

Conclusions

The behavior of Moldovan migrants is consistent with the stylized facts from the literature on the motivation behind remittances. In particular, Moldovan migrants appear to have a strong attachment to their home country and remit large portions of their earnings to their families. Thus, in the short to medium term, remittances are likely to remain a stable source of foreign exchange. Remittances are also likely to continue to boost household demand for consumption and investment in housing, as well as to provide a well-targeted social safety net. In the long term, as more migrants settle abroad, portfolio choice may become more important and migrants may decide to start saving and investing in their host country rather than remitting funds home.

Although the initial push toward migration can be traced to the 1998 regional financial crisis, which hit Moldova particularly hard, one of the striking observations made here is that migration has continued through the years when the domestic economy has been recovering strongly. This suggests that barriers to migration tend to diminish over time, as new migrants benefit from access to better information about job prospects and from the support network in destination countries. Indeed, the presence of relatives or friends in a foreign country, along with their advice or information about that country, are cited by migrants as among the most important factors affecting their decision to migrate.

Labor migration and remittances have profound, identifiable macroeconomic consequences that need to be explicitly considered in policy formulation. This paper has touched on several areas where these effects are most apparent, including economic growth; labor market, fiscal, and monetary developments; and the balance of payments. The macroeconomic data closely confirm the household preferences revealed in the microeconomic survey: most supplemental income is spent on consumer goods and housing construction. Even though this additional spending has provided a strong short-term boost to domestic demand that has helped drive GDP growth in recent years, ensuring sustainable growth in the long run will require a more balanced composition of aggregate demand—with a greater contribution from business investment, in particular.

Moldova's experience confirms that globalization is not limited to trade and finance. Moreover, it shows that traditional international trade models featuring mobile capital and immobile labor may no longer be able to capture all salient features of today's international economy. Although countries still trade where their comparative advantage lies, some of them specialize in exporting labor. In the years following the 1998 crisis, Moldova did exactly that. Large-scale labor emigration has played a dominant role in shaping Moldova's economic development and its regional integration in recent years. Although some impetus for migration comes from the destination countries—higher wages, employment opportunities—our paper has focused primarily on forces within the domestic economy that have influenced workers' decisions to migrate.

Are labor migration and remittances good or bad for Moldova? In Moldova's public debate, the issue is often framed in those terms. In our view, what matters more are the underlying reasons for these phenomena and the policy response. In principle, higher factor mobility (of both capital and labor) confers benefits, permitting more efficient allocation of resources. In that sense, a greater choice of employment opportunities, both at home and abroad, available to Moldova's workers is welcome. Moldova's problem today, however, is that much of the impetus toward migration stems from a lack of opportunities at home.

A determined and sustained effort to improve the business environment would enhance Moldova's attractiveness to foreign capital and stimulate larger foreign direct investment inflows, which have been relatively modest to date. It would also facilitate the allocation into productive use of increasing portions of migrants' remittances. This aspect will assume greater importance over time, as more migrants are likely to work abroad permanently and consider using their savings for investment in their host country.

The short-term benefits of remittances for the domestic economy should not be allowed to obscure the need to implement an effective reform agenda. In the end, only by making Moldova a more attractive place for both labor and capital can the government ensure that resources—most important, the skills and talent of its population—will be used to their full potential for the benefit of present and future generations.