



Foreign assistance and migration choices: Disentangling the channels

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HIGHLIGHTS

- We examine core mechanisms through which foreign aid might affect migration decisions.
- We follow Clemens et al. (2012) and distinguish short-impact aid and late-impact aid.
- We find a strongly negative effect of late-impact aid on migration.

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ABSTRACT

At least since the large refugee movements to the EU in 2015, many policymakers see foreign aid as a means to stem migrant inflows. Yet, little is known about the mechanisms through which foreign aid might affect migration decisions. To this end, we run gravity-type regressions for the aid categories proposed by Clemens et al. (2012): (i) short-impact aid that may generate income growth in the short to medium term, and (ii) late-impact aid that affects non-monetary dimensions of well-being such as the quality of public services but may lead to higher incomes only in the long run. We find a strongly negative impact of late-impact aid, which suggests that donors may be able to dampen migrant inflows by focusing on improved public services.

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1. Introduction

At least since the large migrant movements to the EU in 2015, many policymakers see Official Development Assistance (ODA) as a means to stem migrant inflows, even though there is hardly any evidence on which to base their assertions. The few existing studies of the aggregate aid–migration relationship (e.g. Berthélemy et al., 2009; Lanati and Thiele, 2018) provide some general guidance but only partially account for the heterogeneity of ODA that ranges from grassroots campaigns against corruption to large-scale infrastructure investments. Little is known about the mechanisms through which different kinds of ODA might affect migration decisions. Broadly speaking, successful ODA can either raise incomes or improve non-monetary dimensions of well-being such as public services. Dustmann and Okatenko (2014) have shown that migration propensities fall with the quality of local amenities such as health facilities, schools, and the quality of a country's institutions. ODA might therefore dampen migrant flows through improved provision of public services (*public services channel*). If ODA raises

incomes, the impact on migration is expected to follow a hump-shaped pattern (e.g. Hatton and Williamson, 2002). At low levels of development, additional income is likely to enable a larger share of the population in the countries of origin to finance migration costs (*budgetary constraint channel*). At higher development levels, the fact that rising incomes lead to higher opportunity costs of emigrating (*income channel*) becomes more important relative to the budgetary constraint channel. Since the threshold at which the income–migration relationship turns negative has been estimated to be broadly in the range of 8000–10 000 US Dollar in purchasing power parities (Clemens and Postel, 2017), the budgetary constraint channel is likely to dominate the income channel for the bulk of recipient countries.

In this paper, we aim to shed light on the empirical relevance of these channels. For this purpose, we adopt the distinction between early-impact aid and late-impact aid proposed by Clemens et al. (2012).¹ Early-impact aid encompasses flows such as aid for industrial development which might plausibly affect income growth within a few years and thereby help prospective migrants incur

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¹ Clemens et al. (2012) identify humanitarian assistance as an additional aid category, but we do not consider it here because it cannot realistically be expected to either raise growth prospects or improve local amenities.

migration costs. In contrast, late-impact aid such as aid for basic health and education infrastructure is likely to take many years or even decades to affect growth, whereas it has the potential to improve local amenities within a fairly short period of time.² We employ a gravity model with destination-year and origin fixed effects, which yields short- to medium-term estimates of the aid-migration relationship. This enables us to make predictions concerning the two aid categories: While a positive impact of early-impact aid on emigration would point to the relevance of the budgetary constraint channel, a negative impact of late-impact aid would indicate the importance of the public services channel. Our analysis is complementary to [Gamso and Yuldashev \(2018\)](#), who specifically look at the factors that drive the differential impact of rural and urban aid on migration.

2. Econometric specification and data

Our econometric analysis builds upon the model of international migration introduced by [Beine and Parsons \(2015\)](#). In line with [Lanati and Thiele \(2018\)](#), we add the bilateral aid given by country i to country n , as well as our main variable of interest, the overall aid received by country n , as factors affecting migration decisions. The equation for the (log of) the ratio between the number of people who emigrate from n to i , $N_{in,t}$, and the number of people who stay at home, $N_{nn,t}$, can be written as

$$\ln\left(\frac{N_{in,t}}{N_{nn,t}}\right) = \beta_1 \ln\left(\frac{GDP_{i,t}}{GDP_{n,t}}\right) + S_{i,t} + S_n + \beta_2 \ln(\text{UShare}_{n,t-1}) \\ + \beta_3 \ln(\text{AggAid}_{n,t-1}) + \beta_4 (\text{Conflict}_{n,t-1}) \\ + \beta_5 (\text{Governance}_{n,t-1}) + \beta_6 (\text{Dependency}_{n,t-1}) \\ + \beta_7 (\text{NatDis}_{n,t-1}) + \beta_8 \ln(1 + \text{MigStock}_{in,t-1}) \\ + \beta_9 \ln(\text{dist}_{ni}) + \beta_{10} (\text{Colony}_{ni}) + \beta_{11} (\text{ComLang}_{ni}) \\ + \beta_{12} \ln(\text{BilAid}_{ni,t-1}) + \varepsilon_{in,t} \quad (1)$$

where $GDP_{i,t}/GDP_{n,t}$ denotes the per-capita GDP differential, while the other right-hand-side variables relate to dyadic migration costs and characteristics at origin.

Among the dyadic determinants we distinguish *time-varying* network effects, which we capture by the pre-determined stock of migrants from country n living in country i (denoted by $\text{MigStock}_{in,t-1}$), and bilateral aid ($\text{BilAid}_{ni,t-1}$), from a *time-invariant* component of migration costs proxied by physical (dist_{ni}) and linguistic (ComLang_{ni}) distance and past colonial relationships (Colony_{ni}).

Characteristics at origin comprise the aggregate per-capita level of foreign aid the country receives ($\text{AggAid}_{n,t-1}$), which is supposed to positively affect the welfare of the local population either through raising incomes or through improving the provision with services; the share of unemployed people ($\text{UShare}_{n,t-1}$); the presence of conflict ($\text{Conflict}_{n,t-1}$); a variable that controls for the quality of governance ($\text{Governance}_{n,t-1}$); adverse environmental factors as measured by the number of natural disasters in a given year ($\text{NatDis}_{n,t-1}$); and demographic push factors at origin, which we capture by the dependency ratio ($\text{Dependency}_{n,t-1}$).

In addition to the controls, we use a set of fixed effects $a_{i,t}$ and a_n to absorb the effect of destination-specific and time-invariant origin determinants of migration. This significantly lowers the risk of misspecification and also allows us to account for multilateral resistance to migration (see [Beine and Parsons, 2015](#)).

² The distinction between short-impact and late-impact aid allows us to depict the channels through which aid might affect migration decisions in a more systematic way than the sectoral disaggregation employed in [Lanati and Thiele \(2018\)](#).

2.1. Data

The sample used in our empirical analysis includes 25 donor (migrant destination) countries and 129 recipient (migrant origin) countries. The period under consideration is 2004 to 2014. For total aid received – our main variable of interest – data are gross disbursements expressed in constant US dollars from the OECD Creditor Reporting System (CRS) dataset. We take two-year averages for the ODA received to account for the volatility of annual aid flows. The rest of the covariates is constructed and has the same source as described in [Lanati and Thiele \(2018\)](#).

Following [Clemens et al. \(2012\)](#), we divide foreign aid into early-impact aid and late-impact aid using OECD CRS 5-digit purpose codes. We update [Clemens et al.'s \(2012\)](#) classification as some of the CRS codes have changed over time and new ones have been added.

3. Results

Columns 1–3 of [Table 1](#) report our baseline estimates of Eq. (1) using Ordinary Least Squares. The model is estimated for total ODA and the different purpose categories of ODA defined above. Our main variable of interest – the aggregate ODA received – is negatively associated with migration flows. In accordance with the public services channel, the impact is fairly substantial for late-impact aid: A 10% increase in late-impact aid would lower the emigration rate by 1.6%. Contrary to the prediction of the budgetary constraint channel, the effect is also significantly negative, if very small in substantive terms, for early-impact aid.³ This may be due to the fact that aid categories that are supposed to foster income growth often also improve amenities. Aid for infrastructure, for example, may have an income effect through lowering transport costs but at the same time establishes collective goods such as roads and railways. Among the control variables, all those that are significant have the expected sign, while those that are insignificant have already been found to have no or ambiguous effects in previous research ([Beine and Parsons, 2015](#); [Lanati and Thiele, 2018](#)).

3.1. Accounting for endogeneity

One statistical issue is the potential omission of unobserved factors that may be correlated both with the error term as well as with the network of migrants and/or donor decisions regarding bilateral aid disbursements. For example, political or cultural proximity – which does not vary much over time and is often difficult, if not impossible, to measure with quantitative data – between countries is likely to be positively correlated with migration and foreign aid flows (see [Beine and Parsons, 2015](#)). Similarly to [Faye and Niehaus \(2012\)](#), we empirically address this issue by including asymmetric destination–origin fixed effects (S_{ni}). The results reported in columns 4–6 indicate that the time variation of bilateral aid relationships is not a statistically significant determinant of migration, while diaspora maintains a positive impact although its magnitude significantly decreases. The estimated impact of total ODA received is slightly lower than in the baseline for both late-impact and early-impact aid, leaving the conclusion of a predominant role of the public services channel intact. All other monadic determinants of emigration – with the exception of *conflict* which turns significantly positive for late-impact aid – remain roughly unaffected when controlling for country-pair-specific factors.

³ Note that at the level of individual donors, (positive) network effects and (negative) public goods effects of aid on migration tend to cancel out ([Table 1](#), Column 1), which suggests that (negative) spillovers from one donor's aid to another donor's immigration rates play a significant role in explaining the overall negative aid-migration relationship.

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