The Impact of Temporary Migration on Source Countries

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Migration (whether permanent or temporary) is beneficial for income as well as for poverty reduction in the home countries as it raises labour productivity, trade, foreign direct investment and remittances and it provides incentives for human capital accumulation. These channels offset the negative impact of "brain drain”.
Temporary migration programs yield better outcomes than permanent migration due to the productivity gains induced in the home countries by returning skilled migrants.

While the economic benefits for the migrants and their families are undisputed, the evidence on the economic impact of migration on sending countries' residents is more contentious.

- The "brain drain" is counteracted by the positive incentives to accumulate human capital that the possibility of migration generates in the sending countries (the "brain gain" effect).
- Temporary migration schemes have the potential to help address such concerns as they entail the eventual return of the migrant to her home country. In addition, temporary migration schemes can in principle be more politically palatable for receiving countries than permanent migration.
- The impact of temporary and permanent migration on variables affecting GDP in the sources countries, including foreign direct investments, trade, brain drain, and remittances: the net effect of these channels is positive in both temporary and permanent migration scenarios.
- The former yields higher gains in terms of GDP per capita for sending countries than the latter scenarios. That is due to the increased productivity induced by returning migrants.
- Return migration can lead to a mitigation of the brain drain, or even the creation of a "brain gain," where those who return bring back to the home country augmented local skills.
- Temporary migrant workers stimulate foreign direct investments' inflows in their origin countries.
- This result is driven by remittances and productivity gains from returning migrants, which offset the negative impact of the brain drain.

THE EXPECTED EFFECTS OF MIGRATION ON SOURCE COUNTRIES

- The primary economic benefit from migration is the enhanced earning opportunities that it guarantees to the migrant and her household of origin. Migration has a host of other more indirect effects on the GDP per capita of home countries.

"Brain Drain" and ''Brain Gain"

- In developing countries where domestic skills are scarce, the static effects of out-migration flows, which are usually skilled relative to the home country population, may be detrimental.
- While the static effect of out-migration - by reducing the available skills supply in the source country - is usually negative ("brain drain"), its dynamic effect - by creating incentives to generate human capital – is likely to be positive ("brain gain").
- Migration has been a powerful factor behind the accumulation of human capital in developing countries. The opportunity to migrate induced close to 40 percent of Cape Verdean graduates to enrol in university.
- Macro evidence based on cross-country analysis suggests a net average positive effect of migration on the accumulation of human capital and thus on growth.
- An increase of education has a positive impact on human capital and indirectly on GDP as emphasized by classic theoretical foundations about growth.

Trade

- Migration may have other more indirect positive effects on the source country via increasing its exports of goods and services;
- migration may help to create business and trade networks which have been shown important to raising bilateral trade in goods, but they should be just as valid for trade in services;
- migrants have been instrumental in promoting inbound tourism;

- migrants tend to consume disproportionately goods imported from the country of origin reflecting persistence in tastes acquired in childhood and adolescence;
- migrants reduce matching network search costs of importers/exporters due to their knowledge of their country of origin;
- these migrants' networks can also help strengthen the enforcement of international contracts.

Foreign Direct Investment

- Migration may also spur investment flows to source countries, as migrants can facilitate the information flows across borders about potential investment opportunities.

Remittances

Its impact on source countries goes beyond the receiving household and extends to the macro-economy:

- their use is not tied to specific investment projects with high implementation costs;
- they do not entail interest payments;
- they are likely not to be repaid.

Other things being equal remittances per capita from temporary migrants are higher than those from permanent migrants. A migrant's plans to return home increase her willingness to remit, consistently with the evidence mentioned above on trade networks.

Return Migration and Productivity Increases

- Return migration can also be important to increase access to capital for productive activities. Savings accumulated abroad are a key source of funding of business start-ups by returning migrants.
- Returning migrants are concentrated among the highly educated and are often among the most effective of them in contributing to increase growth.
- Successful skilled migrants are likely to return to their home countries as entrepreneurs, exploiting their human and relationship capital.
- Return migrants are more productive than the stayers due to the work abroad. Therefore, they generate an increase in the source country's productivity upon return.

RESULTS

- Migration is able to enhance development and GDP and to reduce poverty in sending countries.
- Temporary scenarios show higher per capita GDP and poverty reduction levels for every productivity coefficient parameter.
- The benefits from the productivity gains in temporary scenarios overwhelm both the losses in net remittances and the GDP per capita reduction from labour supply increase of return migration.
- **The main difference between the home countries' economic effects of permanent versus temporary migration lies in the effects of the productivity increase induced by the return of skilled migrants;**
- in other words, a robust virtuous process boosting growth and innovation will be spurred in developing countries only if temporary migration will be able to promote in the source countries opportunities and the right environment enabling skilled migrants to exploit their know-how and technological skills.
- In both permanent and temporary scenarios, migration generates a positive impact on FDI, trading, and education;
- however, whereas in the temporary scenarios return migration to their home country reduces remittances from abroad, this negative effect is overwhelmed by the positive productivity gains from the increased knowledge and know-how of workers (**especially skilled workers**).