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Launched in 1999, the Global Development Network (GDN) is an international organization of research and policy institutes promoting the generation, sharing, and application to policy of multi disciplinary knowledge for the purpose of development.

The Doha Round, agriculture and food prices

Kimberly Ann Elliott

The global economy faces uncertain and perilous times in late 2008. The American financial system threatened to freeze up, potentially leading to a recession that could spread globally if the effects are not contained. More immediately for poorer countries, food and energy prices soared to record levels early in the year, and, while there may be a temporary collapse if recession spreads globally, the decades-long trend of declining real food prices may ultimately reverse when growth resumes. In July, the Doha Round of multilateral trade negotiations collapsed once again, and once again it was over agricultural trade policies.

On the multiple occasions when the Doha Round floundered over how deeply to cut agricultural subsidies and trade barriers, critics wondered why something that is so small in international trade was being allowed to block progress.

This past summer, when the round collapsed over how much flexibility developing countries should have to protect domestic markets against volatility and threats to food security, some wondered if the agenda of cutting subsidies still made sense in the face of surging food prices.

This article looks first at why agriculture is at the center of the round and then at how the recent extreme volatility in food prices changes both the content and dynamics of a potential deal. Rich-country reforms remain important, but negotiators also need to adjust the trade agenda to reflect the implications of the food price crisis, including the impact of biofuels.

Agriculture and the Doha Round

So why has the Doha Round been held hostage to this one issue (though others could block an agreement if agriculture is solved)? There are three basic reasons why an agreement on agriculture is the key to unlocking the Doha Round:

- that is where the remaining barriers in rich countries are
- that is where the largest potential gains are, and
- that is much of what the rich countries have to contribute to a reciprocal bargain

In fact, increased agricultural market access in the rich countries was supposed to be a major part of the gains for developing countries from the last round of trade negotiations, but those gains mostly failed to materialize because of loopholes in the agreement. The level of support to farmers remained stable in most rich countries and actually increased in the United States. This contributed to the perception that the Uruguay Round was a "bum deal" for developing countries. This assessment is behind many of the difficulties in concluding the round.

It is also frequently pointed out that the majority of the poor in developing countries live in rural areas and, since rich-country subsidies depress global commodity prices, reforming them is central to making Doha a "development round". However, the issues were always more complicated than that simple story, and this year's food price crisis highlighted the divergent consequences for the poor of higher agricultural prices: they are good for producers that are net sellers, but not for poor consumers, including many poor farmers that are net buyers of food.[1]

So, does this mean that the Doha Round is wrong-headed and that agricultural subsidy elimination in rich countries should be dropped? The recent volatility does suggest that the trade negotiating agenda should be updated, but not that the fundamentals should be rewritten.

The Food Price Crisis and International Trade Rules

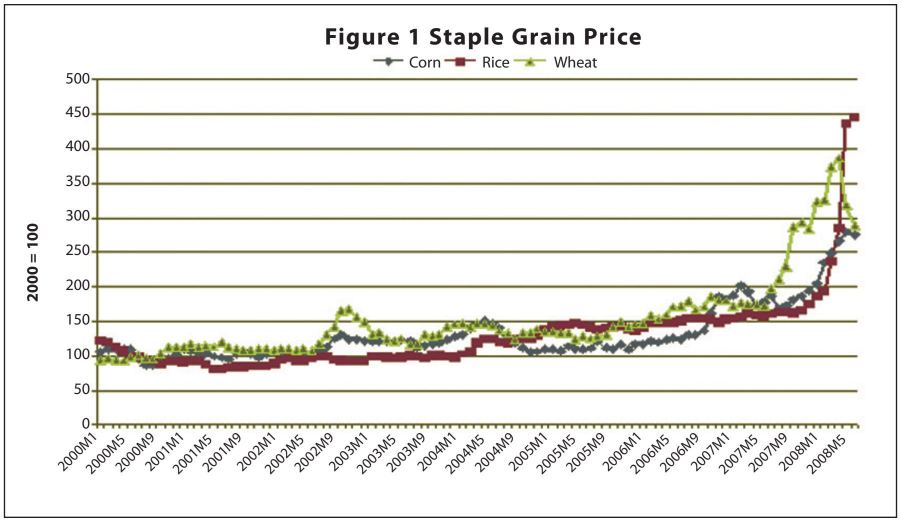
Until this year, the Doha negotiations on agriculture were focused on the problem of low global prices, driven down by generous subsidies in rich countries. Starting from a trough in the late 1990s and early 2000s, prices for most agricultural commodities had begun to rise gradually, but then they accelerated sharply from roughly mid-2007 onwards (Figure 1).

While inflation-adjusted food prices remain well below the peaks reached in the 1970s commodity boom, many agricultural experts believe that the long decline in real food prices is reversing because of rising demand and changing diets in fast-growing developing countries, supply constraints, including limits on arable land and water, and declining yield growth.[2] If the recent financial meltdown leads to global recession, prices could over-

1 See chapter 4 of Kimberly Ann Elliott, Delivering on Doha: Farm Trade and the Poor, Washington: Center for Global Development and Peterson Institute for International Economics, 2006; and Nora Lustig, "Thought for Food: The Challenges of Coping with Soaring Food Prices," Center for Global Development, forthcoming.

shoot again on the way down, but we would expect the fundamentals putting upward pressure on food prices to eventually re-emerge.

Overall, trade policy is not the most important avenue for addressing the fundamental sources of rising food prices. Increased investment in agriculture and rural development is needed to address the growing mismatch between demand and supply, and, since market volatility may be even greater in the future, governments and donors need to ensure that developing countries have safety nets to protect the most vulnerable when prices move sharply and rapidly. In addition, a Doha Round agreement could also be helpful.



Source: Kimberly Elliott, Biofuels and the Food Price Crisis, Center for Global Development, Washington, August 2008

First, higher food prices do not mean that the existing agenda of reducing rich-country agricultural subsidies and trade barriers are no longer important. While such an agreement would raise global prices, as originally intended, it should not pose a significant burden for poor consumers for several reasons:

- a feasible Doha Round agreement will reduce, not eliminate, rich-country support for agriculture, and that will raise prices for most commodities by a few percentage points
- the most heavily supported commodities could see larger price increases, but those are mostly commodities that would either benefit poor farmers without harming consumers, such as cotton, or are not consumed in large quantities by the poor, such as sugar, dairy products, and beef. Rice is a potential exception but, like the other commodities listed here, it is likely to be designated as sensitive and undergo minimal liberalization
- an agreement is unlikely to be implemented for 18 to 24 months, at best, and it would be phased in over a number of years, easing any adjustment that may be required

These limitations also mean that a Doha agreement would not be a windfall for poor producers. But reversing the two-decade trend of declining investments in agriculture will require a sustained effort that would be undermined if the rich countries do not remove policies that create uncertainty and undermine the incentives to invest.

In addition, the export competition pillar of the negotiations include much-needed reforms in food aid practices. Currently, US law requires that most food aid must be "in-kind," purchased in the United States and shipped on US-flagged ship, which increases costs and reduces flexibility in responding to crises. While US negotiators have resisted fundamental changes thus far, a Doha agreement, combined with the food price crisis, would increase the pressure on Congress to reform this policy and allow more flexibility in choosing between in-kind and cash aid, as appropriate, in particular situations.

The issue that caused the latest collapse of negotiations in Geneva in July was a dispute between net exporters and net importers over how much flexibility developing countries should have to stop import surges. The proposed "special safeguard mechanism" (SSM) is on top of provisions that allow developing countries to designate farm products as sensitive and special, which would then be subject to little or no liberalization. The least-developed countries will not have to undertake any liberalization at all. Combined with the large gap between bound and applied tariffs in most developing countries, very little liberalization would be required. It seems that developing countries are trying to buy more insurance than they need with demands for loose safeguard rules, and at a potentially high price if it causes the failure of the Doha Round. While the economic benefits of the round are expected to be modest, failure could seriously undermine the World Trade Organization as an institution and weaken the rules-based system that is the only protection from bullying and discrimination that smaller, poorer developing countries have.

2 There have been a number of analyses in recent months on the causes and consequences of the food price crisis from international organizations such as the World Bank, OECD, FAO, as well as non-governmental organizations such as the International Food Policy Research Institute; see also Lustig op cit.

"While such an agreement would raise global prices, as originally intended, it should not pose a significant burden for poor consumers."

In addition to moving forward on the existing agenda, it would be useful to add disciplines in several other areas, including the use of export restrictions, biofuel subsidies and trade barriers, all of which contributed to the acceleration of food prices. The decisions by India and other exporters to restrict rice exports, and by the Philippines to place large orders to build up stocks, triggered additional panic and hoarding, and all together were key factors in the rice price spike in early 2008[3]. Currently, WTO disciplines on export restrictions are weak to non-existent. That lacuna must be addressed if importing countries are to be persuaded to further open their markets and eschew food security by protecting their own producers.

Estimates of the impact of biofuels on the food price crisis range widely, but whatever it has been, it is likely to grow in the future if policies are not changed. It is expected that ethanol will divert 25-30 percent of the US crop from food to fuel uses in 2008. Under legislation approved in 2007, if there is no technological breakthrough, ethanol could absorb nearly half of the US corn crop. In addition to the mandate, the United States provides a $0.46 per gallon subsidy for blending ethanol in gasoline, which it offsets with a $0.50 per gallon tariff on imported ethanol. The European Union also has a renewable fuel mandate, though it has indicated it may adjust it in response to the food price crisis, and criticism from environmentalists that land-clearing for biofuels was contributing to deforestation. Now, however, having created the biofuels industry through government intervention, and with oil prices at around $100 per barrel, just withdrawing subsidies may not be enough to significantly reduce demand.

Conclusions

While the food price crisis contributed to the most recent breakdown in negotiations, any remaining chance of agreeing on a framework for concluding the Doha Round this year was swept away in the panic unleashed by the financial markets. A prolonged economic slowdown could prevent early resumption of the talks and raises the danger that countries will turn inward. We can only hope that the lessons learned in the Great Depression and the international institutions created after World War II are strong enough to prevent the downward spiral in trade that occurred then, but agreements to further open markets are now receding in the distance. ❖

3 Tom Slayton and Peter Timmer, "Japan, China, and Thailand Can Solve the Rice Crisis - But US Leadership is Needed," CGD Notes, Washington: Centre for Global Development, May 2008

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Impact of OECD subsidies on Indian farmers

Surabhi Mittal

Introduction

The Doha Round is stuck at the road block where developing countries are waiting to see the magnitude of the reduction that European Union, United States and other Developed Countries are ready to offer in agricultural subsidies. The US and EU are demanding deeper cuts in industrial tariffs and are willing to offer reduction in support of farm products. The key concern remains, how to reach a right level of convergence on these issues and maintain a balance between agricultural domestic support, agricultural market access and non agricultural market access (NAMA), to move forward. Leading the G33 group, India and Brazil have taken a rigid stand of not showing any flexibility on industrial goods unless issues in agriculture are resolved.

Talks on agriculture are blocking the way for the discussion on many other important issues in the Doha Development Agenda. Farm subsidies are the most controversial of all the agricultural issues. In this situation it is difficult to foresee the Doha Round concluding successfully. Agriculture is very crucial for India, but we need to rethink, will our stand in the negotiations actually benefit our farmers?

Trying to understand why a reduction in agricultural subsidies is so important for India and other developing and less developed countries, we find the literature has a lot to tell us. As we know, the OECD (Organization for Economic Cooperation and Development countries) extend support programs to farmers in terms of direct payments, price incentives and export subsidies, artificially reduce world prices below the cost of production and inhibit the ability of developing and less developed countries farmers to compete. Despite some major policy initiatives in 2002, there were no notable changes in the main policy instruments in most countries. In spite of the shift, the production linked measures in most OECD countries is encouraging output, distorting trade and contributing to lower world prices of agricultural commodities.

An interesting dimension to the distortion effects of farm subsidy practices of these countries is that all support to rice, sugar, and wheat is in terms of price alone. This is potentially the strongest production and trade distorting policy measure. It is a well endorsed idea that the removal of domestic support would lead to a rise in world prices, making way for the competitive countries to export their produce in the world market (Leetmaa, 2001[1] ; Hoekman et.al., 2004[2]). Hertel and Winters, (2005)[3] found that a 40 percent reduction in agricultural tariffs, export and production subsidies, results in global welfare gains of around $70 billion per year. It is expected that the rise in the world prices of agricultural commodities would improve export prospects for India and other countries (Chand and Mathew, 2001[4]). Gulati and Narayanan[5] (2003) believe that with a removal of trade distortions in rice, there could be rice flows from poorer to richer countries. Thus, it can be expected that poorer countries such as Vietnam, Thailand, and India would be important net exporters while the richer countries such as Japan, Korea, and the EU would be net importers.

Impact on prices

But it does not seem to be working this way in the case of India. A recent study by the author[6] , using a partial equilibrium approach, shows that even if the trade distorting product specific subsidies are reduced or eliminated, it will be difficult to transmit the impact of price change directly to the Indian farmers in an efficient manner. This is due to poor price transmission from border to farm gate. The simulation exercise carried out in the study shows that a 10 percent rise in world prices, leads to only 0.5 percent, 2.0 percent, 7.3 percent and 8.7 percent rises in rice, wheat, cotton and sugar domestic prices respectively. Due to the elimination of subsidies in OECD countries the world prices are expected to rise in the range of 1.1- 4.9 percent for rice, 2.6-7.4 percent for wheat, 6.5-20.8 percent for cotton and 7.5-26.4 percent for sugar, depending on the elasticity of supply and demand curves. In response to this, the Indian domestic prices would only increase by 0.1-0.3 percent for rice, 0.5-1.5 percent for wheat, although for cotton (4.8-15.2 percent) and sugar (7.9-28.1 percent) the change is in tune with change in world price. It is evident that Indian wholesale prices are found to closely follow world reference prices in the case of both cotton and sugar but not in case of rice and wheat.

This can be explained by the numerous layers of interventionist policies that we have in our agricultural sector making it difficult for the agricultural produce to move as per the market supply and demand forces. The Indian Government maintains an elaborate system of Minimum Support Prices (MSPs) for rice, wheat, cotton, sugar, and other crops that shield producers from adverse price swings (Elobeid and Beghin, 2005[7] ; Landes et al., 2005[8]). The system of minimum support prices is perceived by the farmers as a guaranteed price for their produce when they harvest it. These are adjusted annually according to the recommendations of the Commission on Agricultural Costs and Prices, which monitors trends in domestic and world prices and costs (Landes et al., 2005). Thus institutional rigidities play a role in the adjustment process. Abbott[9] (1979) observes that minimum price support schemes of this nature cause domestic prices to adjust to world market prices in the manner of a partial-adjustment model. Since domestic prices are constrained from directly following world prices, full adjustments never occur within a given period. High distribution costs add yet another layer between border prices and producer prices.

Impact on production

With a reduction in subsidies and rising world price, the study shows that production in OECD countries would decline. OECD production is expected to decline on an average by 36 percent for rice, 3 percent for wheat, 51 percent for cotton and 25 percent for sugar. This will lead to a drop in supply in the world market which, in the short run, would be met by increased exports from other countries. But in the long run it is the production capability and

1 Leetmaa, Susan (2001), "Effects of eliminating EU export subsidies" Chapter 5, Agricultural policy reforms in WTO, The Road Ahead, May 2001, Economic Research Services, United States Department of Agriculture (USDA).

2 Hoekman, Bernard; Francis Ng and Marcelo Olarreaga (2004). Agricultural Tariffs or Subsidies: Which Are More Important for Developing Economies? The World Bank Economic Review. Vol 18. No.2. The World Bank. Washington DC.

3 Hertel, Thomas W and Alan Winters (2005). Putting Development Back into the Doha Agenda: Poverty Impacts of a WTO Agreement. The World Bank, Washington D.C.

4 Chand, Ramesh and Linu Mathew (2001). Subsidies and Support in Agriculture: Is WTO providing Level Playing Field? Economic and Political Weekly. page 3014-3016. August 11.

5 Gulati, Ashok and Sudha Narayanan (2002). Rice Trade Liberalization and Poverty. MSSD Discussion paper No. 51. International Food Policy Research Institute. Washington DC.

6 Results are based on a study done by the author "Effects of Global Agricultural Trade Liberalization on Agricultural Production and Poverty in India" Under the Global Research Project "Impact of Rich Countries Policies on Poverty: Perspectives from the Developing World" sponsored by GDN.

7 Elobeid, A., Beghin, J., 2005. Multilateral Trade and Agricultural Policy Reforms in Sugar Markets. Working Paper 04-WP 356, Iowa State University, Ames.

8 Landes, M., MacDonald, S., Singh, S., Vollrath, T., 2005. Growth Prospects for India's Cotton and Textile Industries. Report CWS-05d-01, U.S. Department of Agriculture, Washington D.C.

9 Abbott, P., 1979. Modeling International Grain Trade with Government Controlled Markets. American Journal of Agricultural Economics 61, 22-31.

"Leading the G33 group, India and Brazil have taken a rigid stand of not showing any flexibility on industrial goods unless issues in agriculture are resolved."

export potential of India that will make us benefit from removal of farm and export subsidies.

The results of the study show that even if the change in world price and production scenario creates an opportunity for other competitive countries to produce and export in the world market, it is not very clear if this would have a discernable effect on India's production. As per the statistics, India's production as a share of total world production is 21.5 percent for rice, 11.6 percent for wheat, 0.15 percent for cotton and 8.4 percent for sugar. In response to the rise in world price, using the supply response techniques, it is found that this change would have almost negligible impact on India's production for rice and wheat. In the short term, cotton and sugar farmers might increase the production on an average by 7-13 percent for cotton and 5-18 percent for sugar. But, since these two are commercial crops, in practice the farmer's ability to respond to price changes would be inhibited by a lack of access to inputs such as credits, infrastructure, markets and export oriented policies for expanding their operations. The supply side is constrained by problems of low productivity, proper irrigation facilities, and land constraints, along with crop diversification in response to increasing demand of high value commodities, etc. On the production front, it is also unclear if a decline in OECD domestic support would have any noticeable effect on Indian farmers in the present situations.

Conclusion
The literature and results suggest that OECD policies do constrain farmers in India and other developing countries. However, several domestic policies and constraints are equally responsible. The prevailing controls, intensive regulations, supply constrains, productivity issues, limitation of land and huge domestic demand in India will make it difficult for the Indian farmers to increase production for exports, to gain access to the world market and compete with other exporting nations.

The credibility of India's agricultural exports can be judged by our random decisions to ban exports in situations of domestic crisis. If we want to make use of the opportunity to enhance our exports due to price changes in the future, then we need to work on our domestic policies along with negotiations on the WTO front. There is need to rethink strategy plans and trade-offs in the Doha negotiations based on realistic gains, rather than just following the tradition of protecting our agriculture. Farm and Export subsidies of OECD countries are indeed an important supply constraint for Indian farmers but not the most important one. In reality, the Indian farmers would not gain much unless the domestic reforms are also launched simultaneously. ❖

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Agricultural subsidies, trade barriers and poverty household micro-simulation for Colombia

Felipe Barrera-Osorio and Marcela Meléndez

(This study was produced when both authors were at Fedesarrollo. This version is a short summary of the original article with the same title. The views and interpretations in this study are those of the authors and should not be attributed to The World Bank.)

Introduction
Subsidies for agriculture in the OECD countries are claimed to harm agricultural producers in the developing world by inducing price distortions that increase competition for their products in the foreign and/or local markets, lowering the market share for the developing countries in certain commodities, reducing income from agriculture and distorting incentives for investment. Where welfare is thought to be strongly dependent on agriculture, governments have reacted to these price-distortions with the imposition of trade barriers. This is the origin of a protection system of variable tariff rates, put in place in 1994 by Colombia and other Andean countries that are adjusted as required to keep domestic prices within a reference price band for a set of agricultural products. These variable tariffs on agricultural commodities, known locally as the "agricultural band-tariffs", are at the core of this research.

Domestic support for agriculture in the OECD countries, and in the developing world more generally, has been extensively analyzed with regards to its impact on trade distortions, but less often with regards to its implications for poverty. However, to the extent it modifies the price system faced by households, a change induced in the price of the agricultural crops modifies self-employment income and possibly the activity choice of several household members, thus affecting the household's income/poverty level. Moreover, because of the heterogeneity of household members, crop price changes will produce different variations in income and poverty levels across households.

To explore the implications of agricultural price distortions on poverty, we perform a marginal incidence analysis of agricultural liberalization in a context of subsidized agricultural world prices on income and income distribution. To do so, we use a household income micro-simulation approach based on household survey data for Colombia, and estimated models of behavioral response, income generation and occupational choice[1]. This micro-simulation approach bypasses the lack of behavioral response and the evaluation of policy choices based on averages calculated for large groups of the population from traditional benefit incidence analysis.

The simulation exercise we perform is based on the presumption that an elimination of the band-tariff regime will expose the agricultural workers to the subsidized agricultural world prices. As for both consumers and non-agricultural workers, agricultural liberalization can only result beneficially through the lower prices of goods and inputs, welfare concerns from exposure to the subsidized agricultural world prices apply mostly to agricultural households. We thus focus on the short-run impact of agricultural liberalization on the income of agricultural households, concentrating in as much as possible under the data restrictions, on the impact on those agricultural households that derive a majority of their income directly from the cultivation of currently protected crops.

Main summary

The main results are as follows. Exposure to the lower international crop prices results, in the short-run, in the unemployment of 67,258 previously active workers. We present results of the changes in occupational status by income decile from the simulation. 55 percent of the new unemployed come from the mid-range of the income distribution (deciles 3rd to 6th) and 39 percent come from the three upper deciles. Workers entering inactivity as a result of agricultural liberalization come from both the employed and the self-employed segments of the labor market (48 percent and 52 percent, respectively). Of the new inactive workers coming from the poorest 50 percent of the population, 74 percent are previously self-employed workers. The participation of this group among the new inactive coming from the wealthiest 50 percent is lower, at only 33 percent.

Unemployment resulting from our simulation of agricultural liberalization is low. It represents 2.6 percent as a proportion of the workforce employed in agriculture in Colombia, and 0.4 percent as a proportion of the total working population. Moreover, this result is obtained under the assumption that workers do not have the choice to reallocate into sectors other than agriculture, so the analysis is strictly contextualized in the short-run, and while likely appropriate given the rural/urban segmentation of the Colombian labor market, it overestimates the impact on unemployment by ignoring the ability of the displaced labor to relocate into different activities in the longer run.

Agricultural workers in the self-employed sector experience the highest earnings losses, with the worse results observed for those in the mid-range of the income distribution (deciles 4, 5 and 6), who lose around 28 percent of their total profit value as a result of the changing business conditions. When focus is placed on only the agricultural employees located in areas in which a majority of the cropland is of protected crops (the exposed agricultural employees), the impact of decreasing earnings appears magnified and workers in these deciles are shown to experience a loss of about 35 percent.

The change in earnings for the employed workers is more moderate when all agricultural employed workers are accounted but still on average, represents a 21 percent loss, and of 28 percent when the calculation is done for only the exposed agricultural employed workers. Among the exposed employed the larger losses accrue to the workers in the 5th and 6th income decile (of 42 percent and 37 percent respectively).

Average income per capita loss is 21 percent for all rural households and 28 percent when only the exposed agricultural households are considered. The loss is higher and of greatest concern for households in the mid-range of the income distribution. The total annual loss in income is US$1,145 million. One third of this total loss, however, corresponds to workers in the two upper income deciles.

We use the original and simulated vectors of income per capita to explore the potential implications of agricultural liberalization on poverty and inequality. The head count ratio measures the proportion of the population that is poor. The results tell us that the agricultural

1 The model is based on Bourguignon F., F.H.G. Ferreira and N. Lustig (1998) "The Microeconomics of Income Distribution Dynamics in East Asia and Latin America", mimeo, The World Bank.

"Subsidies for agriculture in the OECD countries are claimed to harm agricultural producers in the developing world by inducing price distortions..."

poor increase by 7.8 percent (from 26.8 percent to 34.6 percent) as a result of eliminating band tariff protection. Also, the results show the poverty gap ratio moves from 14.7 percent to 18.8 percent as a result of our simulation. So the poor not only increase in number but also become increasingly poorer. Finally, we calculate the Gini coefficient resulting from our simulation, which ranges from 0 (perfect equality) to 1 (perfect inequality). In this case it goes from 0.533 to 0.569. This indicates that the change in the prices faced by the households has a negative impact on income distribution.

Conclusion

We find that exposure to the subsidized agricultural world prices will increase both the number of poor among the rural households and the severity of poverty. We also find evidence that the poverty increase will be accompanied by growing inequality among these households. The channels by which this occurs are a generalized downward impact on agricultural earnings and the displacement of around 67,000 workers to inactivity.

We offer a calculation of the upper bound value of income that would require to be compensated in the medium and long run to bring agricultural households to their original welfare condition under band-tariff protection. While such income recovery should ideally be achieved through reconversion towards more profitable crops (or activities different than agriculture) or towards better production technologies, if the Colombian government opts for direct compensation payments to the hurt agricultural households, as it has announced, the breakdown of the losses by income decile should be an instrument for adequately targeting the limited resources towards the more needy rural population. ❖

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The effect of trade liberalization in South-Eastern European countries*

Joze Damijan, Jose de Sousa, Olivier Lamotte

Motivation of the study

The dissolution of the Council of Mutual Economic Assistance (CMEA), and the breakdown of the Socialist Federative Republic of Yugoslavia (SFRY) in 1991 have deeply affected trade flows of South-Eastern European (SEE) countries[1]. They have also created incentives and initiatives for a reshaping of trade patterns in the region. A first initiative was the progressive integration of SEE countries to the World Trade Organization (WTO)[2]. A second initiative was the regional economic integration with the European Union (EU). Finally, a sub-regional process of economic integration has emerged through the Central European Free Trade Agreement (CEFTA) and a set of bilateral trade agreements. As a result of these policies the IMF highlights in 2002 that SEE countries have relatively open trade economies. Thus these countries offer a natural experiment to assess the effects of trade liberalization, first, on trade flows and second on the firms' performance.

Trade liberalization and trade flows

To investigate the impact of trade liberalization on trade flows we proceed in two steps. We first evaluate the impact of trade liberalization on sectoral exports and then determine the potential for a trade increase in SEE countries with their main trade partners. We observe that bilateral tariff barriers faced by SEE countries are decreasing in all sectors during the period 1996-2000. However, this liberalization process exhibits small effects on Balkan countries' exports. A one point decrease of bilateral tariffs increases exports on average by less than 1 percent. This finding is mostly in line with the existing literature on trade liberalization, pointing out that "effects on trade (...) are likely to be small"[3]. This result could be explained by the increase of non-tariff barriers faced by SEE exporters, following the decrease of tariffs barriers. Interestingly, we find much larger estimates if we restrict the sample to the exports of Balkan countries to the EU countries. Thus, the opening of the EU markets may be beneficial to the Balkan countries.

We draw some insights on the trade intensity of SEE countries with their main partners and on the potential evolution of their trade patterns, in a context of trade liberalization. We compare, all

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1 South-Eastern Europe refers to Western Balkans (Albania, Bosnia-Herzegovina, Croatia, Macedonia, Serbia, Montenegro and Slovenia) and Eastern Balkans (Bulgaria and Romania).

2 In January 2008, all SEE countries are WTO members except Bosnia-Herzegovina, Serbia and Montenegro.

3 Deardoff A. and R. Stern (1986), "The Michigan model of world production and trade: theory and applications", Cambridge, Mass.:MITT Press.

other things being equal, how intense are trade flows of SEE countries compared to a normal intensity of trade. The sectoral dimension of the study takes account of the specialization of the countries and of the effects of trade liberalization limited to some sectors.

Striking results emerge from this study. Mutual trade between the Western Balkan countries is still very intense compared to their trade flows with the EU and the rest of the world. One lesson that comes out is that, "political disintegration[4] does not lead systematically to severe and rapid trade disintegration" in Eastern Europe and in the former Yugoslavia in particular. Another reasonable explanation is that the partners of the EU and the rest of the world, with low knowledge of the situation in Western Balkans, were far more reluctant to trade with countries in this region. They perceived the region as very risky to do business with. The stabilization of the political and economic situation should therefore lead to an increase of trade flows between the Western Balkans and the EU, to the detriment of mutual trade flows between the Western Balkans.

We will probably observe the shift to a hub-and-spoke structure of trade in the next several years, the hub being the EU and the spokes being the Western Balkan countries. The fact that the countries of the Eastern Balkans have a relatively intense trade with the EU compared to their trade with all other partners confirms this point. During the 1990s, countries of the Eastern Balkans have deeply reoriented their trade towards the EU, as a consequence of the end of the centrally planned organization of foreign trade. In this context, it seems plausible that preferential trade agreements between SEE countries will have a limited impact on their mutual trade flows.

The sectoral approach also leads to interesting results, which are consistent with those obtained on aggregated data. First, it is striking to observe that trade of Western Balkan countries with the EU in the textile sector is similar to the norm, whereas it is lower with all other partners. The plausible explanation is the role of outward trade processing, a type of sub-contracting, particularly important in the textile industry. Second, trade in metal products is highly intense between successor states of the former Yugoslavia while it is relatively low with other partners. One can expect a deep reorientation of the trade of these goods to the EU. As a matter of fact, these changes are comparable to the trends that have been observed for the Eastern Balkans a few years ago.

Trade liberalization and firms' performance

The second part of our study investigates the impact of trade liberalization on firms' performance. In particular, we are interested in determining to what extent foreign trade and foreign direct investment contributed to improvements in firms' performance over the period 1994-2002. We investigate different sources of potential outward knowledge spillovers that may represent important determinants of firms productivity growth. International trade is an obvious channel of technology transfer, in particular through imports of intermediate products and capital equipment[5] , and learning by exporting into industrial countries[6] . In both cases the geographic destination of trade flows is extremely important. Firms exporting to advanced markets can learn more due to the higher quality, technical safety and other standard requirements as well as due to tougher competition (and lower markups). Similarly, firms importing capital and intermediate inputs from more advanced markets have to meet technical standards to be able to use the advanced Western technology. Hence, a higher propensity to trade with more advanced countries should obviously result in a higher level of productivity and faster Total Factor Productivity (TFP) growth.

We do not find a clear link between international openness and firms performance. The effects vary across countries and channels. Considering the trade channel, we find in Slovenia that exporting to advanced countries provides larger learning effects than exporting to less advanced markets. In Romania, we find that exporting and importing with advanced and transition countries provide learning effects. Interestingly, importing from countries of the former Yugoslavia provides a dominating learning effect for Macedonian firms. For other countries, there is no significant impact of trade on firms' productivity.

Another obvious channel of external spillovers is the form of ownership, foreign vs. domestic[7]. Firms that are foreign-owned are better managed and governed, have access to the up-to-date technology and can use the business links of the parent firm. Our results also indicate some selection process in FDI decisions by parent foreign companies. Foreign parent com-

4 De Sousa J. and O. Lamotte (2007), "Does Political Disintegration lead to Trade Disintegration? Evidence from Transition Countries", Economics of Transition, 15(4).
5 See Markusen, J.R. (1989), "Trade in Producer Services and in Other Specialized Intermediate Inputs", American Economic Review, 79, 85-95 ; Grossman, G. and E. Helpman (1991), Innovation and Growth in the Global Economy, Cambridge, MA: MIT Press ; Feenstra, R., J. Markusen, and W. Zeile (1992), "Accounting for Growth with New Inputs: Theory and Evidence", American Economic Review, 82: 415-421.
6 Clerides, S., S. Lach, and J. Tybout (1998), "Is Learning-by-Exporting Important? Micro-Dynamic Evidence from Colombia, Mexico and Morocco", Quarterly Journal of Economics, 113: 903-947.
7 Damijan, J.P., M. Knell, B. Majcen, and M. Rojec (2003), "The Role of FDI, R&D Accumulation and Trade in Transferring Technology to Transition Countries: Evidence from Firm Panel Data for Eight Transition Countries", Economic Systems, 27: 189-204.

"The SEE countries offer a natural experiment to assess the effects of trade liberalization, first, on trade flows and second, on firms' performance."

panies seem to select smaller firms in SEE as well as least productive, less capital and skill intensive firms. However, we find contrasting results in the impact of foreign firms on TFP growth. Three countries (Bosnia, Croatia and Slovenia) experience faster TFP growth in foreign-owned firms. In Romania, in contrast, we find faster TFP growth in domestic-owned firms, while in Bulgaria no significant differences have been found. However, one can expect that after restructuring, these firms would improve their TFP at a much faster rate than purely domestic-owned firms.

Policy implication

The trade liberalization of SEE countries may have different effects, depending on the partners with whom trade is liberalized and the direction of the liberalized trade. When analyzing the link between trade liberalization and trade flows, it seems that an increased opening of the EU markets may result in a slight increase of SEE exports towards the EU, whereas it seems plausible that preferential trade agreements between SEE countries will have a limited impact on their mutual trade flows. However, in terms of learning effects, the link between international openness and firms' performance is not so clear. Trade liberalization does not always have a significant impact on firms' performance. When there is a link, trade towards both advanced and less advanced markets might have an impact on productivity growth.

Trade openness for SEE countries should be pursued. However, these countries should not rely only on trade openness to enhance growth; other structural reforms have to be enacted. ❖

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Development implications of international migration

Robert E.B. Lucas

International migration has attracted considerable attention in recent years. At least two main reasons may be cited for this. First, the absolute numbers of migrants arriving in some of the high-income countries has risen substantially. This raises issues about economic and social assimilation, amid security issues, in the host countries. It also raises interest, among the major migrant-sending countries, in the potential to benefit from this migration stream. Second, remittances, which are the dominant route through which the sending countries perceive emigration benefits, are reported to have become second only to direct investment as a source of financial inflow for the developing regions.

Given widening income and demographic gaps between the industrialized and developing regions, migration pressures will not dissipate. International migration is not a temporary feature that will taper off. By 2005, the UN estimates 9.5 percent of the population of the More Developed Regions were migrants (UN 2006). In the US, migration (both regular and irregular) has risen sharply to levels comparable with those at the beginning of the last century so that, in 2005, the migrant stock represented 12.9 percent of the population. In Canada (18.9), Australia and New Zealand (19.6) the proportions were far higher. Europe has never considered itself to be a region of immigration, but it has become one. In 2005, 11.9 percent of the populations of Western Europe were international migrants. Granted, about a third of the foreign born (or foreign national) adults in the EU15, as of 2000, originated from other EU countries. However, virtually all of the remaining two-thirds were from developing and transition countries. In contrast, Japan remains almost entirely closed to immigration.

The World Bank estimates remittances to developing regions reached US$251 billion in 2007, an increase of some 350 percent over the previous decade.[1] No doubt some of this spectacular increase is a continuation of the past. International remittances pass through two types of channels: formal channels (such as Western Union, commercial banks and post offices), and informal channels (known by various names in different parts of the world, such as Hundi or Hawala in much of Asia). The latter are rarely included in reported estimates. In 1989 the Financial Action Task Force (FATF) was set up as an inter-governmental body "whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing"[2]. The actions of the FATF have seemingly diverted funds from the unreported, informal channels into more formal channels, swelling the data on estimated remittance amounts. In addition, the reporting practices of a number of countries have shifted substantially and it seems that some items previously identified as capital inflows are now recorded as remittances[3]. Although migration to some of the high income countries has risen substantially, leaving immigration high on the political agenda, world migration has risen far less quickly than either merchandise trade or capital flows in this era of globalization. Whereas the volume of world exports grew at about 6.3 percent annually from 1960 to 2000, the stock of international migrants grew by only 2.1 percent per year. Indeed, the volume of world migration has hardly changed as a fraction of global population in half a century: by 2005 less than three percent of world population, some 190 million people, were living in a country other than their country of birth.

Although the growth in the absolute volume of international migration, particularly to the high-income countries, and the associated flow of remittances have attracted considerable attention, one might well wonder why so few people move in the face of massive and rising income gaps between nations. Border controls may only be a small part of the answer. Irregular migration is rampant and ubiquitous. Under political pressure, enforcement of any employer sanctions is generally sporadic, if existing at all. Throwing additional resources at barricading the borders is of dubious efficacy, short of reaching draconian proportions. The borders of many developing countries, even some of the relatively better-off nations, are utterly porous.
Explanations for the limited extent of

1 Source: http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:21122856~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html
2 http://www.fatf-gafi.org/pages/0,2987,en_32250379_32235720_1_1_1_1_1,00.html
3 In 2007 Romania's remittance inflows are reported to have been US$ 8.5 billion compared to US$132 million three years earlier. Remittances into French Polynesia in 2007 are estimated at over US$ 600 million in 2007 whereas no remittances at all were reported prior to 2003. China's reported remittance receipts have also grown precipitously, from about US$8 billion in 2001 to US$ 25.7 billion in 2007.

"Circular migration leads to the greatest reduction in poverty at home. The intent to return home typically induces higher remittances."

international migration must be sought elsewhere. While it is true that the footloose young may find an overseas experience exciting, and study abroad is one of the fastest growing forms of international movement, most adults would rather stay home given reasonable opportunities there. Filipino and Sri Lankan mothers who leave their children behind to work in the Middle East for a couple of years would surely rather be home with their families were it not for the relatively lucrative opportunity abroad. It is this inertia to stay at home that ultimately limits migration, despite the massive, potential economic gains from moving. The pressures to emigrate for the most part reflect the failure to create jobs or the failure to maintain security at home, and emigration offers a critical safety valve to escape both.

The net result is that only a few countries possess high emigration rates. Most of these are small (especially island) states, where any significant movement entails crossing a border. Among countries with a population of over five million, only five had a diaspora larger than fifteen percent of their population in 2000[4]. The effects of emigration upon the countries of origin are thus highly concentrated upon a relatively small set of states. In these contexts, the effects can be quite profound and not all of the consequences are positive.

Mixed economic consequences for sending countries

In the process of migration, the migrants themselves are the big winners. With an increasing commercialization of migration, through recruiting agents and smugglers, and with usurious fees charged on formal remittance transfers, some of the gains to migrants are certainly creamed off. Nonetheless, the gains in living standards are simply so large if one can relocate from a developing country to one of the industrialized nations, that migrants typically achieve substantial net gains. It should be emphasized that this is a form of development in its own right when the migrants are drawn from lower income countries. However, a more complex question arises as to the effects of the migration-remittance nexus upon incomes of those who remain at home.

The departure of highly skilled migrants is frequently presumed to impose costs upon those left behind. Certainly, policy makers in the host countries presume the reverse to be true: that there are gains to be had from competing to attract the best and the brightest. As a result, the brain drain has grown substantially. The adult, foreign-born population in the OECD countries, possessing a tertiary education increased by almost two-thirds in the decade prior to 2000: an increase of some 8 million adults. By 2000, more than half of these highly skilled persons in the OECD member countries were from non-OECD states. (Docquier and Marfouk, 2006). Traditionally, the US has been the dominant destination of highly-educated migrants, but this is beginning to change as the share going to Europe has risen. How much harm this imposes upon the countries of origin remains controversial.

Much depends upon the efficacy with which professional workers would be deployed if they remain at home, and the mode of financing the high costs of tertiary training. If more doctors remain at home but work among the relatively affluent in town, whereas most dire cases of morbidity are in rural areas, the net improvement in healthcare delivery may be very small. If most highly-qualified emigrants have paid for their own education, as in the Philippines, the fiscal burden upon others is minimal. Add such factors to the complications arising from the potential for brain-gain (through export enhancement from professional contacts overseas, through technology transfers from the diaspora, or productivity gains among returned migrants) and the net effects of highly-skilled emigration is murky at best.

Reductions in poverty at home are greatest from circular migration of low-skill workers. The intent to return home typically induces higher remittances and the remittances reach the relatively poor if the migrants are low-skill. Moreover, the departure of low-skill workers alleviates underemployment among comparable workers at home. However, migration of low-skill workers to the OECD countries is almost entirely confined to neighboring countries of origin. Virtually no low-skill workers from the least developed countries make it to the OECD member countries, with the exception of a few (relatively select) refugees.

South-South movements dominate emigration of low-skill workers from most developing countries. Some, but not all of this migration is to higher income countries within the developing regions: to Malaysia, to South Africa and to the Persian Gulf states, for example. Relatively little is known about these movements, in part because virtually all South-South migrations are irregular, with the implication that they also offer little or no protection to the migrants.

Emigration from the developing and transition states, particularly to the industrialized world, is highly selective. Only a few states send large number of people. Moreover, even within the major migrant-source nations, emigration is highly selective on a geographic basis. Emigrants are concentrated from particular regions and even specific villages within these regions. The reason stems from the importance of migrant networks. Once an initial, venturesome, often relatively well-off person has made a move, it becomes increasingly easy for others to follow. The corollary is that where migration patterns are never initiated, (especially in more remote locations within and across countries), pockets of

4 Azerbaijan, Belarus, Kazakhstan, Portugal, and Serbia-Montenegro. Derived from Winters et al. (2007).

isolated poverty remain untouched by any benefits from migration.

Policy perspectives

The prospects of reaching any meaningful global agreements on migration are moribund. The US has demonstrated limited commitment to the on-going Global Forum on Migration and Development. The Persian Gulf states are merely dormant observers at most discussions on the migration process. Indeed only a few countries are parties to the existing UN instruments on migration. Any policy actions must therefore stem from individual countries or be part of bilateral or regional agreements. It would, however, be misleading to speak of policies of sending and of host countries. Every country undergoes simultaneous emigration and immigration and for some states a two-way flow is substantial.

Low-skill circular migration probably does most to diminish poverty among those remaining at home. However, managing such schemes presents at least two major dilemmas for any country in its capacity as a host. First is the notorious problem of temporary migration schemes proving permanent. A permanent scheme is not, of course, the same thing as permanent settlement of the individual workers. Nonetheless some steps can help to avert the tendency to settle: establishing transferability of social security contributions; expanded use of reliable intermediary contractors responsible for supplying labor; and the use of multiple entry permits to diminish the cost of re-entry. The second dilemma arises from a trade-off between the rights of migrants (especially, but not solely, the right of family accompaniment) and willingness to return home.

Meanwhile, the high income countries have demonstrated no serious inclination to restrain their efforts to attract the highly-skilled from developing regions or elsewhere. Here, the serious issues must therefore be tackled within the developing countries themselves: issues of improving the efficacy of use of these scarce resources at home, and of reconsidering the methods of tertiary education financing, for instance.

More generally, the high-income countries lack a coherent framework for approaching their influence on development among the poorer nations. For example, while resisting migration of low-skill workers, almost all of the high-income countries offer massive protection to their agricultural sectors that are the dominant employers of both regular and irregular migrants. Aid, trade and migration policies are the mandate of disparate ministries which rarely coordinate strategy.

In the end, though, it should be recognized that emigration and subsequent remittances cannot serve as a long-term substitute for development at home. Dependence upon the migration-remittance nexus can breed neglect of the need to create jobs domestically. Such dependence can also prove risky, in the event of a sudden shift in options abroad. Only a few countries currently rely upon an emigration strategy to a very major extent. For these countries, migration offers a critical, albeit temporary, safety-valve while the fundamentals of economic progress and personal safety are addressed at home. ❖

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"It is the migrants themselves who are the big winners from the process of migration."

Relative poverty and the inclination to migrate: Evidence from Poland[1]

Maja Micevska Sharf

The link between poverty and migration

The relationship between migration and poverty is strong: very often migration facilitates, or is, an escape from poverty. The concept of poverty that researchers typically have in mind in the migration-poverty context is absolute poverty. Yet poverty has a compelling dimension of relativity: people could feel poor if upon comparing themselves with others they find that their income is lower than the incomes of others. Household members could undertake migration not necessarily to increase the household's absolute income, but rather to improve the household's position with respect to a specific reference group.

We explore the relationship between *relative* poverty and migration. Conceptualizing the relationship between migration and relative poverty requires a careful identification of the reference group. Reference groups are not defined easily and people often have multiple reference groups. In the case of migration in general, it could be quite difficult to define the meaningful reference group since, almost by definition, several reference groups come into play. While permanent migration could, for example, entail a loosening of ties with home and at least a partial substitution of reference groups, in the case of seasonal migration the meaningful reference group is, and remains, that of origin: seasonal migrants are immune from the erosion of the original community as a reference group by the very nature of the form of migration that they engage in. We employ a unique data set of Polish seasonal workers in Germany to construct alternative plausible reference groups.

Identification of reference groups and measures of relative poverty

We construct two alternative measures of relative poverty. For the first measure, we match the seasonal migration data with data from the Polish Household Budget Survey to construct reference groups for the seasonal migrants along the dimensions of region, type of residence, education, and age. We then test the hypothesis that the inclination to migrate for an individual is related to the individual's relative poverty, as measured by the proportion of those in the individual's reference group whose incomes are higher than the individual's, times their mean excess income. The individual's inclination to migrate depends on the fraction of the individuals who are less poor than the individual, and on how much less poor they are than the individual.

The second measure is based on the perceptions of seasonal migrants and allows the individual himself to define his reference group. While combinations of region, type of residence, education, and age yield plausible reference groups, we cannot reject the possibility that other reference groups count too. One way of addressing the task of the identification of the relevant reference group is to give up altogether the attempt to directly pinpoint the reference group, and draw instead on direct responses from individuals who are asked how they fare in comparison with "others". For example, an individual can be asked whether his earnings are lower than, the same as, or higher than the earnings of members of his reference group, without being asked to explicitly specify what the reference group is. An individual will be considered relatively poor if he reports "lower". This procedure introduces the concept of *subjective* relative poverty.

The setting and data

For many years now, a large number of Poles have engaged in migration for short-term work. Seasonal migration to Germany is a striking, significant, and persistent example. In 2004, approximately 307,000 work permits were issued for seasonal work in Germany, as compared to 292,000 in 2003, and 131,000 in 1992 (Kepinska, 2004[2]). Migration to Germany is regulated by the bilateral agreement between Germany and Poland signed in 1990. While seasonal work is not limited to specific sectors of economic activity, in practice it is. From the very beginning, farms were the principal employers of Polish seasonal migrants; about 95 percent of the migrants work in agriculture. By and large, Poland has become the main source of foreign labor for German agriculture, and over time Polish workers have been able to strengthen their dominant position. Migration to Germany is capped: workers are allowed in for a period of up to three months.

Our micro-level data are taken from a nationally-representative survey of seasonal migrants that was carried out between April and August 2002 by the Centre of Migration Research at Warsaw University. It is a random sample of 804 migrants who made their most recent trip to Germany as seasonal workers during the 1998-

1 This report is based on a large-scale project supported by the Global Development Network. Other member of the research team included Oded Stark and Katarzyna Sazcuk

2 Kepinska, Ewa (2004). "Recent Trends in International Migration: The 2004 SOPEMI Report for Poland." Warsaw University, Centre of Migration Research, Working Paper No. 56.

2002 period. Individuals were interviewed and asked to provide details of their first seasonal trip. In the case of those who seasonally migrated more than once, information was elicited also on the most recent trip. Individuals were presented with questions on their work and living conditions during their spans of seasonal work. In addition, the survey yielded information on the structure of the households of the migrants, and on basic economic and demographic characteristics of members of the households. The working history of the seasonal workers in the labor market in Poland was also obtained.

Estimation results

We begin the analysis with the simple case in which the determinant of propensity to migrate is income, and there is no direct effect of relative poverty. We refer to this case as the case of the *absolute income hypothesis*. The results indicate that absolute income does not have a statistically significant effect on the intention to migrate. We thus do not find support for the absolute income hypothesis. One contentious explanation for the weak relationship between absolute income and the inclination to migrate at the individual level is the *relative poverty hypothesis:* individuals experience dismay when they fall behind their peers. Thus, the relative poverty hypothesis differs from more traditional approaches that consider an individual's inclination to migrate as a function of income, education, and employment status. According to the relative poverty hypothesis, individual's inclination to migrate is also a function of the income of less poor individuals in his reference group.

We find that the coefficient on relative poverty is positive and statistically significant, regardless of the measure of relative poverty used in the regressions. That is, our results indicate that, after controlling for absolute income and a number of natural covariates, relative poverty is strongly related to an individual's inclination to migrate. The evidence suggests that the effect of relative poverty on migration needs to be treated seriously and in its own right.

Conclusions

A tentative policy implication of our empirical analysis is that if migration is to be constrained, reducing absolute poverty alone may not be enough. This insight could be of value when considering the consequences of alternative development regimes. Improvements in average incomes within the communities of origin is by no means a guarantee for the elimination of relative poverty. In the midst of overall economic development, relative poverty may well be exacerbated. The relatively poor are likely to exhibit a rising inclination to migrate. Indeed, reducing income inequality in areas of origin could do as much to dampen migration as raising incomes there.

The links between relative poverty and migration are important for designing migration policies. If migration is affected by relative poverty, tax and transfer policies that change the distribution of income will have repercussions for individual inclinations to migrate. That is, redistribution of income towards the poor is likely to reduce the inclination to migrate on average. On the other hand, if there were no effect of relative poverty on migration, then income redistribution would have no effect on migration. When assessing the evidence of the effect of relative poverty on the inclination to migrate, we are tackling an important policy issue.

A good many high-income countries express a preference for temporary or seasonal migration of low-skilled foreign workers. The impact of migration policies on development, and specifically on the poor in the developing countries, will be closely linked to the evolution of temporary worker programs. Indeed, there is a growing perception that migration for short spells can bring to the individuals concerned and to the countries involved benefits that long-term migration cannot. Seasonal migration is a prominent form of short-term migration, and when the doors to it will be opened more widely it will be helpful to know how the behavior of those who engage in seasonal migration is likely to vary according to measurable characteristics, and why. ❖

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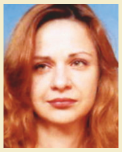


"Researchers tend to have in mind absolute poverty when looking at the migration-poverty context. However, poverty has a dimension of relativity attached to it."

Home country business cycles and remittance fluctuations

Serdar Sayan

Growing importance of remittances

The nominal value of official remittance receipts by developing countries increased by almost 50 percent in just three years after 2001 (Maimbo and Ratha, 2005[1]), nearly doubling in the next three to reach $250 billion in 2007 by the World Bank estimates. Thanks to this rapid growth, these amounts now compare favorably, not only to official development assistance (ODA) receipts of developing countries, but also to foreign direct investment (FDI), and private capital flowing into these countries in the form of private debt and portfolio equity from abroad. Remittances favorably compare to FDI and non-FDI flows (except ODA) also because they are unilateral transfers that do not create such future liabilities as debt servicing or profit transfers, and are typically less volatile than private capital flows and FDI (Ratha, 2003[2]).

Despite this relative stability, remittance receipts also go up and down over time in many countries. While the literature on the determinants of remittances has failed to produce a consensus on the reasons behind these fluctuations in different recipient countries, these receipts were generally expected to increase in response to a contraction in economic activity (or a drop in GDP) in migrant workers' home countries. Given migrant workers' altruistic desire to smooth consumption spending of family members they might have left behind, this expectation was intuitively appealing. Plus, there was ample cross-country evidence (from large samples of developing countries) suggesting a negative relationship between GDP and remittance receipts. Still, a number of studies starting with Sayan (2004[3]) have recently challenged the generality of this argument for all countries individually[4].

Home country business cycles and remittances

Sayan (2004) observed that remittances are essentially transfers out of the savings of migrant workers: A worker who earns more than enough to cover his own living expenses abroad, plus the expenditures required to maintain living standards of family members back home (if any) decides what fraction of the remaining income to transfer to his home country based on various family characteristics[5]; the intensity of his altruistic desire to help maintain/improve living standards of his family; the duration of his stay abroad; and any other variable that affects his savings capacity plus his risk-return preferences.

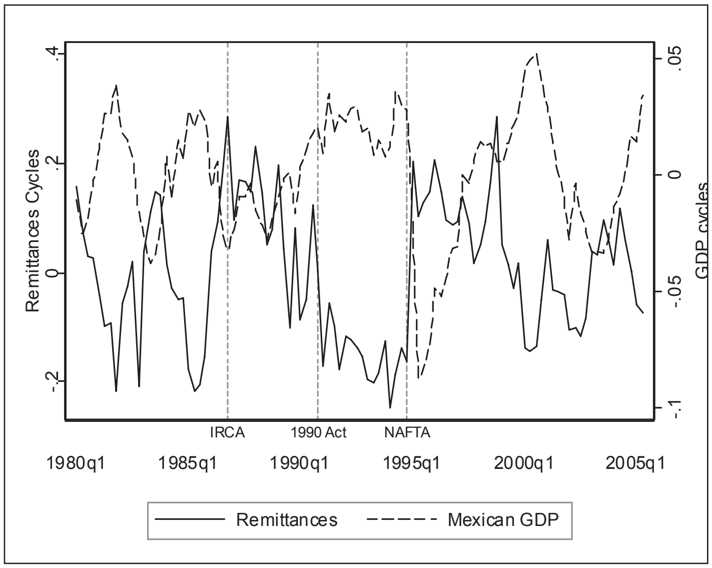
In other words, how much to remit is a complex decision involving many other factors than simply an altruistic motivation to support household income of family members at home. Sayan noted in a follow up 2006 study: many of these factors could directly or indirectly affect how the remitting behavior of migrants would respond to fluctuations of GDP over different phases of home country business cycles,[6] possibly producing pro-cyclical (rather than counter-cyclical) co-movements between GDP and remittance receipts. While migrant workers would indeed be inclined to remit more during down cycles of economic activity back home (to balance lost family income due to recession), there might be other cases where an investment or portfolio-diversification motive dominates the altruistic rationale for the majority of migrant workers from a certain country (Sayan, 2006[7]). In such cases, remittance receipts of the country in question may actually decline during a recession there, due to resulting changes in the difference between home and host country returns to savings or increasing riskiness of financial assets at home.

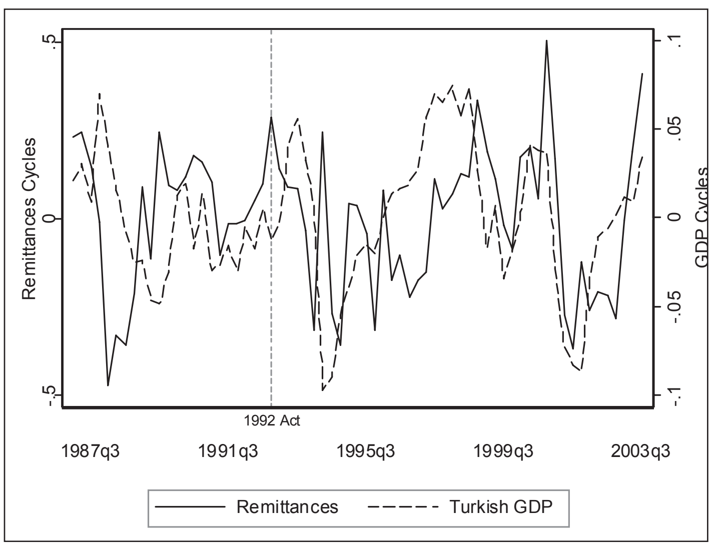
Knowing whether remittances respond to cyclical movements of home country GDP in the same or opposite direction (i.e., pro-cyclically or counter-cyclically) for different recipient countries is important for two reasons. First, remittance fluctuations with opposite cyclical characteristics have opposite implications for the macroeconomic stability of the home economy. When they fluctuate counter-cyclically, remittances would serve as a macro-

1 Maimbo, S.M., and D. Ratha (2005). Remittances: Development Impact and Future Prospects, Washington, DC: World Bank.
2 Ratha, D. (2003). "Workers' Remittances: An Important and Stable Source of External Development Finance," in Global Development Finance: Striving for Stability in Development Finance, Washington, DC: World Bank, pp. 157-175.
3 Sayan, S. (2004). "Guest Workers' Remittances and Output Fluctuations in Host and Home Countries: The Case of Remittances from Turkish Workers," Emerging Markets Finance and Trade 40(6): 70-84.
4 See, for example, Lueth and Ruiz-Arranz (2007) and papers cited therein. Aguinas (2006) presents an extensive survey of the literature on remittances.
5 Whether family members are back home or together with the migrant in the host country, the number of family members who are employed, at school etc.
6 Business cycles are recurring episodes of recession, stagnation/crisis, growth and boom. They can more formally be defined as periodically observed fluctuations of GDP around its long-run trend.
7 Sayan, S. (2006). "Business Cycles and Workers' Remittances: How do Migrant Workers Respond to Cyclical Movements of GDP at Home?" IMF Working Paper No. WP/06/52, Washington, DC: International Monetary Fund.

economic stabilizer that helps smooth out large swings in GDP over different phases of home business cycles, proving particularly useful with their dampening effects on a recession/crisis. When they are pro-cyclical, on the other hand, remittances amplify cyclical fluctuations in GDP and hence, act as a destabilizing force. In such a case, increased remittance receipts would further boost household incomes, allowing for greater economic prosperity during a boom. However, any reductions in remittances after sharp drops in GDP would deepen the recession even further, adding to macroeconomic instability and the country risk of recipient economies at times of greater need for external funding.

Figure. Cyclical components of GDP and remittances series (Top: Mexico, Bottom: Turkey)





Secondly, from a microeconomic perspective, counter-cyclical and pro-cyclical remittances are likely to have opposite implications for poverty. In the case of the former, increased remittance receipts of households during periods of economic hardship may help curtail further increases in poverty due to recessions, whereas the latter has no such potential, and could even lead to more poverty.

Cyclical characteristics of Mexican and Turkish remittances

A recent analysis of remittances received by Mexico from the US, and Turkey from Germany by Sayan and Tekin-Koru revealed counter-cyclical and pro-cyclical patterns for these two major recipients, respectively. The panel, left above, in the figure shows cyclical components of remittances sent home by Mexican workers in the US together with business cycles in the Mexican economy from 1980 to 2005, whereas the panel, left below, shows cyclical components of the Turkish GDP and remittances Turkish workers in Germany have transferred between 1987 and 2003.

It is clear even to the naked eye that remittance receipts of Mexico from the US move counter to the Mexican business cycles: The amounts remitted appear to increase concurrently with, or shortly after, each dip in the Mexican GDP. This observation is further confirmed by the analysis of cross-correlation coefficients between cyclical components of GDP and remittances series for Mexico, as discussed in detail by Sayan and Tekin-Koru (2009a[8]). The results reported by the authors indicate that migrant Mexican workers in the US quickly respond to cyclical drops in the Mexican GDP and start increasing the amounts they remit during the same quarter so as to help family members recover lost income during a recession. This implies that the counter-cyclical nature of Mexican workers' remittances give them a potential role in curtailing recession-induced increases in poverty[9].

By contrast, it is difficult to identify the cyclical nature of Turkish remittances from Germany through visual inspection alone. Dips in the dashed line clearly mark drops in GDP, including the two major crises that hit the Turkish economy in 1994 and 2001, as well as the smaller one in 1999. Sharp drops in remittance

8 Sayan, S., and A. Tekin-Koru (2009a). "Remittances, Business Cycles and Poverty: The Recent Turkish Experience," International Migration, forthcoming.

9 How effective a role the remittances could play in preventing recession-induced increases in poverty depends upon whether family members that migrant workers left behind belong to poorer sections of the society.

"Deciding how much to remit is a complex decision involving many factors besides a simple altruistic motivation to support household income of family members at home."

receipts observed in 1994, and in the aftermath of the 1999 and 2001 recessions hint at pro-cyclical behavior, whereas the significant decline in the early 1990s point to counter-cyclicality. Cross-correlation results obtained to resolve this uncertainty suggested a strong and positive co-movement between remittances Turkey receives from Germany and the Turkish GDP, with remittances following the business cycle in the same direction but with a lag of one quarter (Sayan, 2006; Sayan and Tekin-Koru, 2009a[10]). Thus, Turkish workers in Germany respond to the changes in the level of economic activity in Turkey by adjusting the amounts transferred within the next quarter in the same direction. Remittances increase whenever the Turkish GDP goes up, further boosting the income increase. Yet, this pattern becomes a challenge to cope with at times of downturns, since the fall in remittances to follow the decline in GDP would deepen a recession.

Concluding remarks

Sayan and Tekin-Koru (2009a) offer two most plausible explanations for the pro-cyclicality of Turkish remittances. The stagnation of Turkish migration to Germany in the 1980s due to restrictions on the inflows of new migrants, and amendments introduced to the German immigration law to allow for reunification of migrant workers with their immediate family members in Germany as the most plausible explanation for the pro-cyclicality of Turkish remittances. Such family reunification let migrants extend their duration of stay in Germany, leading to gradually weakening ties with other relatives back home. This, in turn, caused the altruism motive for sending money home to lose its strength and prompted Turkish migrants to start behaving as prudent investors, seeking the right balance between risks and returns for their savings. For Mexico, on the other hand, the altruistic motive to support families left behind must remain strong, since waves of Mexican workers searching for better pay continue to cross the border to the US, even if mostly illegally.

Whatever the underlying reasons, differences in the cyclical characteristics of Mexican and Turkish remittances from the US and Germany affect their potential to contribute to poverty alleviation (Sayan and Tekin-Koru, 2009a), and to macroeconomic stability in opposite directions. As shown in a recent study by Durdu and Sayan (2009), the divergent cyclical patterns of remittance receipts of Mexico and Turkey affect the capacity of their respective economies to cope with recessions and "Sudden Stops" in an opposite and significant way. In light of the discussion so far, it seems that the governments in Mexico could use policies to attract even more remittances (varying from tax breaks on household income from abroad or measures to lower wiring fees to exchange rate policies) in dealing with domestic recessions and their possible consequences for poverty, whereas such policies would be of little help in the case of domestic recessions in Turkey. Furthermore, Mexico could use future remittance receipts as collateral while borrowing from abroad at better rates, but this would not be a smart move for Turkey.

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10 In another study focusing on cyclical characteristics of remittance receipts of Turkey, Sayan and Tekin-Koru (2009b) present evidence that a switch occurred in the remitting behavior of Turkish workers in Germany in the early 1990's, changing the cyclical pattern of remittances from countercyclicality to procyclicality.
Sayan, S., and A. Tekin-Koru (2009b). "Business Cycles and Remittances: A Comparison of the Cases of Turkish Workers in Germany and Mexican Workers in the US," in R. Lucas, L. Squire and T. Srinivasan (eds.), Global Exchanges and Poverty: Trade, Investment and Migration, London: Edward Elgar, forthcoming.

The impact of rich countries' policies on poverty in LDCs: The case of migrant nurses from Ghana

Peter Quartey, Evelyn Kwakye & Gifty Merdiemah

Introduction
Migrations out of developing countries have become an integral part of the survival strategies of many households. These migrations have wide-ranging economic, social and cultural dimensions for the migrants and their countries of origin. Recently, migration of skilled personnel, particularly from the health sector, is occurring at an increasing rate. In 2002-3, the proportion of nurses emigrating from Ghana increased from 1.1 percent of the total number of qualified nurses in 1998-1999 to 1.97 percent in 2002-2003[1]. This is also confirmed by Stillwell[2] (2003) and also DFID (2004).

There are 30 OECD countries and their migration policies are different; varying between regions, colonial ties, skills, gender and type of profession to mention but a few. However, this variation can be categorized into strict and liberal policies. Strict policies have been in place against both skilled and unskilled migrants in the 1980s and 1990s. However, the skill shortages within many OECD countries have lead to liberal policies towards skilled migrants, such as in the United Kingdom.

Health worker migrations from Ghana have focused mainly on two types of professions within the health sector, namely, doctors and nurses. Nurses find it more convenient to migrate to the UK, which does not require examinations and only requires an adaptation once registration and qualification in Ghana has been verified and accepted (DFID 2004[3]). Nurses only have to undergo three to six months of adaptation to qualify for a four-year residence permit, after which they qualify for a permanent residence

Policies such as this have significantly encouraged the exodus of health workers from Ghana and tend to raise the following research issues: To what extent is health worker migrations affecting livelihood, that is the means used to support ones existence (for example in health, education etc), in Ghana?

The general focus of the study is to ascertain the impact of rich countries' policies on poor countries. This study ascertained the cost and benefits of health worker migrations from Ghana to the UK; investigated the distribution of the costs and benefits from these migrations and ascertained the adverse effects of the migration of nurses from Ghana.

Data sources
The study involved the use of both micro and macro data sources. The macro data was obtained from the Ministry of Education[4] and the Ministry of Health, Ghana[5]. This involved data on the cost of training a nurse. The micro data was obtained by administering questionnaires to skilled migrant health workers in the United Kingdom and also their counterparts in Ghana. The questionnaire was administered through the Central Council for Nursing, Midwifery and Health Visiting (UK). The scope of the study was on a sample of 100 nurses working in Ghana and 100 Ghanaian trained nurses who migrated to the UK.

The survey in Ghana focussed on Accra, Kumasi and Tamale where both private and public health nurses were interviewed. The objective was to also interview nurses working in the rural and urban health institutions in the country. These enabled us to make regional, rural and urban comparisons.

Estimating the private impact of migration
Migrants send remittances to their relations and this can have a positive impact on poverty. This is evident from the proportions of migrant remittances

1 Source: Nursing and Midwifery Council (NMC) www.nmc-uk.org, August 2005 Register
2 Stillwell (2003), Compensating the costs of health worker migration for developing countries, Human Resources for Health, ILO, Geneva, Switzerland
3 Buchan, J., Dovlo D., International Recruitment of Health Workers to the UK: A Report for DFID. March 2004
4 Ghana Health services (2005).The Health Sector in Ghana: Facts and Figures 2005, GHS,Accra.
5 Ghana MOH (2002), Human Resources Projections, an Internal Report

"The migration of skilled personnel , particularly from the health sector, is occurring at an increasing rate. This study looks at migrant nurses from Ghana going to the UK."

spent on health education, education, consumption. These are clearly useful indicators for the measurement of the impact of migration on livelihood. The average amount of remittances sent monthly to finance education is £140.9, while on average, £87 is sent monthly for health and health related expenditures. Remittances sent to cover living expenses averages around £121 per month while on average, monies sent home for other related expenditures amounted to £203.

A survey of 166 recipients of migrant remittances in Accra indicated that a significant proportion of remittances are invested which has positive impacts on poverty. Similarly, the survey of nurses in the UK showed that 26.3 percent of remittances sent to Ghana were for education purposes, 15.4 percent for health, 23.8 percent in respect of consumption and 34.5 percent in respect of investments in real estates and other related expenditures. These ratios clearly indicate the importance of migration to poverty reduction in Ghana.

Estimating the effects on poverty

Estimates of poverty in Ghana are obtained from 4th Ghana Living Standards Survey, (GLSS 4, 1999[6]) and showed that the level of poverty had declined from the early 1990s level of about 52 percent to about 40 percent. More recent data on poverty in Ghana is from the UNDP's Human Poverty Index (HPI) which measures deprivations in the three basic dimensions of human development. The Ghana Human Poverty Index declined from 51.7 percent to 41 percent between 1997/98 and 2002/03. This implies that the proportion of the population deprived was 51.7 percent in 1997/98 and in 2002/03 it had declined to 4 percent (UNDP Ghana Human Development Report, 2004[7]). However, the same cannot be said of all the 10 regions of Ghana; whereas the level of deprivation in Accra increased, that of the nine regions declined.

Rich countries policies on migration can significantly influence poverty in Ghana, particularly, through its impact on health outcomes. The impact of rich countries policies (in this case, health worker migration) on poverty could be accessed from varied perspectives. Irrespective of the chosen perspective, it could be stated that much of the incidence of the impact will be on the regions with highest number of vacancy rates. Even though data on regional vacancy levels are not available, Table 1 shows that Upper West, Upper East, Northern, Western and Brong-Ahafo regions are likely to face much of the consequences of nurse shortages since their share of the available nurses are less compared to other regions. The impact of nurse migration is discussed in two facets: impact on the health system and on the national expenditures.

Table 1: Regional Distribution of Professional and Auxiliary Nurses 2004

Region / Status	Professional Nurses	Auxiliary Nurses	Total Nurses	Percentage
Ashanti	1,278	669	1,947	13.9
Brong Ahafo	552	433	985	7.1
Central	578	523	1,101	7.9
Eastern	895	956	1,851	13.2
Greater Accra	2,295	1,249	3,544	25.4
Northern	543	435	978	7.0
Upper East	387	302	689	4.9
Upper West	336	115	451	3.2
Volta	763	668	1,431	10.2
Western	494	480	974	7.0
Grand Total	**8,141**	**5,830**	**13,971**	**100.0**

Source: Ghana Health Services, Facts and Figures 2005

Impact on the Health System

The most direct impact of migration on health outcomes can be deduced from the difficulties in recruiting and retaining nurses in the country's health system and this is evident in the vacancy rate in the country. The vacancy rate increased from 25.5 percent in 1998 to 57 percent in 2002. In the same year, the shortfall below the ideal number of nurses was estimated at 68 percent. The Ghana Health Service estimates that the total number of nurses in the country as at 2004 stood at 13,971, which is marginally above the 2002 ideal number. This implies that even though the number of nurses trained in the country has increased over the years the levels are still below what is desired. It also shows that even though the nation needed about 10,000 nurses in the health system in 2002, only 4,319 were in service.

Table 2: Estimated vacancy levels of nurses in Ghana

Year	Current Status	Workable No.	Shortfall and percent	Ideal No.	Shortfall and percent
1998	-	-	25.5 percent	-	-
2002	4319	10,000	5681 (57%)	13,340	9021 (68%)

Source: Adapted from Buchan and Dovlo, 2004

The high vacancy rate obviously means that the work load on the remaining nurses is high which also has implications for staff efficiency. Table 3 presents some selected national indicators of the health system. It can be seen that the number of persons per nurse in the country has reduced, though marginally, over the years.

Table 3: Selected national indicators of the health care system in Ghana

Year	Ratio of Population Per Nurse	Ratio of Outpatient Attendance per Nurse	Ratio of Inpatient Admissions per Nurse	Hospital Admission Rate	Maternal Mortality Ratio
2001	1,728	818	59	34.9	255.7
2002	1,675	818	59	35.3	204.4
2003	1,649	821	59	36	204.5
2004	1,510	792	53	35.3	186

Source: Ghana Health Services, Facts and Figures 2005

6 Ghana Statistical Service (1999), The Ghana Living Standards Survey IV
7 UNDP (2004) Ghana Human Development Report

Impact on National Expenditure

The importance of nurse migration from the country has important implication to the expenditure pattern of the government. This derives from the fact that the government is the main financier of the training of nurses in the country. These include the provision of training infrastructures and the payment of training staff. At the same time, the government remains the major employer of nurses and provider of health services in the country. Unfortunately, whilst the expenditure on the training of nurses is on the increase due to increasing number of enrollments, the situation is worsened by the fact that the rising outflow of nurses has created additional costs to the nation.

The main issue of concern is that after spending the nation's scarce resources to train these nurses, they leave without paying or compensating for the training costs. Even though some have suggested bonding as a means to check this, poor legal enforcement, the ease of buying back the bonds and the worsening conditions of service and lack of motivation of nurses in the country have made bonding ineffective. Yet, the vacancies they create increases further the cost of health care provisions by the government.

Conclusion

The focus of the study is to examine the net impact of skilled worker migrations, particularly, the outflow of Ghanaian nurses from Ghana to the UK due to relaxed migration policies of the receiving country. Migration has positive private and aggregate welfare gains. First, the study concludes that the outflow of nurses has had an impact on health outcomes in Ghana and this is evidenced the shortfall in nurses within some of the regional health centers in Ghana.

The paper suggests the following: first, more nurses should be trained but the government should only pay for those who are prepared to stay and work in the country. This can be done through bonding and the 'pay as you go system', whereby a proportion of trained nurses are bonded to serve the country for a number of years and their guarantors held responsible in case they breach the agreement and the rest are made to pay for the cost of training (plus a premium) and are free to leave the country. Secondly, the health authorities should improve the workings of nurses through better wages and also good enabling environment. ❖

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"The study concludes that the outflow of nurses has had an impact on health outcomes in Ghana... this is evidenced by the shortfall in nurses within some of the regional health centers in Ghana."

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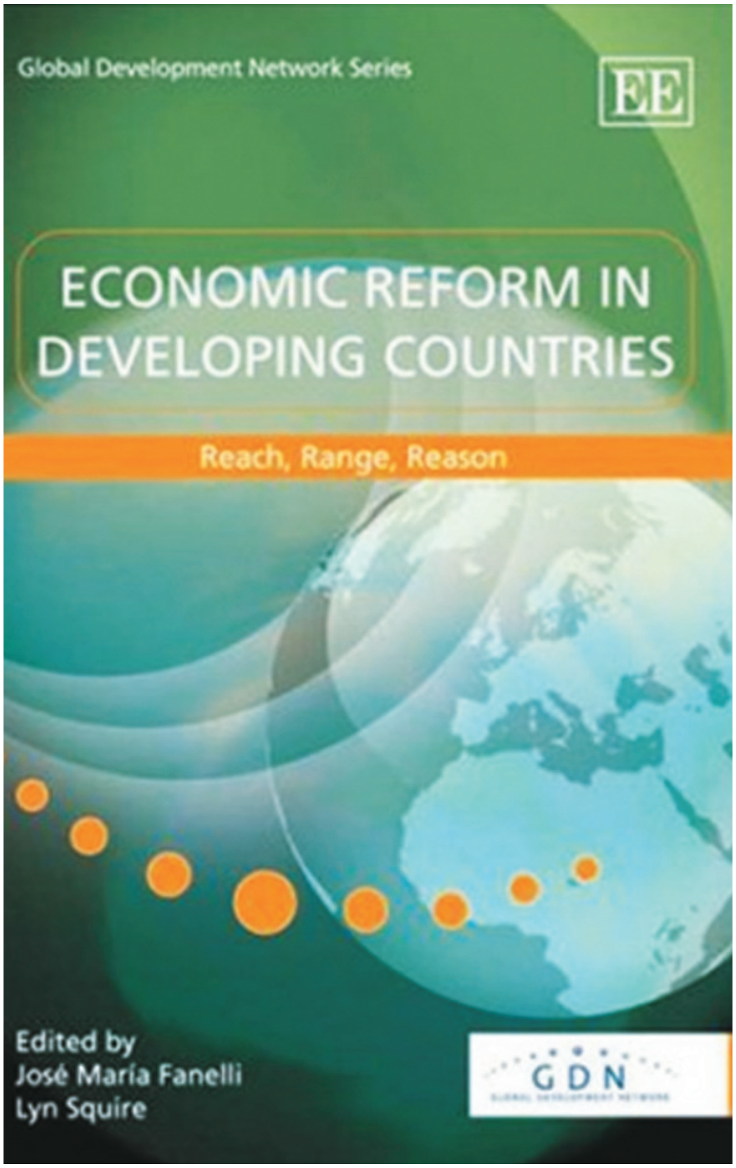
This book offers insights into the process of economic reform in developing countries. It is organized around three factors that are critical to the success of any reform. According to Nobel Laureate Amartya Sen, these key dimensions are Reach, Range, and Reason. 'Reach' refers to the ability of reform to be person-centered and evenhanded, reaching all individuals in society. 'Range' considers the institutional reforms and policy changes necessary to implement change and the possible ripple effects on other policies and populations.

Finally, 'Reason' captures the importance of constantly asking why a particular reform has been selected. By analyzing the reform process from this particular perspective, the chapters in this volume illustrate the success of this approach with specific examples prepared by authors from developing and transition countries and, in doing so, reveal the breadth of knowledge and home-grown expertise in the developing and transition world. Among academics, the book will appeal to those teaching courses in political economy, development studies, globalization, and public policy. It will also be of great interest to policy-oriented researchers and policymakers at international institutions, think tanks and policy research institutes, as well as at development agencies, ministries and departments.



Forthcoming in 2009

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Health Care Systems in Developing and Transition Countries: The Role of Research Evidence

Edited by Diana Pinto Masis, Associate Professor, Pontifica Universidad Javeriana School of Medicine, Colombia and Peter Charles Smith, University of York, UK

Progress in the physical sciences is essential if health conditions in the developing and transition countries are to improve. Medical breakthroughs to prevent more people falling ill (an AIDS vaccine for example) and the rapid development of new ways to treat those already ill, or major improvements in the efficacy of existing treatments, are all critical. But even the best efforts of science will be inadequate if governments continue to fund health programs at miserably insufficient levels, if the infrastructure, public and private, tasked with delivering health services to the population, and especially the poor, is woefully deficient, and if the sick themselves, through ignorance, cultural tradition or poverty, are effectively prevented from accessing the services that are available. The social sciences, then, and especially economics, can play a key complementary role in improving the allocation of public resources, in setting the right incentives for service provision, and in assuring that all individuals, particularly the poor, have the necessary information and purchasing power to enable them to respond appropriately when illness strikes.

The chapters of this volume, including a comparative study of the health care systems in Bangladesh and Sri Lanka, authored by research practitioners working in developing countries, highlights how the social sciences can play a key complementary role in improving the allocation of public resources, in setting the right incentives for service provision, and in assuring that all individuals, particularly the poor, have the necessary information and purchasing power to enable them to respond appropriately when illness strikes.

(Extracts from Foreword by Lyn Squire, former GDN President)