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Visa restrictions and economic globalisation

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ABSTRACT

The cross-border mobility of people, goods and services, and capital has expanded enormously both in intensity and diversity over recent decades. States have a general interest in facilitating these flows in order to benefit from economic globalisation. Yet, mainly due to security concerns, most governments grant visa-free mobility only very selectively. Drawing on a new bilateral visa policy database covering up to 194 destination and 214 origin countries over the 1995 to 2013 period, our analysis finds that the introduction of a visa restriction by a destination country for citizens from a particular origin country deters tourism inflows by about 20 per cent. Visa restrictions also reduce bilateral trade and foreign investment, but to a smaller extent than previous studies have suggested. We further find that some of the deterred flows in tourists and goods and services are redirected to other (visa-free) destinations. This deterrence-cum-deflection effect of restrictive visa policies implies significant economic costs for both visa-issuing and visa-targeted countries, but it creates some positive externalities for countries with a more liberal visa policy. Liberalised visa policies would in particular help poorer countries to partake more in the benefits of economic globalisation.

1. Introduction

The cross-border movement of people is perceived to be a double-edged sword by most countries' governments. On the one hand, they welcome the economic benefits that are typically associated with such movements in the form of tourism, trade, and the investment of foreign capital, even if these aspects of economic globalisation are unlikely to benefit countries equally (Kemeny, 2011). On the other hand, they are concerned about the cross-border flow of individuals both for security reasons and for fear that visitors might become illegal immigrants. National sovereignty includes the right to control and restrict who enters a nation state's territory, a right which has 'historically been viewed as inherent in the very nature of sovereignty' (Collinson, 1996, p. 77). Globalisation has arguably weakened nation states' capability to enforce their right to control mobility, but it has not eliminated their prerogative to do so.[1]

In this article, we analyse the economic cost of forfeited bilateral tourist arrivals, trade and foreign direct investment (FDI) as the consequence of one important policy instrument that governments have at their disposal with which to monitor, control and limit the cross-border flow of people: namely, visa restrictions. These impose a burden on those subjected to the restriction and allow the country imposing the restriction to pre-screen individuals before they arrive at its border. Torpey (1998: 252) calls visa restrictions the 'first line of defence' against the entry of 'undesirables', that is, 'risky' and therefore 'unwanted' travellers who potentially pose a threat to the security, wealth and identity of a country (Mau, Brabandt, Laube, & Roos, 2012; Torpey, 2000).[2]

Globalisation, understood as the 'widening, deepening and speeding up of worldwide interconnectedness in all aspects of contemporary social life' (Held, McGrew, Goldblatt, & Perraton, 1999, p. 2), is a broad process that interlinks social, cultural and economic developments across spatial and political boundaries. In this article, we focus on three main aspects of economic globalisation, namely international tourism, trade and FDI. Technological progress and market competition have radically reduced the costs

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[1] There is no right in international law to enter the territory of a foreign sovereign nation-state. Even the non-binding Universal Declaration of Human Rights only postulates rights about entering one's own country, not foreign countries.

[2] Naturally, it is an imperfect first line of defence. For example, the 9/11 terrorists all entered the US on valid visas.

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of air travel and other means of transportation as well as communication over increasingly large distances (Castells, 1996), and international market integration has spatially expanded opportunities for business, trade, investment and tourism. As a consequence, the world has seen an unprecedented rise in the cross-border mobility of people, goods and services, and capital. Over the past two decades, global travelling has more than doubled with international tourist arrivals reaching a total of 1.184 million in 2015 (see Fig. 1). International travel and tourism has grown to be the world's fourth largest industry (after fuels, chemicals, and automotive products), contributing 9.8 per cent of global GDP, 4.3 per cent of total investments, 5.7 per cent of world exports and more than 250 million jobs, i.e. 9.4 per cent of total global employment (WTTC, 2015).

Visa restrictions impose costs other than economic costs on both the imposing and the target country. Such restrictions are a highly visible and often symbolic representation of the relationship between two countries. Countries tend to grant visa-free access to their allies and close partners and the imposition of visa restrictions is typically regarded as an unfriendly act by the government of the affected country. As the example of the relationship between the European Union (EU) and countries like Georgia, Turkey and Ukraine shows, the issue of visa restrictions that citizens from these countries face when entering the EU can take on a highly politicised dimension. Also, as Neumayer (2006) has shown, visa restrictions are systematically employed by predominantly richer countries to keep out immigrants from poorer countries. Such unequal access to foreign spaces reinforces existing inequalities between highly privileged citizens from some nation-states and those who face severe restrictions to their international mobility (Czaika, de Haas, & Villares-Varela, 2017).

In this article, we will exclusively focus on economic costs. Mobility barriers established by visa restrictions may prevent the reaping of the full benefits of economic globalisation as their implementation entails not only significant administrative costs but comes with substantial economic costs as a result of forfeited tourism and travel, trade and investment. For instance, Hu (2013) estimates that the US Visa Waiver Program (VWP) has saved between US$ 1.9 billion and US$ 3.2 billion in administrative costs and contributed a further US$ 6.9 billion to US$ 10 billion in direct tourist spending per year. Studying the impact of post-9/11 visa policies on travel to the US, Neiman and Swagel (2009) find that changes in visa policy were not important contributors to the decrease in travel to the US after 9/11, however. They find that the largest decline was among travellers under the visa waiver program, i.e. those who were not required to obtain a visa (see also, Bangwayo-Skeete & Skeete, 2016). For China, Song, Gartner, and Tasci (2012) and Li and Song (2013) demonstrate detrimental

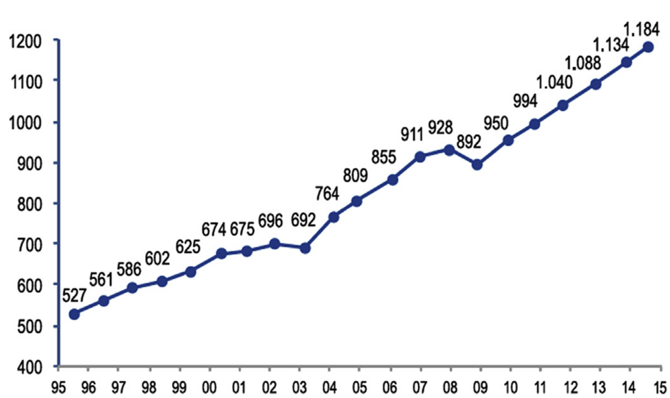

Fig. 1. World inbound travelling (in millions), 1995–2015. Source: UNWTO (2015).

impacts from visa restrictions on tourism and the wider economy.

Cross-sectional studies at the global level by Neumayer (2010, 2011) provide evidence that visa restrictions decrease travel flows (by between −52 per cent to −63 per cent), bilateral trade (−21 per cent) and FDI (−32 per cent). Lawson and Roychoudhury (2016) find an even higher effect on tourist travel of −70 per cent. All three studies employ a similar definition of visa restrictions but due to the cross-sectional nature of these studies, the authors cannot include dyad- or source/destination-specific year fixed effects. These previous analyses of the economic costs of visa restrictions suffer from severe methodological shortcomings. Most importantly, these studies suffer from omitted variable bias since they cannot control for many unobserved factors that impact on tourist arrivals, trade and FDI and that might be correlated with visa restrictions. In this article, we use a new bilateral visa policy database from the DEMIG project at the University of Oxford, which covers 194 destination and 214 origin countries over the 1995 to 2013 period. The time-varying measure of visa restrictions allows us to identify the effect of visa restrictions on tourism, trade and FDI, respectively. To identify effects we employ the most stringent econometric specification that dyadic panel data allow, namely the inclusion of dyad -fixed effects in combination with time -fixed effects that vary for both members of a country dyad. Such a specification excludes the possibility that unobserved time-invariant heterogeneity across dyads as well as time-varying heterogeneity across countries bias the estimated visa effect (Anderson & Van Wincoop, 2003; Baier & Bergstrand, 2007; Klein & Shambaugh, 2006). As a result of this rigorous specification, we find the effect of visa restrictions to be much smaller than the ones reported in Neumayer (2010, 2011), who accepts that his estimates are likely to be upward biased. We also disaggregate the global sample into one of high-income and low-income destination countries to assess whether the effect is stronger in one or other of these groups.

We make a number of further contributions. Firstly, we investigate *asymmetric visa policy effects* by formally distinguishing a negative effect as a result of a visa introduction and a positive effect due to a visa waiver or removal of a visa requirement. Secondly, in addition we allow the effects of visa introductions and visa removals to differ over time, thus relaxing the constraining assumption of *temporal homogeneity*. Finally, we estimate *spatial diversion* effects which capture the extent to which visa restrictions produce positive externalities by shifting tourist, trade and investment flows to other, visa-free destinations. Just as trade agreements result in both trade creation within the trade agreement area and trade diversion from outside the trade agreement area, so do visa restrictions deter the flow of tourist arrivals, reduce trade and FDI for the dyad under observation but divert some of these flows to other destination countries. We are able to quantify the extent to which outbound flows of people, goods and services, and capital are diverted to other, visa-free destinations.

2. The economic costs of visa restrictions

A visa restriction requires a citizen who aims to travel to a visa-restricted country to apply for a travel visa, which is usually valid for only a short period of time (between 30 and 180 days). The applicant can do this either via post, which can take weeks or months to be processed, or in person, which requires visiting the destination country's embassy or one of its consulates and waiting in the queue, possibly for hours. Alternatively, one can employ a professional visa service which charges a substantial fee in addition to the cost of the visa itself. In a few cases, one can apply for a visa upon arrival at the border. The pecuniary and non-pecuniary costs of receiving a visa will deter some from seeking entry into the