Exchange Rate Policies and Emigration in Emerging Economies

Akihiko Ikeda[*], Takehiro Kiguchi[†]

September 10, 2023

Abstract

This paper investigates the relationship between business cycles, exchange rate policies, and international emigration in emerging economies by constructing a small open economy model with endogenous emigration and labor market frictions. The simulation results show that a recession in emerging economies can lead to an increase in emigrants who search for jobs in foreign countries for higher wages, but the magnitude of the effects depends on the underlying shocks and the central bank's policy stance. Under a demand-driven recession, policy rules placing a higher weight on exchange rate stabilization, which are often observed in emerging market economies, can lead to a large increase in emigration and a reduction in domestic employment. In contrast, in the case of a supply-driven recession, exchange rate stabilization policies can result in fewer emigrants and mitigate the declines in domestic employment. These findings could provide guidance for the monetary authorities in emerging economies facing internal and external economic shocks.

Keywords: Exchange rate, Emigration, Emerging market

JEL classification: E58, F31, J61

[*]Kyoto Sangyo University, Motoyama, Kamigamo, Kita-ku, Kyoto 603-8555, Japan; Email: aikeda@cc.kyoto-su.ac.jp

[†]Nihon University, 5-2-1 Kinuta, Setagaya-ku, Tokyo 157-8570, Japan; Email: kiguchi.takehiro@nihon-u.ac.jp