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## **INTERNATIONAL MIGRATION AND DEVELOPMENT. INSTITUTIONAL CONSEQUENCES OF GLOBAL MOBILITY FOR SENDING AND RECEIVING COUNTRIES BETWEEN 1970 AND 2010**

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## **Abstract**

There is now a broad consensus of economists, political scientists, sociologists and scientists in other fields on a wide range of benefits that international migration brings to global development. Main aim of the paper is to provide an analysis of economic and developmental impacts of migration on both sending and receiving countries, with a particular focus on institutional impacts of international migration. The research proves a positive influence of international migration on institutional development and finds that the impact is particularly strong for emigrant-sending countries with medium institutional quality.

**Key words:** social remittances, international migration, development, economic development, immigration, democracy, rule of law, remittances

## **Streszczenie**

Istnieje duża zgodność wśród ekonomistów, politologów, socjologów a także innych badaczy społecznych, że procesy migracyjne mają duży potencjał, jeśli chodzi o ich korzyści dla globalnego rozwoju. W tym kontekście, głównym celem pracy jest przeprowadzenie analizy ekonomicznych i pro-rozwojowych konsekwencji migracji, zarówno dla krajów pochodzenia, jak i krajów przyjmujących migrantów. Szczególna waga zostanie położona na aspekt zmian instytucjonalnych i roli migracji międzynarodowych. Przeprowadzone badanie wykazało istnienie pozytywnej relacji między migracjami międzynarodowymi a jakością instytucji, a efekt ten jest szczególnie silny w przypadku krajów pochodzenia migrantów cechujących się średnimi poziomami wskaźnika jakości instytucjonalnej.

**Słowa kluczowe:** transfery społeczne, migracje międzynarodowe, rozwój, rozwój ekonomiczny, demokracja, rządy prawa, transfery finansowe

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## **Introduction**

There are many things that attracted me to the broader topic of economic and developmental impacts of immigration and motivated me to write this paper. Impressive results and findings that were already achieved, vast opportunities to deepen and broaden the pool of knowledge, complexity and interdisciplinary character of the research are surely among the traits that make the topic of developmental impacts of international migration so promising. But what impresses even more about the research area is the sheer magnitude of potential developmental gains it promises.

It is hard to come up with any other area of economic research which offers real possibility of almost instantaneous doubling of the annual global GDP as numerous studies suggest (Hamilton and Whalley 1984, Klein and Ventura 2007, Moses and Letnes 2004, etc.). Compared to that, all the gains from the elimination of all the remaining barriers to international trade look miniscule and insignificant. It is equally hard to find a viable policy solution in any other area of economic research which would reduce the global inequality so dramatically. Because, as studies by Bourguignon and Morrison (2002), Milanovic (2005), Milanovic (2010) demonstrate, 60% of global income inequality can be explained by the differences between the countries people are living and working in and not by their individual characteristics such as education or skill level. Economics of immigration offers a clear path to dramatic poverty reductions. Global remittances flows amounted to 583 billion US dollars in 2014 compared to 135,2 billion US dollars of ODA during the same year (OECD 2015, World Bank 2015b).

The poverty-reductive impact of international migration is not only about remittances or mostly not about remittances. The very act of international migration lifts millions of individuals and families out of poverty almost immediately (Clemens, Montenegro and Pritchett 2008). Migrants themselves are those who benefit the most from international migration. Improvements in their standard of living and opportunities are very rapid and often huge. As Clemens, Montenegro, and Pritchett (2008) demonstrated, workers with identical characteristics, the same country of birth, country of education, age, gender, length and level of education earned 30+ times more in the United States than they did in India, Vietnam or Nigeria. And very often international migration is not just the quickest, but the only route to escape poverty. For example, Clemens and Pritchett (2008) shows that 82% of all Haitian-born individuals who reached income threshold of 10 dollars per day reside in the United States.

At the moment, refugee migration is at the center of public attention in Europe and to some degree throughout the world. Public discourse on this issue is often dominated by fears. These popular fears seem common sense to lots of ordinary citizens but generally are not based in reality and have no scientific evidence behind them. This paper addresses a broad spectrum of immigration-related concerns and provides relevant facts and figures. At the same time, while paying attention and carefully analyzing all the relevant concerns, it is important not to forget that international migration offers unprecedented opportunities not only for migrants themselves but also for both sending and receiving countries.

Immigration can help the receiving countries to stop or slow-down the aging of their populations and to slow down or even prevent the decline in their labor forces. It also helps to share the burden of debt and spending on public goods such as national defense. Immigrants not only contribute to the growth of GDP but also improve the fortunes of the native-born. Van der Mensbrugge and Roland-Holst (2009) estimated that just 8% increase in the developed countries' labor forces as a result of immigration would cause almost 300 billion dollar annual gains for the native-born of those countries. And such estimates do not take into account all the impacts that immigrants have on the intensity of entrepreneurship and the pace of innovation. Various studies find that these impacts are positive and significant (Hunt and Gauthier-Loiselle 2008, Peri 2007, Wadhwa et al. 2007, Hunt 2011, etc.).

Sending countries reap the benefits of international migration in more than one way. Annual incoming remittances are equal to more than 20% of GDP in some countries such as the Gambia, Tajikistan, Armenia, Haiti, Kyrgyz Republic, Liberia, Moldova or Tonga (World Bank 2015b). But it is not just massive and rapidly growing amounts of incoming remittances that affect sending countries. Employment opportunities available in the destination countries stimulate residents of emigrant-sending countries to invest more in their personal education. Not all of them eventually leave the country and some of those who left return which leads to the increase in human capital accumulated in the countries of origin (Stark, Helmenstein and Prskawetz 1997, Chand and Clemens 2008). Person-to-person connections and trust created as a result of international migration lead to increased trade and investment between migrant-sending and migrant-receiving countries (Felbermayr and Toubal 2012, Kugler and Rapoport 2007, Javorcik et al. 2011). Emigration also helps countries of origin to cope with negative shocks to their GDP and natural disasters, reduce poverty, improve the conditions of discriminated minorities, reduce the probability of internal conflicts and civil wars, decrease the prevalence of child labor, improve women's educational attainment and achieve many other

things (Pritchett 2006, Yang 2008a, Clemens and Tiongson 2012, Taylor, Moran-Taylor and Ruiz 2004, Frank and Regan 2014, Yang 2008c, Mansuri 2006). Emigrants also transfer values, ideas, practices and social norms they learned and adopted in the host countries to their countries of origin (Levitt 1998). Such transfers or social remittances as coined by Levitt affect and arguably improve the institutional structure of the countries of origin. Such institutional impacts of international migration are a particular focus of this paper.

As many scholars argue, quality of institutions is a single most important determinant of long-term economic and developmental success (North 1990, Acemoglu and Robinson 2012, etc.). Acemoglu and Robinson (2012) demonstrated that inclusive economic and political institutions fostering broad distribution of economic and political power are the most beneficial for long-term economic development. This paper defines such institutions as high-quality institutions.

Relevant societal norms, values, practices and ideas are crucial for the development of effective high-quality institutions. Hence the eventual impact of social remittances could be even more significant than immediate gains in financial remittances, investment and trade as a result of emigration. As Spilimbergo (2009) observed, even small fractions of tertiary students studying abroad in the democratic countries could significantly impact the development of democratic institutions in the countries of origin. That creates an impressive picture of the influence of migration on global institutional development. Not only the immigration in itself increases the share of global population living in institutionally more advanced countries, but more importantly through social remittances it increases the pace of adoption of the effective institutions by less developed countries.

At the same time, some scholars raise concerns about the influence of immigrants on the institutional quality of the receiving countries (Borjas 2014a, Collier 2013). Researchers argue that immigration from less developed countries reduces institutional quality and total factor productivity as a result. No empirical evidence to support such claims was presented as of yet. But the concern is still worth analyzing.

**The aim of this paper is to assess the influence of international migration on institutional quality of receiving and sending countries.** Achieving this aim would also deepen our understanding of the impacts of international migration on the global-scale trends in institutional development.

This paper poses **two major research questions**. Firstly, what is the influence of immigration on institutional quality of the receiving countries? And secondly, what is the influence of emigration on the quality of institutions of emigrant-sending countries? In accordance with dominant migration flows and concerns raised by various scholars this research focuses on the influence of international migration from countries with low-quality of institutions to the countries with high quality of institutions. **Main hypotheses analyzed are the following:**

- 1) Increases in emigrant stock from the countries with low institutional quality residing in the countries with high institutional quality tend to lead to institutional improvements in the countries of origin.**
- 2) Increased immigrant stocks originated in the countries with low institutional quality tend to lead to lower institutional quality in the receiving countries with high institutional quality.**

The results of empirical analysis performed in this paper show that there is no negative impact of immigration from countries with low quality of institutions on institutional quality of the receiving countries with higher quality of institutions. Small and insignificant positive impact was observed instead. These very important findings contribute to the debates on institutional impacts of immigration and demonstrate the lack of evidence to support the concerns raised by Borjas (2014a) and Collier (2013).

On the other hand clear positive impact of emigration to the countries with high quality of institutions on the institutional development of emigrant-sending countries with lower quality of institutions was observed. In accordance with the expectations based on social remittances theory introduced by Levitt (1998) the impact was stronger for the countries with medium institutional quality. The impact was relatively weaker in the countries with the lowest quality of institutions.

The rest of the paper is organized in the following way. Chapter I includes Theoretical and Empirical Review. It provides the overview of literature dedicated to relevant theoretical background and empirical findings and observations. Chapter focuses on the theories related to institutional impacts of international migration and empirical findings on economic and developmental impacts of migration in general and institutional impacts in particular. Chapter II contains the overview of all the relevant historical and modern trends in international migration. It presents various important facts, statistics and historical background. Chapter III

describes the data, its sources and methodology employed in the empirical study performed for this paper. It also Presents the results of this empirical study and analyses them. Paper ends with conclusions.

## **Chapter I Theoretical and empirical review**

### **1.1 Theoretical review. Influence of international migration on institutional quality**

There are many theories of economic development. For example, theories based on the linear stages of growth models present development as sequence of historical stages and view increased investments as crucial for growth (Rostow 1960, Harrod 1948, Domar 1947). Structural change models view development as a self-sustaining process of structural reallocation of labor from a more archaic and less productive agricultural sector to a more modern and productive industrial one (Lewis 1954, Kuznets 1971). International Dependence Theory as an extension of Marxist theory claims that underdevelopment is caused by the dominance of the developed countries and global corporations and exploitation of natural resources of the developing countries which are dependent upon the rich world for market access and capital (Cohen 1973, Dos Santos 1973). To the contrary, neoclassical development theory argues that underdevelopment is the result of developing countries' own policies as overregulation, overtaxation and protectionism prevent many developing countries from reaping the benefits of globalization (Bauer 1984, Lal 1983). New growth theory view technological change as main driver of growth and development and advocate for increased investments in education, research and development in order to speed up the pace of technological change (Romer 1986, Lucas 1988). But all those theories are not the topic of this paper. It focuses on institutions as a crucial determinant of long-term economic success and development and the influence that international migration have upon them.

It is now widely acknowledged that long-term success or failure of a certain economy depend mostly or at least to a large degree on the set of societal norms and institutions (Acemoglu and Robinson 2012). Based on North (1990, p.3), "institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction"(North 1990). Institutions include economic institutions such as property rights, contract enforcement and political institutions such as form of government, constraints on politicians, and separation of powers.

Acemoglu and Robinson (2012) model of inclusive and extractive institutions argue that inclusive economic and political institutions and broadly distributed political and economic power is the main predictor of long-term developmental success. Inclusive political institutions allow for broad political participation, place constraints and checks on politicians, are based on rule of law and generalized rights. Generally, inclusive political institutions go hand-in-hand

with and foster inclusive economic institutions such as secure property rights, law and order, open markets and broad access to economic opportunities. On the other hand, “extractive institutions” cause huge concentration of economic and political power and are the main predictor of long-term failure. Extractive political institutions are based on unconstrained power, lots of special privileges and lack of rule of law and generalized rights. Extractive economic institutions include entry barriers, specific regulations preventing open markets and creating special privileges, insecure property rights. Similarly to inclusive ones, extractive economic and political institutions reinforce each other.

For the purposes of this paper, high-quality institutions are the institutions which include checks and balances, rule of law, generalized political rights and civil liberties and broadly correspond to what Acemoglu and Robinson (2012) define as inclusive institutions. Lower quality institutions lack these characteristics and broadly correspond to what Acemoglu and Robinson defined as extractive political institutions. For the purposes of empirical investigation lower quality institutions are also subdivided into medium- and low-quality institutions (based on the criteria described in the relevant chapter).

Institutions can also be subdivided into formal and informal. Formal are codified and are a part of formal law. Informal institutions affect the functioning of the formal ones and are based on societal or cultural norms and values. Norms, values and beliefs differ from country to country, from region to region. Taking that into account, some scholars are raising concerns with respect to potential impact of immigration on the institutional quality of immigration-receiving countries.

Proponents of this immigration-caused institutional decay concept (Borjas 2014a or Collier 2013) argue that immigration can shift the quality of institutions of the receiving country in the direction of institutionally less-developed countries of origin. Basic assumptions of such position are the following:

- 1) Large shares of immigrants to the developed countries often come from poor and less developed countries.
- 2) One of the main reasons why poor countries are poor is their dysfunctional political institutions and social and political norms and values which are not favorable to successful and sustainable development and economic growth.

3) Immigrants tend to share and preserve dominant cultural norms and values of their origin countries and societies.

4) As stock of immigrants (and their descendants) from countries with less developed economies grows – their values and cultural norms are becoming more influential in the destination countries.

5) Values and cultural norms that shaped the institutions of the origin countries are starting to affect the quality of institutions in the receiving countries as long as stock of immigrants (and their descendants) grows.

Researchers argue that immigrants are bringing their values and beliefs with them to their new countries and eventually affect the quality of institutions and political processes there. In such case, immigration from less-developed countries weakens the predominant norms and values of destination countries and puts social and political institutions that predetermined the success of developed countries under pressure. As Collier (2013, p.68) puts it, “uncomfortable as it may be...migrants bring their culture with them”. Borjas (2014a) also argue that any estimation of potential global gains from international migration should take reduced institutional effectiveness of destination countries into account. He even states that it is inconceivable to imagine largescale global migration without immigrants “importing the “bad” organizations, social models, and culture that led to poor economic conditions in the source countries in the first place” Borjas (2014a, p.14). Borjas continues his argument by stating that reduced quality of institutions leads to less developed economy and reduced total factor productivity.

To determine the viability of Borjas (2014a) and Collier (2013) arguments we need to understand how the process of evolution of norms and values works in general, and interaction of mainstream and minority norms and values in particular.

Proponents of the epidemiological approach to research of economic impacts of culture (Fernandez 2010, Fernandez 2008), who broadly define culture as a system of norms, values, beliefs and preferences argue that:

1) Individuals living in the same country or jurisdiction under the same economic and political institutions can have differing cultural norms, believes and values.

2) Differences in culture are defined as “systematic variation in beliefs and preferences across time, space, or social groups” (Fernandez 2010, p.4).

- 3) Cultural beliefs and values vary across immigrant groups and tend to correlate with cultural beliefs and values in their countries of origin.
- 4) Parents tend to transmit their cultural beliefs and values to their children (to some degree).
- 5) Cultural beliefs and values are not “irrational, static or slow-changing” (Fernandez 2010, p.4).
- 6) Speed of cultural change depends on many factors.

Fernandez (2010, p.4) defines differences in culture “as a systematic variation in beliefs and preferences across time, space, or social groups”. Societal beliefs, norms, preferences and values are undergoing constant evolution. Fernandez (2007) proposes a theory of cultural change as an intergenerational learning process. Based on the example of evolution of norms regarding female labor force participation author explains how every individual receives two signals regarding the costs and benefits of following the societal norm. First is “private signal” which consists of personal assessment based on personal understanding of costs and benefits of adhering to a particular norm or behaving in a certain way and also noisy “public signal” which is based on societal beliefs. Cultural evolution is not an irrational process and is based on numerous personal analyses and learning processes. Such learning processes are quicker when “public signal” is mixed. In other words, when society is divided on a particular norm, belief or practice social pressure is weak and personal assessment or private signal regarding the issue plays the biggest role. As Fernandez (2007) points out that is also the time of the fastest pace of cultural change. On the other hand, when society is largely united in following a particular norm, holding a certain belief or adhering to particular set of values, cultural change is slow. In such case societal pressure is too strong, “public signal” is too loud and “private signal” becomes much less influential.

When we analyze the evolution of norms and values as a result of interaction of immigrant communities with the mainstream societies we can apply Fernandez theory of cultural evolution (Fernandez 2007) and make the following observations:

- 1) Members of immigrant community receive private and two public signals (one based on the mainstream norms, values and beliefs of host society and the other based on norms, values and beliefs of immigrant community).

2) Relative strength of public signals is not stable. Mainstream public signal becomes stronger when immigrant increase his or her interaction with the mainstream society.

3) In one likely scenario, when a particular immigrant community becomes more long-standing and share of second- and third-generation residents (children and grandchildren of immigrants) in the community increases its norms, beliefs and values shift closer to the mainstream. In such very common case, new immigrants join the immigrant community that adhere to norms and values which are very different from the ones they left in their common country of origin. Under such circumstances, new immigrants face two similar public signals and double pressure to adhere to new norms and values.

4) On the other hand, it is hard to imagine a realistic immigration scenario under which public signal of certain immigrant community becomes significant for the mainstream society.

In the end it is useful to name a couple of reasons why it is unlikely that immigrants are going to negatively affect formal institutions through political process.

1) Samuelson and Zeckhauser (1988) proposed a theory that human decision-making (including voter behavior) is very significantly affected by status quo bias. Status quo preferences would be even stronger in case of immigrants due to self-selection bias. Immigrants chose to come to a particular country which means that on average they tend to be biased in favor of its norms and way of life compared to those who choose not to immigrate there.

2) “Apathy bias”. Caplan (2012) argues that even if we do not take status quo and self-selection biases into account we will notice that political influence of immigrants is disproportionately lower than their numbers due to lower political participation (even among those who are eligible to vote).

Studies of the cultural and institutional influence of international migration often find that the most significant impacts and changes are in the countries of origin. Immigrants not only gradually adopt but also transfer to their home countries childbearing and fertility standards (Stephen and Bean 1992, Lindstrom and Giorguli Saucedo 2002, Dubuc 2012, Fargues 2007, Bertoli and Marchetta 2015, Naufal and Vargas-Silva 2009) and political and social values (Taylor, Moran-Taylor and Ruiz 2004, Spilimbergo 2009, Levitt 1998, Levitt 2001) of their destination countries.

There is a lot of evidence of various forms of obvious impacts of emigrants on their countries of origin. Migrants tend to learn and gradually adopt cultural values, practises and beliefs of their host countries. At the same time many of them retain contact with their countries of origin. Constantly increasing affordability of international travel and communication makes retention of such contact much easier. Peggy Levitt proposed social remittances theory to describe that process (Levitt 1998). Levitt (1998) argues that emigrants and their friends and relatives in their countries of origin form transnational communities. Visits of emigrants to their home countries, communication by phone and over the internet, as well as visits of their new homes by guests from the origin countries facilitate the circulation of ideas inside such transnational communities. There are other relevant factors that increase the influence of emigrants on their sending countries. Among them is increased importance of emigrants and their destination countries in economic and political development of their sending countries. It is also increasingly possible for emigrants to retain their sending country citizenship and the rights of political participation (including voting abroad). Theory of social remittances outlines 4 types of social remittances: norms, practices, identities and social capital (Levitt 2001).

Norms or normative structures consist of ideas, values and beliefs. They include norms for interpersonal behavior, family norms, beliefs about age and gender appropriateness, principles of community participation, beliefs about the role and proper functioning of state, church and courts (Levitt and Glick Schiller 2004).

Practices or systems of practice are defined as actions which are shaped by norms or normative structures. Practices are subdivided into 2 types which are individual practices and organizational practices. Individual practices include household labor practices, religious practices, and practices with regard to social and political participation. Organizational practices include membership requirements and recruitment policies, organizational structures, leadership styles, forms of intra- and inter-organizational communication (Levitt 1998, Levitt 2005).

Identities can be defined as self-concepts and can be based on gender, profession, national origin, gender family roles, political or even sport preferences, etc. They are also shifting as a result of social remittances. Migrants learn broader range of identities available to them. Substance of identities is also changing. Substance and meaning of gender identity and appropriate gender roles is one example (Levitt 1998).

Normative structures also form the basis for social capital. Two basic dimensions of social capital can be identified – collective and individual. Collective dimension of social capital has wide variety of definitions. For example, Fukuyama (2002, p.27) defines social capital as “shared norms or values that promote social cooperation, instantiated in actual social relationships”. Brown and Ferris (2002, p. 2) describe it as “social networks among individuals and norms of reciprocity and trustworthiness that arise from them” Migrants tend to increase the utility and value of initial social capital of the community. Bourdieu (1986) define social capital as “aggregate of the actual or potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition – or in other words, to membership in a group”. Wider social network that spreads beyond the initial country or community of origin into richer and more developed countries offers much broader range of economic and noneconomic opportunities and benefits. At the same time social remittances help to preserve shared norms and values crucial for the retention of social networks and cooperation. There are many ways in which formation of transnational social networks of migrants and non-migrants increases the utility of social capital of the initial origin community. Most importantly, it reduces the costs (including transport, information, food and psychological) of migration (Massey 1988). Preservation of common social capital is mutually beneficial to both migrants and non-migrants as it reduces the risk of migration and makes return to the community of origin easier.

Individual dimension of social capital is based on the adherence to the norms, obligations and expectations prevalent in the community. Individuals who act in accordance with common norms of expected behavior retain or improve their social standing in the transnational community. For example, migrants are expected to send financial remittances to preserve their social standing (or in other words retain their social capital). Levitt and Lamba-Nieves (2011) underline that migrants tend to prioritize specific connections which are crucial for preservation of their social capital. Also, social standing acquired by migrants in migrant communities in destination countries spreads to the communities of origin (Tilly 2007). Obviously, the values and expectations prevalent in the host countries tend to be learned and gradually adopted by the migrants and transferred to their origin countries. In that processes the very rules upon which social capital is based are also shifting.

We can mention several important mechanisms of social remittances transmission. These mechanisms include informal individual modes of transmission such as internet communication with friends and relatives and visits to each other (Levitt 2005). Circular migrants play

especially significant role in the transfer of ideas (Tilly 2007). Other mechanisms involve organizations such as political parties and religious groups that operate transnationally but involve emigrants and non-migrants from the same communities. Permanent return migration is often very influential in terms of social remittances, because the returnees often possess enhanced social standing (also improved education and financial status).

There are several ways in which mechanisms of social remittances differ from other forms of international diffusion of culture, norms and practices. First of all, they are easy to distinguish. The source and destination of social remittances are not uncertain. Migrants and non-migrants usually have a particular known source where they learn a certain new idea or practice (Levitt 2005). On the other hand it is often very difficult to determine how internationally or globally accepted norms, practices or institutions emerge, spread and develop.

The second distinguishing characteristic of social remittances is their personal nature. It usually occurs between friends, relatives, friends of friends, or other people with strong social ties. On the other hand, global cultural norms and practices are usually spread on a mass scale and in impersonal way (Levitt 1998).

Thirdly, social remittances are not independent of the general trend of global evolution and diffusion of cultural norms and practices. The transmission is going much easier when it follows the general trend of global diffusion and evolution of cultural norms and practices and not when it goes contrary to such trend (Levitt 2001). For example, transmission of ideas supportive of gender equality is going to proceed much more smoothly, because global-level cultural norm is already evolving in the same direction (Levitt 1998).

And finally, mechanisms of social remittances transmissions are also different from other forms of global cultural diffusion in at least one other important way. Global diffusion of norms and practices usually occurs irregularly and mostly unintentionally. As Levitt (1998) argues, foreign media and entertainment industries or foreign literature often transmit new ideas about relevant norms, values or practices without any goal to spread its adoption to a particular audience. On the other hand, contacts and communication of migrants with their counterparts in the countries of origin tend to be more regular. Also, the message containing new ideas and information is directed to particular individuals. Migrants often intend to convince their friends and relatives to adopt or learn new norms and practices which can improve their lives.

The success and influence of social remittances differ significantly and depend on many factors. Theory of social remittances outlines several major determinants of social remittances impact.

Firstly, the nature of remittance itself is crucial. Some norms and values are too complex to communicate. They can't be presented as a simple package of information. The adoption of them sometimes requires the understanding of elaborate system of ideas. It takes some time and effort. Some simple techniques, knowledge and practices are much easier to communicate and adopt (Levitt 1998).

Secondly, characteristics of the messenger of the social remittances are very important. (Levitt 1998, Markley 2011) Emigrants working in higher-income countries tend to enhance their social standing in the origin countries. Higher social status of the messengers usually makes their ideas more influential. Very often social remittances receivers also depend on the messenger economically or otherwise. Improved social standing also often makes migrants standard-setters in their origin communities. Individuals and families with similar social standing want to keep up with remittance senders. Others also want to be more like them.

Thirdly, characteristics of the receiver affect the impact significantly. Such characteristics as gender, class, employment status and age are very influential in determining the adoption of transmitted norms and practices. For example, as Levitt (2001) argues, employed women, who are more independent from remittances messenger are able to choose more freely whether to accept social remittances. Younger individuals tend to be more receptive to new ideas and norms. They also have a wider range of choices and it is easier for them to adopt new practices. Levitt (1998) also argues that it is easier for wealthier families to try new ideas regarding income-generation than those struggling to make ends meet.

Differences between destination and origin countries influence the relative effectiveness of social remittances. If norms, values or models of social relations in destination countries are somehow resemble the ones observed in the countries of origin than the absorption of new social remittances tend to proceed quicker (DiMaggio 1988, Markley 2011). On the other hand ideas, values, norms and behaviors which are completely new to the place of origin or differ radically from the ones that are accepted face much higher barriers and much longer path towards adoption. Also, social remittances from large, more economically developed, politically and culturally powerful destination countries to smaller and less powerful countries of origin tend to be much more influential compared to the case of case of social remittances between more equally developed and powerful countries (Levitt 1998). Levitt (1998) also

argues that social remittances from rich, developed and powerful countries tend to strengthen already robust global cultural trends and flows. It is also likely that norms, values and practices transferred from large and developed countries would be considered prestigious and hence the impact would spread beyond the receivers of such social remittances.

Strength of social remittances impact is also strongly dependent on the nature of the transmission process. Some remittances go in groups or pairs and reinforce one another. Some social remittances transferred through multiple channels also tend to have stronger impact (Levitt 1998). Also, as it was already mentioned above, the influence of social remittances becomes stronger when it is reinforced by other global cultural transfers. Significance of social remittances impact is also strongly dependent on the force of transmission. If many similar remittances are transferred in a short period of time than impact will be stronger compared rare, regular and dissimilar remittances. For example, Levitt (1998) argues that if non-migrant men receive calls from various sources to share the housework more evenly and face many examples of these from their migrant friends and relatives, non-migrant men are more likely to do that than when they are receiving only rare and isolated examples of such norms and practices.

Social remittances theory leads us to expect a positive influence of emigration to the countries with high institutional quality on the development of countries of origin with lower quality of institutions. Hirschman (1970) proposes a different view on the issue. Hirschman argues that exit, voice and loyalty are three main modes of social and political behavior faced by humans throughout the history. Dissatisfied citizens are mainly choosing between exit and voice. According to this paradigm more people exiting the institutionally underdeveloped or authoritarian countries mean weaker voice for change or reform among those who left inside. Hirschman argued that East Germany is an example of such effect. But even if the effect described by Hirschman really exists or existed in some cases the theory clearly does not take into account the impact of emigration on the circulation of ideas. This impact is especially strong now when the costs of communication and travel are rapidly declining and there are very few countries which still limit contacts between ordinary citizens and emigrants (North Korea is one example).

We can summarize that social remittances is a specific form of transnational cultural transmission of norms, practices and identities. At the same time they do not cause indiscriminate or wholesale adoption of all the new norms, practices, value systems and identities of destination countries. Migrants choose which social remittances to send. Various

attributes of the process determine the strength of the impact on the origin communities. The nature of remittances, characteristics of messengers and receivers, various differences between migrant destination countries and countries of origin, features of the transmission process are all important factors which determine the effectiveness of social remittances.

## **1.2 Developmental impacts of immigration –empirical consideration**

### **1.2.1 Economic impacts of international migration on the receiving countries**

In this subsection I would like to present the evidence on the impacts of immigration on the receiving countries and its natives. I would try to analyse overall impact of immigration on the receiving countries by paying attention to the specific issues like influence of immigration and immigrants on GDP, public finances, employment and wages of the native-born, rule of law, quality of institutions and other.

#### **Fiscal impacts of immigration**

One important concern related to immigration is the impact migrants have on the fiscal situation of the receiving countries. It is often assumed that migrants from the developing to the developed world are mostly attracted by the generous welfare system and are a great fiscal burden for the receiving countries. Such assumption likely seriously impacts public policy as opinion polls show that those of the native-born who believe that immigrants are net fiscal recipients hold significantly more restrictive views towards immigration in all the OECD countries studied (OECD 2013). Contrary to the widespread belief, the same OECD report demonstrates that immigrants in almost all of the OECD countries studied are net direct fiscal contributors. Study does not take into account other fiscal benefits of immigration like spreading the burden of the debt which was amassed long before many of the immigrants has arrived to the country. This issue is addressed by other studies. It is important to underline that overall direct fiscal impact of immigration though positive in almost all cases is also not large. Luxembourg and Switzerland enjoy annual net direct fiscal contribution from immigrants equal to 2% of GDP. In most other cases fiscal impact of immigration is smaller than 0.5% of annual GDP.

Other important finding of the OECD report is that countries with higher shares of immigrants that came under conditions of unrestricted legal immigration regime tend to enjoy bigger net fiscal contributions from immigrants. Other studies came to similar conclusions. For example, Dustmann, Frattini and Halls (2010) researched fiscal impact of the opening of the UK labour market to unrestricted immigration from 8 new EU member states starting from 2004. Study

shows that immigrants from these 8 Central and Eastern countries were huge net fiscal contributors every single year since 2004. During the same period of time overall fiscal balance of the UK was always negative. Immigrants from new members of the EU have significantly higher labour force participation rate, pay more in indirect taxes and receive significantly less social benefits and use public services less. Immigrants usually have much higher share of working age population compared to the native-born but even when controlling for such expected demographic differences immigrants to the UK from 8 new members of the EU would still be 13% less likely to receive social benefits and 29% less likely to live in social housing. Similar more recent study by Ruist (2014) assesses the fiscal impact of unrestricted immigration from Romania and Bulgaria which joined the EU in 2007 to Sweden. Sweden was one of only two EU15 countries which opened its labour market to Bulgarian and Romanian immigrants immediately after the accession of their countries to the EU. Study found that public revenue derived from the immigrants from these two countries is 30% larger than public spending on them. Author predicts that countries like UK, Ireland, Italy or France are going to receive even larger fiscal benefits from opening its borders to immigrants from Bulgaria and Romania. Romanians and Bulgarians have much better knowledge of the dominant languages of those countries and hence have much higher earning potential there in comparison to Sweden.

Another proof that fiscal benefits of immigration are higher when it is less restricted and criminalized offered by Orrenius and Zavodny (2012). Study demonstrates that undocumented immigrants to the United States would increase their net fiscal contribution if legalized.

But all the studies which concentrate on current (annual) fiscal contribution/receipts of immigrants do not take into account important long-term effects. Several studies use method called Generational accounting and take ageing of the population and future government liabilities into account to assess the long-term fiscal impact of immigration under conditions of current or projected fiscal policies. Immigrants tend to be younger and hence affect the generational distribution of the population, reduce old-age dependency ratio and help to spread the burden of future public liabilities.

Auerbach and Oreopoulos (1999) studied fiscal impacts of immigration to the United States and found that immigrants tend to reduce long-term fiscal burden of the native-born. Authors analysed different fiscal policy scenarios and found that contribution of immigrants is larger when larger share of costs related to debt payments, entitlements' costs, etc. is passed on to the

future generations. Other studies dedicated to long-term fiscal impacts of immigration and focused on various developed European countries (Bonin et al 2000, Collado et al 2004, Moscarolla 2001, Fehr et al 2004, and Mayr 2005) also found that immigration tend to improve public finances and reduce the burden of future liabilities.

Another issue that should be paid attention to is fiscal impacts of the descendants of immigrants or second-generation immigrants. Study by and Lee and Miller (1998) found that second-generation immigrants are much more fiscally contributory than their immigrant parents and their overall fiscal impact is positive and large.

### **Aggregate impact on the economy/GDP**

Another important issue is the aggregate impact of immigration on the economy, its size and aggregate income of the native-born. Van der Mensbrugghe and Roland-Holst (2009) used dynamic computable general equilibrium (CGE) model to calculate impacts on native born in developed countries, earlier migrants to developed countries, stayers in the developing countries and future migrants to developed countries under various scenarios. Authors estimated that natives in the developed countries would gain 117 billion USD in case of 3% increase in their countries' labour force due to immigration, 190 billion USD in case of 5% increase and 297 billion USD in case of 8% increase in their countries' labor force.

Ortega and Peri (2009) performed an analysis of migration trends, employment and capital accumulation for 14 OECD destination countries and 74 developing source countries between 1980 and 2005. Authors found that even in the short run immigration to OECD countries led to increases in GDP, employment while keeping average wages, GDP per capita and capital intensity of the economy unchanged. Results remained the same when authors restricted the analysis to developed Europe as well as when they analyzed only more recent period with more reliable data (1990-2005).

Holland et al. (2011) tried to estimate the impact of immigration from newly-admitted member-states of the European Union to the EU-15 (older member states) after the enlargement of the European Union in 2004. Authors of the study came to a conclusion that long-run annual level of potential output would rise by 0.5-3% for the receiving countries of the EU15 as a result of immigration from newly admitted EU member-states from Central and Eastern Europe.

Baas and Brucker (2012) employed computable general equilibrium model to analyze the consequences of immigration from newly-admitted member states of the EU to the United

Kingdom and Germany after 2004. They found that the UK government's decision to lift the restrictions on all the labor migration and employment for citizens of newly-admitted states immediately after the accession of these states to the EU led to significant benefits for the native-born of the country and economy in general. Moreover, authors found that the positive impact on GDP and GDP per capita as a result of immigration was significantly higher in the UK than in Germany which waited until 2011 to lift the restrictions on labor migration from countries which joined the EU in 2004.

### **Receiving country workers (income and employment)**

Common complain about the impact of immigration on the receiving countries and its native-born residents is that it is lowering wages and incomes of natives and causes unemployment.

There are different estimates of the overall impact of immigration on the wages of the native-born workers. Borjas (2003) argues that all the authorized and unauthorized immigration to the United States between 1980 and 2000 have caused a cumulative decrease of native-born workers' wages of 3.2%.

At the same time Ottaviano and Peri (2008) estimate that all the immigration to the United States between 1990 and 2006 caused native-born wages to decrease by a cumulative 0.4%. Authors argue that low-skilled migrant labour is mostly complementary to the labour of low-educated native workers. And the strong negative effect is only present with respect to the wages of high-school dropouts and not high-school graduates. Authors also found that long-term effect of immigration on wages will be positive. Immigration increases the pool of consumers. Owners of capital and labour take that increase into account and adjust their investment levels.

Barcellos (2009) finds that immigrants do not have a significant impact on native workers' wages in 38 analysed US cities over the period of 26 years.

Orrenius and Zavodny (2007) studied the impact of newly arrived legal permanent residents and found almost no overall impact on wages. Simultaneously they had slightly positive impact on professional workers' wages. Authors also found slightly negative (-0.8%) impact of new legal permanent residents on manual workers' wages.

There are some other studies that show small to miniscule negative impacts of immigration on native workers' wages. Studies of immigration to Thailand (Bryant and Rukumnuaykit 2007)

and Hong Kong (Suen 2002) found that even huge migration inflows causes only very small decreases in wages of natives. For example, Bryant and Rukumnuaykit (2007) found that 10% increase in the number of migrants led to 0.2% reduction of wages of the native-born and had no negative impact on native-born employment.

Other studies (Longhi, Nijkamp, and Poot 2005, Münz, Straubhaar, Vadean, and Vadean 2006, Carrasco, Jimeno, and Ortega 2008, Constant 2005, Dustmann, Frattini, and Preston 2008) found small or no effect of immigration on wages of the native born in both short and long run.

When we are studying the influence of immigration on wages and well-being of native-born employees it is extremely important to take into account several indirect impacts that immigrant labour has on local market. For example, international migrant labour often reduces prices of non-tradable services and construction costs. Cortes (2008) estimates that in case of the United States immigration led to a decrease of average consumption basket price of 0.3-0.4%. This, of course, led to an increase in the purchasing power of the average worker.

Numerous studies that prove little or no impact of immigration on wages raise important question. How is that possible that even large-scale immigration of workers with skill levels similar to some of the native-born does not cause significant wage reductions. There are several important findings which explain the phenomena.

First of all, there is a strong evidence that immigrant labour is often poor substitute for native-born labour and very often complementary to it.

Important study by Manacorda, Manning and Wadsworth (2006) and Manacorda, Manning and Wadsworth (2012) researched immigration to the UK between 1975 and 2005. Authors subdivided all the workers in the country by age, education level and nativity and found that immigrants are very imperfect substitutes for native labour. Immigrants of the same age and education level mostly complement the native labor of the same age and education level. Immigration to the UK also raised the return on education for the native-born and thus motivated them to improve their education attainment. Authors present the evidence that immigrants mostly compete with other immigrants with similar skills and have only negligible impact on the wages of the native-born. Already mentioned, Ottaviano and Peri (2008) and Ottaviano and Peri (2012) studies came to similar conclusions. Authors question widespread assumption that immigration have particularly negative impact on the wages of the low-skilled

natives. Authors found very low elasticity of substitution in between low-skilled immigrant workers and low-skilled native-born.

Study by Peri and Sparber (2009) explains why low-skilled immigrants and low-skilled native-born are mostly not labour market substitutes for each other. Based on the US Census data from 1960-2000 authors show how low-skilled native-born tend to increase their specialization in tasks which require communication and language skills in response to immigration, while low-skilled immigrants tend to specialize in manual tasks. Comparative advantage in language skills and possession of communication skills suitable for the local market stimulates low-skilled native-born to specialize in the corresponding segments of the labour market which are mostly inaccessible to low-skilled immigrant competition.

Already mentioned study by Baas and Brucker (2012) also found significant positive impact on the employment of the native-born residents in the UK as a result of post-enlargement migration from newly-admitted members of the European Union.

Ottaviano, Peri, and Wright (2013) give further evidence that readjustment of the labor market in response to immigration can produce positive impact on employment of the native-born, even low-skilled ones. Based on the analysis of the data from 58 US industries between 2000 and 2007 authors demonstrate that immigration does not reduce the share of native-born in low-skilled employment, but at the same time it substitutes offshoring of low-skilled jobs. Moreover, study shows that by saving costs immigration actually positively affects employment of the native-born. Authors found that industries which are more exposed to offshoring and immigrant labour produced higher growth of native-born employment. Study also gave additional evidence that immigration stimulates the native-born to specialize in more complex and communication-intensive tasks.

Peri (2012) offers another proof that low-skilled immigration can improve efficiency by stimulating task specialization. Using data for the US states from the US Censuses between 1960 and 2000 and from American Community Survey of 2006 author demonstrates that immigration to the US does not reduce employment of the natives and tend to increase Total Factor Productivity. Importantly, such efficiency gains are larger for less skilled workers. Study also adds evidence that task specialization of the low-skilled native-born on more communication-intensive tasks where they tend to hold comparative advantage explains large part of immigration-induced total factor productivity growth. Results of the study are robust

even when controlled for R&D spending, openness to international trade, technological adoption and sector composition.

Foged and Peri (2015) offer strongest prove yet that immigration does not negatively affects employment and wages of the native-born. Research concentrates on the impacts of low-skilled immigration from refugee-sending countries such as Former Yugoslavia, Somalia, Afghanistan and Iraq on native-born workers between 1991 and 2008 and uses Danish Integrated Database for Labor Market Research (IDA) data on every single Danish worker's occupation, salary, hours worked, individual demographics, etc. Refugees were distributed across Danish municipalities by the government exogenously to labor-market condition. Distribution of new immigrants from refugee-sending countries was significantly affected by initial distribution of immigrants from their countries of origin. Study confirms previously mentioned findings that low-skilled native-born respond to low-skilled immigration by moving away from manual tasks to more complex ones and have their average wages increase and not decrease. Authors also demonstrate lack of negative impacts of low-skilled immigration on low-skilled native-born employment. Detailed data for every single Danish worker over a significant period of time make study results very reliable. It also offers the opportunity to analyze the outcomes for the cohorts of native-born individuals from the municipalities strongly exposed to immigration (some of them remain and some of them move out of such municipalities) from refugee-sending countries and compare it to average outcomes for native-born staying in such municipalities. Study demonstrates lack of significant differences in wage and employment outcomes. It largely refutes previous claims made in (Borjas 2006, Borjas 2014b) that area analysis of native-born outcomes in response to immigration is largely uninformative due to large spillovers.

Other studies show particular cases when immigrant labour is complimentary to the labour of the natives. Importantly, low-skilled labour in such sectors as child care positively affects female employment (Kremer and Watt 2006). It means that low-skilled immigrant from low-income country not only increases his or her own productivity but also often helps high-skilled workers in high-income countries to enter the labour force. And this is a good example of some of the mechanisms how international migration can dramatically increase global productivity and well-being.

## **Entrepreneurship and contribution of immigrants to innovation**

Our understanding of all the impacts immigration has on employment, wages, GDP or public revenue would be incomplete in case we won't take innovation produced by immigrants and their entrepreneurship into account.

Hunt and Gauthier-Loiselle (2008) demonstrated significant positive impact of skilled immigration on the levels of innovation in the receiving country. Research based on data from the period between 1940 and 2000 found that 1% increase in immigrant graduates led to 9-18% increase in patents per capita in the United States and immigrants with postgraduate degree led to even bigger increases. This finding corresponds to other facts of outsized contribution of immigrants such as:

- 1) 26% of U.S.-based Nobel Prize recipients from 1990 to 2000 were immigrants (Peri 2007)
- 2) 27% of US Nobel Prize recipients in the natural sciences are foreign-born and 20% of natural scientists and engineers are foreign-born (Brunello et al. 2007)
- 3) 25% of founders of public venture-backed U.S. companies in 1990-2005 were immigrants (Anderson and Platzer 2006)
- 4) founders of 25% of new high-tech companies with more than one million dollars in sales in 2006 were immigrants (Wadhwa et al. 2007)

There are a lot of evidence that higher intensity of entrepreneurship lead to higher productivity growth (for example, van Praag and Versloot 2007). And several studies claim that immigrants are significantly more active in creating and managing businesses. For example, Hunt (2011) reports that in the US immigrants are 30% more likely than native-born to start businesses. Also Fairlie (2008) points out much higher business-ownership rates among immigrants.

In the end we can make several conclusions based on the evidence presented in this subsection:

- 1) There is no agreement in the literature on whether the impact of immigration on the wages of the native-born is positive or negative. But at the same all the studies point to rather small impact. Existing evidence tells us that immigration is less beneficial for low skilled native-born. But at the same time several studies show that low-skilled immigration stimulates specialization of low-skilled natives on communication and language-intensive tasks instead of

manual tasks. It makes low-skilled native-born more productive, increases their income in the long run and increases productivity of the economy as a whole. Most of literature studying the issue shows no negative influence of immigration on the employment of the native-born.

2) Fiscal impacts of immigration are mixed but mostly positive. Long term fiscal impacts of immigration are especially positive for the countries with high amounts of public debt and future public liabilities and low fertility rates. Fiscal impacts are also more positive for immigration which occurs under unrestricted

3) regime.

4) Aggregate impact on the economy (GDP) is mostly positive with no negative consequences for the per capita income of the native-born.

5) All the long-term effects of immigration mentioned above doesn't take into account significantly higher rates of entrepreneurship and innovation generation observed among immigrants.

### **1.2.2 Institutional impacts of international migration on the receiving countries**

#### **Impacts on rule of law, social harmony, social norms and values**

There are also concerns that rapid inflow of immigrants can substantially harm the development of the receiving country because of the negative impact on rule of law, social harmony, social and political values. At the same time various studies demonstrate (Riley 2008, Clemens and Bazzi 2008) that immigrants commit less and not more crimes than natives. Immigrants also enjoy significantly lower incarceration rates (Rumbaut and Ewing 2007). Bersani (2014) demonstrates that immigrants to the United States tend to commit less crime than native-born when adjusted by age. But at the same time second-generation immigrants tend to assimilate to a very large degree and their crime rates are almost identical to the mainstream population (non-Hispanic white native-born in the case of Bersani (2014) study) when adjusted by age. Such assimilation paradox was also noticed by Rumbaut and Ewing (2007).

Another common concern related to cultural characteristics and political beliefs of immigrants. For example, Borjas (2014a) or Collier (2013) argue that one of the main reasons why poor countries are poor is their dysfunctional political institutions and social and political values not favorable to successful and sustainable development and economic growth. Researchers argue that immigrants are bringing their values and beliefs with them and that can put social and

political institutions that predetermined the success of developed countries under strain. This argument bases on the assumption that immigrants retain political and social values of their country of origin and even pass them on to their children. But numerous studies show that it is not the case. Immigrants not only gradually adopt but also transfer to their home countries childbearing and fertility standards (Stephen and Bean 1992, Lindstrom and Giorguli Saucedo 2002, Dubuc 2012, Fargues 2007, Bertoli and Marchetta 2015, Naufal and Vargas-Silva 2009) and political and social values (Taylor, Moran-Taylor and Ruiz 2004, Spilimbergo 2009, Levitt 1998, Levitt 2001) of their destination countries.

Barr and Serra (2010) performed a bribery experiment and found that longer time spent in the UK was associated with declining propensity to bribe. Authors also found that corruption level in the countries of origin of undergraduate students was a good predictor of the corrupt behaviour among them during the experiment. But for the graduate students it was no longer the case. Shain (1999) demonstrates how Americans of various ancestries not only adopt the values prevalent in the US, but also spread them to their countries of origin. White et al. (2008) analysed political socialization of immigrants and found that there is no evidence that premigration beliefs or practices are resistant to change.

Popular opinions about immigrants and their beliefs and values are very often very far from the truth. For example, immigrants from Muslim countries are very often accused of intolerance and ultra-conservative beliefs. But all the sociological studies on the issue prove that it is not the case. Muslim attitudes towards homosexuality and gay rights are the best illustration of the adoption of host country values. It is well known that most Muslim-majority countries are not only highly intolerant toward homosexuality (Pew Research Center 2013) but very often criminalize it. But study of attitudes of Muslim residents of the United States and Germany draws very different picture. Successive studies of Muslim American attitudes discover that community composed mostly of immigrants and almost entirely of first- or second-generation residents of the US tend to have social and political values which are mostly mainstream on a wide spectrum of issues (Pew Research Center 2007, Pew Research Center 2011). Studies found that the gap on gay rights support decreased from 24% in 2007 to 19% in 2011 and only 12% in 2014 (Public Religion Research Institute 2015). Movement towards closing the gap on LGBT rights support was evident for both native- and foreign-born Muslim Americans. In 2014 42% of Muslim American supported gay marriage (51% were against), which is strikingly different to the attitudes of their countries of origin where close to zero percent hold believe that homosexuality should be in any way accepted by society (Pew Research Center 2013), but

very similar to mainstream American attitudes demonstrated in the same survey and virtually identical to such group as White American Protestants, for example (Public Religion Research Institute 2015). Study of Sunni Muslim attitudes in Germany found that even among Muslim residents who consider themselves highly religious 40% support gay marriage. Among “not very religious” Muslim residents of Germany 67% support gay marriage which is very similar to mainstream attitudes in the country, but very different to the attitudes in the countries of origin of first- and second-generation Muslim Germans (Bertelsmann Stiftung 2015).

We can summarize that fears of negative impact of immigrants on the quality of institutions, rule of law are mostly groundless. Perceived inability of immigrants from conservative and traditionalist countries to adopt the norms of modern and diverse society also lacks prove. At the same time significant evidence exists that immigrants tend to commit less crime, adopt values and norms of their destinations and even transfer such norms to their countries of origin. There is no sufficient evidence to the contrary or any examples when immigration led to significant deterioration of the institutions.

### **1.2.3 Economic, social and institutional impacts of international migration on sending countries**

#### **Brain drain, brain gain and flows of skills**

For a long time most of the studies on the impacts of emigration on sending countries concentrated largely on the issue of “brain drain”. And the influence of skilled emigration was obviously considered as hugely detrimental to the development of low-income countries. International labour migration was generally seen as a problem. It was very often considered that emigration occurs when development fails. But more recent studies have greatly enhanced our understanding of emigration impacts. It started with much greater attention to the role of remittances. Research on much broader spectrum of impacts and much deeper understanding of skilled migration and its consequences for the development of low-income countries followed.

The main reason why many researchers and authors tend to believe that emigration is harmful for the countries of origin is the so-called “brain drain” phenomena.

There is a wide range of arguments why high-skilled emigration is harmful for the developing countries. For example, Bhagwati and Dellalifar (1973) insist that emigration of skilled labour from low-income countries erodes their development potential. We can summarize that the

main idea of the opponents of high-skilled emigration from the developing countries revolves around the belief that emigration reduces the stock of human capital in the sending country. But is that true? Many scholars are now questioning this assumption. Stark, Helmenstein and Prskawetz (1997) argue that the initial amount of human capital in a particular country is not exogenous to either emigration or immigration possibilities and is certainly not fixed. Authors argue that mere option of emigration to a higher-income country creates a new set of incentives and increases potential return on investments in human capital. In other words, citizens of a developing country are going to invest more time and money in their education when there is a hope of much higher income in the developed country.

But usually only a fraction of individuals who invested in their education and skills and were motivated by prospects of emigration actually do emigrate. Some of those who actually do emigrate - return later. In the end, emigration may lead to higher and not lower stock of human capital in the high skilled emigrant-sending developing country.

Chand and Clemens (2008) provided an empirical proof to this theory. Authors performed an analysis of emigration from Fiji after 1987 Coup D'état and introduction of policies unfavourable to Indian Fijians. Fijian case offered a great opportunity for research for several reasons. First of all, coup d'état was a bloodless and Indian Fijians weren't able to emigrate as refugees. Emigration to the countries which admit migrants based on skills such as Australia, New Zealand and Canada was the most realistic option and overwhelming majority of Indian Fijians have chosen these countries as destination. Secondly, emigration size was very significant and 20 years after the coup Indian Fijian population was 40% lower than it would be without emigration. But as a result of such large-scale skill-based emigration the stock of highly-skilled Indian Fijians has only increased. And the rate of growth of skilled Indian Fijians present in Fiji was similar to Native Fijians despite much higher emigration rates of Indian Fijians. The per capita human capital stock of Indian Fijians increased significantly. Study demonstrates crucial role of incentives. Nature of skill-based migrant admission schemes stimulated increased tertiary education attainment by Indian Fijians. Despite slightly lower income levels compared to Native Fijians and convergence in primary and secondary education attainment between Native and Indian Fijians, fraction of tertiary educated Indian Fijians grew much faster after the coup and the gap in tertiary education attainment increased significantly between 2 groups. That is because tertiary education is instrumental for skill-based migration and secondary education alone does not offer any significant emigration opportunities.

There are many studies that argue that emigration of physicians is especially harmful for sending countries because of adverse health outcomes. General argument is that social product that health workers are creating in the developing countries are significantly higher than their income and thus their departure is responsible for a considerable loss in sending country welfare. Lucas (2005) also points out that education of skilled migrants is often financed or subsidized through public spending of their origin countries. Study by Bhargava and Docquier (2008) found an adverse impact of skilled emigration on health outcomes in origin countries. Chen et al. (2004) advocate reduced emigration in general because mortality rates are higher in countries with high levels of skilled-worker emigration. Bhargava (2005) called for special payments in favour of migrant health professional origin country. Mills et al. (2008) even insisted on criminal prosecution for skilled migration intermediaries.

Clemens (2007) performed an analysis of the effects of emigration of African-born physicians on a variety of outcomes. Study was based on the data on emigrant stocks of African-born physicians in the 9 most common countries of destination for African-born physicians (Canada, US, UK, Australia, South Africa, Spain, Portugal, Belgium, France) compiled in Clemens and Pettersson (2006). Clemens (2007) found that stocks of skilled physicians abroad per capita of sending country population positively correlate with larger stocks of skilled physicians per capita at home. Positive correlation remains significant even when controlling for income per capita, school enrolment and incidence of war in the country of origin between 1970 and 1999. Similar findings were obtained for professional nurses. Study also tested the impacts on a variety of health outcomes. Research found that stock of physicians abroad per capita of sending country population has no positive impact on child mortality under 5 (does not lead to an increase in child mortality) even when controlling for GDP per capita, primary school enrolment, main official language and land area. Study found slightly negative impact of emigration stock of nurses on child mortality (higher emigration tend to lead to lower child mortality) even when controlled for the same range of factors as in the case of physicians. Researcher also tested the impact of emigrant physician and nurse stocks per capita on a variety of indicators of health and healthcare system such as child mortality under 1, HIV prevalence rate, measles vaccination rate, percent of birth attended by trained personnel, etc. and found that higher emigration rates of physicians and nurses correlate with improvement for most health or healthcare quality indicators and have no significant effect in other cases. Research also found that skilled physician emigration is higher from richer African countries. This finding confirms the evidence presented by Hatton and Williamson (2005b) and Clemens

(2014) which also showed that emigration rates tend to increase until GDP per capita of the country reaches 6000-7000 US Dollars on a PPP basis.

Bhagwati and Hamada (1974) underline as negative the fact that significant emigration of skilled professionals tend to increase the upward pressure on the wages of those who stayed. Authors argue that this upward pressure on domestic skilled wages further amplifies already high income inequality inside sending country. It was also found that skilled emigration correlates with poor educational attainment at the country of origin (Rogers 2008). Bhagwati (1972) proposes a 15% income tax on skilled migrants to the United States to be paid to their developing country of origin. And this proposal was followed by many more of similar nature. There are a lot of scholars arguing in favour of limits on skilled migration. But it is important to pay attention not only to the costs but also to the benefits that skilled migration brings to the countries of origin and how it facilitates their development.

Felbermayr and Toubal (2012) found that the more skilled emigrants from one country lived in another the more trade occurred between those countries. Kugler and Rapoport (2007) and Javorcik et al. (2011) found that the share of FDI outflows from the United States to other countries positively correlate with the number of skilled emigrants from those countries. And the remittances sent by immigrants reached 583 billion US dollars in 2014 (World Bank 2015b). Clemens (2011) observed that skilled African-trained physicians in the United States and Canada remit much more to their origin countries than it was spent on their education. In such situation it is hard to argue that public money on their education were wasted.

Bollard et al. (2011) also found that skilled migrants on average send more to their home country than unskilled ones. Osili (2007) found that skilled Nigerians sent US\$6000 to their country even after spending an average of 14 years in the US. Saxenian (2006a), Devane (2006), Wei and Balasubramanyam (2006) demonstrate how Israeli, Indian and Chinese immigrants to the US were important in creation of IT and manufacturing industries back home. Commander, Chanda, Kangasniemi, and Winters (2008) describe how Indians who were educated or/and worked in the United States were instrumental in the success of Indian tech industry in the 2000s.

At the same time the benefits of emigrant investments and experience could not be taken for granted. Countries with more closed and archaic economic and political systems like Iran, Vietnam and Russia have not received nearly as much benefits from their high-skilled emigrants

in terms of high tech business development as their much more open counterparts like Israel and India (Saxenian 2006b).

It is also important to point out that often the very possibility of emigration stimulates workers to invest in attaining specific education or specific qualifications needed in the destination countries. Many studies found the presence of such effect ((Beine et al. 2008; Chand and Clemens 2008; Beine et al. 2011; Batista et al. 2012). Mountford (1997) and Stark, Helmenstein, and Prskawetz (1997) point out that a lot of individuals in poor countries react to emigration possibilities by getting education and improving their skill set. As was already mentioned, not all of them realize their desire to emigrate in the end. We can very often observe that mere possibility to emigrate to high-income countries increase and not decrease the number of high-skilled workers in low-income countries.

In the end it is very important to mention that full realization of talents, best application of skills and professional development is very place-dependent. No matter how skilled the workers are, if stuck inside corrupt, discriminatory and dysfunctional system they can do very little to help their country or even themselves. Docquier et al. (2009) found that skilled emigration rates are significantly higher among skilled women, especially for Afghanistan. Dumont, Martin, and Spielvogel (2007) found that educated women from developing countries are 40% more likely to migrate to OECD countries than men. And that is not surprising. Discrimination and limits to professional development pushes them out. But possibility to emigrate also creates additional incentives for women in less developed countries to receive tertiary education, eventually increases the stock of educated women in the labour force, reduces gender imbalance in educational attainment and ultimately prepares the ground for women advancement in the source countries. The same finding could be expected for ethnic, religious and sexual minorities in many countries around the world. Bhagwati (2012) admits that “the ‘brain’ is not a static concept. Trapped in Kinshasa, under appalling conditions, the brain will drain away in less time than it takes to get to New York.”

### **Interplay between emigration and economy**

Pritchett (2006) observed that when country or territory faces significant negative shock to its GDP large part of its population tends to emigrate when allowed. It was true for 19<sup>th</sup> century Ireland, it was true for many regions of the US during the 20<sup>th</sup> century. In fact it is known that internal migration plays a significant role in reducing interregional inequality. But it was not true and it is not true for many underperforming countries in Africa and elsewhere. Take Niger

as an example. The country reached its peak GDP per capita in 1963 and has not come even close to that level since then (Pritchett 2006, IMF 2015). GDP per capita of that country was only 0.5 of its 1963-level in 2000 and 0.66 of its 1963-level in 2013 (IMF 2015). During the same 50-year period its population grew 5-fold (UN 2013B). Other examples of such situation are Chad, Zambia or DR Congo. It is hard to believe that we observe an efficient global allocation of labour when more and more people are trapped in hopelessly underperforming countries and do not have any chance to become more productive.

Several studies raise concerns about the impact of low-skilled emigration from rural areas on agricultural output due to the lack of labour resources (Lipton 1980, Rubenstein 1992, Tirtosudarmo 2009). But the main problem of lower-income countries and areas is not the lack of labour resources. It is the lack of capital. Agriculture is usually by far the least productive sector of the economy and migrants are going to be much more helpful in other sectors or even countries. Remittances from migrants can help to finance investments to improve productivity of agriculture. Several already mentioned studies also prove that internal migration tend to help in reducing interregional inequalities (Tabuchi 1988, Fujita and Tabuchi 1997, Brown 1997, Timmins 2005, etc.)

Emigration is not only a good way to reduce interregional economic inequalities, eliminate or decrease misallocation of labour between territories or soften economic crises but can also be used as a tool to alleviate the impacts of natural disasters. Savage and Harvey (2007) studied the remittances flows to Haiti after 2004 Hurricane Jeanne, to Sri Lanka and Indonesia after 2004 tsunami and to Pakistan after 2005 earthquake and found that emigrants transferred significantly more than usual as a response to natural disasters in their home countries. Yang (2008a) performed an analysis of financial flows in response to all the substantial natural disasters in a large sample of countries between 1970 and 2002 and found significant increases in remittances for the poorer half of his sample. Clemens and Velayudhan (2011) propose to use admission of an increased number of Haitian immigrants to the US as a way to assist the country after the 2010 Haitian earthquake. Authors argue that development of Haiti was a failure even before the earthquake as its average standard of living decreased by half between 1980 and 2010. All the development aid received during this time hasn't helped a lot. The situation in the country has obviously become even direr post-earthquake. At the same time Clemens, Montenegro and Pritchett (2008) estimated that Haitian-born and Haiti-educated individuals of the same age and education level earn 10.3 times more in the US than they do in Haiti if calculated on PPP basis. The gap increases to more than 20 times if calculated on a

nominal basis. This means that even if small number of Haitians would be allowed to emigrate the aggregate income earned by Haitian-born individuals would increase significantly. Murray and Williamson (2011) report that Haitian immigrants who were already in the US send more than US\$ 2 billion to Haiti on an annual basis in remittances compared to Haitian GDP equaled to US\$ 6.6 billion in 2010. World Bank (2015b) came up with only slightly lower estimate. Those estimates mean that allowing more Haitian immigrants to the US would not only strikingly improve the life of those immigrants but would also significantly help Haitian economy to cope with disaster.

Multidimensional impact of remittances Remittances play a huge in the development of low-income and middle-income countries. The issue of remittances and its developmental impact started to gain prominence at the beginning of 2000s when it was noticed that global remittances flow is at a minimum several times higher than Official Development Assistance. Global remittances flows almost quintupled from just 126 billion US dollars in the year 2000 to 583 billion USD in 2014 (World Bank 2015b). At the same time share of remittances flows to low- and middle-income countries increased from 60% in 2000 to 77% in 2013 (Connor, Cohn and Gonzalez-Barrera 2013). The same study calculated based on the World Bank data that share of remittances flows to low-income countries increased from 3% to 6% during the same period. Not only the share of low-income countries in remittances receipts is very small but also the workers who send money to those countries lose significantly more to intermediaries.

Relatively small share of remittances flowing to low-income countries is partly explained by lower emigrant stocks. Already mentioned studies (Clemens 2014, Hatton and Williamson 2005b) found emigration intensity tends to rise till GDP of the country rises to some level and afterwards emigration intensity tends to decline. Majority of global migrants originate in the middle-income countries (Connor, Cohn and Gonzalez-Barrera 2013). Bettin et al. (2011) also found that migrant-origin countries with better-developed retail banking infrastructure tend to receive more in remittances. At the same time despite the fact that only a fraction of remittances are flowing to low-income countries the role of remittances is the highest in these countries. The amount of remittances to low-income countries has increased to 8% of their GDP in 2013 from just 3% in 2000. It compares to just fewer than 2% of GDP for middle-income countries and 1% for high-income countries in 2013. Remittances are especially significant for such low-income and lower middle-income countries as Tajikistan, Armenia, the Gambia, Haiti, Kyrgyz Republic, Liberia, Moldova or Tonga where they amount to more than 20% of the annual GDP. It is important to point out that in 2013 low-income countries received 31 billion US Dollars in

remittances (Connor, Cohn and Gonzalez-Barrera 2013) and only 30 billion USD in ODA from OECD (OECD 2015).

Recent decade produced a wide range of studies on various impacts of remittances.

Remittances obviously have the potential to improve the living conditions inside remittances recipient countries as a whole and not only just for the households which receive them. When remittances are invested in housing construction, small businesses formation and development and education they create jobs, increase productivity and improve human capital inside the remittances-receiving country. Then positive developmental impact spreads far beyond receiving households.

Some papers (Lipton 1980, Grindle 1988, Massey et al. 1987, Brown and Ahlburg 1999) argue that remittances are rarely directed to investment and mostly used to increase consumption. At the same time other studies (Brown 1994, Massey and Parrado 1998, McCormick and Wahba 2001, Dustmann and Kirchkamp 2002, Woodruff and Zenteno 2007, Mesnard 2004, Taylor, Rozelle, and de Brauw 2003) found positive correlation between remittances receipts and different types of household and small business investment in the receiving countries. Yang (2009) points out that unobserved factors can influence the results of such studies as it is probable that more ambitious families are more likely to send some of its members to emigrate, more likely to receive larger remittances and also more likely to make larger investments. Such self-selection bias could obviously influence any observations. Researcher adds that at the same time it is also possible that some households would send members abroad after the failure of existing domestic investments such as small business and we will observe that investments will decrease simultaneously with increased remittances, but there is obviously no causal relationship here.

Some studies managed to isolate such biases. For example, Yang (2008b) analysed how currency exchange rate shocks in 1997-1998 affected expenditures of households in the Philippines that already had migrants abroad. Migrants working in different countries experienced varying degrees of unexpected currency appreciation of up to 50% compared to Philippine peso. Study found a significant increase in investment in education and small businesses due to favourable exchange rate shocks. At the same time no significant changes in consumption were detected.

Yang and Martinez (2005) analysed how the same favourable currency shocks as in Yang (2008b) affected poverty rates and found significant decreases in poverty rates as a result of currency shocks favourable to the remitters.

It also important not to forget that increased consumption is also highly positive for the development. It is especially relevant to low-income developing countries. There are several empirical studies that link malnutrition in early childhood and less successful intellectual development of a child, lower educational performance and achievement and lower income as an adult (Alderman et al. 2006, Behrman et al. 2004, Hoddinott 2006, Hoddinott et al. 2008, Maluccio et al. 2009). Better nutrition in childhood significantly enhances intellectual development and helps to achieve significantly higher future incomes and human capital (Behrman et al. 2008). Surely, remittances receivers can afford better nutrition for their children and it will help to improve the quality of human capital in the longer term.

Another important developmental contribution of the remittances is that they help to cover necessary consumption and it reduces the need for child labour (Yang 2008b, Mansuri 2006). Increased discretionary resources and decreased child labour participation helps to improve child participation in education and education attainment (Yang 2008b, Cox Edwards and Ureta 2003, Adams Jr. 2005). Mansuri (2006) study of rural Pakistan also shows that positive impact of household (family) member labour migration on education participation and attainment of staying household children is larger for girls than for boys. It could be explained that in a society such as rural Pakistan where male education is strongly prioritized over female education increased income helps to cover the most important needs and spend more on “lower priorities” such as girls education.

Sjaastad (1962), and Schultz (1972), Clemens and Ogden (2014) all propose to treat emigration as an investment and part of household financial strategy. It is obvious that returns on human capital are very location-dependent. By investing human capital and resources needed for migration to occur migrants then are able to get the return on their investment in terms of much higher wage (income). Clemens, Montenegro, and Pritchett (2008) found that migrants can earn multiple times more, sometimes more than 30 times more in the United States than non-migrants of the same age, with the same country of birth, years of education and country of education in their origin countries. Gibson and McKenzie (2012) confirmed that migration usually increases income of migrant by multiple times. Such observations prove that possibility to live and work in a particular location is a very valuable form of capital in itself. Remittances

are just a part of the yield on such investment that migrants sent to their origin countries. And when migration itself is an investment questions about the share of remittances receipts that are invested is no longer so relevant.

Another confirmation that emigration is a form of investment comes from the fact that temporary migrants remit significantly more than permanent ones (Dustmann and Mestres 2010). Also another study (Vaira-Lucero et al. 2012) shows us that undocumented immigrants remit more than documented immigrants. And it is not surprising. If the ownership of the asset is only temporary or uncertain in time it is only reasonable to invest in such asset when the returns are significantly higher.

Many studies of remittances usage across the globe (Alderman 1996, Adams Jr. 1998, Cox Edwards and Ureta 2003, Adams and Cuecuecha 2010, Davies et al. 2009, Airola 2007, Castaldo and Reilly 2007) also found that remittances are much more likely to be invested than other forms of income. And in cases when share of remittances invested can still be considered too low we should look for reasons why investment levels are too low in general for the poor households in a particular country or region. Iskander (2005) analyses the performance of Mi Comunidad scheme in Guanajuato, Mexico. Scheme was designed to facilitate remittances investment in local manufacturing. But the scheme mostly failed due to lack of market for its products, lack of supply of sufficiently-skilled labour and underdeveloped communication infrastructure. The same reasons could be used as an explanation for lack of significant investment in manufacturing from all sources of income and not just remittances. Catrinescu et al. (2009) point out that remittances are more effective in promoting economic growth when sound institutional environment is present. It creates better opportunities for its investment. Also other studies such as Basok (2000) or Clemens and Tiongson (2012) find that work abroad is most attractive exactly for those households which lack investment opportunities at home. It is not surprising that in some underdeveloped locations with inferior institutions remittances are not often invested, but that are exactly the places where inhabitants benefit the most from emigration. Precisely, because of lack of opportunities at home emigration becomes the best investment option.

Some studies (Gorlich et al. 2007) argue that remittances decrease labour force participation for remittances-receiving households. It could be explained by the fact that incomes that could be generated at the origin countries are very often insignificant compared to incomes abroad or compared to remittances. For example, if one of the spouses works abroad and the other stays

at home with children it would often be more reasonable for the staying spouse to concentrate more on child care, education, personal education than to work full-time in a very unproductive environment and increase total family income by only several percentage points. Wouterse and Taylor (2008) study of households with intercontinental migrants in Burkina Faso confirms that explanation. At the same time Gibson et al. (2011) found that after controlling for observable and unobservable differences between migrant and non-migrant households differences in employment is often disappearing. Already mentioned Yang (2008b) study also found no decrease in wage employment in response to positive exchange rate shock to the amount of remittances receipts. Entrepreneurship and self-employment have increased.

There were also studies on the impact of remittances on financial inclusion of the receiving households. Additional income can have a positive influence on demand for and access to various financial products like savings accounts and consumer and small-business credit. And such financial inclusion has positive macroeconomic (Levine 1997, Levine 2005) and household-level impacts (Karlan and Morduch 2009). Anzoategui et al. (2011) found that remittances-receiving households are more likely to have savings accounts but at the same time less likely to apply for consumer/small business loans. And it is wrong to consider lower demand for consumer credit as a negative sign. As Clemens and Ogden (2014) point out, migration is an investment in a high-yielding asset. Namely, the possibility to work abroad and apply one's labour much more productively. Remittances are the returns on that asset (employment abroad) and the source of capital which obviously reduces demand for other forms of capital such as domestic consumer/small business credit.

Several studies (Agarwal and Horowitz 2002, Yang and Choi 2007, Mohapatra et al. 2012) found that emigration and remittances is the tool used by households to diversify their income sources and insure against negative income shocks in their country of origin. Already mentioned studies on significantly larger remittances flows in response to natural disasters prove this point. And it is not surprising that when one of the household members have multiple times higher income (Clemens et al. 2008), which is exogenous to shocks in the country of origin, he or she is going to help out other family members. Clemens and Ogden (2014) also argue that migration (possibility to work abroad) acts the same as any other asset and makes its proprietors less vulnerable to negative income shocks.

Interesting study by Frank and Regan (2014) found based on the country-level data that higher levels of remittances associate with lower incidence of civil war. Authors explain that

remittances receipts respond to economic conditions in the country and increase during the time of hardship and crises. It helps to soften negative economic shocks and moderate potential social tensions.

Gibson and McKenzie (2010) and Clemens and Tiongson (2012) found that having a household member overseas generally increases living standards of the households sending them. Baird et al. (2011) demonstrates significant impacts of cash transfers on the development outcomes at the household level.

There are many studies that show positive impact that remittances have on poverty reduction. But the scale of its poverty-reduction impact varies from country to country. In some cases citizens from lower socio-economic backgrounds have little opportunities to emigrate and receive fewer remittances. Most remittances in such cases go to the households with higher levels of income and education. In other cases relevant to a little bit more affluent countries emigration is not so widespread among higher income households and lower income households send more migrants abroad and receive more in remittances. But generally poorest households and poorest countries demonstrate the lowest emigration intensity and tend to receive the least in remittances. These findings point to the same relation between intensity of emigration and income as in Clemens (2014). Household-level analysis performed by Meza and Pederzini (2006) found that in Mexico emigration intensity is the lowest for lowest-income households and increases till per capita income reaches 15000 US Dollars. Another study by Taylor, Mora, Adams, and Lopez-Feldman (2005) found that emigration from rural Mexico reduces poverty but increases inequality in lower migration areas, but inequality decreases in higher emigration areas. Authors' findings confirm the mechanism first proposed in Stark, Taylor and Yitzhaki (1986). Namely, that emigration from lower developed areas tends to increase inequality at first, but then inequality tends to decrease as emigration access broadens. Ha, Yi, and Zhang (2009) observed similar impact from internal migration in China on poverty and inequality in source communities.

Several studies demonstrate that even households that send internal migrant to work somewhere else inside the country enjoy significant improvement in living standards. Significant poverty reductions in such households occurred in India between 2001 and 2007 (Deshingkar and Akter 2009), Bangladesh (Rayhan and Grote 2007), Kagera region of Tanzania between 1991 and 2004 (Beegle, De Weerd and Dercon 2008) and Indonesia between 1994 and 2000 (Deb and Seck 2009). Case of Indonesia is especially interesting because poverty rate for the households

without internal migrant stayed virtually unchanged during the period of the study. At the same time it declined almost by half from 34% to 19% for the households with internal migrant over the period of just 6 years. Deb and Seck (2009) studied the case of Mexico between 2003 and 2005 and found significantly better income dynamics for households with internal migrant during this period.

Based on the evidence presented in the subsection we can conclude that impacts of emigration is much more complex but also much more positive than previously thought. It was found that very often brain drain can result in brain gain and mere possibility for human capital to leave the country can create incentives for human capital creation. It was also found that emigration can be the most valuable investment in the countries where lack of proper institutions, isolationism or poor economic policies eliminated all the other options for profitable investment. Emigration of both skilled and unskilled workers contributes to poverty reduction, education investment, health conditions, small business formation and minority rights in emigrant-sending countries. Eventually emigrants tend to transfer norms and values of their destinations to their countries of origin with highly positive long-term developmental consequences.

#### **1.2.4 Institutional impacts of international migration on sending countries**

##### **Emigration, remittances and impacts on cultural, political and social norms**

It is well documented that emigration facilitates the transfer of norms, values and practices from destination countries to the countries of origin (Levitt 1998). Transfer of fertility norms is one good example. Existing research helps us to see a clearer picture of fertility norms transfer. There are numerous studies which show how immigrants and their descendants are relatively quickly adopting fertility norms of their destinations: both in cases of international (Stephen and Bean 1992, Lindstrom and Giorguli Saucedo 2002, Dubuc 2012, etc.) and in cases of internal, rural-urban migration (Myers and Morris 1966, Goldstein 1978, Park and Park 1976, Hiday 1978, Farber and Lee 1984, etc.). All these studies suggest that adherence to norms and values inherent to their sending country/region/place tend to weaken over time while adherence to the norms and values of the destination country/region/place tends to strengthen. But more recent research demonstrates that a phenomenon of fertility norms transfer does not stop when immigrants adopt the norms of their new home. It continues when migrants transfer newly adopted fertility norms to their countries of origin. Such transfer of course has a profound developmental impact.

Naufal and Vargas-Silva (2009) performed panel data analysis of fertility in Asian, African and Latin American countries and its determinants. For each country of origin, paper calculated average fertility in the countries of its emigrants' destinations weighted by the origin emigrant stock size there. Study detected positive impact of weighted average destination fertility on the fertility in the origin. In other words, countries with emigrants in countries with lower fertility tend to have lower fertility, and countries with emigrants in countries with higher fertility tend to have higher fertility. Authors also added size of incoming remittances as an one of explanatory variables in order to account for the strength of ties that emigrants have with their countries of origin. Study detected significant negative impact of remittances on fertility. In overwhelming share of cases countries of origin had higher fertility than weighted destination countries' average. That means that stronger ties with and higher remittances from emigrants in lower-fertility countries enhances the impact on fertility in higher-fertility countries of origin. Finding can also be seen as a prove to the theoretical point that impact of social remittances is stronger when coupled with financial remittances.

Fargues (2007) broadens our understanding of the phenomena of the impact of emigration on fertility at home. Study shows that higher emigration to high-income developed European countries tend to correlate with faster demographic transition in the North Africa and Middle East region. At the same time higher emigration to high-income oil producing nations of the Gulf tend to correlate with a slowdown in demographic transition. Author also found that the impact is larger when the differences between destination and origin are larger. The same findings were later confirmed by Bertoli and Marchetta (2015) who studied Egyptian emigration to the Gulf countries with more conservative cultural norms that hasn't finished their demographic transition yet and tend to have relatively larger families than in Egypt. Study found that households with a migrant in the Gulf countries have higher fertility than other households in Egypt. Beine, Docquier and Schiff (2008) estimated that 1% shift in fertility norms at destination countries of emigrants causes 0,3% shift in sending country.

Social remittances also include transfer of health practices. For example, Frank (2005) found that Mexican women with emigrant partners in the United States had significantly lower prevalence of smoking and exercised much more often. Women with emigrant husbands were also more likely to gain weight during pregnancy. These useful health practices coupled with financial remittances helped children from emigrant households to achieve significantly better than average health indicators. On the other hand, they were less likely to breastfeed their babies. Lindstrom and Muñoz-Franco (2005) found that women in rural Guatemala who had

relatives in urban areas or abroad were significantly more likely to know about contraception. Study generally proves the importance of social remittances in terms of health practices and behaviors transfer. It is important to underline that not all of such transfers are positive. Study by Hildebrandt et al. (2005) found that emigration of household member from Mexico to the United States leads to significant improvement in child health outcomes (lower infant mortality rates, higher birthweights). Authors observed that it happens not only because of increased household income but also as a result of measurable increases in health knowledge of mothers in migrant households.

Taylor, Moran-Taylor and Ruiz (2004) studied how emigration of Mayans from Guatemala is affecting cultural norms at the origin. Traditionally, Mayans in Guatemala could only hope for the role of low-skilled agricultural laborers and lack of opportunities in their home country pushed lots of them to migrate to the United States. But remittances and social transfers that were sent back home helped Mayans remaining in Guatemala to acquire more land, start businesses, become more productive and generally improve their social position in society. But the impacts of emigration and remittances did not stop there. Social transfers of values and beliefs also challenged traditional gender roles and led to more women empowerment in Mayan families.

Other studies concentrate on influence of emigration and social transfers of political and social values to the country of origin. For example, Spilimbergo (2009) found that greater number of students studying in democratic countries significantly increases the likelihood of democratic transition in the sending country.

Levitt (1998) and Levitt (2001) performed a detailed survey of Dominican migrants in the US and families of the emigrants in the Dominican Republic. Based on the analysis of the results author argues that migrants can transmit political values adopted in their host countries to the family members in their country of origin. Córdova and Hiskey (2009) came to similar conclusions by studying survey data from several Latin American countries. Individuals with stronger connections to international migrant networks tended to demonstrate higher support for democratic principles and were more critical of the shortcomings of their governments. Studies explain that such transmission is going on through return visits, phone calls and other forms of communications. And it is very helpful for the developing countries. As it is becoming apparent (Acemoglu and Robinson 2012) that lack of right institutions is the main reason why

developing countries are poor. Transmission of values which are essential for the establishment of such institutions is certainly very helpful.

Spilimbergo (2009) demonstrates that foreign education of the citizens has significant positive impact on the development of democratic institutions in the country of origin. But positive influence of foreign education holds only when education was obtained in the democratic countries (as classified by Freedom House and others). Study by Batista and Vincente (2011) demonstrates that households in Cape Verde with at least one migrant abroad has significantly higher demand for transparency and political accountability than general population. The effect is especially strong for households with emigrants in the United States. Rother (2009) found that the strength of support of democratic principles by returning migrants in the Philippines strongly depends on their country where they were residing.

Another way to access the impact of social remittances is to analyze the impact of emigration on election results. Pfitze (2012) performed a study on the effects of emigration to the United States on local elections in Mexico in 2000. It is important to underline that 2000 was a watershed year in terms of political history of Mexico. Institutional Revolutionary Party which ruled the country single-handedly for 71 years lost power as a result of electoral defeat. At that point vote for opposition could be clearly interpreted as vote for democratic change and modern political institutions in the country. And Pfitze (2012) found that at this crucial moment, municipalities with more emigrants in the United States were significantly more likely to vote for the opposition parties. That happened contrary to the theory proposed by Hirschman (1970) and in accordance with the expectations based on social remittances theory.

Study of electoral behavior in Moldova produced additional evidence supporting strong influence of social remittances on the ideas and decisions of those who stays in the country of origin. Mahmoud et al. (2014) found that at crucial 2009-2010 elections Moldovan districts with higher emigration rates to the European Union produced significantly higher shares of vote in favor of pro-European parties, on the other hand districts with higher emigration rates to Russia produced significantly higher shares of vote in favor of ruling pro-Russian Communist Party of the Republic of Moldova. If we based our expectations on the Hirschman theory we would likely be looking for the opposite results (Hirschman 1970). Authors also found that the impact of emigration on voting behavior is strong enough to go beyond the migrant-sending households and spreads to their neighbors.

In the end we can say that there is now a wide range of empirical evidence that proves significance of social remittances impacts. Various studies show how transfers of values, practices and norms from migration destination countries affect and often transform the countries of origin. Fertility norms, health behavior, views on various social and political issues, social and political values, understanding of the gender roles and voting preferences are just some things that are getting affected.

# Chapter II Contextual overview: Trends in International Migration

## Historical context

Human migration is not a new phenomenon. After all, all the evidence suggest that all the humans evolved from the common ancestors from Equatorial Africa and gradually spread across the planet (Linz et al. 2007). But the process was very slow until at least Early Modern Period. Even at the time migration was impossible for most people. Workers were often tied to the land, emigration bans and restrictions on freedom of movement in general were in place until 18<sup>th</sup> or 19<sup>th</sup> century in most of Europe. Still, the Age of Discovery created the conditions for the human migration on much larger scale than ever before. The discovery of the New World opened vast land resources and enormous possibilities. At the same time labor shortages in the Americas were obviously severe (Ferrie and Hatton 2013). Still despite strong labor demand in the Americas and abundant supply of labor in Europe, restrictions on emigration and prohibitively high transportation costs made transatlantic migration beyond the reach of most Europeans. That is why most intercontinental migration was non-voluntary at first. Slaves from Africa accounted for 77% of immigrants to the Americas between 1492 and 1820 (Table 1, Ferrie and Hatton 2013).

**Table 1. Migration to the Americas, 1492-1880**

	1492-1580	1580-1640	1640-1700	1700-1760	1760-1820	1492-1760	1492-1820	1820-1880
All Migrants	265	998	1358	3593	5098	6214	11312	15998
African Slaves (thousands)	68	607	829	2846	4325	4350	8675	2296
% of all migrants	25.7	60.8	61	79.2	84.8	70	76.7	14.4
Non-slaves (thousands)	197	391	529	747	773	1864	2673	13702
% of all migrants	74.3	39.2	39	20.8	15.2	30	23.3	85.6
Servants (% of non-slaves)	0	12.4	44.4	17.3	11.5	22.1	19	4.7
Convicts (% of non-slaves)	1.5	2	4.3	8.2	4.4	5.1	4.9	0.1
Free (% of non-slaves)	98.5	85.6	51.3	74.5	84.1	72.8	76.1	95.1

Source: Ferrie and Hatton (2013, p.46). Note: Some of those included in the lower panel are not Europeans.

Among non-slave migrants problem of prohibitively high transportation costs were often solved by indentured servitude contracts which obliged migrants to work for the owner of the contract for certain number of years to cover the cost of passage to the Americas. It was possible for owner of the contract to resell it. Indentured servants were free to live and work for themselves after the fulfillment of their contract obligations. While looking at Table 1 it is possible to highlight several important patterns of international migration to the Americas before 19<sup>th</sup> century:

- 1) Gradual increase in the scale of the overall migration (both slave and non-slave)
- 2) Decreasing share of indentured servants and convicts among non-slave migrants after the 17<sup>th</sup> century

19<sup>th</sup> century technological advances coupled with lifting of restrictions on human movement made much larger volumes of long-distance human migration possible. International migration was gradually but rapidly becoming affordable for more and more people in Europe. Gradual abolishing of slavery and increased affordability of transportation led to a substantial increase in the share of voluntarily, non-slave migration (Table 1).

Dramatic decline in travel costs, lifting of emigration restrictions in many countries created the possibility for many Europeans to move across the Atlantic. Only between early 1840s and late 1850s passenger fares from Britain to New York became more than 4 times lower in real terms (Hatton and Williamson 2005a, Galenson 1984). At the same time real incomes were rising. Transatlantic travel was becoming more and more affordable (Galenson 1984). Generally much free and intensive movement of goods and people across the globe caused many researchers to coin the period between 1850-70 and 1914 the First Era of Globalization.

Price of Lower class passage from Britain to the United States has declined to 1/10 of average annual income by the end of 19<sup>th</sup> century (Hatton and Williamson 2005a, Galenson 1984). Lack of significant legal restrictions on immigration also contributed.

**Table 2. Wage disparities between destination and source countries of migration**

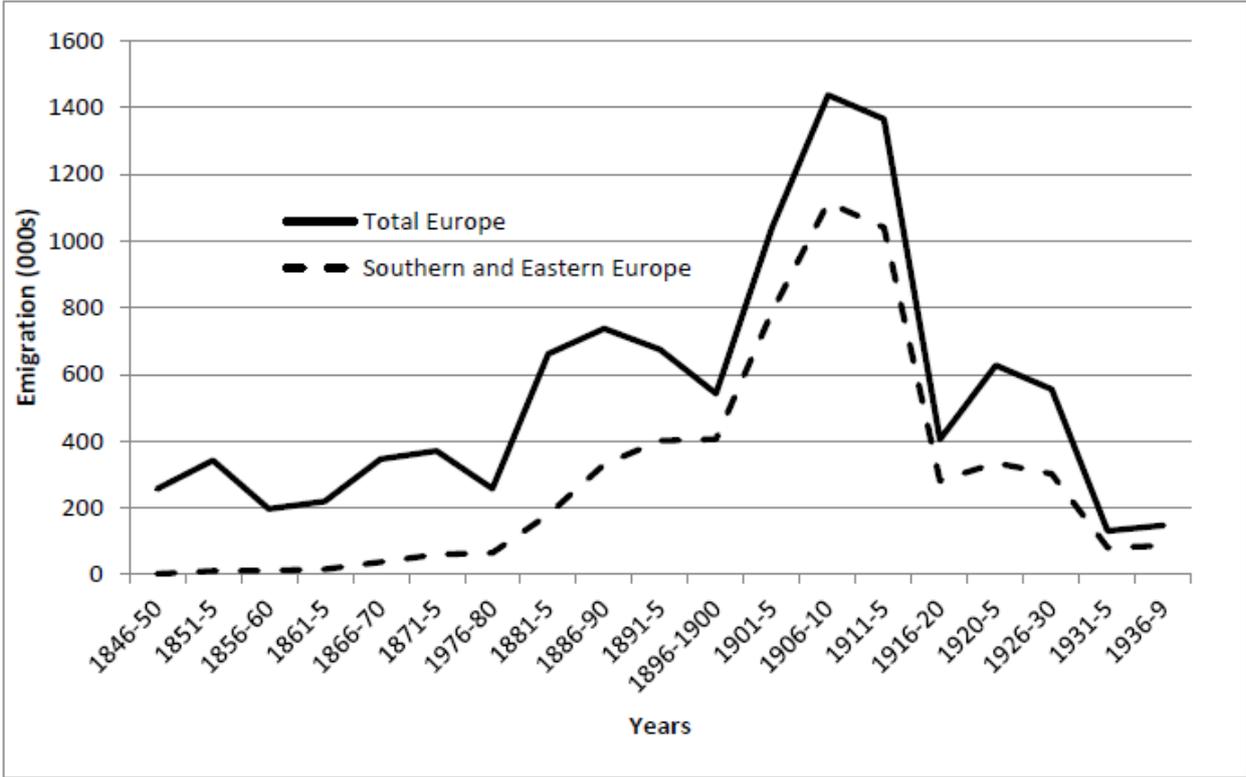
Destination country	Source country	Year	Wage ratio
United States	Ireland	1870	2.3
United States	Sweden	1850	4.2
United Kingdom	Ireland	1850	1.6
United States	Italy	1870	4.4
United States	Norway	1870	3.6

*Sources: Data from O'Rourke and Williamson (1999), Taylor and Williamson (1997), Hatton and Williamson (2005a).*

In some cases immigration was even subsidized by the receiving countries. For some period of time Argentina partly covered travel costs for the new immigrants, in the middle of 19<sup>th</sup> century Brazil allotted land to immigrants free of charge (Nugent and Saddi 2002). At the same time large income disparities between labor-abundant Europe and labor-scarce New World created an incentive to migrate. Wages in the United States were 2-4 times higher than in the source

countries of migration in Europe (Table 2, O'Rourke and Williamson 1999). All those factors caused rapid expansion of transatlantic migration flows. European migration to the Americas peaked at 1.4 million annually in the years immediately before the World War I (Figure 1).

**Figure 1. Intercontinental Emigration from Europe, 1846-1939**



Sources: Ferrie and Hatton (2013, p.49).

Anti-immigrant sentiments were always strong throughout the whole period of the settlement of the New World and Australasia. Ability of those sentiments to influence the decisions of the government and state capacity to enforce strict immigration restrictions were initially very weak. Government attitudes towards immigration were largely liberal. They saw it as a possibility to populate vast territories and use them to a much fuller extent. Business interests were also mostly interested in increasing immigration. Some governments such as Argentina viewed immigration as a way to decrease the share and influence of the indigenous population. In that case, discriminatory attitudes of the government paradoxically worked in favor of larger immigration volumes. Restriction enforcement capacity was initially also very low. For example, at the beginning of the 19<sup>th</sup> century more than 3 thousands kilometers of the Mexico-United States were patrolled no more than 75 guards (US Customs and Border Protection 2015). For those reasons, during most of the period before the World War I immigration to the New

World was largely unrestricted. It happened despite the fact that ethnic and religious hatred and intolerance were much stronger and prevalent than it is today.

More direct and broad democratic control of governmental decision-making created an avenue for increased influence of anti-immigration attitudes on public policy. Imposition of immigration restrictions was happening gradually. It started with the laws directed against the most disadvantaged and discriminated groups like Chinese Exclusion Act of 1882 in the United States (Daniels 1988). Similarly, between 1875 and 1888 all the Australian colonies enacted legislation against any further Chinese immigration (Griffiths 2002). Argentinian political elites always held highly negative views on non-European immigration (Alberdi 1915) and tried to enforce preferential treatment of European immigrants. Indirect methods to discourage immigration were also used. The Chinese Immigrants Act 1881 in New Zealand used poll tax of 10 pounds on every Chinese immigrant entering the country to discourage Chinese arrivals to the country. The numbers of Chinese immigrants were also limited to 1 per 10 tons of the ship's weight (Beaglehole 2012). It was also meant to substantially increase the cost of immigration to New Zealand. Chinese Immigration Act of 1885 in Canada also levied 50 dollar Head tax on any Chinese immigrant entering Canada and allowed to carry not more than 1 Chinese arrival per 50 tons of ship's weight (Kelley and Trebilcock 1988).

After these initial restrictive steps countries of the Americas and Australasia which attracted vast majority of global international migrants were continuing to gradually tighten their immigration laws up until the World War I. Canada and New Zealand were gradually increasing their Head taxes and ship weight requirements for Chinese immigrants (Kelley and Trebilcock 1988, Beaglehole 2012). Australia introduced Immigration Restriction Act of 1901 (which started what was known as White Australia Policy) and used literacy tests stop all non-European and often non-British immigrants from entering the country. Dictations tests could be in any European language of immigration officer's choice. Immigration officials were directed to choose rare languages to make the test impossible to pass for any racially or ethnically undesirable immigrant (Yarwood 1964). Since 1907 British Columbia started to use similar dictation test method to restrict immigration (Ferrie and Hatton 2013). Other examples include so-called "Gentlemen's Agreement of 1907" between the United States and Japan where Japanese government obliged to prevent the emigration of its citizens to the United States (Daniels 1988). Despite all those measures overall levels of international migration were still rising before World War I. The War caused a collapse in intercontinental migration (Graph 1). It also ended the First Era of Globalization.

By the end of the period of relative openness to international trade and migration total international migrant stock reached at least 33 million people (covered foreign nationals, not foreign-born) or 1,9% of Global population in 1910 (ILO 1936). In some important receiving countries record shares of foreign-born population were reached at the time and were declining afterwards. In many cases the growth of nominal immigrant stocks also mostly stopped. At that point most of the world immigrant population concentrated in a small number of New World countries (Table 3).

**Table 3. Foreign-born population in major immigrant destinations**

Country	Year	Stock, million	%, total population
United States	1910	13.5	14,7
Argentina	1914	2.4	29,9
Canada	1911	1.6	22,0
Australia	1911	0.8	17,1
Brazil	1900	1.1	6,2
Brazil	1920	1.5	4,9
New Zealand	1911	0.3	30,3

*Sources: US Census Bureau (2006), Statistics Canada (1983), Australian Bureau of Statistics (2014), INDEC, IBGE, Hatton and Williamson (2005a).*

Post-1914 period was characterized by the process of de-globalization. Worsening economic conditions and inward looking policies often reinforced each other and created a vicious cycle. Restrictions on trade and immigration started to become harsher and harsher. In the United States Immigration Act of 1917 (also known as Asiatic Barred Zone Act). Act banned all immigration from Asia and Pacific Islands. It also introduced literacy test for all the immigrants older than 16 and banned immigrants from several other groups. List of forbidden groups included “homosexuals”, “idiots”, “feeble-minded persons”, "criminals", “epileptics”, “insane persons”, “professional beggars”, “mentally or physically defective” and others. Emergency Quota Act of 1921 and Immigration Act of 1924 progressively tightened immigration restrictions. After 1927 only 150000 white immigrants a year were allowed entry. The number was distributed between sending countries proportionally to the national origin of US residents according to 1920 population census. Likewise, in New Zealand Immigration Restriction Amendment Act of 1920 and Immigration Restriction Amendment Act of 1931 effectively banned almost all non-British immigration (Beaglehole 2012). Similar restrictive laws were introduced all around the world. Restrictions were introduced somewhat later in Latin America. Significantly lower percentage of population with voting rights in Latin America in the beginning of 20<sup>th</sup> century could be one reason (Engerman and Sokoloff 2005, Ferrie and Hatton

2013). Anti-immigration attitudes were significantly more prevalent among lower-class residents in all the destination countries. But their ability to influence policies were much lower in Latin America at the time (beginning of the 20<sup>th</sup> century).

### **More recent historical developments and current trends**

Post-World War II period was characterized by gradual relaxation of immigration limits and abolishing of racially discriminatory immigration laws. On a global scale international migration was also gradually intensifying. The total figure of international migrant stock has grown steadily over the years from just 74 million in 1960 to 154 million in 1990 and 175 million in 2000 (United Nations 2013A, United Nations 2009). The most recent estimates by the World Bank put total global international migrant stock at 247 million people or 3,5% of global population (World Bank 2014, United Nations 2013B).

Apart from significant change in the numbers of international migrants several other important patterns of post-World War II migration could be observed. First important change is that share of voluntarily, non-forced or non-refugee immigration has increased. Secondly, geographical distribution of immigrant flows has shifted. And thirdly, income distribution of source and destination countries has changed significantly.

Large part of the 74 million immigrant stock in 1960 was created by forced migration as a result of Post-Second World War ethnicity-based population exchanges and Partition of India. Between 13,5 and 16,5 million ethnic Germans were forced to emigrate from Central and Eastern European countries after the World War II (Prauser and Rees 2004). More than 14 million people were forced to move from India to Pakistan and vice versa as a result of interreligious strife during the Partition of India (UNHCR 2000). Polish-Soviet population exchanges resulted in more than 2 million forced migrants. In total, more than 35 million people were forced to immigrate as a result of World War II and partition of India (Schechtman 1953, Prauser and Rees 2004, UNHCR 2000). At the same time UN estimates put number of refugees and asylum seekers at 21,3 million in 2014 (UNHCR 2015). And that is out of 247 million international migrants.

Secondly, changes in geographical distribution of international migrants were also significant. In 1965, fifty years after dramatic declines in international immigration to the Americas following World War I (Figure 1), 42% of international migrants lived in Asia and almost 20% in Europe. Obviously, above-mentioned mid-century population transfers in Europe and Asia

significantly contributed to that figures. During the same 50-year period, share of international migrants living in the Americas has declined to just 24% of the world total (Table 4).

Rapid economic development during post-World War II decades made Europe attractive to immigrants after centuries of negative net migration. Guest worker programs and subsequent possibilities for family reunification significantly increased immigrant stock originated from both outside Europe and other European countries. Gradual enlargement of the European Union and hence the zone of Free Movement of Workers made intra-European migration easier. All that contributed to the fact that in 1990 Europe’s immigrant stock reached 25 million people compared to less than 15 million in 1965 (Table 4).

**Table 4. Immigrant Stocks by continent**

Year	1965	1975	1985	1990a	1990b	2000	2010
	Immigrant Stock (Millions)						
World	75.2	84.5	105.2	119.8	155.5	178.5	213.9
Africa	8	11.2	12.5	15.6	16	17.1	19.3
Asia	31.4	29.7	38.7	43	50.9	51.9	61.3
Latin America	5.9	5.9	6.4	7.5	7.1	6.5	7.5
North America	12.7	15	20.5	23.9	27.8	40.4	50
Europe	14.7	19.5	23	25.1	49.4	57.6	69.8
Oceania	2.5	3.3	4.1	4.6	4.4	5	6
	Percentage of World Migrant Stock						
World	100	100	100	100	100	100	100
Africa	10.6	13.3	11.9	13.0	10.3	9.6	9.0
Asia	41.8	35.1	36.8	35.9	32.7	29.1	28.7
Latin America	7.8	7.0	6.1	6.3	4.6	3.6	3.5
North America	16.9	17.8	19.5	19.9	17.9	22.6	23.4
Europe	19.5	23.1	21.9	21.0	31.8	32.3	32.6
Oceania	3.3	3.9	3.9	3.8	2.8	2.8	2.8

Sources: *Ferrie and Hatton (2013, p.47), Zlotnik (1998).*

Change is even larger than it seems considering the fact that most of the 1965 immigrant stock was comprised of forced post-World War II immigrants and a lot of them obviously were no longer alive in 1990. Collapse of the USSR made millions of internal migrants international almost overnight. Addition of intra-USSR migrants who moved from one Soviet republic to another increased the number of international migrants in Europe from 25 million (Table 4, column 1990a) to 49 million (Table 4, column 1990b). Stock of immigrants in Europe continued to grow afterwards to reach 70 million in 2010. Interestingly, European share of Global immigrant stock stayed largely at the same level throughout the period after 1965 (except for

artificial increase due to the collapse of Soviet Union). At the same time Table 4 shows that share of foreign-born in the population of European countries has increased from 2,2% to 3,2% between 1965 and 1990 (not counting migration between Soviet republics) and from 6,9% in 1990 to 9,5% in 2010 (including migration between former Soviet republics). That paradox happened mostly as a result of diminishing share of Europe in the world population (United Nations 2013B). Some European countries now have one of the biggest immigrant stocks in the world (Table 5).

**Table 5. Top immigrant destinations by foreign-born population, 2013**

Country	Million foreign-born
United States	45,8
Russia	11,0
Germany	9,8
Saudi Arabia	9,1
United Arab Emirates	7,8
United Kingdom	7,8
France	7,4
Canada	7,3
Australia	6,5
Spain	6,5

Sources: *Pew Research Center (2013).*

The improvement in living standards which occurred in Europe after the World War II and dismantling of racially discriminatory immigration policies in the Americas and Australasia made Europe much less relevant as source of international migrants. For example, in the United States share of new immigrants who come from Europe fell from 56,2% in the 1950s to 13,1% in 2000s (Ferrie and Hatton 2013) and just 8,3% in 2010-2013(USDHS 2013, USDHS 2014). European share of foreign-born population in the US fell from 74% in 1960 to just 10,8% in 2014 (Pew Research Center 2015, American Community Survey 2015). Same pattern could be observed in other previously popular destination countries for European migrants. In Argentina, immigrants from Spain and Italy constituted 74,6% of immigrants and 22,6% of the total population of the country. By 1960 it fell to 61,2% and 8,0% respectively(INDEC). In 2010 share of immigrants from those two countries was equal to just 0,6% of Argentinian population and 13,4% of country’s foreign-born residents(INDEC). At that point, share of migrants from other European countries was negligible.

In Australia share of immigrants born in Europe was 88,3% in 1911 and has increased to 89,8% in 1961 as a result of White Australia policy. After Australia abolished the policy in the 1970s immigration from Asia and other continents increased and share of immigrants from Europe gradually declined to just 40,4% of foreign-born population in 2011 (Australian Bureau of Statistics 2014). In Canada share of European immigrants in the foreign-born population has declined from 85,7% in 1961 to 30,8% in 2011 (Statistics Canada 1983, Statistics Canada 2015). Among new permanent residents of Canada in 2014 only 11,6% were born in Europe (Ministry of Immigration, Refugees and Citizenship Canada 2015). Overall, share of international migrants which originate in Europe is on decline. It fell from 33% in 1990 to just 26% of the world total in 2013 (Pew Research Center 2013). Most of European emigrants are now residing to other European countries (Table 6).

**Table 6. Immigrant population by destination and origin, 2013**

Destination	Origin									
	Developed	Developing	Africa	Asia	Europe	LAC	NA	Oceania	Other	World
Developed	53.8	81.8	11.3	38.9	48.8	31	2.4	1.6	1.6	135.6
Developing	13.7	82.3	19.7	53.7	9.7	5.7	1.9	0.2	5.1	95.9
Asia	1.3	17.3	15.3	1.1	0.8	0	0.1	0	1.4	18.6
Africa	9.7	61.2	4.4	54	7.6	0.7	0.6	0.1	3.6	70.8
Europe	40.1	32.4	8.7	18.7	37.9	4.5	1	0.3	1.5	72.4
LAC	2.7	5.9	0	0.3	1.2	5.4	1.3	0	0.2	8.5
NA	9.6	43.5	2	15.7	7.9	25.9	1.2	0.3	0	53.1
Oceania	4.1	3.9	0.5	2.9	3.1	0.1	0.2	1.1	0.1	7.9
World	67.5	164	30.9	92.6	58.5	36.7	4.3	1.8	6.7	231.5

Sources: United Nations (2013A).

Some post-communist countries in Eastern Europe have one of the largest shares of emigrants among those who were born in the country (Table 7).

**Table 7. Share of emigrants among those born in the country, 2013**

Country, jurisdiction	%, emigrants
Puerto Rico	33
Albania	29
Jamaica	28
Bosnia and Herzegovina	28
Kazakhstan	23
Armenia	23
Trinidad and Tobago	22
Kuwait	21
Moldova	20

Sources: *Pew Research Center (2013)*.

Fifty years since the beginning of World War II immigration of the Americas and its importance as an immigrant destination was on decline. Since 1960s situation became to look strikingly different for North America (US and Canada) and Latin America.

After the abolition of almost total ban on Asian and African immigration in 1965 and gradual increases of annual migration limits, foreign-born population of the United States started to gradually rise (US Census Bureau 2006). Similar processes could be observed in Canada. Share of North America in international immigrant stock has increased from 17% in 1965 to 20% in 1990 (not incl. intra-USSR migration, Table 4) and from 18% in 1990 to 23% in 2013 (including migration between former Soviet republics; United Nations 2013A). Regulatory liberalization caused US Immigrant population to rise from just 9,6 million in 1970 to 46,1 million in 2013 (US Census Bureau 2006, World Bank 2014A). In case of Canada foreign-born population has increased from 3,3 million in 1971 to 7,4 million in 2013 (Statistics Canada 1983, World Bank 2014A). Composition of immigrant origins has also undergone significant changes. Share of migrants from Europe has declined. Shares of other regions demonstrated significant increases.

At the same time as North America was recovering its status as major immigrant destination, immigrant stocks in and immigrant flows to Latin American countries continued to diminish. Its immigrant stock stayed mostly unchanged for the last 50 years. But its share of international migrants has declined from almost 8% to less than 4% (Table 4, Pew Research Center 2013, United Nations 2013A). Moreover, very few immigrants originate in other regions; most of the existing foreign-born population on the continent is from other Latin American countries (United Nations 2013A).

Relative economic decline of Latin America caused continent to become a major source of international migrants. Its share reached 11% of global international migrants in 1990 and 16% in 2013 (Pew Research Center 2013). United States is the destination for most emigrants from Latin America. In that country alone number of immigrants born in Latin America (including Puerto Rico) reached 23,5 million in 2014 or 53% of all foreign-born in the US (American Community Survey 2015). It represents a significant rise from less than one million immigrants which constituted 10% of foreign-born in the US in 1960 (Pew Research Center 2015).

Interestingly, Middle East and particularly oil-producing Gulf states have become major migrant destinations in recent decades. States which rely overwhelmingly on mostly male

foreign labor have highest shares of foreign-born population on the planet. For example, immigrant share reaches 84% of population in the United Arab Emirates, 74% of population in Qatar, 60% in Kuwait and 55% in Bahrain (Pew Research Center 2013, Table 8). Region of Middle and North Africa had negligible share of global international migrants only 50 years, but its share grew rapidly to 10% of international migrants in 1990 and 14% in 2013 (Pew Research Center 2013).

Share of international migrants residing in Asia (without Middle East) and Sub-Saharan Africa continued to decline despite simultaneously rising share of the world population living on those continents. Regions remained mostly unattractive to immigrants as most of their population resided in the countries with average income levels and standards of living significantly below global averages (IMF 2015, World Bank 2014A).

**Table 8. Countries with the highest share of foreign-born, 2013**

Country	%, Foreign born share
United Arab Emirates	84
Qatar	74
Kuwait	60
Bahrain	55
Singapore	43
Jordan	40
Hong Kong	39
Saudi Arabia	31
Oman	31
Switzerland	29

Sources: *Pew Research Center (2013).*

Most of the few advanced economies of these two regions (Asia and Sub-Saharan Africa) mostly preferred a highly restrictive approach to international migration and as a result do not have significant foreign-born population. Singapore and Hong Kong are the exceptions. These two jurisdictions have one of the highest shares of foreign-born population in the world at 43% and 39% respectively (Pew Research Center 2013). In 2013, after decades of declining importance as an international migrant destinations countries of Asia (without Middle East) and Sub-Saharan Africa was home to just 18% and 7% of global migrants respectively (Pew Research Center 2015, World Bank 2014). Same year combined population of the two regions reached more than 70% of the global total (United Nations Population Prospects 2013B).

Adoption of racially and ethnically non-discriminatory approach to immigration by the developed countries in the Americas and Australasia significantly increased emigration opportunities for residents of Asia and Sub-Saharan Africa. It was coupled with the emergence of Europe and Middle East as potential destinations. Most of the Asia and parts of Africa are at the stages of development which usually associated with the highest rates of immigration. Usually population of the middle-income countries has both incentives and means to emigrate. Incentives are high for the residents of the lowest-income countries. But their chances to gather necessary information or attain necessary qualifications to get through legal barriers of receiving countries are very slim. Prospects of emigration are significantly better for the residents of middle-income countries. It is much easier for them to gather information; they are also more likely to possess financial means, education and ability to get through legal barriers. Clemens (2014) offers empirical evidence to prove that observation.

In 2013, 35% of the global emigrant population and 6 of 10 top emigrant-sending countries are from Asia.

**Table 9. Top emigrant-sending countries, 2013**

Country	Million emigrants
India	14,2
Mexico	13,2
Russia	10,8
China	9,3
Bangladesh	7,8
Pakistan	5,7
Ukraine	5,6
Philippines	5,5
Afghanistan	5,1
United Kingdom	5,0

*Sources: Pew Research Center (2013).*

India is the world's top source of international migrants at the moment. 14,2 million of global emigrants are from the country and that number grew more than twofold since 1990 (Table 9). Overall, Asia has become a major source of international migrants for the US, Canada, Australia, New Zealand and many others. In the United States share of immigrants born in South and East Asia (Asia without Middle East) rose from 4% in 1960 to 26% in 2013 (Pew Research Center 2015). In Canada share of immigrants born in Asia rose from just 2,0% in 1961 to 44,9% in 2011 (or 38,2% if West, Central Asia and Middle East are excluded) (Statistics

Canada 1983, Statistics Canada 2015). In Australia the same share rose from 4,5% in 1961 to 32,9% in 2011 (Australian Bureau of Statistics 2014). Even in Europe Asia has become a major source of immigrants. For example, in the United Kingdom in 33,2% of immigrant population as of 2014 was born in Asia (ONS 2015). In Europe as a whole 26% of all the immigrants were from Asia (Table 6).

Also interestingly we can observe that rising share of immigrants originate in middle-income countries. Their share rose from 48% in 1990 to 58% in 2013. High-income countries are increasingly important destinations for international migrants. Their share rose from 57% in 1990 to 69% in 2013 (Pew Research Center 2013). All these figures coupled with smaller share of refugees among international migrants point to the fact that economic conditions are becoming more and more dominant factor in determining directions and volumes of migration flows.

In the end I would like to summarize several migration trends which are relevant at the moment:

- 1) Increased share of migration from middle-income to high-income countries
- 2) Declining share of forced migration (despite recent uptick in gross numbers)
- 3) Rising importance of Australasia, North America, Europe and Middle East as immigrant destinations
- 4) Rising importance of Asia as the source of immigrants
- 5) Rising share of immigrants in the world population after the abolition of race- and ethnicity-based restrictions on immigration in 1960s.
- 6) As evident from other parts of this paper, rising shares of emigrants and immigrants in many countries also mean significantly higher potential influence of immigration on their development.

## **Chapter III Empirical investigation on the impacts of international migration on institutional quality of sending and receiving countries**

### **3.1 Impacts of emigration on institutional improvement in institutionally underdeveloped countries**

The aim of the first part of the empirical research conducted in this paper is to analyze the impact of emigration on institutional development of sending countries with lower levels of institutional quality. This empirical investigation relies on the following key theoretical building blocks:

- 1) Theory of social remittances suggests that international migrants tend to adopt social norms, values and practices of their destination countries and transfer them to their countries of origin. On the other hand, societal norms, values and practices form the basis and determine the development and nature of societal institutions. Social remittances theory also argues that the size of emigrant community matters. Bigger emigrant community increases the strength and influence of social remittances on emigrant-sending society and makes adoption of the new norms, values and practices much more likely.
- 2) International diffusion of cultural (societal) norms and standards as a result of international flows of information should be taken into account (Levitt 1998). In our case it is global institutional standard of democratic governance and high quality institutions and gradual convergence of world's states toward it. We should obviously account and test for it.

Based on the above-mentioned theoretical points we should expect the following to be the case:

- 1) Quality of national institutions across the globe should converge.
- 2) Institutionally underdeveloped countries with relatively higher shares of their native-born residing in institutionally developed countries should receive relatively more intensive transfers of norms, values and practices.
- 3) Quality of institutions in institutionally less-developed countries with relatively higher shares of native-born residing in institutionally developed countries should improve stronger.

On the other hand, a different theory proposed by Hirschman (1970) leads us to almost completely opposite expectations. Hirschman argued that dissatisfied citizens are always facing the choice between voice and exit. Hirschman theory suggests that people who are leaving the institutionally underdeveloped countries are more likely to be dissatisfied with its norms, institutions and state of affairs in general. And in such case more people leaving the country also means less pressure for improvements and institutional reforms. And based on Hirschman

theory we should expect that quality of institutions in institutionally less-developed countries with relatively higher shares of native-born residing in institutionally developed countries should deteriorate or see relatively weaker improvements. Or in other words, higher shares of native-born residing outside the country (in our case in institutionally developed countries) negatively affect the development of institutions in the country of origin.

The goal of this empirical investigation is to test these relevant theories. In order to do that I propose the following hypothesis (Hypothesis 1):

**Hypothesis 1:** Increases in emigrant stock from the countries with low institutional quality residing in the countries with high institutional quality tend to lead to institutional improvements in the countries of origin.

It is possible to test predictions defined by the hypothesis by regressing the indicator of institutional improvement on emigrant share (as defined lower) and other possible characteristics.

The dependent variable will be the log-change in indicator of institutional quality and would reflect the rate of institutional improvement or deterioration.

I have chosen Index of Political Rights and Civil Liberties from Freedom House's Freedom in the World Report as an indicator of institutional quality **F** (Freedom House 2015). It is now well-accepted fact that institutions play a key role in economic success (North 1990, Acemoglu and Robinson 2012). Acemoglu and Robinson (2012) also argue that inclusive nature of the institutions and broadly distributed economic and political power are the features that are most important in the long-term. And the index constructed by Freedom House reflects these features. Surely any index of such nature could not be perfectly precise. On the other hand, it is also important to mention that this Index is well-accepted by social scientists and widely used as a benchmark indicator for institutional and democratic development (Fukuyama 2004, Fukuyama and McFaul 2007, Acemoglu, Johnson and Robinson 2005, Papaioannou and Siourounis 2008, Acemoglu, Naidu, Restrepo and Robinson 2014). Freedom House produces an index for every country annually. It has 2 sub-indexes. One measures political rights, the other - civil liberties. For the purposes of this empirical investigation, **F** is the mean of these 2 sub-indexes. It can change in the range of 1 to 7. Where 7 is the lowest quality of institutions and 1 is the highest. I use data for 1970, 1980, 1990, 2000 and 2010 in this research. Data for

1970 was substituted with the data from 1972 or 1973 in some cases where other options were unavailable.

The emigrant share indicator **mn** is defined as the ratio of the stock of native-born living in institutionally developed countries (emigrants) to the sum of residents of the country and emigrants. In our case emigrant share is a good predictive measure of the strength of social remittances if we subscribe to the respective theory (Levitt 1998). On the other hand, it could also be a measure of departure of the dissatisfied that leads to a decreased pressure for institutional reform and improvement if we subscribe to the theory proposed by Hirschman. In any case it is a key variable for the hypothesis.

Data on emigrant and immigrant stocks was derived from comprehensive Bilateral Migration Database 1960-2000 constructed by the World Bank (World Bank 2015a). I used data for 1970, 1980, 1990 and 2000 for this empirical research. I calculated **mn** based on the emigrant and immigrant stocks data contained in the above-mentioned database and classification of countries by the level of institutional development based on the Index of Political Rights and Civil Liberties constructed by Freedom House. For the purposes of this empirical investigation countries with **F** equal to 2.5 or lower were considered institutionally developed.

In order to empirically test the above-mentioned hypothesis I propose a model (Model 1) that is uniquely fit to test it.

### **Model 1**

$$(\ln(F_{i,t+10}/ F_{it}))/10= \alpha_0 + \alpha_i + \lambda_t + \beta_e mn_{it} + \beta_c \ln(F_{it}) + \beta_0 N + \varepsilon_{it} \quad (2)$$

In the model  $F_{it}$  is the level of institutional development at the time  $t$  for the country  $i$ . Lower  $F$  represents higher levels of institutional development. Model tests how emigration from institutionally underdeveloped countries affects their future institutional progress.  $mn_{it}$  is the stock of emigrants from the country  $i$  not classified as institutionally developed (based on the criteria described above) in all the institutionally developed countries as a share of the native population of such country  $i$  (residents+emigrants) at the time  $t$ .  $\alpha_0$  is the intercept,  $\lambda_t$  captures various time effects specific to a particular period between  $t$  and  $t+10$ ,  $\alpha_i$  reflect country-specific effects,  $N$  is a dummy variable which captures specific effects possessed by countries not classified as institutionally developed as a group,  $\varepsilon_{it}$  is the error term.

Panel data analysis using standard convergence model was chosen as method. The goal was to analyze the dynamics of global institutional development and the influence that international migration have on it. Global diffusion of norms and practices and international institutional convergence should also have been taken into account.

There are several reasons why panel data analysis was chosen as a method of this empirical investigation. First of all, it allows taking higher number of observations into account and hence improves the quality of estimates.

Secondly, compared to cross-sectional study, it offers the possibility to significantly reduce omitted variable bias. Many unobservable factors could influence both the trajectory of institutional development and the initial level of institutional quality. But many of them are also relatively stable over time. For example, those mostly stable factors include predominant language, geographical position, neighboring countries, religious composition, historical background etc. Panel data analysis can easily take most of them into account through the addition of country-specific effects (Beine et al. 2011). At the same time results of this empirical investigation remained robust to set of tested control variables (GDP per capita, population size, etc.)

Also, panel data analysis makes it possible to control for globally-relevant shocks to institutional development through the addition of time effects. Examples of such globally-relevant shocks are waves of democratization as described by Huntington (1991). Global economic crises could also affect institutional quality dynamics across the world.

And finally, simple cross-sectional study would not allow taking dynamic nature of international migration processes in general and emigration rates, shares and stocks in particular into account.

To extend the research I also subdivided all the countries which are not institutionally developed into 2 types:

- 1) Countries with middle level of institutional development and F bigger than 2.5 but lower than 5.5
- 2) Countries with low level of institutional development and F equal to 5.5 or higher

Theory suggest that transfer of societal norms, values and practices go smoother when they resemble the ones already in place in the receiving countries (DiMaggio 1988). It is reasonable

to expect that the same rule affects institutional progress as a result of social remittances. I constructed the following model (Model 2) in order to test this expectation.

## Model 2

$$(\ln(F_{i,t+10}/ F_{it}))/10 = \alpha_0 + \alpha_i + \lambda_t + \beta_{em} \mathbf{mmid}_{it} + \beta_{el} \mathbf{mlow}_{it} + \beta_c \ln(F_{it}) + \beta_0 \mathbf{Mid} + \beta_1 \mathbf{Low} + \varepsilon_{it} \quad (3)$$

As in the first model  $F_{it}$  represents the mean of 2 indexes of Political Right and Civil Liberties produced by Freedom House at the time  $t$  for the country  $i$ . Model tests how emigration from the countries with low or medium level of institutional development affect their institutional progress.  $\mathbf{mmid}_{it}$  is the stock of emigrants from the country  $i$  with medium level of institutional development in all the institutionally developed countries as a share of the native population of such country  $i$  (residents+emigrants).  $\mathbf{mlow}_{it}$  is the stock of emigrants from the country  $i$  classified as a country with low level of institutional development in all the institutionally developed countries as a share of the native population of the country  $i$  (as described above) at the time  $t$ .  $\alpha_0$  is the intercept,  $\lambda_t$  captures various time effects specific to a particular period between  $t$  and  $t+10$ ,  $\alpha_i$  are the country-specific effects,  $\mathbf{Mid}$  is a dummy variable which captures specific effects possessed by the countries with medium level of institutional development as a group.  $\mathbf{Low}$  is a dummy variable which captures specific effects possessed by countries with low level of institutional development as a group.  $\varepsilon_{it}$  is the error term.

## Results

One econometric problem of the regression models described above that requires explanation is the possibility of Nickel bias (Nickell 1981). Nickel bias can arise because of simultaneous use of autoregressive terms and fixed effects and can lead to inconsistency of estimates. But in our case the ratio of the cross-section dimension to the time dimension points to a very limited nature of possible Nickel bias. Beine et al. (2011) is just one example of a study that successfully applied similar research strategy.

In order to make the findings of this empirical investigation more reliable I used several different estimation approaches. It is important to point out that Hausman Test showed that fixed effects model is strongly preferable to random effects model in this case. Test for time effects controls also showed the need to use them. This finding about the need for time effects controls confirmed the reasoning described earlier.

All of the results can be seen in the Table 10. Column 1 reports the estimates of FE model with time and country controls, Column 2 reports the results of RE model, and finally Column 3 reports the results of Fixed time and country effects model after the elimination of autoregressive convergence terms (without  $\ln(F_{it})$ ).

Obviously, negative  $\beta$  mean positive impact on institutional progress, because lower F means higher level of institutional development. Estimation of the model using fixed time and country effects produced significantly positive impact of emigration (under 95% confidence interval) on institutional development of less institutionally developed countries. Positive impact remained significant after the elimination of heteroscedasticity.

Random Effect estimation produced a strong and significant positive impact of emigration on the institutional development of the country of origin. It seems to be significant even under 99% confidence interval conditions.

**Table 10. Institutional progress and international migration: panel data results**

	FE	RE	FE without convergence
Constant	0.074***	0.007**	0.023***
$\beta_c$	-0.078***	-0.013***	N/A
$\beta_e$	-0.112**	-0.137***	-0.111*
Nb. Obs.	556	556	556
Nb.Countries	139	139	139
R-squared	0.424	0.247	0.228

*Source: My own estimation Note: \*\*\* denotes significance under 99% confidence interval, \*\* - under 95% confidence interval, \* - 90%.*

Finally, simple fixed time and country effects model which does not take institutional convergence into account produces results very similar to the ones observed under all the previous methods.

It is remarkable that very different approaches produce very similar outcomes of  $\beta_e$ . It ranges between -0.11 and -0.14 and consistently significant. Importantly, GMM-type Arellano-Bond dynamic panel-data estimation used to account for possible endogeneity-caused biases produced the same estimates but with higher margin of error.

Consistently negative  $\beta_e$  proves positive impact of emigration from institutionally backward countries to more advanced ones on institutional development of the former and is enough to accept Hypothesis 1.

It also important to underline that both FE and RE models detect significant institutional convergence trends. Significant and negative  $\beta_c$  means that higher  $\ln(F_{it})$  (or lower institutional quality) correlates with lower  $(\ln(F_{i,t+10}/ F_{it}))/10$  (faster pace of institutional improvement). In other words, we can observe significantly faster pace of institutional improvement in countries with lower levels of institutional quality.

To differentiate the impacts on the countries with medium and low levels of institutional development Model 2 was employed. I used similar estimation approaches as for the Model 2. The results of Model 2 estimation can be observed in Table 11.

**Table 11. Institutional progress and emigration: effects for the countries with low and middle level of institutional development**

	FE	RE	FE without convergence
Constant	0.075***	0.004	0.025***
$\beta_c$	-0.08***	-0.005	N/A
$\beta_{el}$	0.005	-0.218**	-0.104
$\beta_{em}$	-0.129**	-0.138***	-0.146**
Nb. Obs.	556	556	556
Nb.Countries	139	139	139
R-squared	0.4258	0.236	0.228

*Source: My own estimation Note: \*\*\* denotes significance under 99% confidence interval, \*\* - under 95% confidence interval, \* - 90%.*

Estimation using fixed effects model with time controls produced the following results:

- 1) Fixed time and country effects model demonstrates very significant positive impact of emigration to institutionally developed countries on institutional development of the countries with middle level of institutional development. At the same time we observe no impact on the countries with the lowest levels of institutional development. Results remained the same after the elimination of heteroscedasticity. They also stayed robust after the addition of several control variables (GDP per capita, population size, etc.)
- 2) Random effects model produced significantly positive impacts for both low-developed and countries in the middle of institutional development scale. But similarly to Model 1, Hausman Test once again demonstrated superiority of the Fixed Effects Model for the purposes of our estimation.
- 3) Fixed Time and Country effects model stripped of auto-regressive convergence terms detects significant and positive impact of emigration from countries with middle level of institutional development on their institutional progress. The estimate of  $\beta_{em}$  is broadly similar

to the estimated derived by using other methods. The estimated impact of emigration from the countries with the lowest level of institutional development on their institutional progress is once again positive but not significant.

It is also important to point out that estimation of both Model 1 and Model 2 demonstrated significant trends towards institutional convergence when both time and country effects are fixed.  $\beta_c$  remained negative and significant in all of these estimations.

### **Interpretation**

First of all it is important to acknowledge that the effects described in the social remittances theory as well as the effects described in the theory proposed by Hirschman can be observed simultaneously. It is true that some disaffected citizens of institutionally underdeveloped countries often decide to live these countries. And many or at least some of them would probably press for reform and institutional change if they chose to stay in their countries of origin. Their departure decreases the pressure for institutional improvement.

At the same time, it is also true, that most international migrants adopt the values, norms and practices of their institutionally developed destination countries and many of them transfer these newly adopted values, ideas, norms and practices to their countries of origin to at least some degree. As a result of changing societal norms, values and practices pressure for institutional change increases.

We have two theories which propose two different effects working in the opposite directions. And the results of this empirical investigation suggest that social remittances effect is significantly stronger. Results clearly show that higher shares of native-born living in institutionally developed countries have positive and significant effect on the pace of institutional improvement in institutionally underdeveloped countries. Results confirm an important pillar of social remittances theory. Namely, that numbers matter and simultaneous social transfers (of norms, values and practices) working in the same directions have stronger impact (Levitt 1998).

The results of this empirical research echo, complement and sometimes extend other important findings in one way or another. For example, Spilimbergo (2009) uses the same index as this paper and shows that students from institutionally less developed countries studying in institutionally developed countries positively affect institutional development at the origin. Spilimbergo argues that in many institutionally underdeveloped countries citizens with foreign

education are a part of the elite or have a potential to become a part of the elite and hence have an outsized influence on the development of their countries of origin. But the results of this study go beyond that and show that emigration in general and not just emigration for the purpose of higher education or highly-skilled emigration have significant and positive impact on institutional progress.

Similarly, Mahmoud et al. (2014) finds that regions of Moldova with greater emigration to the EU demonstrated higher and increased shares of vote in favor of pro-European parties and regions of Moldova with greater emigration to Russia demonstrated higher and increased shares of vote in favor of then ruling pro-Russian Communist Party of the Republic of Moldova. Pfütze (2012) found that during the watershed 2000 election in Mexico municipalities with higher shares of emigrants in the United States produced significantly higher shares of votes in favor of democratic changes. Those studies show that in the cases described the effect proposed by Hirschman is much weaker than the effect produced by social remittances. This empirical investigation extends those findings. It demonstrates that social remittances affect the long-term trajectory of institutional development around the globe and not just current political affairs of several countries.

Results of this empirical investigation also show that positive impact of social remittances on institutional progress of institutionally underdeveloped countries is much clearer for the countries with the medium level of institutional development. There are several explanations for this observation.

First of all, as DiMaggio (1988) argues the impact and adoption levels of transferred norms, values or practices is stronger when they are closer to the norms, values and practices already in place.

Secondly, as Levitt (1998) argues the impact of social transfers is stronger when it is reinforced by general global diffusion of norms, values and practices. And countries with the lowest levels of institutional development are also more likely to be sheltered from global information flows and hence many cultural and societal trends as well. It is also important to take into account that this study uses data from 1970s to the present days and during much of that period such informational isolation was practiced by many countries around the world.

Thirdly, channels for social remittances itself were very limited throughout much of the studied period for many countries with the lowest levels of institutional development. Travel to the

country of origin was much less likely to be possible for the emigrants from the countries with the lowest levels of institutional development. The same is true with respect to communication.

Also, countries with the lowest levels of institutional development obviously put much more limits on public expression and it is much more difficult for public to organize pressure for institutional change or democratization. At the same time to the contrary institutional progress in such countries requires significantly higher pressure on the governing elites. In other words it is more difficult to convert social transfers into institutional change.

And finally, if the overall impact of social transfers is weaker in the case of countries with the lowest levels of institutional development then the counter effect described by Hirschman would also be more tangible in comparison.

Results also show a trend towards global institutional convergence. Convergence is stronger and more significant with fixed country effects. Such conditional convergence means that country-specific characteristics have a significant impact on institutional convergence processes and stop much faster potential institutional convergence pace from realizing.

### **3.2 Impacts of immigration from institutionally underdeveloped countries on institutional quality dynamics of the receiving countries**

The aim of the second part of this empirical research is to analyze the impact that immigration from the countries with low quality of institutions have on institutional quality of destination countries with high institutional quality. In this part I would like to empirically test the theories proposed by Borjas (2014a) and Collier (2013). Scholars argue that larger stocks of immigrants from countries with low quality of institutions are going to have negative impact on institutions of institutionally-developed receiving countries. Authors haven't provided a completely clear mechanism to explain their expectations. But the main ideas that lay at the foundation of their line of argument are the following:

- 1) Dominant societal norms, values and practices predetermine the quality of societal institutions
- 2) Immigrants generally tend to adhere to the dominant societal norms, values and practices of their countries of origin and tend to preserve them after migrating
- 3) When stock of immigrants from countries with low level of institutional development grows – societal norms, values and practices which are dominant in their countries of origin become more influential in the host society. And then these imported norms, values and

practices are starting to negatively affect the quality of host country institutions and move them closer to the ones observed in the countries of origin.

In order to test the theoretical arguments of Borjas (2014a) and Collier (2013) empirically I propose the following hypothesis (Hypothesis 2):

**Hypothesis 2:** Increased immigrant stocks originated in the countries with low institutional quality tend to lead to lower institutional quality in the receiving countries with high institutional quality

One of the possible ways to test the predictions defined by Hypothesis 2 is to regress the indicator of institutional change on immigrant share from countries with low quality of institutions (as defined lower) and other possible characteristics.

For the purposes of testing this hypothesis I am using the same index of institutional quality **F** as defined earlier.

The immigrant share indicator **mfr** is defined as the ratio of immigrant stock from the countries with low levels of institutional development to the total population of the country classified as institutionally developed. In our case immigrant share as defined above is a key variable that affects the quality of institutions of the receiving countries if the theoretical arguments proposed by Borjas and Collier hold.

Like in the first part of this empirical investigation data on migrant stocks and population is from the World Bank and data on institutional quality is from the Freedom House (World Bank 2015a, Freedom House 2015). Similarly, immigration shares from institutionally underdeveloped countries were calculated using World Bank data on migrant stocks and total population and Freedom House's classification of countries. Countries with low level of institutional development were defined as countries with F equal to 5.5 or higher. And countries with high level of institutional development were defined as countries with F equal to 2.5 or lower. Data points used in the research are years 1970, 1980, 1990, 2000, 2010.

The following model (Model 3) was employed to test Hypothesis 2 empirically.

### Model 3

$$(\ln(F_{i,t+10}/ F_{it}))/10 = \alpha_0 + \alpha_i + \lambda_t + \beta_m mfr_{it} + \beta_c \ln(F_{it}) + \varepsilon_{it} \quad (1)$$

Meaning of all of the variables are the same as in the previous models except for  $mfr_{it}$ .  $mfr_{it}$  is the stock of immigrants from the countries with low levels of institutional development a share of the total population of the country  $i$  classified as a country with high level of institutional development at the time  $t$ . Like in the previous models,  $F_{it}$  is a measure of institutional development at a time  $t$  for the country  $i$ ,  $\alpha_0$  is the intercept,  $\lambda_t$  captures various time effects specific to a particular period between  $t$  and  $t+10$ ,  $\alpha_i$  are country-specific effects,  $\epsilon_{it}$  is the error term.

I use panel data analysis and standard convergence equation, similarly to the first part of this empirical investigation. All the advantages and disadvantages of such methodological approach are the same as in the first part of this empirical research.

## Results

Like in the first part of this empirical research in order to make the findings more reliable I used several different estimation approaches. I also tested for the need of time-fixed effects beforehand and test results proved the need of time controls. As described above time controls is a good way to control for global shocks to institutional development.

All of the estimation results can be observed in the Table 12. Column 1 reports the estimates of FE model with time and country controls, Column 2 reports the results of RE model, and finally Column 3 reports the results of GMM-type Arellano-Bond estimation used to minimize possible endogeneity-caused biases.

**Table 12. Institutional quality dynamics: impact of immigration from countries with low levels of institutional development**

	FE	RE	Arellano-Bond
Constant	0.074***	0.007**	0.152***
$\beta_c$	-0.073***	-0.012***	-0.108***
$\beta_m$	-0.191*	-0.101	-0.136
Nb. Obs.	560	560	280
Nb.Countries	140	140	140
R-squared	0.4209	0.24	N/A

*Source: My own estimation Note: \*\*\* denotes significance under 99% confidence interval, \*\* - under 95% confidence interval, \* - 90%.*

Estimation with fixed country and time effects proved that immigration from institutionally low-developed countries does not have any negative effects on the institutions of the receiving countries with high institutional quality. To the contrary, it even has slightly positive impact on

the destination country institutions, which is significant at 90% confidence interval (it is important not to forget that higher values of F represent lower levels of institutional development). It is also important to underline that convergence in the quality of global political and social institutions is significant even at 99% confidence interval.

Random effects regression is admittedly less reliable in this case. Like in the previous models, Hausman test indicates the superiority of fixed effects model for the purposes of this estimation. Nevertheless, similarly to FE, RE estimation detects no negative impacts of immigration from institutionally low-developed countries. It also detects a positive albeit less significant impact (significant only at 85% confidence interval).

To prove the robustness of the results to different methods I also used GMM-type Arellano-Bond dynamic panel-data estimation. And like previously described techniques it also demonstrated no negative impacts of immigration from countries with low level of institutional development. The estimation using that technique also points to a slightly positive impact such kind of immigration. At the same time the result is less significant compared to the previous estimation techniques.

As in the previous cases results remained robust after the addition of such control variables such as GDP per capita, population size, etc.

All the estimation techniques detected highly significant institutional convergence trends.

### **Interpretation**

The results clearly show that immigration from institutionally underdeveloped countries does not have any negative effects on institutional quality of institutionally developed countries. They clearly demonstrate that theoretical expectations described by Borjas (2014a) and Collier (2013) are failing to materialize. But other theoretical paradigms and ample empirical evidence suggest the results obtained in this part of my empirical investigation were predictable.

As many other studies and sociological surveys prove immigrants tend to adopt the values, beliefs and practices of their destinations. Specific examples demonstrate how immigrants from very different and often very conservative background tend to converge to host society norms on fertility and childbearing issues (Stephen and Bean 1992, Lindstrom and Giorguli Saucedo 2002, Dubuc 2012), gay rights support (Pew Research Center 2007, Pew Research Center 2011, Public Religion Research Institute 2015, Bertelsmann Stiftung 2015), political and social values

in general (Pew Research Center 2007, Pew Research Center 2011, Shain 1999). Other studies show convergence to the norms of host society on bribery toleration (Barr and Serra 2010) and crime rates (Rumbaut and Ewing 2007, Bersani 2014). This empirical investigation broadly corresponds to and complements the findings of all those studies. When immigrants are generally adopting values, norms and practices of the host societies as various studies show it is not surprising that immigration from the countries with low level of institutional development has no negative impact on institutions of the host society.

It does not mean though that differences in societal and cultural norms, values and practices between recent immigrants and the native-born do not exist. But as Fernandez (2010) argues societal and cultural norms, values and practices are anything but “irrational, static or slow-changing”. It is certainly even more obvious with respect to immigrant communities. Fernandez (2007) describes the change in societal and cultural norms and practices as a learning process. If we apply the theory of “culture as a learning process” proposed by Fernandez (2007) we should expect the accelerating adoption of the host norms, values and practices as members of immigrant community gradually increase their interactions with their host society and “public signal” from their host society becomes more and more influential.

The results of the second part of this empirical investigation also correspond very well with the results of the first. If emigrants residing in institutionally developed countries tend to transmit social norms, practices and values to their institutionally underdeveloped countries of origin and positively affect the institutions in the origin then it implies that before transmitting they first tend to adopt these norms, values and practices themselves.

## Conclusions

All the evidence presented in this paper demonstrates just how big a role international migration plays in the development of both sending and receiving countries. For sending countries emigration brings hundreds of billions of dollars in annual remittances inflows. Financial inflows as a result of remittances help to cope with natural disasters, stimulate to invest more in girls education and reduce the prevalence of child labor. Remittances inflows reduce poverty and child malnutrition enhancing the intellectual development of children, decrease the probability of civic conflicts and broaden financial inclusion.

Emigration offers opportunities for citizens of failed states that are unable to keep up with high population growth or fight poverty. For more successful developing and developed countries, emigration increases investment and trade flows between countries of origin and destination countries and spreads knowledge and know-how. Also, empirical evidence tells us that emigration opportunities stimulate human capital formation in the countries of origin.

Immigrant-receiving countries also benefit tremendously from international migration. Immigrants help to spread and reduce the long-term and very often short-term fiscal burden. They also help to increase the share of working-age population and cope with ageing. Immigration increases GDPs of receiving countries and incomes of the native-born. Various studies also prove that immigrants are disproportionately entrepreneurial and innovative.

For the receiving countries long-term benefits are the most significant. For example, short-term fiscal impact of immigration measured in terms of net annual fiscal contribution is mostly positive but not that big. Impact becomes much more substantial when long-term fiscal consequences of immigration are taken into account. More broadly spread debt burden and significantly improved demographic situation as a result of higher shares of young and working-age population among immigrants allow sustaining the same amount of state obligations with significantly lower taxation levels. Much better fiscal performance of second-generation residents (children of immigrants) also helps. Long-term fiscal benefit of immigration is especially huge when immigration is large enough to significantly affect the shape of population pyramid.

Similarly, studies on the impact of immigration on the wages of the native-born disagree on many things, but agree on at least one: the impact is small. It is also mostly acknowledged that immigration is less beneficial for the native-born with lower educational and skill levels. But

many studies on the long-term consequences of immigration to the wages of the natives found that the impact is positive and significant even for low-skilled natives. Immigration increases wage return on education for highly-skilled natives and increases the purchasing power of all the wages by reducing construction costs and non-tradable services prices for everybody.

It is important to underline that if the structure of the labor market and number of low-skilled jobs were fixed, at the same time as low-skilled natives' labor and low-skilled immigrant labor were perfect substitutes then the impact of low-skilled immigration on the wages of low-skilled natives would be hugely negative. But none of those assumptions are remotely true. Low-skilled immigrant and low-skilled native labor are very poor substitutes. Labor market readjusts in response to immigration. Immigration creates more jobs consisting of non-manual low-skilled tasks which require language and communication skills which are not possessed by low-skilled immigrants. Immigration stimulates low-skilled natives to specialize in those jobs increasing their wages and productivity in the process.

Short-term benefits of immigration to GDP are already significant. But in the case of immigration influence on GDP the long-term cumulative effect is much larger than the short-term one, especially when the impact of immigration on long-run annual potential output levels is accounted for.

There is also a wide range of immigration impacts which are harder to quantify. But that fact does not make them less significant. Overrepresentation of immigrants among entrepreneurs, major scientists, innovators and venture capitalists gives us an idea on the influence that immigration has on the pace of technological progress.

This paper builds upon all the evidence that proves positive developmental impact of international migration and extends the research to institutional impacts. It is now well-accepted fact that institutions predetermine long-term economic development path. Social remittances theory suggests that emigrants tend to adopt social norms, values and practices of their host societies and transfer them to their countries of origin. On the other hand societal norms, values and practices form the basis of economic and political institutions.

Empirical investigation conducted in this paper detected strong evidence that emigration to the countries with developed institutions have significant positive impact on institutional quality in the countries with lower levels of institutional development. The impact depends on the size of emigrant community and especially strong for emigrant-sending countries with medium level

of institutional development and not so strong for the countries with the lowest levels of institutional development. These results generally confirm the expectations based on social remittances theory that transfer of social norms, values and practices go smoother when these norms, values and practices resemble the ones already in place.

Paper also tests the validity of concerns regarding institutional impacts of immigration from the countries with lower levels of institutional development voiced by Borjas (2014a) and Collier (2013). Contrary to the concerns and theoretical arguments of these distinguished scholars empirical investigation detected no negative impacts of immigration from the countries with low levels of institutional development on institutional quality of institutionally-developed destination countries. Results of the empirical research confirm the findings of various studies that show that immigrants tend to gradually adopt the values, norms and practices of their host societies. And as social remittances theory and empirical evidence suggest even transfer them to their countries of origin.

The study on institutional impacts of international migration can be further extended by concentrating on the influences of specific types of migration. Also additional attention can be paid to more recent decades when international information and population flows became much more intense and hence climate for social remittances became much more favorable.

We can summarize that in terms of various developmental indicators international migration produces the improvements on many levels which are already mentioned above. In terms of institutions it enhances the pace of global progress in two main ways. Firstly, it increases the share of global population which lives under high institutional quality conditions. Secondly, it stimulates and facilitates the improvement of institutional quality in the countries which are still not institutionally developed.

Overall positive impact of international migration does not imply that there are no specific cases when the influence of international migration could be negative. For example, not all sending countries can transform remittances receipts into investments and long-term developmental benefits. The same way like not all sending countries can reap the benefits of human capital formation as a result of emigration opportunities. But as evidence presented in this paper shows poor institutional structure of these countries, lack of rule of law, level playing field and secure property rights are the main explanation of such lost potential benefits. And as empirical investigation conducted in this paper demonstrates international migration can also help with that problem.

Similarly, current media narrative on recent refugee migration flows often attracts exaggerated attention to isolated negative cases or experiences related to immigration. Obviously, some immigrant individuals commit crimes and some abuse welfare state in the same way like many native-born residents do. And the impacts of different types of migration can obviously vary. But what is important for any rational analysis of any problem is to see a bigger picture. The goal should always be not to destroy all the benefits that the evidence presented in this paper shows immigration brings to the receiving countries. The answer to welfare abuse is a legal wall between welfare state and welfare abusers of any origin and not actual physical walls between countries. The answer to crime is obviously to persecute criminals and not to harass and deport innocents.

In case of refugee and asylum seeker migration it is also true that some policies can seriously diminish the benefits of immigration. It is hard to expect that immigration will bring short-term benefits when barriers to the labor market entry are too high. It is unreasonable to expect that particular immigrants will be net fiscal benefactors when there are effectively not allowed to work, for example.

Combining the empirical evidence on the impacts of international migration and results of empirical research conducted in this paper we can conclude that international migration have mostly positive impact on both short-term and long-term development of both sending and receiving countries. It is safe to say that international migration offers unprecedented opportunities for both sending and receiving countries as well as migrants themselves. But the degree to which regions, countries or individuals seize such opportunities depends on a particular policies, decisions and actions.

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## Appendix

**Table 13. Freedom House's latest country scores, 2016 edition (based on 2015 performance)**

Country	PR	CL
Afghanistan	6	6
Albania	3	3
Algeria	6	5
Andorra	1	1
Angola	6	6
Antigua & Barbuda	2	2
Argentina	2	2
Armenia	5	4
Australia	1	1
Austria	1	1
Azerbaijan	7	6
Bahamas	1	1
Bahrain	7	6
Bangladesh	4	4
Barbados	1	1
Belarus	7	6
Belgium	1	1
Belize	1	2
Benin	2	2
Bhutan	3	4
Bolivia	3	3
Bosnia-Herzegovina	4	3
Botswana	3	2
Brazil	2	2
Brunei	6	5
Bulgaria	2	2
Burkina Faso	4	3
Burundi	7	6
Cambodia	6	5
Cameroon	6	6
Canada	1	1
Cape Verde	1	1
Central African Republic	7	7
Chad	7	6
Chile	1	1
China	7	6
Colombia	3	4
Comoros	3	4

Congo (Brazzaville)	6	5
Congo (Kinshasa)	6	6
Costa Rica	1	1
Cote d'Ivoire	4	4
Croatia	1	2
Cuba	7	6
Cyprus	1	1
Czech Republic	1	1
Czechoslovakia	..	..
Denmark	1	1
Djibouti	6	5
Dominica	1	1
Dominican Republic	3	3
East Timor	3	3
Ecuador	3	3
Egypt	6	5
El Salvador	2	3
Equatorial Guinea	7	7
Eritrea	7	7
Estonia	1	1
Ethiopia	7	6
Fiji	3	3
Finland	1	1
France	1	1
Gabon	6	5
Gambia, The	7	6
Georgia	3	3
Germany	1	1
Germany, E.	..	..
Germany, W.	..	..
Ghana	1	2
Greece	2	2
Grenada	1	2
Guatemala	4	4
Guinea	5	5
Guinea-Bissau	5	5
Guyana	2	3
Haiti	5	5
Honduras	4	4
Hungary	2	2
Iceland	1	1
India	2	3
Indonesia	2	4
Iran	6	6
Iraq	5	6

Ireland	1	1
Israel	1	2
Italy	1	1
Jamaica	2	3
Japan	1	1
Jordan	6	5
Kazakhstan	6	5
Kenya	4	4
Kiribati	1	1
Kosovo	3	4
Kuwait	5	5
Kyrgyzstan	5	5
Laos	7	6
Latvia	2	2
Lebanon	5	4
Lesotho	3	3
Liberia	3	4
Libya	6	6
Liechtenstein	1	1
Lithuania	1	1
Luxembourg	1	1
Macedonia	4	3
Madagascar	3	4
Malawi	3	3
Malaysia	4	4
Maldives	4	5
Mali	5	4
Malta	1	1
Marshall Islands	1	1
Mauritania	6	5
Mauritius	1	2
Mexico	3	3
Micronesia	1	1
Moldova	3	3
Monaco	2	1
Mongolia	1	2
Montenegro	3	3
Morocco	5	4
Mozambique	4	4
Myanmar	6	5
Namibia	2	2
Nauru	2	2
Nepal	3	4
Netherlands	1	1
New Zealand	1	1

Nicaragua	4	3
Niger	3	4
Nigeria	4	5
North Korea	7	7
Norway	1	1
Oman	6	5
Pakistan	4	5
Palau	1	1
Panama	2	2
Papua New Guinea	4	3
Paraguay	3	3
Peru	2	3
Philippines	3	3
Poland	1	1
Portugal	1	1
Qatar	6	5
Romania	2	2
Russia	6	6
Rwanda	6	6
Saint Kitts and Nevis	2	1
Saint Lucia	1	1
Saint Vincent & Grenadines	1	1
Samoa	2	2
San Marino	1	1
Sao Tome & Principe	2	2
Saudi Arabia	7	7
Senegal	2	2
Serbia	2	2
Seychelles	3	3
Sierra Leone	3	3
Singapore	4	4
Slovakia	1	1
Slovenia	1	1
Solomon Islands	3	3
Somalia	7	7
South Africa	2	2
South Korea	2	2
South Sudan	7	6
Spain	1	1
Sri Lanka	4	4
Sudan	7	7
Suriname	2	3
Swaziland	7	5
Sweden	1	1
Switzerland	1	1

Syria	7	7
Taiwan	1	2
Tajikistan	7	6
Tanzania	3	4
Thailand	6	5
Togo	4	4
Tonga	2	2
Trinidad & Tobago	2	2
Tunisia	1	3
Turkey	3	4
Turkmenistan	7	7
Tuvalu	1	1
Uganda	6	5
Ukraine	3	3
United Arab Emirates	6	6
United Kingdom	1	1
United States	1	1
Uruguay	1	1
USSR	..	..
Uzbekistan	7	7
Vanuatu	2	2
Venezuela	5	5
Vietnam	7	5
Vietnam, N.	..	..
Vietnam, S.	..	..
Yemen	7	6
Yemen, N.	..	..
Yemen, S.	..	..
Yugoslavia	..	..
Yugoslavia (Serbia & Montenegro)	..	..
Zambia	3	4
Zimbabwe	5	5