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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

CENTRE DE DÉVELOPPEMENT DEVELOPMENT CENTRE

Latin America in 2010: Migration Policies for Development

Introduction

The year 2010 will be critical for Latin America. While the region shows signs of recovering from the global economic crisis, many countries still face important challenges, including scarce investment, low productivity, dependence on volatile commodity prices and slowing migrant remittances, to name just a few. Latin American governments should aim to make effective short-term responses to the crisis consistent with sustainable long-term development priorities of promoting growth while combating poverty and reducing inequality.

Both maintaining open economies and improving migration policies are important allies in Latin America's recovery. New analysis by the OECD Development Centre suggests that stronger financial and commercial links help build institutional resilience to external shocks, rather than generating weaknesses commonly associated with more openness. Migration could provide a still untapped source of funding for development projects through the remittances the region receives. Better policy co-ordination between migration flows and labour markets, both in sending and recipient countries, could also help curb unemployment, one of the most pressing problems stemming from the global downturn.

What needs to be done? Just as most Latin American countries have improved their macroeconomic fundamentals and the quality of economic governance during the last decade, they still have to undertake important reforms to boost their competitiveness in international markets. The year 2010 should see a greater shift of public spending towards the poorest segments of society, without compromising long-term fiscal sustainability. At the same time, governments in the region and OECD countries should maximise the opportunity for development offered by the triple flow of people, money and ideas through international migration. ■

This Policy Brief is based on the Latin American Economic Outlook 2010, *a publication produced annually by the OECD Development Centre. The Centre conducts comparative analysis and promotes informal policy dialogue on development issues of mutual interest for OECD member and non-member countries. Its objective is to help decision makers find policy solutions to stimulate growth and improve living conditions in developing and emerging economies.*

oecd Observer

Are open economies more vulnerable to global instability?

Latin American countries that opened their markets to international competition during the last decade have not necessarily been more vulnerable to the global economic crisis. This feature defies the common view that economies more dependent on international trade and finance are most affected by external shocks. New indices produced for the *Latin American Economic Outlook 2010* show that increased exposure to the global economy does not translate into more vulnerability.

What explains this phenomenon? Basically, trade and financial openness have been accompanied by the creation of resilience mechanisms during recent years. This has been possible by tapping the benefits and opportunities derived from a gradual insertion of Latin America into the world economy. On the current account front, for instance, most countries in the region have been running surpluses with increasingly diversified exports, both in products and destinations, and in the geographical variety of their sources of remittances. The same applies to the financial sector, where increased exposure to external shocks is counterbalanced by stronger foreign reserves and liquidity, lower fiscal deficits, better structured public debts and healthier banking systems.

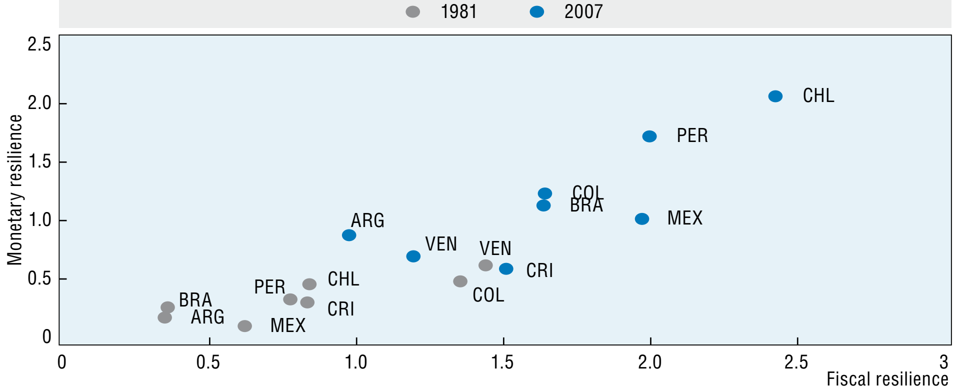
Box 1.

A BETTER-PREPARED REGION

Rather than the Great Depression, the crisis of the early 1980s offers a more relevant point of comparison to the current situation in Latin America. Comparing today's current account and financial indicators with those of 1981 proves that Latin America is in a much better position to confront international turmoil. Two new indices developed by the OECD Development Centre contrast fiscal and monetary resilience at the onset of both periods. The Fiscal Resilience Index measures the ability to fund counter-cyclical policies by combining measures of solvency, funding cost and budget balance. Except for Venezuela, all countries are much better placed than in the early 1980s. The Monetary Resilience Index reflects a country's ability to resort to monetary policy measures in harder times, thanks to a combination of central bank credibility, the availability of reserves and practical exchange-rate freedom. Once more, the comparison shows that all Latin American countries have considerably improved their position during the last 25 years.

Figure 1.

FISCAL AND MONETARY RESILIENCE IN LATIN AMERICA: 1981 *vs.* 2007



Source: OECD Development Centre (2009).

Most Latin American countries have learned lessons from the past and capitalise better on the rewards that globalisation offers. The best example of this phenomenon is that, in the midst of the crisis, Latin American economies are resorting less to protectionist measures than many OECD countries. ■

What are the prospects for recovery?

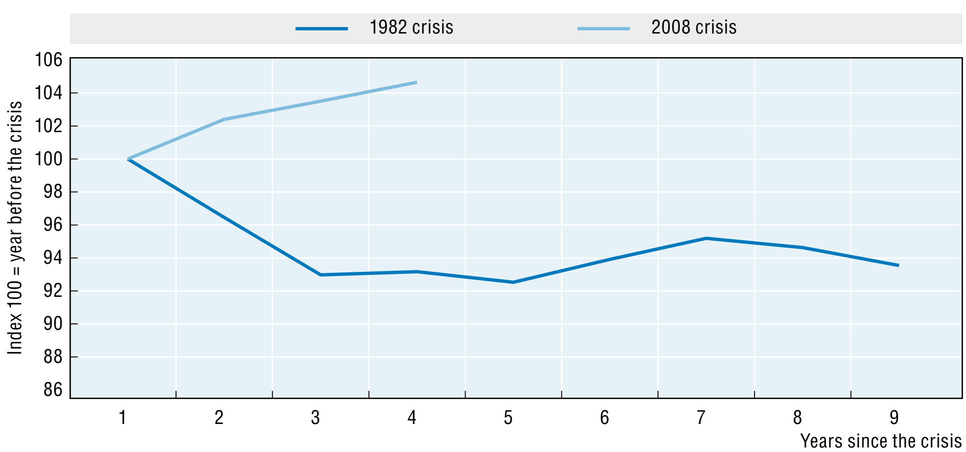
Latin America has been severely hit by the global downturn – overall GDP is expected to shrink significantly in 2009 – but the region's economic prospect for 2010 is notably positive. With 75% of regional GDP rated as investment grade, economic growth is already picking up, allowing Latin America to emerge from the crisis faster than most developed countries. The pace of the recovery will be determined in part by global conditions, but also by each country's individual capacity to stimulate the economy through sustainable policy.

Chile, Peru, Mexico and Brazil are the countries best placed to emerge stronger through public spending and the mobilisation of reserves. The resort to stimulus packages and further investments in infrastructures with a multiplier effect are good news, but shock measures should not compromise macroeconomic fundamentals. The emerging debate about an "exit strategy", to be implemented when the recovery is fully confirmed, is appropriate, although less problematic in Latin America than in many developed economies.

In the short to medium term, the robustness of trade and financial resilience, rather than exposure, hold the key to overcoming the crisis. Enduring recovery will depend largely on the sustainability of the policies and the responsibility shown by fiscal and monetary management. Those countries that diversify exports, hedge financial portfolios, avoid terms-of-trade risks and maintain solid reserves and balanced public accounts will be better positioned to emerge stronger in the long run. Another important factor for

Figure 2.

RELATIVE GDP PER CAPITA IN LATIN AMERICA AND OECD COUNTRIES: THE 1982 AND 2008 CRISIS



Source: OECD Development Centre (2009), calculations based on *OECD Economic Outlook* (June, 2009), *Consensus Forecast* (June, 2009) and IMF, WEO database (July, 2009).

recovery is reconciling immediate priorities with long-term development objectives, which implies a focus on protecting the most vulnerable to avoid a reversal in the poverty-fighting progress made during the past five years. ■

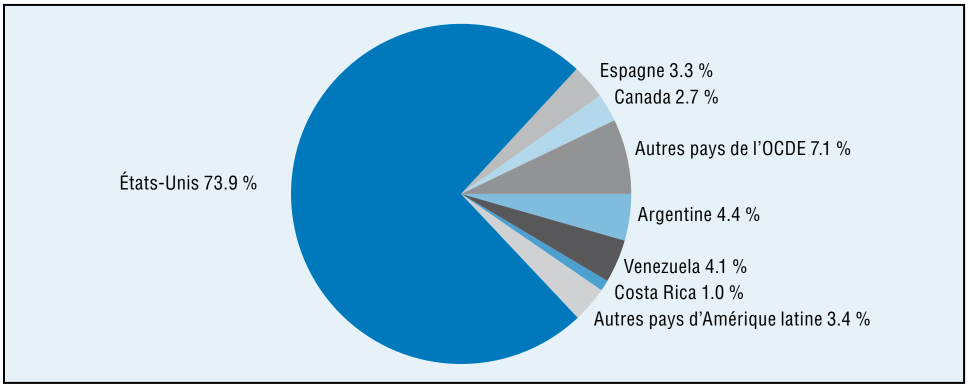
Why is migration important in this crisis?

Changing patterns of international migration will affect the depth of the crisis and its impact in Latin America. More than 20 million Latin Americans are immigrants, with up to 10% of Caribbeans living abroad. The effect of the crisis in OECD economies, where Latin Americans represent close to a quarter of the foreign-born population, is transmitted to the region through changing migration patterns and declining remittance flows. Some of the economic sectors more affected by the slowdown in developed economies are precisely those that employ most Latin American immigrants, such as construction and tourism. Growing job losses in recipient countries can dissuade Latin Americans from leaving their countries, and can also result in some emigrants returning home. Rising unemployment levels among immigrants are also putting migration reform in the spotlight of public policy debate in OECD countries.

The effect of the crisis on remittances is even more acute, and could affect an estimated 4 million Latin Americans. Remittances to the region totalled USD 69.2 billion in 2008 and represented more than 10% of GDP in many Caribbean and Central American economies. Surpassing official development aid flows by far, remittances are an indispensable source of capital for the poorest Latin American countries. As a result of the crisis, 2009 was the first year in which remittances to the region fell in absolute terms since the Inter-American Development Bank began monitoring this flow in the late 1990s. However, this decline is partially compensated by exchange-rate fluctuations, particularly the appreciation of the US dollar against many local currencies since the crisis began. ■

Figure 3.

LATIN AMERICAN AND CARIBBEAN MIGRANTS BY COUNTRY OF DESTINATION



Source: OECD Development Centre (2009), calculations based on Database on Immigrants in OECD Countries (2008) and the 2000 round of national censuses in Latin America (Processed with ECLAC Redatam + SP on-line).

How does migration affect the economy?

Migration is key for Latin America and can play an important role in the global recovery through its effect on labour markets, consumption and financing. Research shows that migration can increase wages for those who remain at home, and that it does not, as usually argued, negatively affect wages or employment in recipient countries, as most immigrants and natives do not compete for the same jobs. With rising global unemployment, international migration can actually help curb unemployment in both origin and destination countries by boosting economic dynamism. For example, it is estimated that the inflow of 4.5 million immigrants accounted for as much as a third of Spain's economic growth between 1996 and 2006. The prospects of a moderate increase in return migration resulting from declining job demand in OECD countries can also help Latin America reinherit a well-trained workforce that now lives abroad.

As consumption dries up in most economies, remittance inflows can also provide an important boost to domestic demand. The percentage of remittances used for consumption varies from country to country, from around 50% in Brazil and Colombia to more than 70% in Peru and El Salvador. Even taking into consideration the crisis-related slowdown, remittances are far less volatile than other external flows, like foreign direct investment or export earnings. Contrary to general belief, remittance-funded consumption can be productive and translate into investments in human capital: the ability to keep children in school longer, for example, or to spend more on healthcare. Moreover, remittances bolster the purchasing power of recipient families who are among the hardest hit by the crisis.

Finally, migration also offers an opportunity to deepen financial reserves at home and to boost local capital markets now that international private capital is more scarce. Formalisation of remittance flows can expand access to savings and financial services for traditionally excluded households through, for example, mobile telephones. Mobile phones are popular and widely available, even in remote areas. They can provide excellent vehicles for formalising the transfer of remittances if governments provide adequate regulation. The formalisation of remittances has also an untapped potential for capital markets, as remittances could be used to help secure future flows and reduce investors' perception of risk. The confidence of investors and capital markets in Latin American economies could be enhanced through securing future flows of remittances and issuing so-called diaspora bonds, government securities that specifically target the funds of nationals abroad. Credit rating agencies can further include remittances in their assessments and improve their coverage of remittance-recipient countries, which could benefit from greater access to credit. ■

What can governments do now?

Better coordination of migration policies between Latin American and OECD countries is paramount. By its nature, international migration is a shared policy responsibility among sending and receiving countries. Five concrete actions provide a roadmap for reform:

- **Create legal and flexible labour market access to reflect labour demand.** Employment policies in OECD destination countries should recognise the potential of Latin American migration to fill local shortages in labour market supply. In particular, governments should adjust their migration policies and upgrade their integration frameworks so that migration can help to meet future labour needs in the context of an ageing population. New policies should include mechanisms to discourage irregular flows and facilitate legal channels.
- **Extend social protection to more Latin American migrants.** Mobility and return migration should be encouraged through programmes that provide the right incentives and that guarantee the portability of social benefits across borders. While 98% of workers moving within OECD high-income countries are covered by social security agreements between origin and destination countries, only 15% of Latin American immigrants benefit from such schemes. Ratification and quick implementation of the *Convenio Multilateral Iberoamericano de Seguridad Social* and the United States-Mexico Social Security Agreement are important first steps. Extending such mechanisms to incorporate more countries and more rights, notably health coverage, would ensure the effectiveness of return programmes and improve the living conditions of migrants.
- **Leverage the benefits of remittances.** Governments in Latin America must offer incentives to migrants to send remittances through formal channels and direct them into community investments, following the example set by programmes such as the Mexican *Tres por Uno*. A public-private partnership could also improve the monitoring of remittance flows and their consideration by credit-rating agencies in many unrated Central American and Caribbean economies.
- **Lower the costs of remittances.** The costs of remittance transfers to Latin America should be further reduced, following considerable progress during the last decade. Even a small reduction in the cost can yield substantial benefits for recipients. More competition and new technologies are the best instruments. A clearer regulatory framework for operators transferring remittances via mobile phone payments could maximise the potential of this cheaper transmission mechanism, expanding access to financial services for those traditionally excluded.

- **Engage diasporas.** Active policies to engage Latin Americans and their foreign-born children in development initiatives back home must be implemented. Those living abroad retain many family and cultural links to their home countries that can be a fruitful source of ideas, finance and skilled labour. Latin American governments must strengthen their work with migrant organisations to pursue policy in labour markets, social protection, integration, development co-operation and international migration. ■

For further information

For more information on this *Policy Brief* and OECD work on development in Latin America, please contact:

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For further reading

OECD (2009), **Latin American Economic Outlook 2010**, ISBN 978-92-64-07521-4, € 50, 253 pages.

OECD (2009), **International Migration Outlook: SOPEMI 2009**, ISBN 978-92-64-05661-9, € 40, 224 pages.

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OECD (2007), **Gaining from Migration: Towards a New Mobility System**, OECD Development Centre, ISBN 978-92-64-03740-3, € 24, 89 pages.

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