How does Foreign Aid affect Migration Flows?

Dr Mauro Lanati

MEDAM Post-Doctoral Research Fellow

Migration Policy Centre (EUI)

Prof Rainer Thiele

Professor of Economics

Kiel Institute for the World Economy

Foreign Aid as a recipe to address the Root Causes of Irregular Migration

Britain needs to spend more of its budget on helping stabilise countries so that it doesn't have to fish migrants out of Mediterranean (June 2015 the UK Defence secretary; The Guardian, 21st June 2015).

We must also continue our political and development action to improve the living conditions in the countries of origin, working with them there, so that people do not have to flee their homes (Jose Manuel Barroso 9th October 2013, EU Commission)

But Foreign Aid Does Actually Reduce Migration Flows ?

Channels
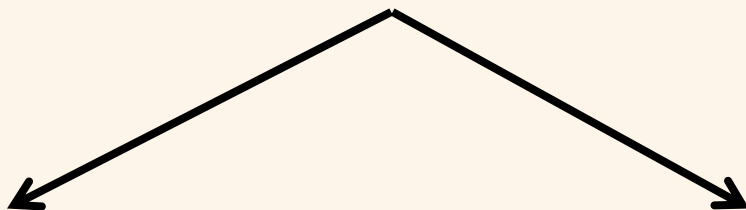
Through Income

Budgetary Constraint Channel (+)
Income Channel (-)

Through Public Services

Public Services Channel (-)

- ✓ Net effect is not clear cut as it is subject to contrasting forces
- ✓ It's an empirical question
- ✓ Previous literature ⟶ Positive Relationship

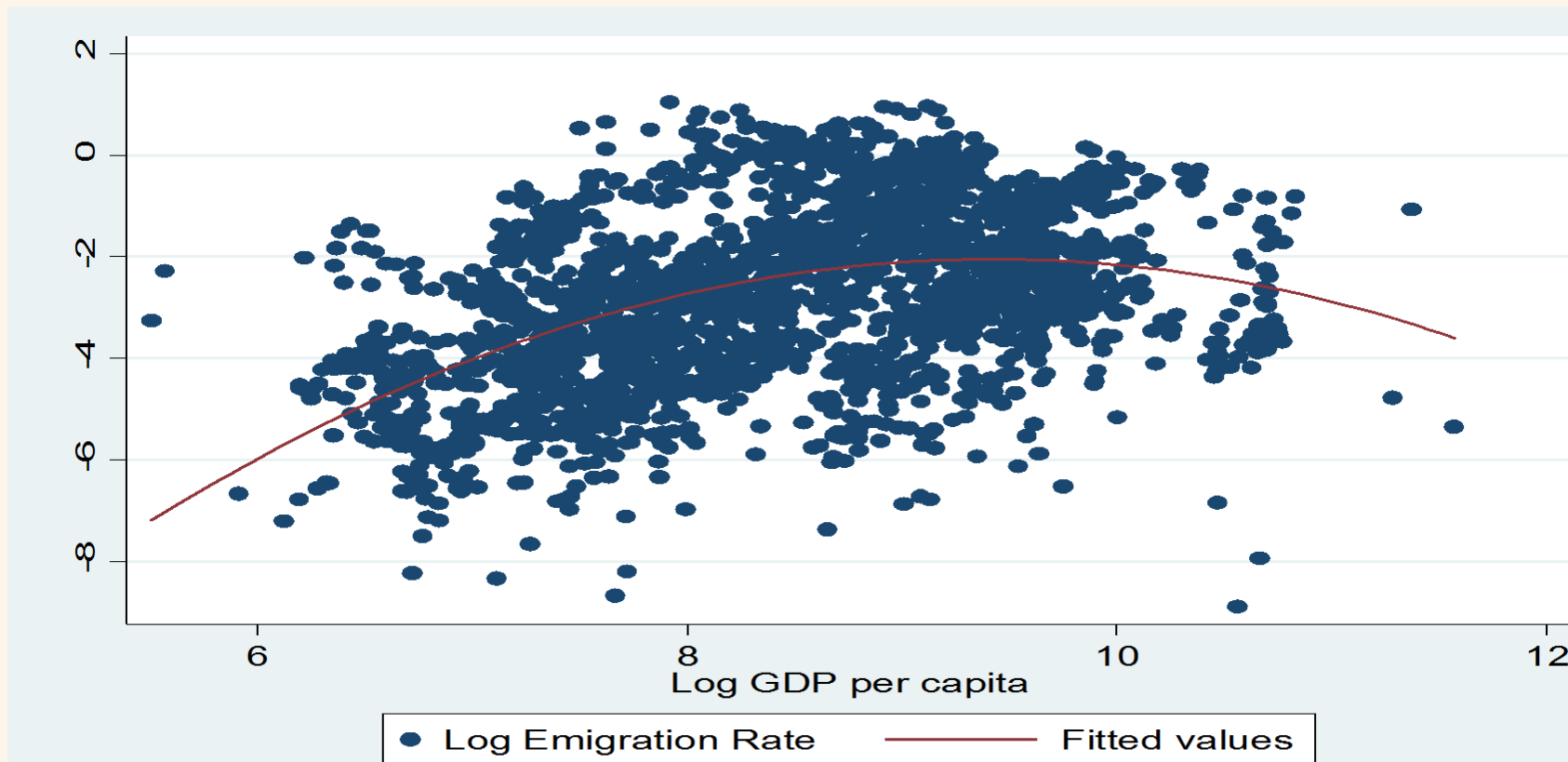# Inverted U Shape (Clemens et al 2014)

Figure from Lanati Thiele (2017)

Our Contribution

✓ <u>Migrant flows rather than stocks in the dependent variable</u>. These stocks are inserted as additional regressor to better identify the network channel.

✓ <u>We run separate regressions for poorer and richer recipient countries</u>, which enables us to test whether the budgetary constraint channel is indeed relevant at low levels of per capita income.

✓ <u>Disaggregated Analysis for different types of Foreign Aid</u> : (i) Social Infrastructure/Services, (ii), Economic Infrastructure & Services and (iii) Production Sectors

✓ Derives the econometric specification from a gravity model of international migration

✓ Pooling time-series and cross-section data.

✓ Controlling for time-varying, origin-specific covariates of migration decisions, such as environmental factors and the presence of conflicts.

Methodology

<u>*Gravity Model for International Migration*</u> :

$$ln\left(\frac{N_{in,t}}{N_{nn,t}}\right) = \beta_1 ln\left(\frac{w_{i,t}}{w_{n,t}}\right) + a_{i,t} + a_n + \beta_2 \ln(\text{AggAid}_{n,t-1})$$

$$+ \beta_3(\text{Conflict}_{n,t-1}) + \beta_4(\text{Governance}_{n,t-1})$$
$$+ \beta_5(\text{Dependency}_{n,t-1}) + \beta_6(\text{NatDis}_{n,t-1}) + \beta_7 \ln(1 + \text{MigStock}_{in,t-1})$$
$$+ \beta_8 ln(\text{dist}_{ni}) + \beta_9(\text{Colony}_{ni}) + \beta_{10}(\text{LangDist}_{ni}) + \beta_{11}\ln(\text{BilAid}_{ni,t-1})$$
$$+ \varepsilon_{ni,t}$$

- ✓ Building on Beine and Parsons (2015) : bilateral migration rates as function of proxies for bilateral migration costs and time varying origin specific determinants of migration

- ✓ Because our primary focus is upon Aggregate ODA at origin, we use appropriate fixed effects and dummies to capture the impact of destination-specific factors and time-invariant origin factors.

Baseline Results

Class of Income	$\ln(\text{EMrate}_{in,t})$ $0^{th} - 100^{th}$	$\ln(\text{EMrate}_{in,t})$ $0^{th} - 49^{th}$	$\ln(\text{EMrate}_{in,t})$ $50^{th}-100^{th}$
$\ln(\text{BilAid}_{ni,t-1})$	0.0936*** (16.94)	0.106*** (12.95)	0.0963*** (12.54)
$\ln(\text{AggAid}_{n,t-1})$	-0.0831*** (-3.98)	-0.114*** (-4.14)	-0.101** (-2.92)
$\ln(\text{GDP}_{i,t-1}/\text{GDP}_{n,t-1})$	-0.0561 (-0.88)	-0.234** (-2.68)	0.261* (2.08)
$\ln(\text{MigStock}_{in,t-1})$	0.600*** (40.27)	0.628*** (27.47)	0.561*** (27.18)
$\ln(\text{dist}_{ni})$	-0.352*** (-13.22)	-0.302*** (-5.22)	-0.395*** (-13.03)
Colony_{ni}	0.481*** (9.98)	0.295*** (3.47)	0.702*** (11.04)
LangProx_{ni}	0.446*** (10.68)	0.409*** (7.16)	0.553*** (7.94)
$\text{Dependency}_{n,t-1}$	-0.00818*** (-3.71)	-0.00475 (-1.53)	-0.00405 (-1.13)
$\text{PolStability}_{n,t-1}$	-0.0439* (-1.99)	-0.0327 (-1.05)	-0.0332 (-1.05)
$\text{Conflict}_{n,t-1}$	1.888*** (3.60)	2.840*** (3.69)	1.033 (1.41)
$\text{AggAid}_{n,t-1}\text{Conflict}_{n,t-1}$	-0.0894*** (-3.54)	-0.132*** (-3.56)	-0.0540 (-1.51)
$\text{NatDis}_{n,t-1}$	0.00301 (1.12)	-0.00203 (-0.45)	0.00100 (0.26)
N	14154	7065	7082
a_n	X	X	X
$a_{i,t}$	X	X	X
R_{sq}	0.91	0.89	0.92

Disaggregate Analysis

	(1) $\ln(EMrate_{in,t})$ Total	(2) $\ln(EMrate_{in,t})$ Social Inf.	(3) $\ln(EMrate_{in,t})$ Economic	(4) $\ln(EMrate_{in,t})$ Production
$\ln(BilAid_{ni,t-1})$	0.081*** (13.63)	0.079*** (13.53)	0.079*** (13.47)	0.079*** (13.33)
$\ln(AggAid_{n,t-1})$	-0.096*** (-4.07)	-0.119*** (-3.49)	-0.046*** (-4.22)	-0.065*** (-3.99)
$\ln(GDP_{i,t-1}/GDP_{n,t-1})$	-0.054 (-0.47)	-0.110 (-0.94)	-0.057 (-0.48)	-0.093 (-0.80)
$\ln(MigStock_{in,t-1})$	0.618*** (37.67)	0.618*** (37.62)	0.620*** (37.66)	0.618*** (37.61)
$\ln(dist_{ni})$	-0.324*** (-11.36)	-0.327*** (-11.45)	-0.325*** (-11.37)	-0.328*** (-11.49)
$Colony_{ni}$	0.457*** (8.40)	0.460*** (8.41)	0.455*** (8.34)	0.463*** (8.46)
$LangProx_{ni}$	0.391*** (8.76)	0.394*** (8.80)	0.396*** (8.83)	0.397*** (8.88)
$Dependency_{n,t-1}$	-0.015*** (-3.56)	-0.015*** (-3.54)	-0.014** (-3.27)	-0.013** (-3.24)
$PolStability_{n,t-1}$	0.009 (0.28)	0.007 (0.22)	0.012 (0.39)	0.015 (0.47)
$Conflict_{n,t-1}$	-0.057 (-0.67)	-0.001 (-0.01)	-0.016 (-0.19)	-0.005 (-0.06)
$AggAid_{n,t-1}Conflict_{n,t-1}$	0.019 (0.78)	0.005 (0.23)	0.010 (0.41)	0.006 (0.22)
$NatDis_{n,t-1}$	-0.001 (-0.47)	-0.001 (-0.52)	-0.001 (-0.27)	-0.002 (-0.54)
N	10482	10482	10465	10482
a_n	X	X	X	X
$a_{i,t}$	X	X	X	X
R_{sq}	0.91	0.90	0.90	0.90

	(1) $\ln(\text{EMrate}_{in,t})$	(2) $\ln(\text{StockRate}_{in,t})$	(3) $\ln(\text{StockRate}_{in,t})$
$\ln(\text{BilAid}_{ni,t-1})$	0.0236^{***} (7.43)	-0.0000248 (-0.01)	0.0000432 (0.02)
$\ln(\text{AggAid}_{n,t-1})$	-0.0332^{*} (-2.50)	0.0199^{*} (2.44)	0.0211^{**} (2.66)
$\ln(\text{EMrate}_{in,t})$		0.117^{***} (7.95)	0.117^{***} (11.55)
$\ln(\text{EMrate}_{in,t-1})$	0.773^{***} (66.68)		-0.003 (-0.24)
$\ln(\text{MigStock}_{in,t-1})$	0.110^{***} (11.27)	0.868^{***} (42.33)	0.873^{***} (36.17)
$\ln(\text{GDP}_{i,t-1}/\text{GDP}_{n,t-1})$	-0.00916 (-0.21)	-0.0416 (-1.73)	-0.0602^{*} (-2.57)
$\ln(\text{dist}_{ni})$	-0.118^{***} (-9.71)	-0.0396^{*} (-2.01)	-0.0370^{*} (-2.04)
Colony_{ni}	0.163^{***} (7.44)	0.0549^{**} (2.77)	0.0491^{**} (2.62)
LangProx_{ni}	0.129^{***} (5.42)	-0.00664 (-0.53)	-0.00821 (-0.69)
$\text{Dependency}_{n,t-1}$	-0.00185 (-1.12)	-0.000681 (-0.72)	-0.000618 (-0.61)
$\text{PolStability}_{n,t-1}$	-0.0346^{*} (-2.43)	-0.0111 (-1.28)	-0.0150 (-1.78)
$\text{Conflict}_{n,t-1}$	0.899^{**} (2.60)	1.080^{***} (6.67)	1.074^{***} (7.13)
$\text{AggAid}_{n,t-1}\text{Conflict}_{n,t-1}$	-0.0429^{**} (-2.58)	-0.0534^{***} (-6.83)	-0.0532^{***} (-7.27)
$\text{NatDis}_{n,t-1}$	0.001 (0.16)	0.001 (1.34)	0.001 (1.16)
N	13636	13238	12745
a_n	X	X	X
$a_{i,t}$	X	X	X
R_{sq}	0.96	0.98	0.98

Our Results - Summary

✓ Robust negative relationship between aggregate aid received 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.

Our Results – Summary I

✓ This result is mostly driven by foreign assistance to public services (school, health sectors)

<u>Our finding is in line with</u> :

❖ The Millennium Development Goals

❖ Dustmann and Okatenko (2014)

✓ Taken together, this gives the impression that policymakers in rich countries are right to view foreign aid as an appropriate instrument to curb the flow of migrants.

✓ It has to be noted, however, that the aggregate results presented here can only provide a very rough guide for policymaking, because of the heterogeneous impacts of foreign aid, which we illustrate by drawing a distinction between different types of assistance.