobs considered “non-attractive”; if there was not, migrants would not decide to relocate to these zones, they understand there are opportunities which will often pay less but for which there are not enough local candidates (Massey et al., 1993). This kind of low-paying, “non-attractive” job contrasts with the migration of high-skilled, educated individuals. The exodus of these

individuals (brain drain) has consequences of its own: In Jamaica and Trinidad and Tobago, approximately 60 percent of college graduates live in the United States territory. In the case of the island of Guyana, about 70 percent of college graduates have left the island. Such a sizeable movement of educated individuals has a damaging effect on the development of these sending nations (CIDH, 2005). The migration of both university graduates and low skilled labor workers ties in with the economic integration concept discussed previously; as described by neo-classical theorists, the market dictates when workers are to migrate; however, cases differ because of geographic location, political circumstances. There is a cycle in place in that development and migration are products of one another, begging the question of which is a result of which.

The concept that migrants wish to permanently settle in the nation to which they migrate is often erroneous. Migrants relocate in order to maximize profits, which they cannot seem to do so at home. Their goal is to overcome constraints and failures in their home markets, including “missing credit and insurance markets, high transaction costs in input and output markets, and limited access to information due, for example, to poor communications and transportation infrastructure” (Taylor, 2006; Stark and Taylor, 1989). A large part of migrants travelling to the United States overcome flaws in their local mortgage markets by using savings accrued in the U.S. to finance the construction or purchase of a home in their home country. These individuals do not plan to settle down permanently but to obtain profit, generate liquidity and subsequently, finance local production and consumption in their origin nations. This means that migrants’ relocation does not depend on available salaries in the home

country to such a large extent. The reduction of these salaries would not reduce the impetus of migration to such a considerable degree, since what these workers are looking to overcome are the inherent flaws presented by the labor market in their home countries. Migration, therefore is absolutely not only linked to differences in salaries (Stark and Taylor, 1989).

Another aspect to take into account when it comes to the individuals who relocate is that their intentions and objectives change with time and experience in the new labor market. They might not relocate with the idea to settle down initially, but after spending some time in a new labor market, this perception might change. They might travel more frequently and make social and economic connections that would be harder to leave later on, making it somewhat more probable for them to decide to settle down permanently after some time has passed. Border controls and difficulties also play an important role into this decision process. With borders, especially between the United States and Latin America becoming more “closed” in recent years, migrants are fearful of being let back into United States territory after travelling abroad.

## **5. Remittances Information**

A remittance is the transfer of money from a foreign worker to his or her home country. In recent years especially, international organisms dedicated to development studies have placed emphasis on remittances a being a viable source for a nation’s development and economic growth, as well as to its potential effect as a poverty reducer.

Currently, remittances represent about 60 billion dollars per year in income to Latin America (OECD). This income represents one of the main sources of funds for the area, surpassing exports and direct foreign investment for many of the Latin American countries. They are also often superior to incoming funds from development organisms which are destined to increasing economic development and growth. The sheer size of these annual remittances makes them an important subject for academic, social and political debate, as many see them as viable sources for financing development locally and regionally. In Latin America, remittances in 2016 showed all time high figures, continuing an upward trend which started in the year 2001 in which the region received approximately 20 billion dollars in remittances (CEMLA). The strengthening of the dollar's exchange rate has contributed favorably to this trend, as has the depreciation of Latin and Central American currencies. Considering the fact that this depreciation has not affected local prices significantly, the purchasing power of dollars coming in through remittances has increased considerably. As the cyclical process continues, this increase in purchasing power has incentivized migration and remittance sending. The only nations in the region of Central America which experienced a decrease in remittance sending in 2016 were Panama and Costa Rica; all others, especially Guatemala and Honduras, experienced a sizeable increase in this kind of funds. They grew 13.4 percent and 8.8 percent, respectively (CEMLA).

Remittances are a stable source of income and they differ from other sources in that they do not show signs of violent fluctuation in times of economic hardship as other sources of income do. They remain even more stable over time than foreign direct investment (Ratha, 2003).The question is whether remittances, essentially a private

exchange between individuals, can substitute the role of the State and of local markets to impulse development and a population's well-being. In essence, an analysis of remittances from a strictly empirical point of view is bound to be biased, since these payments do have a positive effect on a nation's balance of payments, but this empirical point of view fails to introduce other conceptual viewpoints that might make remittances potentially hinder development. We seek to analyze both sides critically.

In recent times, international organizations are seeking to impulse the role of remittances as an alternative to the role fulfilled by the state and by the markets in previous times. In this new point of view, remittances would play a species of economic capital, which along with other social capitals such as organizations of migrants or family networks, would constitute a set of tools for communities that if properly managed, would contribute to overcome social and economic vulnerability. This approach focuses on the management of incoming remittances in order to make them properly and appropriately available for low income individuals to use and overcome their situation of poverty. In this sense, it is important for remittances to be destined and oriented towards the creation of small and medium sized enterprises, as well as other kinds of spending that encourages the formation of human capital and productive capital (Ratha, 2003).

Theories of social accounting state the impact of remittances through the multipliers that they generate in the recipient countries. According to such theories, even if remittances are spent primarily on family consumption, they have a multiplier effect on economic activity in the receiving country (OECD, 2006). These kinds of theories are of the Keynesian prescription, and they signal the fact that the extent of the

multiplier effect depends on the propensity to save. Every migrant dollar spent, even if it is not invested but consumed on personal necessities, will create a demand which then stimulates employment (OECD, 2006). This kind of personal consumption is the most likely use for remittance dollars since the countries receiving, in the case of Latin America, are developing nations with a lacking in many of the aspects that comprise the basic needs of an individual. Even so, every dollar spent by a family receiving remittances will benefit the internal market in some way (Ratha, 2003). If they are buying food, the local food producer will reap the profit; if they are buying a service such as a haircut, a local provider will reap the profit; even if the money is invested into the city, there will be the indirect effect of job creation in the local market (Ratha, 2003).

However, there are studies which present counter arguments for this multiplier effect theory. Raymond Wiest (1984) exposes that a large part of the multiplier effect from remittances coming to Mexico from the U.S. are felt in urban areas which have the capacity to provide migrants with the goods and services they search for. The author states that the multiplier effect seen when a local producer is benefitted is only temporary, sporadically and dangerously dependent on migrant funds. He states that to depend on these funds as a multiplier or an engine for local economy is not recommended. The difference in studies about the subject of remittances differs from case to case. Some argue that remittances do not represent savings that can be translated into investment, and that the multiplier effect is not significant enough to consider migration beneficial to local, rural economies. Binford (1994) concludes that the quality of life of the family receiving funds may increase (although dependently),

but that these funds are used in a similar way than any regular salary, not resulting in a significant local multiplier effect or resulting in a multiplier effect that will benefit urban areas or even other nations which produce certain goods that migration beneficiaries need. This concept is discussed by Arroyo and Berumen (2000), who calculate that of every dollar earned by Mexican migrants in the United States, 71.7 cents will remain in the United States and 28.3 cents will return to Mexico. He concludes that the percentage of income spent in the United States spent on subsistence goods and recreation will have a multiplier effect on the United States, as will the 28.3 cents of a dollar earned have a multiplier effect in Mexico. This Mexican multiplier effect. However, will be offset if Mexicans are buying goods produced in the United States; in this case the remittance will be “assigned” back to the United States.

Binford (1994) mentions the case study of rural Mexico, specifically in the community of Puebla, where remittance receiving families spent these funds mainly on transport vehicles and modest convenience stores. Over the course of fifteen years, the local market for transport vehicles and convenience goods was over saturated and the vehicles were seldom used, while the quantity of convenience stores appearing in this community made several of them become bankrupt. Durand (1994) argues that this ineffective application of remittances received is a result of the poor structure of local economies.

Remittances have been shown to not only benefit the poorest population in developing countries, as mentioned previously in this thesis; in Latin America, a large part of these funds are being sent to the richest part of the population. Again, each particular case differs when it comes to remittances, we can see this when analyzing the percentage

of household receiving remittances in each country divided by the income distribution quintile. Looking at World Bank data from 2006, 61 percent of remittances went to the poorest quintile of population in Mexico, but the opposite happened in other countries such as Peru (40 percent to the top quintile) and Nicaragua (33 percent to the top quintile or richest population group) (Fajnzylber and Lopez, 2006). These particular cases show how remittances can increase inequality within nations and how remittances are clearly unequally distributed, when examining each particular case.

Additionally, the transferring of funds massively from one country to another can have some negative effects on the receiving country, as well. Indirectly, a sending of remittances can potentially be inflation-inducing due to the appreciation of the exchange rate of that country and its subsequent increase in consumption. This increase in consumption would potentially result in increased inflationary pressure (Rosenzweig, 2005). Similarly, in a study by Josua Reichert (1982) about the region of Guadalupe in Mexico, he explains the influence of foreign funds in the population of the region. Those who had access to the availability of foreign funds would invest a large part of it on land, which they would buy from non-migrant locals who were in debt, and would then rent out this land or use it for livestock. Soon, the high availability of dollars in the market of Guadalupe made the price of land to such an extent that the only individuals who could afford it were those who had access to migrant funds.

A considerable negative effect that can occur from mass transfer of funds is the dependence on remittances by the receiving nation. In Central America especially, remittances currently comprise a large part of Guatemala, Honduras and El Salvador's GDP, creating a dangerous dependency on this income and having a stagnating effect

on export and local markets. Table 4 shows the remittances per Central American nation as a percentage of their GDP in the years 2014 and 2015.

Previously one of the main sources of income for Central American nations, in recent years Guatemala, El Salvador and Nicaragua have seen their coffee exports greatly surpassed by remittances; the same has happened with Honduras and Panama when it comes to banana exports. Except for Panama, Costa Rica and Belize, remittances have brought at least three times more income than tourism for Central American nations in the past year (Agunias, 2006). The dependence on money transfers is an evident sign that local markets are stagnating and that instead of developing new markets and export opportunities, nations in Central America are becoming more accustomed and comfortable with their remittance incomes.

This in turn takes the attention of foreign investors away from sectors which were once highly profitable and are now stagnating. A decline in foreign direct investment in Central America can be attributed to many factors, such as political instability, national security risk or the obstacles for investment in local markets, but the fact that local markets and exports are stagnating and passive also plays a part in this considerable decrease. Remittances surpass foreign direct investment considerably in the Central American regions. Table 5 shows foreign direct investment as a percentage of GDP in the years 2014 and 2015. Only for Costa Rica and Panama was foreign direct investment a greater component of GDP than remittances.

When comparing migration flows and other sources of income and financial flows in 36 of 153 developing countries, “remittances are larger than all capital flows, public and private” (Agunias, 2006). They are a kind of injection that is different to others in

that these are loans that do not need to be paid back. In times of hardship in Europe, for example, we have seen many instances of bailouts and nations having to adopt austere measures to be able to pay back creditors. Remittances are totally different in that they involve no transaction fees except for service charges and they are conducted by individuals

The relationship between migration and development has proved to be inconclusive, based on the limited number of studies conducted on the subject. Hein de Haas (2010) concludes that this relationship should be considered “unresolved”, and that it is difficult to extract conclusive prescriptions on the topic. This study explains that the weight of positive and negative factors varies greatly depending on the case at hand. The authors that do delve into the subject, on many occasions, make little distinctions between growth and development as factors fueling migration, but this thesis considers these factors as crucial to understanding the reasoning behind the desire to migrate. Growth is to be considered a special kind of development which forays into social, institutional and economic indicators, among others, and growth is therefore a necessary condition for development, but not enough to achieve it. Development is a multidimensional process which implies not only economic development but the improvement of social conditions such as security in order for a population to prosper. Remittance flows resulting from migration can many times increase personal wealth and well-being in the short run, but their effects in the long run are dubious when related to development (De Haas, 2010; Taylor, 2006).

Taylor examines the effect of remittances on receiving countries inequality levels and compares the effect to an upside-down letter “U”: according to his studies, the initial

effect of a family receiving remittances is that inequality is increased, because one family is receiving more funds than the other, poorer families. As more migrants are relocating and forming human networks in the migrant-receptor country, more families in the home country are obtaining remittances of their own and subsequently, inequality is decreasing. This observation is part of the migration networks theory pioneered by Massey in the 1990's. Massey observes how human networks including exchanges of information and assistance in finding work in foreign countries, among other forms of assistance in migration, reduce the costs and risks of migrating. The networks can be official or unofficial or illegal (World Migration 2003). In total, the initial increase on inequality and subsequent decrease form inverted "U", the initial effect is offset by the phenomenon itself. Taylor also discusses the use of remittances as a substitute for proper access to credit; families use remittances as investment funds for enterprises which they consider too risky to undertake considering their low incomes (Taylor, 2006).

Taylor addresses the idea of development in general, and asks to analyze what truly is meant by development first and foremost. His thesis is, "do communities learn to use remittance flows for creating growth of their own?" He provides data on the amount of people living in rural areas, the class most prone to receiving remittances. He explains that in countries which are undeveloped, this class exceeds 50 percent of the population, and also that in the lowest income countries, 95 percent of the population is employed in agriculture (Taylor, 2006). When coming into these rural areas, according to Taylor and the NELM, is when remittances can actually see a multiplier effect come into play because consumption often favors goods produced domestically,

and we see few technological advances and more importantly few imports, so most of the gains stay in the local market. In the local market, the budget constraint faced by many households in rural areas are limited to the consumption of inferior goods. The multiplier effect is smaller as the sending area is closer to outside markets, since the effect the remittances might have on the area can dwindle down through trade with these outside markets, for example. Furthermore, the multiplier is smaller when policies stifle investment through corruption or complicated bureaucracies.

As Taylor (2006) and the NELM points out, remittances have had a positive effect on many sending areas who have seen an increase in the growth of migrant owned businesses, but some other areas do not have the infrastructure for such growth. Poor infrastructure of communities are one of the reasons why remittances do not enable the same growth in some areas where investing migrants must play the role of saver, investor and producer. Conditions are simply not favorable for them. If migration and remittance sending attitudes do increase inequality for some households, they could contribute to the phenomenon of migration being a self-perpetuating process which repeats itself when non-migrant household become even more deprived as they do not reap the remittance benefits some of their neighbors might benefit from.

According to Lipton (1980), 90 percent of remittances are spend on everyday consumption, including but not limited to sumptuous feasts, funerals, fancy additions to housing or even the very process of migration itself, with productive investments being coming in at fourth place of remittance usage.

## **6. Regulation of Migration and Remittances**

It is difficult to control how public policy can directly play a part in remittances becoming more effective as catalyzers of development, since they occur in private transactions and it is unhealthy to condone government intervention into private funds to stimulate savings and/ or investment. However, public policies may work in favor of remittances indirectly by providing an institutional and financial framework by which users can invest their remittances soundly. Areas with higher institutional quality and higher levels of human capital tend to complement the impact of remittances on development and therefore public policy can affect the way these funds are multiplied indirectly (Taylor, 1999; 2006). Latin America has some of the poorest ratings in the world when it comes to institutional strength, as well as some of the lowest levels of tertiary and secondary education in the world (PISA, 2012). In a study conducted by the Programme for International Student Assessment evaluating education in key subjects for 15 year olds all across the world, Latin America scored considerably lower than the average in worldwide statistics. In the whole region, Chile was the highest performer, and even that nation's score was 10 percentage points below the world average in mathematics, problem solving and motivation of students (PISA 2012). As concluded by Portes and Smith (2010) about Latin America in their study *Institutions and national development in Latin America: a comparative study*, "Systematic comparison of intra-national differences show a distinct rank order where economic agencies have been the beneficiaries of vigorous state reform, while those serving the general population have often been allowed to languish or even disappear. The study highlights the "institutional frailty of the region", one that is not adequate

to equip individuals with the tools needed to develop as fully as they could. This educational phenomenon is indirectly related to remittance sending, it is the base for a proper usage of income and therefore a first step to development that many countries in the area are not reaching.

Services in the marketplace for sending remittances provide services which highly tax users, sometimes for up to 20 percent of the income being sent, depending on the volume and type of remittance as well as on the origin country and receiving country involved. Tariff structures for these kinds of services are highly cloudy and include hidden fees and unfavorable exchange rates for users; they also tend to penalize remittances of small quantities more than higher volume remittances, the latter which is not usually the case for migrants sending fund back to their home countries.

The creation of transnational payment systems used for sending and receiving international remittances would require a high degree of collaboration between two or more nations in areas such as supervision of transfers and regulation of funds moving between nations. This would make the operation more transparent for users who are usually in the dark when it comes to comparing different service providers. There is little in the way of a price compilation to educate users on commissions and fees associated with their transactions. Basic education also comes into play in this sense, as many of the users in the market for this kind of service have not received proper financial or mathematical education and are not equipped to make informed decisions in this area, as highlighted by the results of the Programme for International Student Assessment (2012).

In recent times, regulatory efforts to reduce service charges for sending remittances has had an effect on the market, not directly on the costs of sending money or the fees associated with the action, but by creating new providers and competition in the market. Competition in the remittance market is highly based on who can provide the most transparency for users and eliminate the secondary costs associated with sending funds. In this sense, it is important for regulatory authorities to eliminate unnecessary barriers for the entry of new operators into the market and to guarantee adequate access and fair conditions for these providers into the framework of national payment systems. One of such barriers is technological advances for new operators who do not have access to updated payment systems and methods and find it hard to gain a competitive edge in the start of their operations. It must be highlighted that many remittances such as the ones we discuss from low wage workers are of low volume; this in itself provides difficulties for new operators to enter a market with already established systems in place. However, this is not the most important barrier to entry for remittance sending services. Direct access to national payment systems is a more important obstacle for them, as this is generally only granted to bank institutions which are already consolidated and have access to sufficient capital. In this sense, regulation for payment systems should facilitate indirect access and fair conditions to remittance service providers through local institutions such as banks.

The inclusion of banks into the remittance market has also somewhat changed the landscape for users in recent times, although with certain drawbacks. Banks make it simpler for users to provide inter-account transfers to each other across borders without the inconvenience of additional tariffs, however, many of the individuals

conducting these transactions are not properly documented and their legal status is not official in many cases. This makes banks weary of creating bank accounts for them and also makes them uneasy about conducting official operations such as opening a formal account. In the United States, regulation does not expressly make it illegal for banks to conduct business and open bank accounts for undocumented individuals, but there a certain fearfulness remains from both sides, therefore not allowing banks to provide the key role it could play as a remittance intermediary.

In remittance-receiving nations, quality and infrastructure of financial institutions plays a crucial role in the supervision of remittances for reasons of security and efficiency. The inclusion of more financial institutions would greatly benefit the market, since as stated before banks are not completely in tune with users of remittance sending services. Microfinancing companies, scholarship organizations and companies that specialize in saving and borrowing would be interesting players in the remittance market, as they are more in touch with what these users need, especially because the volumes of the transactions at hand are sometimes very low. Access to formal payment systems would be very beneficial for operators in the market, as they would allow a proper supervision of fund being exchanged and this surveillance would surely reduce the usage of this kind of funds for illicit purposes in receiving nations.

For those states which consider a higher population volume convenient, the encouragement of immigration can be a powerful tool. Immigration may be considered necessary by local governments in order to cover all existing employment. Early examples of this type of migration programs includes the Bracero Program of the United States and Mexico of 1942; the agreement brought guest workers to the United

States from Mexico temporarily and gave them short-term employment opportunities to work in agriculture inside U.S. territory. It was a controversial program in its time, just as many of today's migration policies are subject to debate. In any case, the intent to control migrant populations is one of the classic topics of migrant policies, in which many different kinds can be observed: regulations of intensities of inflows and outflows of people, selection of migrants based on their nation countries and their skills and utility towards the job market, politics of language assimilation, cultural assimilation, segregation policies, and policies of geography, among others.

The United States, being the nation with the most migrants living inside of it has adopted many immigration policies throughout the years. One such example which is very important to migration policy history is the Johnson-Lodge Immigration Act of 1924, in which migration by country became limited to number of people per nation, depending on the nation sending migrants. Each nation had a quota for number of migrants they were permitted to send to the United States. These quotas however, were based on testing which is now obsolete, and based on the belief that certain races were inferior. Although this testing is nonexistent today, there still remains wide debate in a similar sense related to protectionism, border patrol policies and international tensions arising from refugee migration and illegal migration as well.

Nations have different ways of restricting migration inflows, but they have some common denominators between them. One of the most common ones found in Europe particularly is that if a person wishes to migrate from another country or continent, they must first present a formal employment offer and solicit a visa to enter and live in European territory. Basic criteria for these employment offers states that

employment opportunities should not be offered to foreigners if there is a national suitable for that particular position. This criteria is known as national preference.

The discussion of whether migration is harmful for the sending nations benefits from the progressive shift into proposals to stimulate the circulation and exchange of skilled workers between nations. These would seek to compensate the losses suffered as a result of migration with gains that result from highly skilled individuals gaining experience across international borders. Migrants are an effective way to link local networks to international ones. Incentives such as the 3x1 Program in Mexico are highly beneficial for both sending nation and receiving nation: This incentive helps to develop communities which have sent migrants abroad; for every peso provided by migrants, the federal, State and municipal government contribute an additional peso in order to develop the infrastructure of migrant sending communities and fund projects inside of them including electricity, street pavement, and sewage. The incentive assisted over 300 infrastructure projects in its first operation, and it has been operating since 2002 (Mexican migrant support program to improve with IDB support, 2012). Programs such as this one are very relevant for Mexico and Central America today, since the United States is limiting its policies on migrant acceptance and a large quantity of undocumented workers have been deported back to their home countries. In order to re-introduce these workers back into their home communities, Mexico has already set in place a program which will pay them unemployment benefits for six months while they are able to find employment (Lakhani, 2017). These deportees are a direct result of migration but not all is bad news: many of them have lived in the

United States for decades; their skills in English language and culture will provide Mexico with capable Mexican-born labor force.

## **7. Conclusion**

The conclusion of this study is that there cannot be a single diagnosis about the effect of migration and remittances on development of origin nations, as evidenced by the varying results obtained throughout our study. The emigration of able bodied and able minded laborers (especially young laborers) reduces the potential of a nation's labor force, while at the same time slowing or weakening their growth process. This effect is aggravated when the "brain drain" phenomenon, in which individuals who show above average potential in a particular field decide to migrate abroad. However, remittances sent from abroad to families living in origin nations tend to compensate the cost of migrating, to a varying degree depending on the circumstances of the household and the origin nation's characteristics.

Our results show that the effect of remittances on the region of Central America depends to a large degree on the profile of the migrants themselves and also on the amount of remittances they are sending back home. Remittances have been proven to yield a series of benefits for families in Central America, mainly in the sense that family members which migrate abroad overcome the flaws in the labor markets of origin nations and provide the family with funds which are used for commerce and investment, This is not always the case, as shown by our study, often remittances are used "unproductively" and therefore it is impossible to generalize on their exact effect

throughout the region; however, in general and in line with the tenants of the new economics of labor migration or new economics of professional migration theory, remittances and migration tend to be positive in overcoming market failures. The study has also found and prescribes the fact that populations in Central America in particular could benefit from government programs which teach them how to properly manage their income and take part in commerce and investment, as tertiary education levels are extremely low and this is potentially one of the reasons why remittances are misused.

The new economics of labor migration approach is more effective in today's context than the outdated neo classical migration theories which are not as comprehensive and do not take political and social context into account as is needed for a modern study. This study has benefitted from using this approach since transnational links produce a complex network of interrelations which have considerable influences on the household and the State itself, shaping the enactment of policy. The sheer size and influence of remittances on Central American economy has produced radical changes in the region, for example El Salvador's decision to adopt the dollar as a national currency as a result of its dependency on remittance flows. However, the multiplier effect of remittances remains inconclusive, with studies about the effect producing contradicting results.

In some of the nations of Latin America, the amount of income being sent back to the origin nation as remittances do not compensate for the negative impact on potential growth, however we see that in Central America, the higher volume of remittances seem to compensate (or overcome) the effect of migration. Remittances in nations such

as Guatemala and Honduras double the amount of foreign investment; the effect of losing this volume would be devastating. The steady flow of remittances since the year 2000 has provided relative economic stability for the poorest Central American nations, including El Salvador, Honduras and Guatemala, but the dependence on these remittances has slowed local production and created a dangerous dependency effect on migrants instead of local economic growth. It is impossible to assure that this economic flow will remain, especially in light of recent, harsher immigration policies instated in the United States. Remittances have also stimulated consumption in home nations when faced with hard economic times. In the Caribbean part, remittances have increased considerably after hurricanes, becoming an economic beacon for severely affected territories. In general, although some negative effects on development of origin nations from remittances and migration, it cannot be stated that the balance is negative concerning their effect on development and growth; this thesis' hypotheses must be rejected. However, in line with our research related to the approach from the new economics of labor migration, in order to properly assess their effect, one must look at a micro level to the so called "household" (which can be a community or a conglomeration of individuals) to analyze the effects of these phenomena on that particular household. Central American countries have differing levels of poverty, inequality, political stability and employment, so the effect of migration and the dependency on remittances varies greatly among them.

More programs in place in the vein of the 3x1 program in Mexico would see migration being used more effectively, incentivizing healthy relocation while at the same time promoting development in the origin nations. Nations should place more incentives

for migrants to return home, such as study loans which are partially pardoned if the migrant decides to return after his/her studies, in order to limit the “brain drain” effect. Migrants would also greatly benefit from official channels throughout which migrants can send remittances with less transaction costs and hidden fees, as well as the introduction to the market of easier ways to transfer funds regionally or internationally through banking. This last point is subject to debate because of the unwillingness of many illegal migrants in the United States to take part in the banking system.

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## 9. Appendix

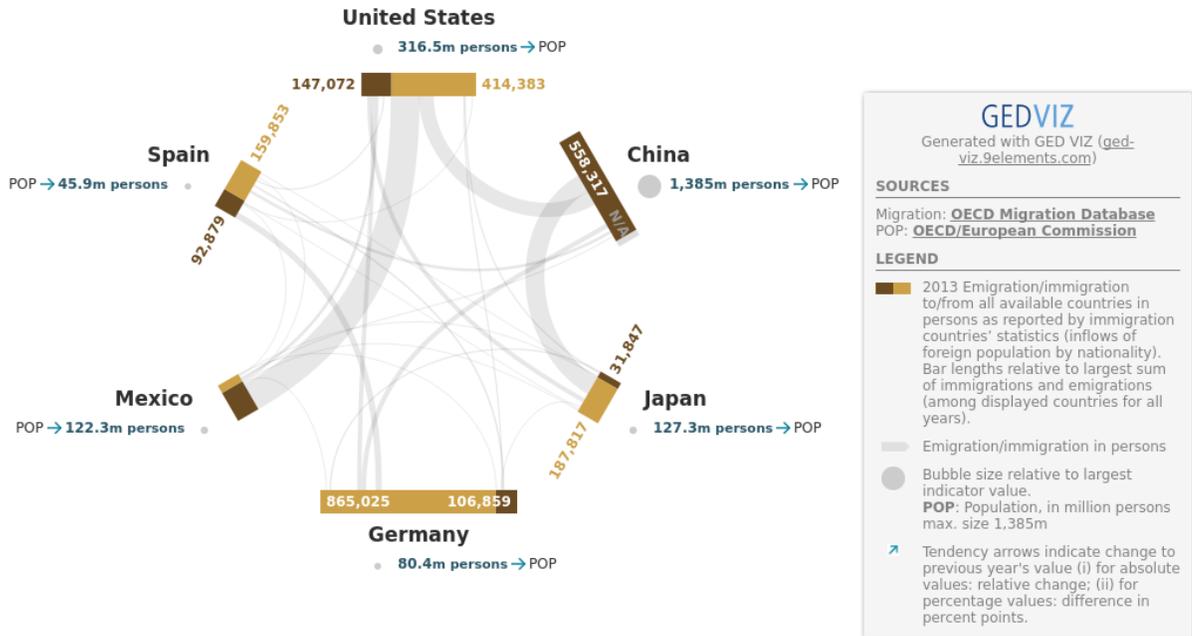


Table 1. Relation between emigration and immigration in six of the world's nations.

Source: <https://viz.ged-project.de/> using data from the OECD Migration Database

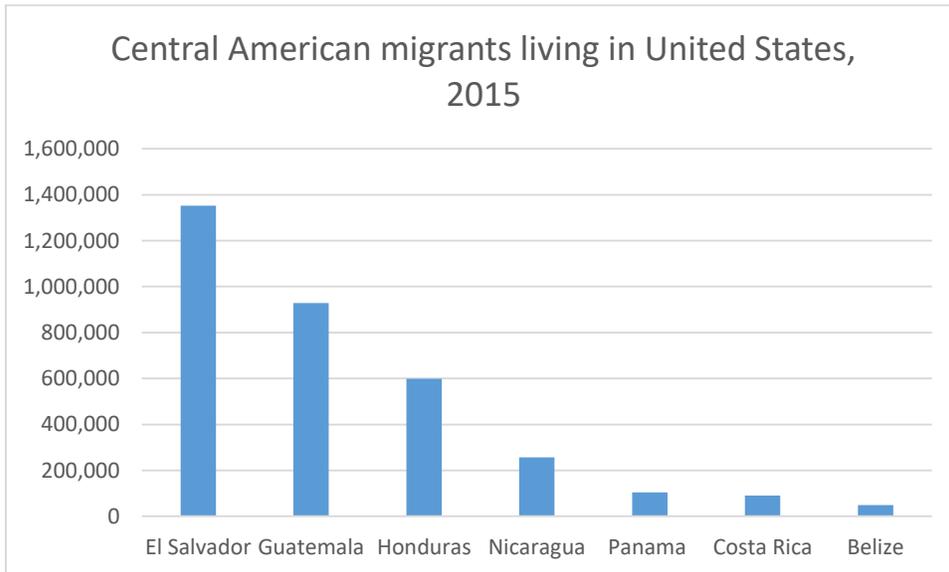


Table 2. Statistics of Central American migrants living in the United States, 2015.

Source: United States Census Bureau

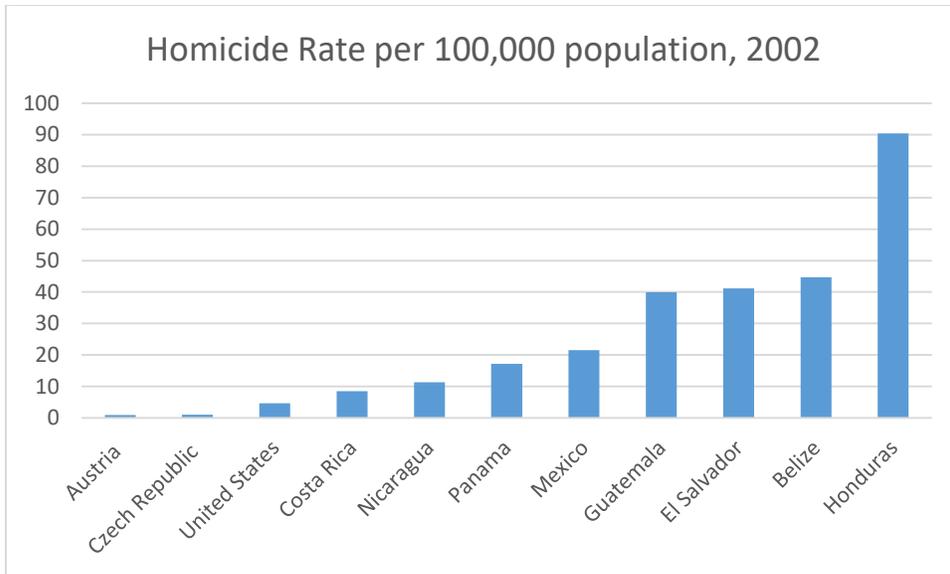


Table 3. Homicide Rate per 100,000 population in Central America, 2002.

Source: United Nations Office of Drug and Crime (UNODC)

Remittances as a Percentage of GDP		
Country	2014	2015
Honduras	17.4	18
Nicaragua	9.7	9.4
Costa Rica	1.2	1
Belize	4.7	4.8
Panama	1.5	1.1
Guatemala	9.9	10.3
El Salvador	16.6	16.6

Table 4: Remittances as a percentage of GDP per year (2014 and 2015)

Source: World Bank Data

<b>FDI as a Percentage of GDP</b>		
<b>Country</b>	<b>2014</b>	<b>2015</b>
<b>Honduras</b>	6.6	6.3
<b>Nicaragua</b>	7.4	7.5
<b>Costa Rica</b>	6.4	5.4
<b>Belize</b>	8.3	3.4
<b>Panama</b>	10.1	9.7
<b>Guatemala</b>	2	1.8
<b>El Salvador</b>	2	1.9

Table 5: Foreign Direct Investment as a percentage of GDP per year (2014 and 2015)