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Authors

Gevorkyan, Aleksandr V.
Gevorkyan, Arkady V.

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Tackling Global Inequality in Labor Migration: Diaspora Mechanism and Migration Development Bank

Aleksandr V. Gevorkyan
gevoa223@newschool.edu
Department of Economics
New School for Social Research

Arkady V. Gevorkyan
garkady07@yahoo.com
T3 CAPITAL, LLC

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Abstract

Globalization is a multifaceted phenomenon, of which temporary labor migration is the most socially profound and economically evident aspect. One of the immediate concerns related to increasing numbers of labor migrants is a correspondingly increasing inequality in their labor efforts vis-à-vis domestic workers; migrants’ social and legal status. Derived from such premise, this paper offers practical solutions tackling inequality, achieving social balance and migrants’ welfare. Our original propositions include *Diaspora-led temporary labor migration mechanism and Migration Development Bank*. Both policy instruments are prompted by analysis of modern labor markets and labor migration patterns. A state-managed temporary labor migration regime is recommended at the initial stages. Multilateral governmental agreements are prerequisite for legitimacy of the mechanism and formal protection of migrants’ and domestic workers’ rights. Fiscal policy is crucial in the final implementation of the proposed Diaspora mechanism. Collective welfare of *the army of migrants* is at stake with strong spillover effects in infrastructure, human capital and entrepreneurial projects in the home and host economies. Timely resolution of inequality issues shapes nation’s development path. This paper adds to the emerging research literature on the Diaspora studies. In the modern interlinked world Diasporas become real dominant actors in country development. Critical research within this theme must be encouraged and welcomed.

^{*} Views expressed in this paper are those of the authors solely and do not represent the views of the institutions the authors are affiliated with. First draft submitted September 14, 2007.

Introduction

Increasing openness and constant communication exchanges at cultural, scientific, political and economic levels across countries have become the fact of contemporary reality. Namely that constitutes most general definition of globalization. Yet, hardly any other social phenomenon of recent years has caused so much controversy and debate as the advancing globalization. It is a multifaceted phenomenon with various modalities. Despite evidence of some prosperity, greater openness for trade and capital flows has resulted in increased vulnerability of nascent economies to international crises' and speculative investor attacks. Unequal international division of labor presents another concern. But, the true issue, receiving some attention recently, is deeper within the social fibers of modern economy.

Temporary labor migration is the most socially profound and evident aspect of globalization than any. Some of the immediate concerns related to increasing numbers of migrant workers traveling from less developed countries to industrialized economies are: correspondingly increasing inequality in their labor efforts and compensation, social and legal status in the host and home economies. There is no need to enumerate instances of abuse or undervalued efforts of the migrants. Those incidents are well documented and are subject to continuous public debate.¹ Instead, we propose our original practical solutions tackling the inequality concerns in addition to addressing issues of legality, social stability, and channels of monetary transfers. Welfare of *the army of migrants* is at stake. Still, on aggregate these concerns apply to host and home economies' development as well. We structure our paper in three main parts. Core theoretical points on labor migration are covered in **Section I**. These are followed by presentations of the *Diaspora mechanism* in **Section II** and *Migration Development Bank* in **Section III**. The paper ends with **Conclusion** and **References** list.

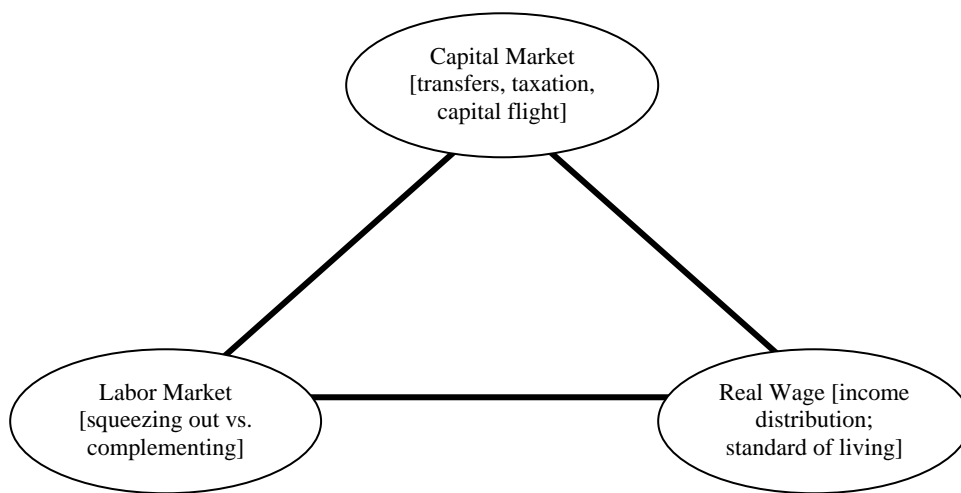
Section I

The right to free movement is as basic as the right to free speech and private property. Equally so is the right to seek employment opportunities outside one's native land. This prompts serious

¹ See Zayonchkovskaya and Tjurjukanova (2004) for the issue coverage in the Former Soviet Union space.

analysis of temporary labor migration, which in turn requires a well-grounded theoretical base. It must be pointed out that existing literature on immigrant labor is largely devoted to the effects of *permanent* migration on a *host* country's economy.² Our concerns are with effects of *temporary* labor migration on the *home* [or *sending*] and host [receiving] countries, as well as workers' welfare. There are three moments that require attention of a theorist and policy maker that we structure at the abstract level in a *temporary labor migration triad*. It is presented schematically in Figure 1 below.

Figure 1: **Temporary Labor Migration Triad**



First, starting with the bottom left corner in Figure 1, it is instructive to follow the transformations of the structure and content in the domestic labor markets with influx of foreign-born labor. Is the immigrant labor complementary to domestic or is it squeezing local workers out of their traditional areas of occupation? Is it perhaps that labor migrants are filling in the gaps in the domestic economy that appear unappealing to the local labor force? Curiously, research conducted in Hong Kong, Israel, Austria, USA and other countries indicates that often those “squeezed” out native resources relatively quickly adapt to the situation, acquire new [higher] skills and assume leadership positions in the same industries. For example, as reported by Friedberg (1997) with increased immigration to Israel from the Former Soviet Union [FSU] countries in 1990's Israel's labor market reactions to appearance of complementary and substituting workers did not have any major drastic

² See for example Altonji and Card (1989), Borjas (1994, 2004), Friedberg (1994), Friedberg and Hunt (1995), Ottaviano and Peri (2005), Tishkov et al (2005), etc.

disruptions. This was possible primarily to the government's proactive social and resettlement policy accommodating arriving employees and assisting with skills improvement to local labor force. Similar findings are produced in studies of the US immigrant labor by Borjas (1987). In many cases, following government resettlement programs added immigrant labor force aided in regional development and rebirth of some traditional industries.

Second, moving to the bottom right corner in Figure 1 above, one must consider effects on real wage in the domestic economy [assuming economic, i.e. low income and lack of jobs in home country, causes for temporary labor migration]. Some authors find little to no evidence of influence of arriving immigrant labor on real wage in a specific sector or locale [see for example, Winter-Ebmer and Zweimuller (1999), Friedberg and Hunt (1995), Borjas (1987), and others]. We contend that this finding is very much dependent on relative skill composition of the combined [domestic plus foreign] labor force and areas of occupation receiving large immigrant labor influx. Some studies report increasing levels of competition within immigrant communities. Once again, fiscal authority's participation is appropriate to establish reasonable pay minimums for labor migrants, especially in the temporary migration case. This measure would attempt to even out income distribution in the specific sector of the economy or region. Here as well, issues of political economy and inequality are apparent. A sound regulating mechanism needs to be brought in to promote social balance.

At the top of the triad, as seen in Figure 1 above, is the financial side, more generally – capital movements. In our case that takes the form of remittances – funds that migrant workers transfer home periodically. Increasing levels of transfers spur rounds of debate over the “Dutch disease” appearing in the home [fund-receiving] economy, popularizing the call for stricter controls on monetary transfers. In addition, the process casts doubts on adequate absorption and fair allocation of funds in the fragile home economy, as most outward migration comes from the developing world. Similar opinions are voiced on the other side [i.e. host, fund-sending, economies] but for reasons of preservation of domestic wealth, preventing capital flight and adjusting for migrants' income taxation.

Yet, as they settle in their acquired new roles, labor migrants tend to save the surplus of their earned income. It is precisely that accumulated portion of migrant workers' income is then transferred to the home country in form of remittances – it is their earned income received for the value created in the host economy. This stipulates two counter arguments to the above capital market concerns.

Firstly, migrant workers [especially temporary] transfer funds as long as there is a recipient in the home economy. As in some cases once temporary migration turns into permanent, the motivation for consistent monetary transfers fades away, especially if the migrant is joined by the rest of his or her family from home. Ultimately this relates to the now popular argument of remittances feeding economic growth, which seems doubtful to make policy decisions primarily based on unstable money flows. Secondly, transferring one's hard earned income barely constitutes an en masse capital flight or even speculative capital market attacks producing for instance financial crises a la Asia of late 1990s. On the other hand, given current policy debate, instituting taxation mechanism to account for migrant workers' income appears to be only a matter of time. Still, to properly address these concerns an instrument that would alleviate some of the related administrative and informal sector's burdens is due.

The triad is interconnected, with one element following another. This analytical discussion brings us to our original mechanism that establishes explicit links with all three moments, resolving issues of inequality and unfair treatment of the labor migrants. This is explained in details below.

Section II

A peculiarity of modern development is existence of the wide global Diaspora networks of various cultural, ethnic, and religious backgrounds. Largely that is due to historical aspects but also is due to migration policies of the Western governments of recent decades [e.g. post WWII in Western Europe]. Acting as host countries, these governments were quick to adjust their legislation to allow for entrance of new labor resources corresponding to the demands of real economy [for example see Calavita (1992) and Castles (1986)]. As a result large communities of non-native workers sprang into existence in the developed world. Similar events ensued in the Soviet Union. Situation there, however,

was slightly different with dominantly historically settled communities of various ethnic Diasporas living long before any modern economic transformations have taken place. These form what we call the *old Diaspora* – well established, relatively affluent social sub-strata of “non-native” citizens.

In more recent terms, those migrants who remain in the host country and do not return to their home country form a *new Diaspora*. Quite naturally, newly arriving migrants, especially temporary workers, often flock towards the areas where they form *network communities* socializing and “re-uniting” with their long-since-moved-from-home compatriots. Furthermore, the newly arrived migrants are often hired by the business organizations run by the members of the old Diaspora.

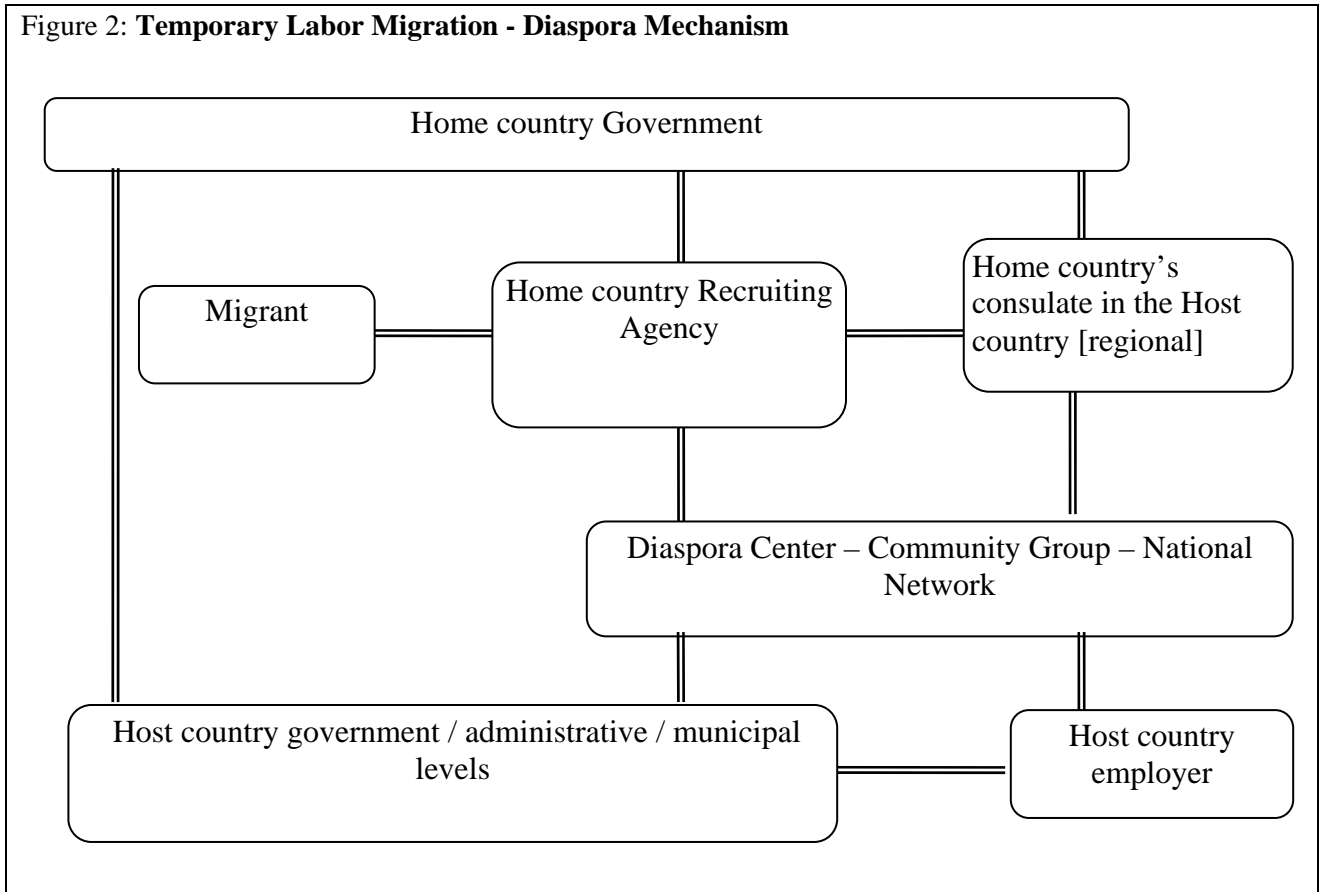
Despite this connection, bigger part of the labor migration process is unregulated, ad hoc and often takes hazardous forms. Situation is often prone with social conflicts, as migrants are perceived unpopular taking away jobs from the locals, irrespective of the factual evidence stating that temporary labor migrants do fill in the void in the national economy. Based on our earlier research on labor migration patterns of transition economies [Gevorkyan et al (2006) and Gevorkyan (2007a)] we derive here a general *Diaspora mechanism* that may be adapted to country-specific setting. The mechanism is premised by cultural and economic closeness and common background of the “old” and “new” Diaspora. Within the above described triad this mechanism tackles labor market and real wage concerns.

The setup assumes developed legal framework between two [or group of] countries with specific treaties regulating issues of temporary labor migration. Role of the state in the model is quite important, at a minimum, in the first stages of its operation. State possesses nominal legitimacy to mobilize Diaspora and administrative resources putting them together in a working compromise. Main players in the Diaspora mechanism are: governments of home/host countries and related local, municipal and federal authorities; State managed Recruiting Agency in the home country; Diaspora Center in the host country [most likely a separate center for each federal region but also acting at a national level through Diaspora organizations / Community Groups]; Employer in the host country; Home country Consulate abroad; and certainly the Migrant. Note that this basic set up can be

customized for a specific country setting. Most importantly, host country Employer could be one or several organization run by local “old” Diaspora. Schematically the mechanism is shown in Figure 2.

Diaspora Center in the host country and home country Recruiting Agency are the two unique agents in the proposed mechanism. The first one, a natural extension of already existing Community Group where members of the “old” and “new” Diaspora socialize, is also inspired by the home country [through the consulate] and supported by the host country fiscal agents. It is in the middle of the coordination process, linked with the Consulate as well as Host country’s authorities. Recruiting Agency is part of the home country’s *state-managed regime* and interacts with the Migrant, home country government, Diaspora Center and the Consulate.

Figure 2: **Temporary Labor Migration - Diaspora Mechanism**



It is easy to see that in this set up Migrant contacts state-managed recruiting agency in the Home country. Data on Migrants’ skills and qualifications is transmitted electronically to the consulate and the Diaspora center. Upon successful review and identification of potential job opportunities,

recruiting agency takes care of the administrative portion [migrant's personal record check, work visa, etc.] and provides the migrant with all necessary information before their deployment in the host country. Upon arrival, the Center assumes responsibility over the migrant. Moral hazard is limited through a system of checks and balances instituted by the two governments that required constant reporting by the employer, Diaspora center, recruiting agency and the migrant to the authorities.

Let's run through a hypothetical scenario in detail. Legal framework and all players in place, a hypothetical Migrant fills out an application at the Recruiting Agency in home country. The Agency takes no longer than [for example] two weeks to respond. During that time the Agency confirms all formalities with the home country Government. The Agency runs the Migrant's qualifications across its database of open employment opportunities in the potential host country. Home country's Consulate abroad and the local Community Group create the database. The latter maintains the database and shares with all three parties. The database contains data on the migrant, employment opportunities, "old" Diaspora employers and other possible host country employers interested in foreign labor resources and other related information.

Once the Migrant passes initial approval and possible employment opportunity is determined the information is sent to the Community Group that also negotiates with the host country employer. This assumes the Agency has had a discussion with the Migrant regarding possible employment opportunities and has the Migrants' agreement on that. Upon receiving confirmation from the Employer, the Community Group communicates that to the Consulate and the Recruiting Agency. The Migrant arriving on a special temporary work visa, a distant but viable situation, reports to the Consulate for initial registration and to the Community Group.

The Group helps the Migrant settle in the new environment, helping rent an apartment and providing basic information about their new location. A representative from the Group then introduces the Migrant to the future employer. During the length of the employment period the Community Group oversees the progress and receives regular reports from both the Migrant and the Employer. These reports will then be transmitted to the Recruiting Agency. Experience of countries like the

Philippines, Sri Lanka and others proves that such basic information about the working conditions, attitudes towards and concerns of the Migrants first helps create reliable statistical body for further analysis of the temporary labor migration impacts; and second, ensures that the home country's executive branch in charge of the process, communicates diligently any concerns about Migrants' well-being to its Consulates and the local authorities in host country. After all, it is expected of the Government to assume responsibility for its citizens' welfare and implement certain measures necessary to uphold it.

At the end of the deployment period the process would have come full circle and the Migrant returns home, with the Community Group and the Recruiting Agency being the integral agents in ensuring that happens. As with other aspects, the Agency is expected to keep track of all Migrants that travel out of and into home country and report the statistics to the executive branch of the home country Government. Finally, and this must be stressed with all urgency, the Community Group, although capable and possessing the infrastructure, will perform as an efficient vehicle in the process only with the clear guidance, encouragement and, importantly, financial backing of home and host countries' governments. The Consulates established in various foreign regions should work in close cooperation with the present "old" and "new" Diaspora communities. It is possible to envision other incentives, aside from holding a collective responsibility for its compatriots in host country, however, that is beyond the scope of the present study. Presented as a hypothetical idea, the model does provide a reasonable framework for further analysis of the temporary labor migration processes.

Diaspora mechanism outlined above ensures fair distribution of labor migrants' efforts in the home country economy based on real and legally recorded business demands. To promote *temporary* migration, the mechanism can be adopted to offer rotational employment such that, for example, has worked in Switzerland, as described by Gross (2006) [but without any Diaspora involvement]. We omit detailed discussion of that here for future policy related research. Diaspora mechanism offers fair controls and supervision over migrants' compensation. Hence, resolving the two contradictions [labor market and the wage] of the triad. Next, we tackle the third aspect – money transfers.

Section III

While working in their capacity of contract employees, creating value and contributing to host country's economic development, migrants earn income. Part of that income remains unspent and upon reaching certain levels of accumulation [or as needed] is transferred by the migrant home. These monetary transfers – remittances – provide some relief to migrant's family and in a way contribute to economic activity in the home country, becoming a new popular source for home economy's growth. However, as the contract nears the end migrant leaves he [or she] takes more than just money, but accumulated skill sets, acquired on the job and being immersed in a new environment. Hence, one of the other way migrants can contribute to home country development is through bringing back the necessary knowledge and skills. Further, returning migrants often form cooperatives starting businesses together in the home country. Additionally, return migration and opportunities to find better jobs that require higher educational preparedness compel [potential] migrants seek ways of improving their education while in the home country, which stirs the development of educational processes at home. Implications of this are touched upon in Gevorkyan et al (2006).

Two considerations in regards to the above are worth mentioning. First, as evident from the discussion in the previous section, this set up assumes a temporary and contractual character of labor migration regulated by law, common sense and strife for fairness in income distribution. Second, to facilitate issues pertaining to and assist with monetary transfers a financial mechanism can be incorporated within the proposed mechanism, such as *Migration Development Bank* [MBD].³ MBD removes bureaucratic barriers to monetary transfers, offering banking services to migrants who otherwise would have difficulties opening bank accounts.

The essence of the MBD's work would be investment of a portion of accumulated but for time being unused funds in infrastructure projects in the home and host countries, in addition to providing financial backing to the Diaspora led temporary migration program. As a one-stop banking source

³ This idea has been previously raised by us elsewhere in a few country specific studies not mentioned here.

geared towards temporary migrants, MBD may provide direct-deposit services and simplified monetary transfer mechanism. For the time being MBD would have to remain a close-knit venture open for the temporary migrants [and in some cases “old” Diaspora members]. They would be able to set up MBD accounts using paperwork and ID cards provided to them by the Diaspora Center, specifically for situations like that.

Setting up an actual development bank offers quite a few possibilities to benefit economic development of least developed countries with high proportions of outward migration. Not only can the fiscal agents of those countries capitalize on the extra funding received for infrastructure projects and reduction in informal [i.e. uncontrolled] large-sum monetary transfers, but social benefits are abundant. For instance, acting as a cross national enterprise, set up by foreign governments with Diaspora Centers’ participation, MBD provides greater access for the labor migrant to their home country. MBD’s successful work through offering loans for infrastructure projects, or issuing bonds aimed at healthcare or education support or through multitude of other financial schemes would serve as the best social return to migrant’s efforts abroad. Such achievements will necessarily inspire anyone genuinely concerned with the betterment of their homeland to apply every possible effort within the *legal* framework to make additional contributions. And the process will be legal since MBD operates within the contractual Diaspora mechanism described above.

As described here MBD is very reminiscent of already existent, but isolated, Diaspora finance efforts across the world. The two most prominent examples in the recent history of international finance are the “State of Israel Development Bonds” (issued in 1950) and “India Resurgent Bonds” (issued in 1998). Both countries continue to capitalize on their close relationship with their Diaspora abroad [e.g. India’s active work with its Non Resident Indians communities abroad]. While the set up of sovereign bonds is certainly different than an active banking, the core – appeal to the Diaspora, the army of migrants – remains the same. Implications of such arrangements for developing countries are promising in terms of socio-economic progress. The key, however, remains to be ensuring

sustainability of the program with adherence to fiscal rules and responsible investment in the economy's productive and infrastructure sectors [developed in Gevorkyan (2007b)].

Finally, the role of MBD may be crucial in providing relocation assistance and startup capital for return migrants. As stated earlier, those migrants who after acquiring new skills and professions abroad return home and start their businesses contribute to economic development in the home country. For some countries facing depopulation and stagnant economies this could be one of the ways to get the necessary push out of the current stalemate.

Conclusion

We addressed the issue of global inequality through the angle of labor migration. Specifically we argued for a *triad* methodological approach to studying the issue and proposed implementation of the Diaspora mechanism and the Migration Development Bank as a way of just and fair regulation of the general temporary labor migration process at a general level. Therefore, any policy prescription cannot and should not be taken as one-fits-all measure, but instead needs critical assessment before its variation is adapted for a specific country setting. This project is an effort to attract greater attention of the decision makers to the problem of temporary labor migration, ways of its resolution but also to the role and effective impact that Diaspora resources, fiscal policy and responsible finance can play in promoting short run and long run socio-economic development.

Recognizing the economic root cause for temporary labor migration we argue for active state involvement at least at the initial stages. Facilitating job search and migrants' placement through the Diaspora networks and doing that within contractual and mutually agreed framework necessarily reduces the incidence of abuse and unequal treatment of [often unprotected] temporary migrants. Operating Diaspora mechanism relieves social tension and unease with increased foreign workers numbers in a domestic economy. Concept of the MDB completes the Diaspora mechanism opening up new growth and development possibilities. Diaspora study is an emerging research area bound to stir

greater interest. In the interlinked world Diasporas become real dominant actors across all fields and across all society strata. Critical research within this theme must be encouraged and welcomed.

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