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The impact of foreign aid on migration revisited

Mauro Lanati [a], Rainer Thiele [b,*]

[a] Migration Policy Centre, European University Institute, Villa Malafrasca – Via Boccaccio 151, I-50133 Firenze, Italy
[b] Research Area "Poverty Reduction, Equity and Development", Kiel Institute for the World Economy, D-24105 Kiel, Germany

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While policymakers hope to stem migration flows by giving foreign aid, existing empirical evidence points in the opposite direction: by loosening budget constraints, aid tends to encourage people to emigrate. In this paper, we revisit the aid-migration link using a substantially extended and adjusted econometric approach based on a gravity model of international migration. In contrast to the previous literature, we obtain evidence of a negative relationship between the total aid a country receives and emigration rates. This even holds for the poorer part of recipient countries, which suggests that the budgetary constraint channel does not play a significant role in shaping migration decisions. The most plausible explanation for these contrasting results is that, unlike in previous studies, we use migrant flows rather than migrant stocks as the dependent variable. In substantive terms, the limited importance of the budgetary constraint channel might reflect that positive welfare effects of foreign aid tend to manifest themselves in improved public services for the poor rather than higher incomes, which is in line with the reorientation of foreign aid towards social sectors under the Millennium Development Goals.

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1. Introduction

The question of how to deal with rising South-North migration is currently high on the international policy agenda, particularly in Europe. With the refugee crisis and the arrival of thousands of migrants on the Southern European coasts, there's a growing pressure on the European Commission and the most affected EU member states to find a quick way to effectively manage (and arrest) the migration flows, and many see foreign aid as an essential part of the solution. Indeed, pledges to scale up aid to developing countries are now routinely accompanied by statements arguing that helping countries to develop gives their people an incentive to stay at home. In June 2015, for instance, the UK Defence Secretary declared that "Britain needs to spend more of its budget on helping stabilise countries so that it doesn't have to 'fish' migrants out of Mediterranean" (*The Guardian*, 21st June 2015). But does foreign aid really help reduce migration flows?

The link between aid flows and migration is still fairly unexplored empirically. Yet, there appears to be some consensus in the literature that the effect of foreign aid on migration flows is positive (Parsons & Winters, 2014). This reflects the view that in the low and lower-middle income countries usually targeted by foreign aid, measures that promote development tend to be associated with higher emigration, e.g. by loosening the budget constraints of poor households. The most influential empirical study along these lines is Berthélemy, Beuran, and Maurel (2009), who investigate the link between the aggregate aid received and migration for a large cross section of developing countries. In addition, they consider a network effect through which bilateral aid may be associated with higher migration flows: more bilateral contacts through the implementation of aid projects increases the information on the donor country available among potential migrants in the recipient country, which implies lower transaction costs for the migrants. Their cross-section estimates indicate that both bilateral aid and recipient's total aid have significantly positive impacts on migrant stocks.

In this paper, we argue that the issue of how foreign aid affects migration decisions is not yet resolved and provide new empirical evidence on the aid-migration link. Our analysis builds upon the framework proposed by Berthélemy et al. (2009) as we also simultaneously capture the impact on emigration of bilateral aid relations and of aggregate aid received by the countries of origin. However, we substantially extend and adjust their approach in a number of ways. First, we employ migrant flows rather than stocks as the dependent variable. Using stocks may be misleading as migrants born in country of origin i may have resided in destination country n long before foreign aid was given to that destination country. In addition, differences in stocks – a measure

* Corresponding author.
E-mail addresses: mauro.lanati@eui.eu (M. Lanati), rainer.thiele@ifw-kiel.de (R. Thiele).

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often utilized in the literature as a proxy for gross migration flows (see for instance Beine & Parsons, 2015) – are affected by return migration and can take negative values. Hence, the stock variable cannot effectively capture the effect of foreign aid on the migration decision. Migrant stocks are included as an additional regressor to proxy for migrant networks that reduce the cost of moving to destination country *n*. Second, we pool time-series and cross-section data instead of using a pure cross section, which attenuates econometric problems concerning the identification of causal effects. Most importantly, through the appropriate specification of destination and origin fixed effects, we can account for so-called multilateral resistance to migration, i.e. for the fact that the choice of a potential migrant to move to a given destination country does not only depend on the attractiveness of the country of destination relative to the country of origin, "but also on how this relates to the opportunities to move to other destinations" (Bertoli & Fernandez-Huertas Moraga, 2013, p. 79). Failing to capture multilateral resistance to migration may create large distortions in the estimated coefficients (Bertoli & Fernandez-Huertas Moraga, 2013). Third, we explicitly derive our econometric specification from a gravity model of international migration. Since we conjecture that foreign aid may have an impact on the budget constraint at the household level, the model provides a microfoundation of the link between income generated through aid inflows and migration choices. Fourth, we run separate regressions for poorer and richer recipient countries, which enables us to test whether the loosening of budget constraints is indeed relevant at low levels of per capita income. Fifth, we separately estimate the impact of disaggregated aid categories such as aid for social infrastructure and aid for economic infrastructure to get a clearer understanding of the mechanisms behind the aggregate aid-migration relationship. Finally, we control for time-varying, origin-specific covariates of migration decisions, such as environmental factors and the presence of conflicts. We interact the conflict variable with foreign aid in order to examine whether donors are able to affect migrant flows in conflict situations.

In contrast to much of the previous literature, we obtain evidence of a negative relationship between total Official Development Assistance (ODA) received by countries of origin and emigration rates. Based on the disaggregated analysis we conclude that this effect is mainly driven by aid-related improvements in public services which appear to dominate any positive income effects. We find the expected positive network effect of bilateral aid, but it is much smaller in magnitude compared to previous studies. The latter can be attributed to the inclusion of migrant networks, which are far more influential in channelling information that affects migration decisions than bilateral aid flows.

The remainder of the paper is structured as follows. Section 2 provides a brief overview of the related literature and develops hypotheses concerning the aid-migration relationship. In Section 3, we derive the econometric specification employed in the empirical analysis and discuss how we addressed the challenge of identifying causal effects. Section 4 introduces the data and provides some descriptive evidence on the link between foreign aid and migration, while Section 5 presents the regression results. Section 6 concludes.

2. Related literature and hypotheses

Theoretically, the impact of foreign aid on migration is subject to contrasting forces and its net effect is not clear-cut *a priori* (Parsons & Winters, 2014). In general, there is no direct link between aid and migration.[1] However, aid is expected to affect the determinants of migration, most notably incomes in developing countries. Traditional approaches such as the push-pull model of migration (Lee, 1966) assume an inversely proportional relationship between income levels and migration where higher income in countries of origin reduces migration at all stages of development. More recently, it has been argued theoretically – and corroborated empirically – that there is a non-linear, hump-shaped income-migration relationship (e.g. Clemens, 2014; Dao, Docquier, Parsons, & Peri, 2016; de Haas, 2010b).[2] This is because for very poor households increasing incomes relax the existing financial constraints, allowing them to better afford the migration-related costs so as to exploit large international income differences, whereas at higher levels of incomes, financial constraints are no longer binding and international income differences no longer sufficient to make up of for the risks and costs of migrating.

Assuming that foreign aid raises disposable incomes in recipient countries, the push-pull model implies that these higher incomes in turn reduce emigration through increasing opportunity costs and diminishing net benefits of migration (*Income Channel*). Aid might also add to household wealth and thereby enable a larger share of the population in the countries of origin to finance migration costs (*Budgetary Constraint Channel*). Relating these two channels to the hypothesis of a hump-shaped pattern of migration, the implication is that at low levels of income per capita the Budgetary Constraint Channel dominates, whereas at higher levels of income per capita the Income Channel becomes more and more important relative to the Budgetary Constraint Channel. Since the threshold at which the income-migration relationship turns negative has been estimated to be roughly in the range of $8000–10,000 in purchasing power parities (see Clemens & Postel, 2017), the Budgetary Constraint Channel is likely to be more important than the Income Channel for the bulk of recipient countries.

The quantitative relevance of these two channels depends on the ability of foreign aid to actually raise incomes in recipient countries. While the empirical literature has not come up with a consensus on whether there is a positive and significant aid-growth relationship (e.g. Qian, 2015), even studies that find a positive impact point to moderate magnitudes. Clemens, Radelet, Bhavnani, and Bazzi (2012), for example, estimate that raising growth by 1 percentage point per year in the average recipient country would require aid in the order of 10% of GDP, which arguably exceeds by far what donors would be willing to spend when it comes to stemming migration. De Haas (2007) argues that, leaving aside doubts about the general effectiveness of aid, the scope and duration of aid programs is often too limited to have any significant effect on migration decisions.

An issue largely neglected in the aid-migration literature is that foreign assistance may also affect relevant non-monetary dimensions of well-being such as the quality of public services (*public services channel*). Dustmann and Okatenko (2014) show that contentment with various dimensions of local amenities – including for instance health care, schools, air quality and the quality of a country's institutions – turns out to be a far more important factor in shaping migration decisions than household wealth. This is an important finding in the context of this paper given that donors have increasingly focused on supporting the social sector (education, health, water and sanitation) under the Millennium Development Goals, which – assuming that aid is not completely wasted – is presumably associated with better services rather than rising incomes at least in the short to medium run.

[1] The migration compacts currently being discussed at the EU-level (see European Commission (EC), 2016) would constitute an exception.

[2] De Haas (2010a, 2010b) broadens this approach by arguing that people's propensity to migrate depends not only on income but on the aspirations and capabilities (including income, social and human resources) to do so. In this setting, migration is expected to increase as long as aspirations increase faster than local livelihood opportunities.

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