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SOCIAL AND ECONOMIC IMPACTS OF INTERNATIONAL LABOR MIGRATION IN UZBEKISTAN

There are two ways of identifying the impact of migration and remittances on household well-being. One way is to ask household members directly what remittances are spent on, or for what purpose they are intended. However, this approach is questionable because it does not take into account substitution effect, when remittances might substitute other sources of income, making impact evaluation problematic. Another way is to identify outcome variables first, such as poverty, expenditures on education and healthcare, and compare households who receive remittances with households that do not. Following traditional branch of literature, we assume that all the systematic differences between remittance-receiving and non-remittance-receiving households can be explained by a set of characteristics of the migrant, receiving household, and community, X_i . Therefore, the impact of remittances on an outcome of interest could be estimated through the following equation:

$$Outcome_i = \alpha + \beta Remittances_i + \gamma X_i + u_i \quad (1)$$

However, if migration has other impacts on the outcome of interest in addition to its effect through remittances, then the disturbance term contains omitted variables (these other effects of migration) that are correlated with remittances and the outcome variable. As a result, estimates of the effect of remittances may suffer from omitted variable bias. In other words, the coefficient β captures

not only the impact of remittances on the outcome variable, but also the impact of other variables that determine migration decisions. This specification can also capture the so-called reverse causation when migration decisions can be caused by destitution of the families in the first place. Finally, decisions to migrate and remit money back to families might be taken simultaneously with other decisions (the so-called simultaneity bias). In the presence of omitted variable bias, reverse causation and simultaneity bias, remittance variable is called endogenous.

Migration - Consumption link. Since migration and remittances increase household income, and all consumption theories predict that marginal propensity to consume is positive, we expect the positive link between migration and consumption. However, we cannot expect that all consumption items will react the same way to increased income due to the remittances. It is possible that some households will decrease consumption of some goods and increase consumption of others. To allow for such possibility, we distinguish between food and non-food consumption and test whether migration and remittances may have different impact on them.

Migration - Education link. We test whether educational outcomes of family members are significantly affected by the

migration decisions and remittances. The migration literature is not conclusive about the impact of migration and remittances on education. On the one hand, remittances from a migrant household member might allow the remaining family members invest in education of children more and lift the liquidity constraints. On the other hand, absence of one or both parents might negatively affect childcare and child schooling due to absence of parental supervision. Furthermore, one or both parents' absence may shift the duties of a working-age adult missing from the household to shoulders of children, thus affecting education of children negatively. Our outcome variables are spending on formal and informal education. Since secondary education is free and compulsory in Uzbekistan, we test whether migration and remittances increase expenditures on formal and informal (such as private tutoring) in the migrant sending households.

Migration - Health connection. Migration and the consequent remittances may have a direct impact on the well-being of the recipients of remittances by improving their health status. Remittances might allow the households to attend health facilities, purchase medicines and have better nutrition. These positive effects could be especially beneficial for children. Our outcome variable here is health care expenditures. We test whether health expenditures of migrant-sending households significantly differ from those of non-migrant sending households.

Estimation strategy. Because the decision to migrate may depend on unobserved characteristics of a household that also influence outcome variables, we have to find a way to identify the impact of migration and remittances on outcome variables. One popular way to solve the identification issue is to employ the method of instrumental variables (IV) in the estimation. IV method is based on the notion that if we can find a variable that is correlated well with the endogenous variable (in our case, remittances), but not correlated with the outcome variables other than through the endogenous variable,

we can use it as an instrument for remittances. In this paper we use distance variable as an instrument and estimate the impact of migration on household well-being through two-stage least squares (2SLS).

Rationale behind using distance from household location to migration destination as an instrument is as follows: since decision to migrate is likely to be caused by credit constraints and thus be endogenous, we need to find an instrument, which is closely correlated with migration, but not directly correlated with household expenditures. Distance is a good candidate for proper instrument, since it does not directly affect household well-being, but closely related to the decision of household to migrate. When it affects a household well-being, it only does so through migration and remittances. Thus, we assume that any correlation the distance variable may have with outcome variables goes through migration and remittances. If this assumption holds, it will enable us to estimate a true impact of migration on outcome variables. For practical purposes, we adopt the following parametric Engel curve specification used in many household consumptions models:

$$\ln w_i = \alpha_i + \beta_i R + \delta \ln x_i + \eta_i n + \gamma_i Z + u_i \quad (2)$$

where w_i is expenditure on particular categories, R is an amount of remittances the household has received from somebody migrated to other countries, x is total expenditures and n is household size. The other factors Z include household and community characteristics. The parameter estimates of household size (n) is indicative of the economies of scale effect.

Estimation results. We instrument migration with distance variable, derived from the questionnaire. The questionnaire asks several probing questions regarding destinations (country, province, and city) of migrants. We use this information to calculate distance between migrants' hometown and place of destination. For all households, who do not have migrants, we assigned a small positive number in order to be able to take log of the distance variable. Below are the results of estimation of equation (2) by ordinary least squares (OLS) and two-stage least squares (2SLS) estimator.

Table 1. Estimation of outcome variables by OLS estimator

	Food expenditures	Non-food expenditures	Health spending	Education spending
Remittances	0.002 (0.003)	-0.002 (0.004)	0.017 (0.031)	-0.026 (0.024)
Totalexpenditures	0.610*** (0.017)	1.383*** (0.022)	3.477*** (0.157)	0.337*** (0.123)
Ruraldummy	-0.189*** (0.023)	0.241*** (0.030)	0.475** (0.209)	0.311* (0.165)
HH female	-0.052** (0.025)	0.007 (0.033)	0.512** (0.229)	0.043 (0.180)
HH age	0.002 (0.043)	-0.001 (0.057)	0.542 (0.397)	-2.443*** (0.312)
HH education	0.002 (0.003)	0.001 (0.004)	-0.090*** (0.030)	0.028 (0.023)
Childrenunder 5	-0.032 (0.020)	0.008 (0.026)	0.456** (0.181)	-2.216*** (0.143)
Childrenunder 10	0.027* (0.015)	-0.039** (0.019)	-0.015 (0.134)	0.290*** (0.106)
HH size	0.010 (0.007)	0.015* (0.009)	-0.081 (0.061)	0.603*** (0.048)
Constant	-0.974*** (0.213)	-4.698*** (0.280)	-29.543*** (1.959)	7.313*** (1.541)
<i>R squared</i>	0.59	0.77	0.30	0.24
<i>N</i>	1481	1481	1481	1481

Notes: Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Total expenditures and rural dummy are statistically significant in all specifications. Total expenditures are positive and statistically significant in all specifications, but its coefficient is less than 1 for food and education, while it is greater than 1 for non-food and health spending. It shows household would increase spending on all categories if their income increases, but relative expenditures on food and education would decrease, while those on non-food and health would increase. In other words, income elasticity of food and education expenditures is negative, while that of non-food and healthcare is positive. Rural dummy is positive in all specifications except in the food equation. The negative sign of the rural dummy sign probably is caused by the fact that rural dwellers produce significant part of their food themselves and therefore spend much less

on food compared to the residents of cities and towns. Since the variable shows the relative difference in spending on respective categories in rural areas compared to urban areas, we can conclude that households in rural areas spend relatively less on food, and spend relatively more on the other items compared to the urban dwellers. Other control variables are not so robust, but are jointly significant, indicating that they should be in the regression. However, our main variable of interest - remittances - does not seem to have any impact on the outcome variables: none of the estimated β s is statistically different from zero. But knowing high probability that remittance variable is endogenous which can cause bias in the estimated coefficients, we have to take the results with a grain of salt. We turn our attention to the IV estimations in Table 2.

Table 2. Estimation of outcome variables by 2SLS estimator

	Food expenditures	Non-food expenditures	Health spending	Education spending
Remittances	-0.014*** (0.005)	0.015** (0.007)	0.091** (0.044)	-0.056 (0.038)
Totalexpenditures	0.639*** (0.017)	1.362*** (0.022)	3.408*** (0.154)	0.359*** (0.120)
Ruraldummy	-0.215*** (0.022)	0.270*** (0.029)	0.509** (0.200)	0.327** (0.156)
HH female	-0.064** (0.025)	0.028 (0.034)	0.554** (0.231)	0.046 (0.180)
HH age	-0.019 (0.044)	0.018 (0.057)	0.720* (0.396)	-2.371*** (0.309)
HH education	-0.000 (0.003)	0.003 (0.004)	0.085*** (0.030)	0.032 (0.023)
Childrenunder 5	-0.021 (0.020)	-0.009 (0.027)	0.435** (0.184)	-2.173*** (0.144)
Childrenunder 10	0.024 (0.015)	-0.037* (0.020)	0.018 (0.136)	0.270** (0.106)
HH size	0.003 (0.007)	0.022** (0.009)	-0.102 (0.062)	0.610*** (0.049)
Constant	-1.018*** (0.215)	-4.750*** (0.283)	-29.683*** (1.951)	6.779*** (1.523)
<i>R squared</i>	0.57	0.76	0.29	0.22
<i>N</i>	1481	1480	1481	1481

Notes: Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Instruments: Total expenditures, Rural dummy, HH head female, HH head age, HH head education, Children under 5, Children under 10, HH size, Distance

Our main variable of interest - remittances - is statistically significant for the first 3 specifications at least at 5% level, but displays negative sign for food, and positive sign for non-food and healthcare. This pattern is likely to be a result of substitution effect dominating in the case of food, while strong income effects lead to positive sign in the case of non-food and health expenditures. Household members jointly or individually decide first whether to migrate and remit, and only then make decision on how to spend the increased income. As such, most likely, that the additional income is spent on the most pressing needs of households. In the case of Uzbekistan, given additional income in the form of remittances, households probably

would like to decrease spending on food, and increase spending on non-food and healthcare items.

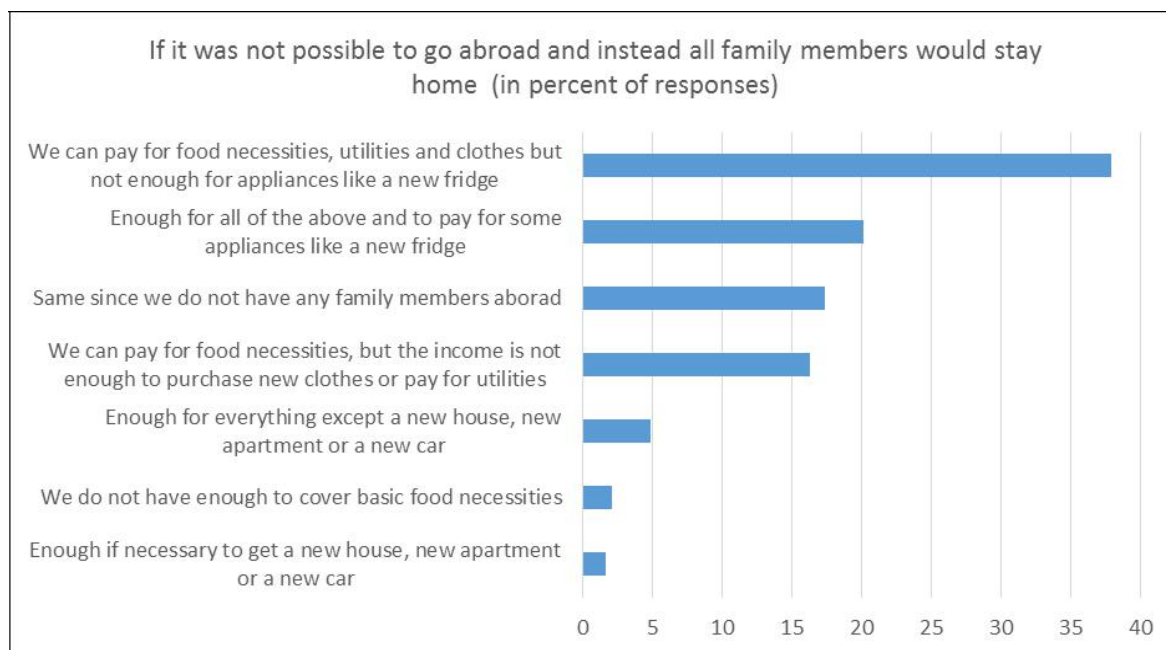
In terms of magnitude, the estimated coefficients are not particularly large. Only in the case of health expenditures we have significant marginal coefficient. It says that 9.1 percent of every additional dollar will be spent for health purposes. Food and non-food coefficients are pretty small, posing certain degree of puzzle in interpretation. Insignificance of education variable can mean that households do not anticipate high returns on education and therefore are not willing to spend remittances on education. Or, alternatively, their other needs such as necessity to spend on health of the household members are more pressing.

Interestingly, the survey questionnaire contains several counterfactual questions: one of them asks what would have been the

situation if family members instead of going abroad stayed home. 38% of respondents answered that they would have enough money to pay for food, utilities and clothes, but they would not have enough money to buy appliances like a refrigerator. Only a small percentage of respondents would have found

it difficult to pay for basic needs such as food and utilities. The answers of the respondents show that majority of migrant sending families could survive with what they earn inside the country, but the quality of life would definitely be lower without the remittances.

Figure 1.



Source: Labor migration data portal – <https://migrationdataportal.org>

Conclusion and policy implications. Labor migration has affected all spheres of life in Uzbekistan due to its scale and strong socio-economic impact. However, more attention has been focused on positive economic impact of migration and remittances, ignoring social costs of migration for left-behind households. According to the Ministry of Employment and Labor Relations of the Republic of Uzbekistan, in 2018, more than 2.3 million Uzbek citizens temporarily went abroad in search of work. However, consequences of labor migration are far from being fully understood. A few of the existing publications are devoted to the factors of migration and spending behavior of families receiving remittances. Migrants need a full official source of legal support or advice. Their rights in abroad are not always fully protected. Abandoned families also need government attention. The result may be that the positive effects of labor migration are reduced, and the adverse ones are exacerbated.

This paper demonstrates that migrant's profile has significantly changed over the last

decade: apart from explosive growth in the number of migrants, migration has significantly feminized and has increasingly become permanent. The migrant portrait we obtained shows that migrants are mainly young males of 30 years old on the average. They come from large families in which the number of underage children is larger than that in non-migrant sending households. In majority of migrant-sending families, education of migrants is limited by general or secondary special school. Approximately half (51%) of labor migrants report that they have a good command of Russian, while the remaining half speaks Russian poorly or does not speak Russian at all (8% of respondents).

Our empirical results show that labor migration has significant effect on livelihoods of left-behind households, in particular on main social characteristics of households such as health and education expenditures. Our results also demonstrate that financial constraints, especially on non-food and health expenditures, are still the dominating push-

factor of labor migration. The majority of respondents who decided to migrate chose working opportunities abroad, and cited unemployment at home and lack of funds as the main reason to move.

Our findings lead to the several policy implications. First, it reinforces the notion that the impact of migration on left-behind remittances is complex and not always positive. We need to better understand all pros and cons of migration and develop policy interventions accordingly. We have shown that ineffective migration policies impede positive economic impact and contribute to negative social impact. As a result, the rights of labor migrants in other countries will not be adequately protected, which leads to widespread violation of rights.

Second, the government needs to create better environment for potential migrants by making advisory and language services accessible and affordable. In cooperation with International Organization for Migration (IOM), the government could provide better information to potential and actual migrants regarding regulations of other countries, legal status of migrants and ways to obtain legal and consular support in foreign countries. Almost half of actual migrants reported that they speak no or little Russian, leading to widespread abuses of their rights in Russian-speaking countries. To improve command of foreign languages, the Government could facilitate opening of certified language centers for potential migrants before they migrate.

Third, it is necessary to sign multilateral and bilateral agreements to better protect rights of Uzbek citizens in other countries.

Fourth, the Government could promote small-scale investment opportunities for families receiving remittances by allowing those families to register and run small family businesses without going through cumbersome processes designed for medium and large businesses. It is necessary to allow banks and credit unions to provide small-scale loans without formal collateral and guarantees.

Fifth, support left-behind families in opening bank accounts and saving remittances

by offering them attractive tax-free deposit schemes that can be subsequently used for education of children and other pressing needs of the migrant-sending households.

Sixth, it is necessary to lift stigmatization of migrants in the community by fostering benefits and mitigating costs of migration. Many countries have successfully mitigated social costs of migration by better promoting information campaigns and mobilizing communities.

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Social and economic impacts of international labor migration in Uzbekistan

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Annotation: *this paper attempts to look closely at socio-economic consequences of migration and remittance decisions of the Uzbek households. We first draw a portrait of a typical migrant worker, paying special attention to the motives for migration and the skills that the migrants possess. We trace the portrait of the typical migrant worker to see the changes in migration profile over time. We also investigate the impact of migration and remittances on the livelihoods of migrant-*

sending families. Using a unique household survey conducted by the German Agency for International Development (GIZ) office in Tashkent, we show that remittances have a significant effect on the livelihoods of left-behind households. Our results indicate that financial constraints, especially on non-food and health expenditures, act as a push factor for migration in Uzbekistan.

Keywords: migration, remittances, household expenditures, labor market, income distribution, international migration, risk of movement.

Социально-экономические последствия международной трудовой миграции в Узбекистане

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Аннотация: в данной статье предпринята попытка более детального изучения социально-экономических последствий решений по миграции и денежным переводам узбекских домохозяйств. Сначала нарисован портрет типичного рабочего-мигранта, уделяя особое внимание мотивам миграции и навыкам, которыми обладают мигранты. Также прослеживается портрет типичного рабочего-мигранта, чтобы увидеть изменения в профиле миграции с течением времени. Исследовано влияние миграции и денежных переводов на средства к существованию семей мигрантов. Используя уникальное обследование домохозяйств, проведенное офисом Германского общества по международному развитию (GIZ) в Ташкенте, показано, что денежные переводы оказывают существенное влияние на средства к существованию домохозяйств. Результаты показывают, что финансовые

ограничения, особенно в отношении непродовольственных товаров и расходов на здравоохранение, являются движущим фактором миграции в Узбекистане.

Ключевые слова: миграция, денежные переводы, расходы домашних хозяйств, рынок труда, распределение доходов, международная миграция, риск перемещения.

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Аннотация: ушбу мақолада мамлакатимиздаги уй хўжалиқларининг меҳнат миграцияси ва пул ўтказмалари бўйича қарорларнинг ижтимоий-иқтисодий оқибатлари ўрганилган. Бунда, аввало, миграция сабаблари ва меҳнат муҳожирлари эга бўлган кўникмаларга алоҳида эътибор қаратилган ва мигрант ишчи портрети тузилган. Типик ишчи-мигрантнинг портретини кузатиш орқали муайян вақт мобайнида миграциянинг профилидаги ўзгаришлар аниқланди. Шунингдек, миграция ва пул жўнатмаларининг мигрант жўнатувчи оилаларнинг ҳаётига таъсири ҳам ўрганилди. Тошкентдаги Германия халқаро тараққиёт жамияти (GIZ) томонидан амалга оширилган уй хўжалиқлари бўйича тадқиқотлардан фойдаланган ҳолда пул ўтказмаларининг уй хўжалиқлари ҳаётига таъсири катталиги кўрсатилган. Тадқиқот натижалари, хусусан, ноозиқ-овқат ва соғлиқни сақлаш харажатлари бўйича молиявий чекловлар Ўзбекистонда миграцияни ҳаракатлантирувчи омиллардан бири бўлиб хизмат қилмоқда.

Калит сўзлар: миграция, пул ўтказмалари, уй хўжалиқлари харажатлари, меҳнат бозори, даромад тақсимоти, халқаро миграция, ҳаракатланиш хавфи.