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KEY TRENDS AND PATTERNS OF INTERNATIONAL MIGRANT FLOWS TO AND FROM UKRAINE

The number of international migrants worldwide has already surpassed the U.S. population and turned international migration into one of the defining challenges of the 21st century, especially in light of recent ‘migrant crisis’ in the EU. Ukraine ranks 7th and 13th in the world in international emigrant and immigrant stock, respectively. Also, Ukraine contributes to the largest migration corridor in South-South pathway and the second largest migration corridor in the world. One of the distinctive features of Ukraine as an origin (destination) country is its relatively low diversification of flows of emigrants (immigrants) by their destination (origin). Remittance flows to and from Ukraine are also concentrated on a small number of origin and destination countries (regions). Annual inward remittances received by the country reached 5% of GDP and outweighed annual inward FDI and ODA combined (2013). This paper analyses key patterns and trends of international migrant flows to and from Ukraine, its determinants and impact on social and economic development of the country. Inward remittances are a very important source of financing for development. However, country specific as well as general ‘push and pull’ factors may significantly influence the stock of international migrants and remittance flows to and from Ukraine in the nearest future. Therefore, some suggestions for mitigating risks and exploring opportunities, related to international migrant flows to and from Ukraine, are provided, e.g. to promote official remittance channels, mobilize diaspora savings, stimulate saving and investment of remitted income, improve working conditions of labour emigrants.

Keywords: international migration, remittances, migration corridors, South-South pathway, labour migration, degree of diversification (concentration) of migrant and remittance flows.

КЛЮЧОВІ ТЕНДЕНЦІЇ ТА ОСОБЛИВОСТІ УЧАСТІ УКРАЇНИ В МІЖНАРОДНИХ МІГРАЦІЙНИХ ПРОЦЕСАХ

Сидоренко П. О.

Кількість міжнародних мігрантів у світі вже перевищила чисельність населення США, перетворивши міжнародну міграцію в один з вирішальних викликів XXI століття, особливо в контексті міграційної кризи ЄС. Україна посідає 7 та 13 місце у світі за кількістю емігрантів та іммігрантів, відповідно. Також, Україна є однією зі сторін найбільшого коридору міграції у напрямку «Південь-Південь» та другого за чисельністю

коридору міграції у світі. Щорічний обсяг приватних грошових переказів в Україну досяг 5% ВВП та перевищив загальний щорічний притік прямих іноземних інвестицій та офіційної фінансової допомоги (2013). У статті проаналізовано ключові тенденції та особливості участі України у міжнародних міграційних процесах, відповідні чинники та вплив міжнародної міграції на соціальний і економічний розвиток країни. Надходження коштів емігрантів є вагомим джерелом фінансування розвитку країни, тому у статті запропоновано низку заходів задля мінімізації ризиків та ширшого використання можливостей, пов'язаних з участю України у міжнародних міграційних процесах: стимулювання використання офіційних каналів переказу коштів, мобілізація заощаджень представників діаспори, заохочення інвестування або заощадження доходів мігрантів, покращення їх умов праці.

Ключові слова: міжнародна міграція, приватні грошові перекази, коридори міграції, міграційний шлях «Південь-Південь», трудова міграція, рівень диверсифікації (концентрації) потоків мігрантів та приватних грошових переказів.

КЛЮЧЕВЫЕ ТЕНДЕНЦИИ И ОСОБЕННОСТИ УЧАСТИЯ УКРАИНЫ В МЕЖДУНАРОДНЫХ МИГРАЦИОННЫХ ПРОЦЕССАХ

Сидоренко П. А.

Количество международных мигрантов в мире уже превысило численность населения США, превратив международную миграцию в один из ключевых вызовов XXI века, особенно в контексте миграционного кризиса ЕС. Украина занимает 7 и 13 место в мире по количеству эмигрантов и иммигрантов, соответственно. Также, Украина является одной из сторон наибольшего корридора миграции на пути «Юг-Юг» и второго по количеству корридора миграции в мире. Ежегодный объем частных денежных переводов в Украину достиг 5% ВВП и превысил общий объем ежегодного притока прямых иностранных инвестиций и официальной финансовой помощи в 2013 г. В статье проанализированы ключевые тенденции и особенности участия Украины в международных миграционных процессах, соответствующие факторы и влияние международной миграции на социальное и экономическое развитие страны. Денежные перечисления эмигрантов являются важным источником финансирования развития страны, поэтому в статье предложены мероприятия, касающиеся минимизации рисков и более широкого использования возможностей, связанных с участием Украины в международных миграционных процессах: стимулирование использования официальных каналов перевода средств, мобилизация сбережений представителей диаспори, стимулирование инвестирования и сбережения доходов эмигрантов, улучшение их условий труда.

Ключевые слова: международная миграция, частные денежные перечисления, коридоры миграции, миграционный путь «Юг-Юг», трудовая миграция, степень диверсификации (концентрации) потоков мигрантов и частных денежных перечислений.

Introduction. The number of international migrants worldwide rose by 90 million between 1990 and 2013 and is expected to exceed 250 million in 2015, and North is still hosting almost 60% of them [1]. But more than half a million asylum claims received by the EU between January and June 2015 considerably facilitated discussions on international migration and related issues. Despite numerous challenges faced by countries of origin and destination as a result of increasing and often uncontrolled cross-border movement of migrants, international migration can offset some social and economic imbalances, e.g. solve demographic problems in destination countries and provide financing for development to origin countries. The amount of remittances received annually worldwide rose between 1990 and 2013 even more dramatically than international migrant stock, i.e. from US\$64 billion in 1990 to US\$126.8 billion in 2000 and US\$557.1 billion in 2013, and is expected to reach US\$ 636 billion in 2017 [1]. Remittances inflows surpass annual ODA, FDI, and private capital received by developing countries, with few exceptions. In 2013, in 12 and 26 developing countries remittance inflows exceeded 19% and 10% of GDP, respectively. Taking into account large stock of international migrants (and emigrants) in Ukraine, considerable and increasing remittance flows as well as recently facilitated pull and push factors for Ukrainian migrants, analysis of key trends and patterns of international migration and remittance flows to and from Ukraine may be a valuable contribution to further development of research in the field.

Overview of recent publications. International migration and its influence on economic development of countries of origin and destination have received a lot of attention in economic literature. But recent migrant crisis in Europe and its influence on the socio-economic situation in the region pose new challenges to economists, policy makers and other stake holders all over the world.

The growing literature on migration documented positive influence of remittance inflows on socio-economic development of receiving countries (C.Theoharides, R.Adams and A. Cuenca, D.Yang, D.Ratha, T.Straubhaar and F. P. Vâdean, and others). T.Straubhaar and F. P. Vâdean prepared an overview of this literature with focus on direct and subsequent influence of remittances on income distribution, poverty and welfare, trade balance and current account of countries, and economy as a whole. Although these authors found no unambiguous confirmation of an equalising effect of remittances on income distribution, the welfare effect of remittances is obvious as well as their positive influence on economic growth [2]. D.Ratha (2003), analysing the influence of remittance on GNP of Mexico, documented an empirical evidence of the existence of a multiplier effect, e.g. every US\$ remitted and spent in the country induced US\$2.69 and US\$3.17 GNP increase in case of urban and rural households, respectively [3]. Most scholars agree that remittances can also ease the problem of balance of payments deficit, but negative effects of these

transfers on trade balance – i.e. the remittance-induced imports and Dutch Disease – remain rather disputable [2].

Remittance behaviour of migrants has also become an important direction of research in the field (T.Joseph, Y.Nyarko, and S.Wang; K.Ambler, D.Aycinena, and D.Yang; C.Dustmann and J.Mestres; D.Yang and H.Choi; H.Rapoport and F.Docquier; C.Freund and N.Spatafora, and others). K.Ambler, D.Aycinena, and D.Yang (2014) found a statistically significant positive impact of temporary transaction fee discounts on remittances, which lead to increases in the number of transactions by migrants from El Salvador and Guatemala and total amount remitted during the discount period [4]. Another important conclusion of these authors is that provided discounts did not significantly influence the selection of remittance channels. T.Joseph, Y.Nyarko, and S.Wang (2015), analysing earnings and remittances of migrants in the UAE, documented positive relationship between remittances and seasonalities in earnings as well as other public, anticipated and transitory factors like weather shocks and labour reform [5]. Also, it was found that remittances do not follow the growth of earnings and the length of stay of migrants in the destination country. In fact, they decline, while migrants` earnings increase over time.

National Bank of Ukraine, State Migration Service of Ukraine, State Statistics Service of Ukraine and other institutions and think tanks collect data and provide analysis of migration and remittances in Ukraine on a regular basis. Ukrainian scholars have also made a valuable contribution to the development of research in the field, e.g. E.Libanova, V.Geets, A. Galchinsky, S.Gutkevych, O.Malynovska, O.Kupets and others. Current trends of global migration and some country specific factors encourage further analysis of the impact of international migration on social and economic development of Ukraine as well as remittance flows as one of the sources of development financing.

The purpose of the article is to analyse patterns and trends of international migrant flows from and to Ukraine, its determinants and impact on social and economic development of the country and provide suggestions for mitigating risks and exploring opportunities, international migrant flows from and to Ukraine, with main focus on remittances.

Key findings. Ukraine and Russia form the largest corridor of South-South migration, accounting for almost 10% of international migrant stock of the pathway, and the second largest migration corridor in the world. Ukraine has been one of the largest destination countries in the world since 1990 but its international migrant stock is constantly decreasing, i.e. from 6.9 million in 1990 to 5.5 million and 5.2 million in 2000 and 2013, respectively. Ukraine has the second largest share of immigrants in total population among Eastern European countries – i.e. 11.4%. Immigrants account for 11.6% of total population in Belarus, 11.2% in Moldova and 7.7% in Russia [6].

Ukraine is also one of the largest origin countries. In 2013 it accounted for 5.6 million emigrants (12.3% of total population of the country), only India, Mexico, Russia, China, Bangladesh and Pakistan had larger stocks of emigrants. Although Ukraine has comparatively low share of emigrants in total population, e.g. emigrants account for 24% of total population in

Republic of Moldova, 19.9% in Bulgaria, 16.8% in Belarus and 15.4% in Romania, Ukrainians are more inclined to pursue better life abroad than citizens of the majority of low middle income countries [6].

Numerous international migrant stock of Ukraine as well as CIS countries can be explained by an extensive internal migration in the former Soviet Union and cultural similarities, local networks, simplified cross border procedures and lack of substantial 'pull factors' that prevented return migration in the region. Ukrainian emigrants are motivated mainly by economic factors and international networks. As a result of annexation of the Crimea by Russian troops and military conflict in Donetsk and Luhansk regions, almost 1.5 million Ukrainians were internally displaced, i.e. more than 3% of total population. And more than 1 million of them are seeking asylum or other forms of stay in Russia (approx. 80%), Belarus (approx. 10%), the EU and other countries. Return migration and family reunions may represent a considerable part of this flow of migrants. We assume that ageing of the stock of migrants in Ukraine, the above-mentioned 'push factors' and deterioration of social and economic conditions in Ukraine may lead to further decrease in the stock of international migrants and increase in the stock of emigrants. In the long run, socio-economic improvements in Ukraine, its integration to the EU as well as possible dramatic political changes in CIS countries may cause the surge of migrants from the region and other countries to Ukraine.

One of the distinctive features of Ukraine as an origin country is its relatively low diversification of flows of emigrants by their destination. Just one country (Russia) hosts 53% of total stock of Ukrainian emigrants and one region (CIS) accounts for 67% of them. This is a common feature of many post-soviet countries, e.g. Ukraine hosts 32% and 16.5% of total stock of migrants from Russian and Belarus, respectively. In 2013, almost 67% of total stock of international migrants in Ukraine were born in just one country (Russia) and 88% were born in one region (CIS). Therefore, the stock of international migrants in Ukraine also has low level of diversification by their origin. Low level of diversification in both cases may cause significant changes in trends and patterns of international migration as a result of changes of country or region specific pull and push factors as well as any shifts in foreign policy of involved countries.

International migration influences countries of origin and destination through different mechanisms. Despite the problem of 'brain drain', countries of origin can benefit from international migration due to the tremendously rising remittance flows. Ukraine is a good example of such country. Total value of remittances sent to Ukraine in 2013 reached US\$9.7 billion, i.e. above 5% of GDP [6]. In Europe, only emigrants from France, Germany and Belgium remitted more than Ukrainians did in 2013. Since 2003 and 2009 annual inflows of remittance have surpassed annual inward ODA and FDI, respectively (Figure 1). Moreover, annual (2014) inward remittances in Ukraine are estimated to be equal to total value of official reserves (as of December 2014), i.e. US\$7.5 billion [6].

Current socio-economic and political situation in Ukraine as well as some negative external factors may lead to further dilution of FDI's role in economic development of the country.

Currently, Cyprus, Russia, the Netherlands, Austria, and British Virgin Islands combined account for 56.7% of the inward FDI stock of Ukraine, although this geographical structure may look differently if the final beneficial owner principle is applied. Between 2013 and 2015 (mid-year basis) Cyprus significantly reduced its share of total inward FDI stock of Ukraine (from 32.4% to 28.6%). Russian investors account for 6.3% of total inward FDI stock of Ukraine in 2015 (6.9% in 2013, mid-year basis) [7]. Taking into account current global economic outlook, surge of FDI to Ukraine from other countries is unlikely. Therefore, inward remittances remain a very important source of economic development of the country.

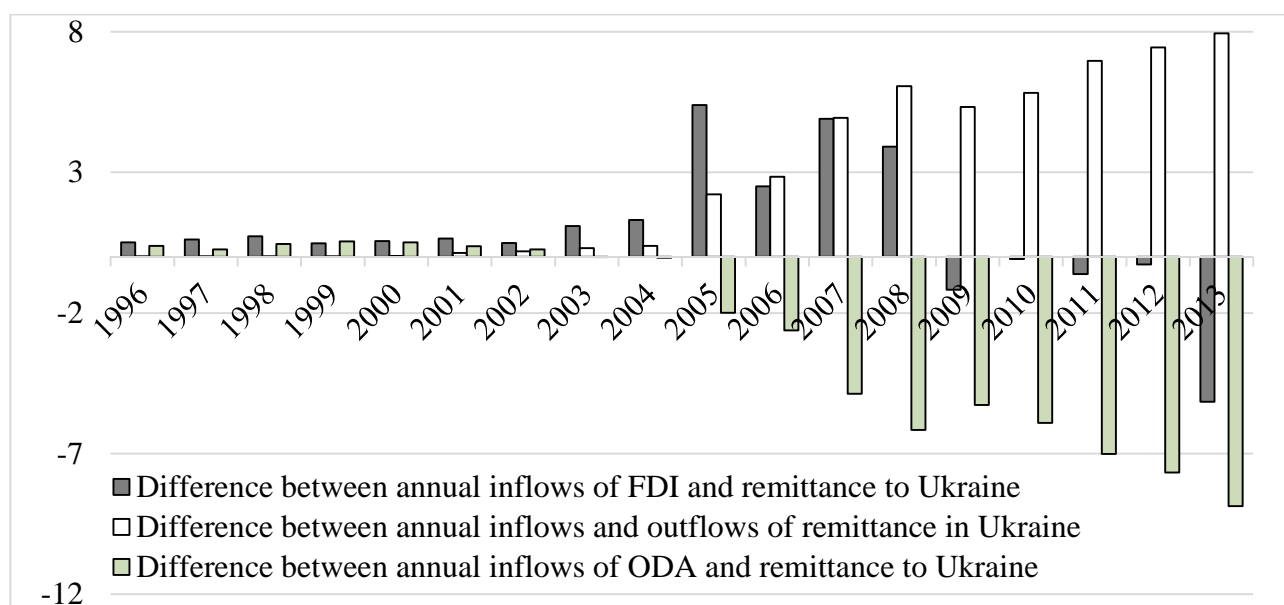


Figure 1. Difference between annual FDI, ODA and remittance flows in Ukraine, in billion US\$

Source: based on [6].

A positive impact of inward remittances on savings, investment, infrastructure development and growth has been documented by many researches. Earnings remitted to developing countries are often used for investment purposes, especially in microenterprises. Even if they are just consumed they contribute to output growth via positive multiplier effects, offsetting the loss of tax revenue caused by highly skilled labour migration and output decrease. Moreover, empirical evidence suggests that marginal propensity to save is higher for income from international remittances than from domestic remittances or rental income [3]. Inward remittances may be a considerable, hard currency source of investment in infrastructure, especially in Least Developing Countries where the financing and investing gaps are above the average.

The largest share of inward remittances in Ukraine is used to cover living expenses (73%) and only 3.3% are used to start a business [8]. Although spending is important for output growth, more efforts should be taken to increase the share of savings and investment in total value of inward

remittances. Moreover, 14% of remittances are sent to Ukraine through informal channels [9]. C. Freund and N. Spatafora suggest that informal remittances may reach 35-75 percent of official flows, but poor-functioning financial system, large exchange-rate spreads may significantly enlarge the share of informal sector [10]. We assume that current economic situation in Ukraine, financial market disturbances, abrupt national currency devaluation and tightened control over foreign currency transactions may cause a dramatic rise in the number and value of informal remittances, reduction of inward remittances and surge of outward remittances. Therefore, effective mechanisms should be implemented to offset these negative determinants. It is well documented that transaction costs have significant positive impact on volumes and value of remittances, although evidence that lower transaction costs may influence the selection of remittance channels is mixed [4]. We suggest to use mechanisms that can deflate transaction costs together with administrative and fiscal stimuli empowered to eliminate the share of informal channels of remittance flows, i.e. income tax breaks and exemptions for Ukrainian emigrants and their family members, who receive remitted income.

Another issue is a low level of diversification of inflows and outflows of remittance to and from Ukraine, i.e. 52% of inward remittances arrived from Russia (64% arrived from CIS) and 51% of outward remittances were sent to Russia (67% were sent to CIS) in 2013 (Fig. 2).

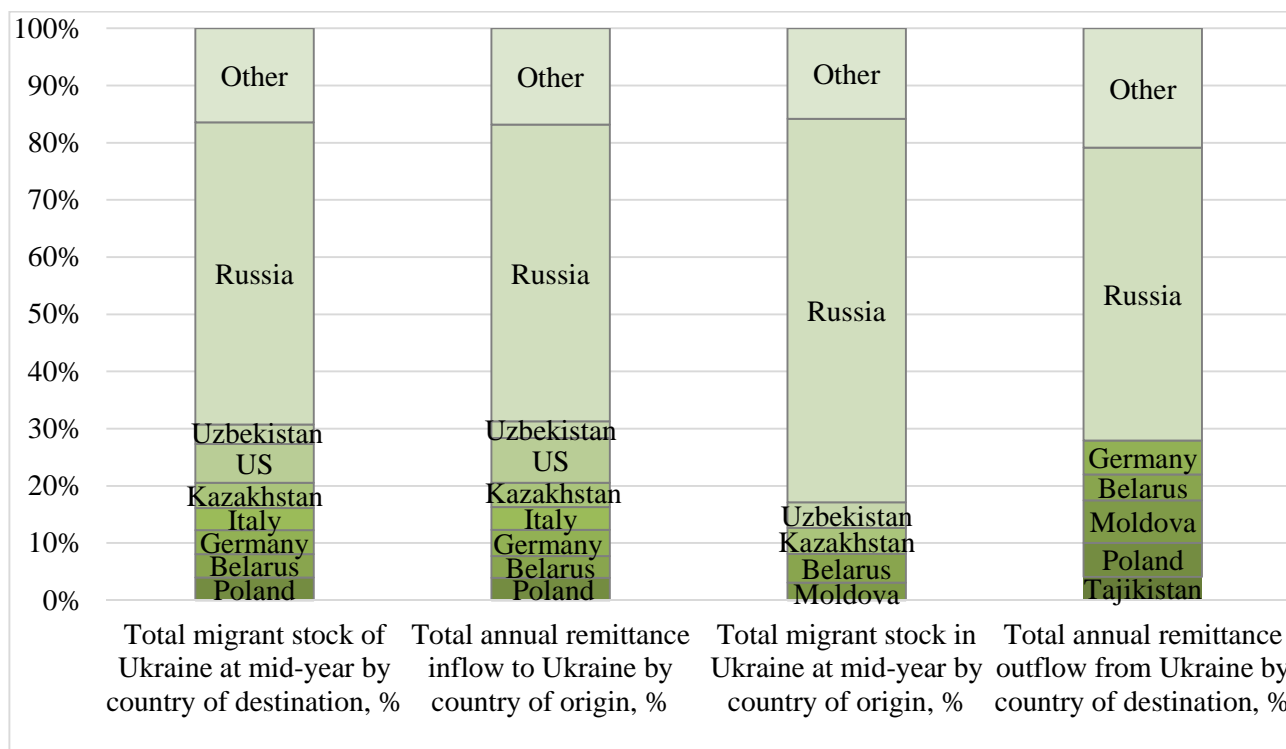


Figure 2. Total migrant stock and remittances at mid-year in Ukraine by country of origin and destination, 2013

Source: based on [6]

Low level of diversification poses high risk of remittance inflows (outflows) decrease (increase) as a result of deterioration of economic situation in origin (destination) countries, changes in their migration policy or economic and political relations between involved countries.

Analysis of geographic structure of inward remittances in Ukraine indicates no direct impact of origin country on average value of remittances per migrant. This can be explained by typical patterns of employment of Ukrainian emigrants – i.e. around 75% of labour migrants from Ukraine are employed in construction, agriculture or housekeeping; 17% of total Ukrainian labour migrants have no legal status and 4% have only visitor visas [8]. Regardless of high (on average) level of education and qualification, Ukrainian labour migrants take lower-skilled, non-graduate jobs, therefore they are usually low-wage workers. Higher living expenses in developed countries may also eliminate the difference in wages with developing countries, especially in case of low-wage workers. Also, labour migrants which stay in their destination countries for longer than one year may be less reluctant to use official remittance channels than seasonal or temporary workers. Moreover, in case of Ukrainian emigrants which do not plan to return or have already gained citizenship of their destination countries, average remittance per migrant depends not on their earnings but rather on financial needs of their families in Ukraine. Finally, geographical proximity of Ukraine with Russia and other CIS countries (important origins of Ukrainian remittances) may influence the selection of remittance channels and frequency of these transfers.

Taking into account the importance of remittances for the economy of Ukraine, effective, coherent policy should be implemented to (1) increase the value of inward remittances sent with official channels; (2) increase total value of inward remittances (and decrease total value of outward remittances); (3) mobilize diaspora savings and contributions; (4) increase the average value of inward remittances per migrant; (5) stimulate saving and investment of remitted income; (6) improve working conditions of Ukrainian emigrants; (7) encourage return migration, especially among business owners and highly qualified professionals.

The first two aims may be achieved with administrative and fiscal stimuli (income tax breaks and/or exemptions). We think that current system of taxation of remittances in Ukraine is not well equipped to achieve higher tax revenue from economic activity of emigrants, taking into account considerable share of informal remittance channels as well as informal employment of many Ukrainian emigrants, diminishing motives for return migration and low level of taxpaying culture in the country, in general. Meanwhile, a marginal group of labour migrants bears this tax burden. Although improvement of the tax paying culture should be a strategic task of any government, it is a long-term issue. And Ukraine needs urgent solutions to mobilize as many resources as possible.

Substantial number of Ukrainian emigrants have already gained the citizenship of their destination countries, especially in Russia, therefore effective mechanisms of mobilization of diaspora savings and philanthropic contributions should also be implemented. Diaspora bonds, special deposits for inward remittances, including preferential fiscal treatment, credit unions and other instruments have been used worldwide to channel diaspora savings to their countries of origin.

Taking into account a moderate growth of inward remittances in Ukraine in 2013 and their expected decline in 2014, together with surge of outward remittances (Figure 3), the above-mentioned issues should be addressed immediately.

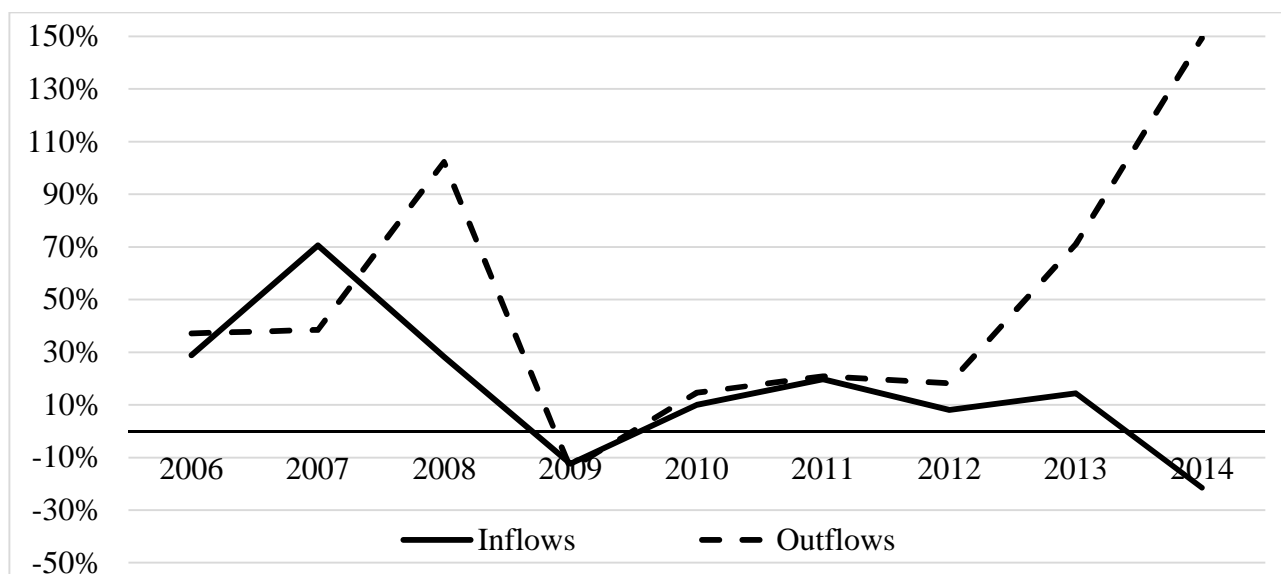


Figure 3. Migrant remittances to and from Ukraine, annual change, % (2014 – forecast)

Source: based on [6].

Unofficial employment, recruitment costs, well-being of Ukrainian emigrants, human trafficking and other migration related problems also require efficient and prompt solutions, to promote save and decent employment of labour migrants as well as their effective integration into local communities. Administrative and fiscal stimuli should be implemented to promote more productive usage of inward remittances, i.e. to invest or save. Of course, propensity to invest and save depends on a wide range of factors, e.g. macroeconomic stability, investment climate and opportunities etc., therefore a coherent policy should be used in order to reach this aim. Finally, although migration may have a positive impact on countries of origin, elimination of ‘push factors’ as well as offsetting economic ‘pull factors’ and other motives of emigration should be prioritized by any government. Suffice it to say that most of the above-mentioned aims are unreachable without proper international cooperation.

Conclusions. Ukraine is one of the largest destination as well as origin countries of South-South migration and part of the second largest migration corridor in the world, after Mexico to the United States. Its annual inward remittances surpass 5% of GDP and are larger than annual inward FDI and ODA combined (2013). Therefore, inward remittances are a very important source of economic development of the country. But, positive impact of inward remittances on savings, investment, infrastructure development and growth has been dragged down by informal remittance channels, lack of efforts to mobilize migrants` and diaspora savings as well as adverse economic conditions in Ukraine. A list of country specific and general ‘push and pull factors’ may cause

significant changes of the stock of international migrants and remittance flows to and from Ukraine in the nearest future. Therefore, coherent policy should be implemented to mitigate risks and explore opportunities related to migration, namely to increase total value of inward remittances, promote official remittance channels, mobilize diaspora savings and contributions, stimulate saving and investment of remitted income, improve working conditions of Ukrainian emigrants and encourage return migration.

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