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# Foreign Interests: Immigration and the Political Economy of Foreign Aid\*

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## Abstract

This paper examines the link between immigration and foreign aid. Recipient countries with more migrants living in a donor, on average, receive more foreign aid from the donor. We find evidence that donors use aid as a tool in their broader immigration policy, seeking to slow unwanted immigration. However, we also find evidence that diaspora communities with greater political voice successfully translate that voice into more aid for their countries of origin. There is evidence that these two effects reinforce each other, as promoting development in countries of origin is seen by both host governments and diaspora communities as a way to achieve their long-term goals.

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The impact of migrants on foreign policy decisions in their host country is a topic of central importance in both academic and policy arenas. Migrants have the ability to lobby host country governments, and a particular incentive to do so when policy relates to their country of origin. Governments in the host country, however, also have preferences over migration, and may use other foreign policy tools in an effort to carry out immigration policy. This suggests a complicated set of linkages between host country foreign policy and migrant populations within the host.

In this paper, we examine the impact of both migrant political action and host country policy preferences toward immigration within a single foreign policy arena, foreign aid. Bermeo (2008) finds that recipient countries with more immigrants living in a donor receive more aid. However, the causal mechanisms behind this relationship remain under-theorized and untested. The increased aid flows could occur because donors seek to stem migration by promoting development in countries that send large numbers of immigrants. They could be a result of migrant populations in the donor lobbying on behalf of citizens in the country of origin. Certainly, it could be both of these mechanisms operating simultaneously, and perhaps even reinforcing one another.

There is a long and rich literature on the role of aid as a tool in the broader foreign policy goals of donor nations (e.g. McKinlay and Little, 1977, 1978; Maizels and Nissanke, 1984; Schraeder, Hook and Taylor, 1998; Alesina and Dollar, 2000; Neumayer, 2003; Berthelemy and Tichit, 2004; Stone, 2006; Bueno de Mesquita and Smith, 2007, 2009; Bermeo, 2008). Many of these studies find that military interests, broader geopolitical concerns, or economic interests such as trade influence donor aid decisions. We agree that this is likely, but find it puzzling that to date the literature has almost ignored aid as a potential tool for conducting immigration policy. After all, many migrants and potential migrants come from aid recipients and settle in aid donors. Thus, the possibility of a link between aid and migration seems a logical extension of the theory that aid is used as a tool to promote broader foreign policy objectives of donors.

A largely separate body of work examines the domestic politics of aid allocation decisions within donor countries (e.g. Fleck and Kilby, 2001; Milner and Tingley, 2010). One of the results

most relevant for the current study is the finding by Milner and Tingley (2010) that the percent of a district that is foreign born has a positive influence on US Representative votes on development assistance. However, to date we know of no study that has systematically looked across donors to understand the link between political activity of migrants from a particular recipient and aid flows to that recipient.

We also contribute to the literature on the effects of migration on the links between home and host countries. One line of work examines sanctioning behavior and political recognition of home countries by host governments (e.g., Shain 1995). Another examines the connection between home country interests and the behavior of a migrant's host country, providing evidence that diasporas play a critical role in the theory and practice of international politics (Shane and Barth 2003; Sheffer 2003). This literature is particularly important for understanding whether the goals of diaspora communities and host-country foreign policy overlap in the realm of foreign aid, providing an incentive for migrants and donor governments to work in tandem to achieve common ends.

To test the relevance of various causal mechanism for understanding the link between aid and migration, we analyze aid disbursements from nineteen aid donors for the period 1992-2005. The findings presented below strongly support both a foreign policy and a lobbying explanation for understanding the link between migration and aid. When donors express a policy preference for decreasing migration, the impact of migrant stock from a recipient on aid flows to that recipient is larger than it is when donors do not express an overall preference for decreasing immigration. There is also evidence that the political voice of migrants matters: when a donor grants voting rights to non-citizen migrants, the impact of migrant stock on aid flows is significantly higher than when voting rights are not granted.

We also push the analysis further to show that there is an additional effect when both of these conditions hold: in a donor that is seeking to decrease immigration and also grants voting rights to non-citizen migrants, the impact of migration on aid flows is larger than if only one of these

conditions holds. This finding is consistent with recent policy initiatives in aid donors to work with diaspora communities in order to promote development in countries of origin, with the explicit goal of decreasing future migration from the migrants' home countries. Thus, while diaspora communities may seek to promote well-being in their country of origin and host countries seek to stem migration, they both view development promotion as a means of achieving their respective ends and can work together to further those goals.

Our arguments and evidence to develop the claim that immigration influences the allocation of foreign economic aid are developed in the following four sections. Section one briefly reviews the literature and develops the linkage between migration and aid allocation. Section two describes the data and methodology used to test the hypotheses from section one. In section three we present our empirical results based on a dyadic panel data set of 19 donor and 165 recipient countries over the period 1992-2005. Section four concludes.

## **1 Immigration and the Politics of Aid Allocation**

We argue that donors may plausibly use foreign aid as a tool for implementing their immigration strategies, similar to the way they use aid as a tool for augmenting trade. Donor governments may give foreign aid to countries that have generated large groups of immigrants in an attempt to decrease those flows into donor countries. However, we do not think that foreign policy concerns are the only link between immigration and aid flows. Foreign aid choices, like those that govern all policy choices related to the distribution of scarce resources in a democracy, are subject to intense competition across and between interested parties. We argue that these interested parties can be understood as part and parcel of the overall process of global immigration and the development of migrant networks that exist across national borders. In our formulation, migrant networks serve as a cross-border linkage between home and host-or in the language of foreign aid allocation between donor and recipient-countries.

Our focus on migrant networks as a mechanism influencing the allocation of foreign aid adds to a small but growing literature on the political economy of international migration. While some scholars have examined how economic and political conditions in home and host countries influence migrant flows (e.g., Leblang, Fitzgerald and Teets, 2009), others have emphasized the ways in which migrant networks serve as conduits for trade and capital flows (e.g., Rauch and Trindade 2002; Leblang 2009). Our focus on migrant networks as a factor influencing the allocation of foreign aid is not unlike the use of variables that seek to understand patterns of aid by examining a country's colonial history or linking it to a donor based on a shared legal language-it is yet another piece of the puzzle identifying common patterns of behavior to shared or common interests.

We hypothesize that the impact of immigration on aid flows works through both a foreign policy mechanism and a domestic politics mechanism. Regarding foreign policy, countries may use aid to decrease unwanted immigration. Concerning domestic politics, immigrants from an aid recipient residing in a donor can use their political voice to demand increases in aid for their country of origin. These two different effects of immigration on foreign aid allocation - one based on a deterrent argument and one based on a lobbying argument - are developed in turn. However, we do not believe they are mutually exclusive; in fact, as described below, there is reason to believe not only that they operate simultaneously, but that they are in fact complementary.

## **1.1 Aid as a Tool to Curb Immigration**

It has long been posited that, in addition to serving development needs, foreign aid is used to advance other foreign policy goals of donor countries. Bueno de Mesquita and Smith (2007, 2009) argue that aid is used by donors to buy costly policy concessions from recipient governments. Similarly, Stone (2006) argues that donors use aid to "buy influence" in recipient countries. Maizels and Nissanke (1984) find that bilateral donors give more aid to countries that receive larger arms transfers; Alesina and Dollar (2000) claim that colonial status and similarity

in UN voting patterns are important determinants of aid flows. Schraeder et al (1998) look at bilateral aid flows to Africa in the 1980s from the United States, Japan, France and Sweden and conclude that economic and military factors often play a role in determining aid flows.

Berthelemy and Tichit (2004) examine bilateral aid in the 1980s and 1990s and find that former colonies and trade partners are rewarded with more aid.

Given this emphasis in the literature on examining self-interested explanations for donor allocation decisions, it is surprising that there has been little focus on the role of immigration policy in determining aid flows. Many industrialized countries have an incentive to decrease immigration. As others have shown, immigration plays a role in driving down the wages of unskilled workers (Borjas 2005). Additionally, in many countries immigrants are the source of much political and economic conflict, and scholars have documented how immigration boosts the electoral prospects of radical right parties (Knigge 1998; De Vos and Duerloo 1999; Lubbers, Gijsberts and Scheppers 2002) and drives policy makers to enact increasingly strict immigration policies (Thraenhardt 1995; Bale 2003; Van der Valk 2003).

That migration is likely to continue as a significant challenge is highlighted by the results of a recent Gallup Poll. The poll, conducted in 135 countries between 2007 and 2009, finds that 38 percent of people from sub-Saharan Africa wish to move permanently to another country; the corresponding number for the Middle East and North Africa is 23 percent and in the Americas 18 percent wish to move permanently. Top destination countries named include the United States, Canada, United Kingdom, France, Spain, Germany and Australia.<sup>1</sup> It seems clear that migration will remain an important policy issue for aid donors.

In light of the fact that many of the migrants originate in aid recipient countries, the possibility of a connection between immigrant flows and aid allocation merits further study.

Drawing on the empirical finding that out migration is a function-at least in part-of poor economic

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<sup>1</sup>“700 Million Worldwide Desire to Migrate Permanently,” November 2, 2009; available online at <http://www.gallup.com/poll/124028/700-Million-Worldwide-Desire-Migrate-Permanently.aspx>.

conditions, we argue that foreign aid can function as immigration policy. If a donor country is trying to restrict migrant access it may at the same time increase its allocation of foreign economic assistance believing that this aid will decrease immigration pressure.

Despite the lack of attention in scholarly circles, there is evidence that donors are using aid flows as a tool for implementing a broader immigration policy. For instance, in 2008 the Agence Française de Développement (AFD; French foreign aid agency) signed a partnership agreement with the French Ministry of Immigration, Integration, National Identity and Inclusive Development (MIINDS). As part of the agreement the MIINDS *was given a seat on the Board of Directors of AFD*. The strategy of “inclusive development” was created by MIINDS to give support “for the development of migrants home countries or regions to ensure that migration does not become the only way for local populations to survive or live decently.” The press release announcing this partnership claims, “This agreement will provide nationals from Southern countries with resources to build their futures in their homelands.”<sup>2</sup> More generally in Europe, the European Commission has stated that “migration policies should be incorporated in a structural manner into policies on health, education and human capital, and into social and economic development strategies.”<sup>3</sup> The United States Agency for International Development (USAID) has also expressed concern regarding migration, particularly with respect to the migration of gang members from Central America to US cities.<sup>4</sup>

Not all industrialized countries have the same preferences regarding immigration. As described in the next section, when governments are asked whether they would like to decrease, maintain, or increase immigration, there is considerable variation in the answer, both across countries and within countries over time. Of course, aid donor countries may try to stem some

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<sup>2</sup>See AFD website: <http://www.afd.fr/jahia/Jahia/site/afd/lang/en/Guillaume-Cruse> and AFD press release, available online at <http://www.afd.fr/jahia/Jahia/lang/en/home/Presse/Communique/pid/4810#>.

<sup>3</sup>“Strengthening the Global Approach to Migration: Increasing Coordination, Coherence and Synergies”; communication from European Commission to the European Parliament, 10/8/2008, available online at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0611:FIN:EN:PDF>.

<sup>4</sup>See, for instance, USAID Central America and Mexico Gang Assessment, April 2006, available online at [http://www.usaid.gov/locations/latin\\_america\\_caribbean/democracy/gangs.html](http://www.usaid.gov/locations/latin_america_caribbean/democracy/gangs.html).



types of immigration, often including irregular or “illegal” immigration, even if they wish to see an overall increase in regular immigration. Because of this, and because - as we will argue next - the link between immigration and aid works through multiple channels, we do expect to see a direct effect of immigration on aid flows. However, for countries which explicitly state that decreasing immigration is a policy goal, we expect that effect to be magnified. This leads to the following hypothesis:

*H1: When a donor country claims that decreasing immigration is a policy goal, the link between immigration and aid flows will be stronger than when a donor is seeking to maintain or increase the number of immigrants.*

## **1.2 Immigrant Groups and Lobbying for Foreign Aid**

The argument that immigrant groups lobby their host governments for policies favorable to their homelands is a straightforward extension of standard pluralist democratic politics. As individuals residing in a democracy, migrants have the ability to influence the government for policies that they favor. We argue not that the migrants are only interested in representing the interests of their homeland but rather that at the margin migrants will pressure their host government for foreign assistance. Linking domestic ethnic groups to policies targeted at their homelands is not a novel argument. The popular press is replete with stories of the role that the Israeli and Cuban lobbies have played in directing US foreign policy towards their respective countries. But the examples of the Israeli and Cuban lobbies are but examples; examples where prominent groups have been able to create policies that have generated heated political debate in host countries. Migrant groups-or ethnic groups as they are called in some of this literature-have been the focus of a subset of scholarship primarily focusing on the foreign policy practices of the United States.

In his study of the role of ethnic lobbies in US foreign policy, Schain (XX) walks through the histories of Albanian, Czech, Greek and Cuban migrant lobbies and their effect on US policies regarding diplomatic recognition, economic sanctions and state formation towards these

countries. And Schain is not alone. Levitt and de la Dehese (2003) detail the degree to which Mexican immigrant groups lobbied various parts of the US bureaucracy in an attempt to gain passage for the North American Free Trade Agreement. Jones-Correa (2001) and Itzigsohn (2000) also argue that Latin American and Haitian groups have successfully lobbied the US for more permissive immigrant and refugee policies, for stays of deportation and for amnesties.

In the next section we examine the impact of migrant stock from a recipient residing in a donor country on aid flows from the donor to the recipient. This hypothesis is rooted partially in the idea that migrant groups can lobby and pressure elected officials and the bureaucracy. However, as noted above, other factors may lead to a correlation between migrant stock and aid flows. Therefore, we push this hypothesis further by arguing that migrant groups will be more effective in lobbying host governments when they have direct access to the political process. If the link between migrants and aid is partially driven by migrant lobbying in donor countries, then we would expect migrant groups to have a larger effect on the political process in host countries that grant them the right to vote. This leads to our second hypothesis:

*H2: When a donor country grants voting rights to migrants, the link between immigration and aid flows will be stronger than when a donor country does not allow migrants this form of direct access to the political process*

### **1.3 Linking Immigration Control and Diaspora Effects**

Thus far, we have argued that the number of immigrants from a recipient living in a donor can influence aid flows through both a foreign policy (deterrent) effect and a domestic politics (lobbying) effect. However, there is increasing evidence that donor governments do not view these as mutually exclusive. Instead, many donors are committed to a strategy of working with diaspora communities residing in the donor (host) country in order to better promote development in recipient (sending) countries. This is particularly true in EU member countries, following their adoption of the Global Approach to Migration (“Global Approach”) in 2005. This policy calls for

an integrated, common European approach to the issue of migration, with one of the areas of emphasis being the link between migration and development. Furthermore, this process has highlighted the role that diaspora communities living in European countries can play in promoting development in their countries of origin, thereby decreasing additional migration. Thus, it explicitly links the role of diaspora communities in the donor with the use of development as a deterrent policy, suggesting that H1 and H2 above may operate more as complements than as substitutes for increasing our understanding of the immigration-aid link.

As part of the process for turning the Global Approach into concrete action, the European Commission has called on members to “Promote and support initiatives by migrant groups and diaspora organisations to get involved in EU policy initiatives with and about their countries and regions of origin” to “better tap the human and economic potential of diasporas for the development of partner countries, through targeted initiatives in areas such as trade facilitation, investment promotion and transnational networking;” support “efforts by migrant source countries to reach out to their diasporas;” support “diaspora groups that are engaged in development-related activities in their source countries;” and encourage “initiatives to enable migrants and members of diasporas to access business management advice, micro-credit opportunities and support for setting up SMEs in source countries.” Furthermore, migration and development policies are not randomly targeted across recipients. Instead, “migration and development policies should...focus much more on economic reform and job creation and on improving the working conditions and the socio-economic situation in low-income and middle-income countries, and *in regions characterised by high emigration pressures.*”<sup>5</sup>

Individual countries have also adopted policies or concrete strategies for engaging diaspora communities in the promotion of development in their countries of origin. For instance, the German development agency (GTZ) discusses synergies between the development work of

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<sup>5</sup>“Strengthening the Global Approach to Migration: Increasing Coordination, Coherence and Synergies”; communication from European Commission to the European Parliament, 10/8/2008, available online at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0611:FIN:EN:PDF>, emphasis added.

diaspora communities and that of official development agencies. It claims that “development organisations can benefit from the country-specific knowledge, contacts and expertise of migrants, and they in turn benefit from the professional approaches and technical expertise of development organisations.” It has turned this into concrete action through the Pilot Program to Promote Migrant Organisation Projects, which offers a subsidy of up to 100 percent for migrants’ charitable investments in the social infrastructure of their country of origin.<sup>6</sup> In France AFD speaks of turning “migrations into a strength and an advantage for both migrants and their homelands alike.” One way to do this, they argue, is to help migrants in France implement projects in their home villages, thereby making these projects more effective than if they were carried out by migrants without the assistance of an agency trained in development work.<sup>7</sup> Multiple agencies also discuss making it easier, more transparent, and less costly to send remittances back home, recognizing the development potential of remittance dollars in the country of origin.

Programs such as these suggest that donors capitalize on well-organized diaspora communities to help in their policies of deterring unwanted immigration. At the same time, these diaspora communities are likely to be lobbying host country governments for increased development assistance in their country of origin. This means that the impact of diaspora lobbying is likely to be strongest where the donor is also actively seeking to decrease immigration. This lobbying is also strengthened, as argued above, by formal access to the political system through voting rights for migrants. Thus, we should expect donor efforts to decrease migration and immigrant efforts to increase assistance to their countries of origin to reinforce each other, leading to the following hypothesis:

*H3: When a donor country is actively seeking to decrease immigration, and it grants voting rights to migrants in the country, then the impact of migrant stock on aid flows will be higher than if only one of these conditions is true.*

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<sup>6</sup>See GTZ website, <http://www.gtz.de/en/themen/wirtschaft-beschaeftigung/15645.htm> and [http://www.gtz.de/en/dokumente/en-pilot\\_program\\_information\\_2008.pdf](http://www.gtz.de/en/dokumente/en-pilot_program_information_2008.pdf).

<sup>7</sup>See AFD website at <http://www.afd.fr/jahia/Jahia/site/afd/lang/en/Guillaume-Cruse>.

## 1.4 Extensions

We also test two extensions to the hypotheses outlined above. First, while many migrants wish to increase financial flows to their country of origin, this is not universally true. Refugees leave their homeland for very different reasons than do economic migrants. Thus, often having fled from the government of their home country, they are unlikely to support increases in official development assistance to that country. A lobbying story would lead us to expect a negative relationship between the presence of refugees from the recipient and the amount of foreign aid sent to the country of origin. The best known example of such a lobby in the United States is that of refugees who have fled Cuba. Of course, donors that support large numbers of asylum applications from a country may have a disincentive for investing in the sending country for other political reasons as well. These two effects are difficult to disentangle, but they both suggest the following hypothesis:

*H4: While migrant stock is likely associated with an increase in aid flows, increasing the number of refugees from a recipient living in a donor is associated with a decrease in aid flows.*

Finally, we are interested in the impact of economic crises in the donor countries on aid flows in general and on the impact of migrant stock on aid flows. We would expect that a banking crisis in a donor, for instance, would decrease aid overall. However, we might expect donors, with fewer dollars, to focus those dollars on achieving strategic priorities, at the expense of development assistance that does not also fulfill a broader foreign policy goal. Thus, to the extent that donors are using aid flows to achieve a broader immigration outcome, the impact of immigration on aid flows during an economic crisis in the donor should be higher, since the difference between countries receiving aid to meet broader foreign policy objectives and those receiving aid for more strictly humanitarian reasons increases. We therefore test the following:

*H5: When faced with a banking crisis in the donor country, the impact of migrant stock on aid flows increases.*

We now turn to an explanation of the data, followed by a test of the hypotheses outlined here.

## 2 Data

Our main analysis examines dyadic aid flows for the period 1992-2005. We begin our analysis in 1992 to avoid any confounding effects of the Cold War on aid policy; we end in 2005 because that is the last year with available data on important explanatory variables.

### 2.1 Dependent Variable: Aid Flows

For the dependent variable we use data on foreign aid net disbursements from nineteen OECD aid donors to individual recipient countries. Recipient countries were determined from the World Bank's World Development Indicators (WDI) online database. If a country was listed as receiving official development assistance (ODA) or official assistance (OA) in any year from 1980-2007 then it was assumed to be a potential recipient in all years for all donors (or all years since independence, if not already independent at the beginning of the period). The data on dyadic aid yearly disbursements are taken from the OECD's online database and are reported in constant (2007) dollars.<sup>8</sup> The natural log of (one plus) the aid value is used as the dependent variable. Note that in about one-third of the observations there is no aid flow between a donor and recipient in a given year. This is mainly driven by smaller aid donors, such as Portugal or Norway, which tend to focus their aid on a relatively small number of recipients. Large aid donors such as the United States or Japan tend to give aid to almost every recipient in almost every year.

### 2.2 Main Explanatory Variables

**Migrant Stock** Our key explanatory variable is the stock of migrants from a recipient country residing in a donor country at time  $t$  (*Migrant Stock*). We use the data on migrant stock collected by Leblang, Fitzgerald and Teets (2009) who rely on information from national statistical offices

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<sup>8</sup>Specifically, aid data are from OECD.stat, DAC database, Dataset DAC2a; data for both ODA (Part 1) and OA (Part 2) are combined here to get total aid data and converted from \$millions to dollars; online access at [www.oecd.org](http://www.oecd.org), extracted July 2009.

to produce measures of dyadic migrant stocks and flows for 19 destination (donor) countries from 210 source (recipient) countries. Leblang, Fitzgerald and Teets use data on migrant inflows to update information from benchmark surveys (generally the census) to produce consistent measures of the migrant population—based on the migrant’s country of birth—across destinations and over time.<sup>9</sup>

**Immigration Policy** It is notoriously difficult to measure immigrant policy as a multitude of different policies both directly and indirectly influence the flow of immigrants into a particular country. Visa policies, for example, may differentiate across migrant skill level while quota may be designed to facilitate family reunification. And codings of even these two different types of policies may be problematic as they are likely part of broader national and social policy packages aimed at a variety of social, economic and political objectives.

Our solution is to utilize information based on surveys of government officials responsible for a nation’s immigration policy. The United Nation’s Population Division in the Department of Economic and Social Affairs has been publishing *World Population Policies* since 1974. That publication provides the results of surveys that trace a government’s attitude towards population size, fertility, emigration and immigration. We draw on the question that asks whether government policies regarding the level of immigration should remain the same, be raised, or be lowered. And we code a variable called *Policy* equal to one if the response indicates that policies should be designed to lower the level of immigration.

**Migrant Voting Rights** We code migrant voting rights by examining whether migrants have voting rights in the the donor country regardless of the number of years they have been in that country (*Voting Rights*). There is great variation both in the provision of migrant voting rights as well as in types of elections where migrants can vote. As we are interested in migrants as a

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<sup>9</sup>Appendix one of Leblang, Fitzgerald and Teets (2009) provides information on both original data sources and the statistical procedures used to produce time-varying measures of a country’s stock of migrants.

political force we take a broad view and code voting rights as existing if migrants can vote in local, national or supranational (e.g., EU) elections. This data is from Leblang, Fitzgerald and Teets (2009).

**Refugees from Recipient in Donor** We draw on data from the United Nations’ High Commission on Refugees for dyadic data on refugees. Specifically, we code the number of refugees from a recipient country that have been granted asylum in a donor country at time  $t$  (*Refugees in Donor*).<sup>10</sup>

**Banking Crisis** Data on banking crises is drawn from Abiad and Mody (2005) who, in turn, refine and update the chronology created by Laeven and Valencia. While banking crises differ in terms of their duration we code a banking crisis as occurring only during its initial year (*Bank Crisis*).

## 2.3 Control Variables

We include several standard control variables from the aid allocation literature. First, we include measures of GDP per capita (*Income*) and population (*Population*); if donors are focusing on need for development assistance then we would expect aid to be decreasing in income and increasing in population. Data for both variables come from the World Bank’s WDI online dataset and each variable is logged.

We are interested in controlling for “connections” between the donor and recipient other than immigration. Therefore, we include a measure of the log of dyadic trade flows between donor and recipient (*Trade*) taken from Kim (2009) and a measure of log of distance between donor and recipient capital cities (*Distance*) as reported in EUGene v. 3.2 (Bennett and Stam, 2000). We also have an indicator variable that is one if the recipient is a former colony of the donor

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<sup>10</sup><http://www.unhcr.org/statistics.html>



(*Colony*), which is coded from CIA World Factbook.

To measure military importance we include the (log of one plus) military assistance a donor receives from the United States taken from the USAID Greenbook (*US military*).<sup>11</sup> We would like to include this as a dyadic measure, however military assistance data are only available for the United States. As a proxy for overall military importance, we include these figures for US military aid as a control for all donors, given the alliance ties between OECD donor countries. However, we recognize that this is an imperfect measure for donors other than the United States. We include a measure of recipient democracy from the Freedom House, Freedom in the World dataset (*Democracy*). We choose this instead of the other common measure of democracy from the Polity IV dataset simply because it has better country coverage; no findings change if you substitute the polity2 variable from Polity IV for the Freedom House variable reported below. To create this democracy variable we averaged a recipient's score on the civil liberties and political rights variables reported by Freedom House and then inverted the scale so that 1 is least democratic and 7 most democratic.

We include three measures of emergency need in a recipient that could lead to changes in aid flows to that country in a given year. First, we include an indicator variable (*Civil War*) that takes the value of 1 if the UCDP/PRIO Armed Conflict Dataset codes the country as having a civil war (Gleditsch et al, 2002).<sup>12</sup> To capture the impact of refugee populations living in a recipient, we use data from the United Nations High Commissioner on Refugees (UNHCR) Statistical Yearbook for various years.<sup>13</sup> This variable (*Refugees in Recipient*) measures the number of refugees from other countries that are in a recipient in a given year, regardless of when the refugees arrived; we take the log of (one plus) the number of refugees. To measure the impact of

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<sup>11</sup> Available online at [www.usaid.gov](http://www.usaid.gov); data are in constant dollars and were extracted November 2009.

<sup>12</sup> (Civil wars are defined as a type 3 or 4 war in the data. To be included a conflict must cause at least 25 battle related deaths and the state must participate as one of the players. The most recent version of the data and the codebook are available at <http://www.prio.no/CSCW/Datasets/Armed-Conflict/>. Version 4-2007 was used for coding in this analysis.

<sup>13</sup> Available online at [www.unhcr.org/statistics](http://www.unhcr.org/statistics). The most recent report with statistics for the year under observation were used.

natural or man-made disasters on a country, we include a measure of the number of people affected by a natural disaster from the International Disaster Database; we also take the log of (one plus) the number affected for this variable *Disaster*.<sup>14</sup>

### 3 Results

We use a random effects Tobit model grouped on dyad, which is appropriate given the left censoring (at zero) of the dependent variable. In each case the number of integration points was set to twelve; coefficient estimates are not sensitive to this choice of integration points. Results for the main analysis are reported in Table 1. As we will discuss, strong support is found for H1-H3.

Model 1 in Table 1 shows that migrant stock from the recipient in the donor has a significant, positive, and substantively important impact on aid flows. As the stock of migrants doubles (increases by 100 percent), aid flows increase by about 64 percent. The control variables show expected signs: poorer countries, more populous countries, and countries hosting more refugees receive more aid, as do democracies. Standard measures of “connections” between donor and recipient are also important, as recipients with more trade with the donor, those closer to the donor, and former colonies of the donor receive more aid, *ceteris paribus*. US military assistance is also positively associated with aid flows.

Hypothesis 1 is tested in Model 2 of Table 1. This is the same model as Model 1, except that it now includes an indicator variable if the donor government expresses a policy preference for decreasing immigration and an interaction between this policy variable and migrant stock (*Policy\*Stock*). According to H1, if donors are using aid in an attempt to decrease unwanted immigration, then the impact of immigration on aid flows will be higher in situations when the

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<sup>14</sup>Data are from EM-DAT: The OFDA/CRED International Disaster Database - [www.em-dat.net](http://www.em-dat.net) - Universit Catholique de Louvain - Brussels - Belgium. We used the total of the “total affected” category for each country year. This is the number of people injured, left homeless, or requiring other immediate assistance as a result of natural disasters in a country in a given year. A score of zero was given if no people in a country were recorded as being affected by a natural disaster in this data set; data were extracted November 2009.

donor is actively promoting a policy of decreased immigration. This is exactly what we see in Model 2. The coefficient on migrant stock is still positive and significant, indicating that even when donors do not seek to decrease immigration policy (Policy=0) there is an effect of migrant stock on aid flows. However, the interaction between migrant stock and policy is also significant, indicating that the effect of migrant stock on aid flows is 6.1 percentage points higher when the donor is actively seeking to decrease immigration.

The migrant lobbying hypothesis (H2) is tested in Model 3. This model is again the same as Model 1, except that it includes the indicator variable indicating if migrants are granted voting rights in the donor and an interaction term between migrant stock and voting rights (*Vote\*Stock*). If migrant lobbying in the donor country increases aid to the migrants' country of origin (recipient), then this effect should be significantly stronger when migrants have greater access to the political system of the donor country. This is exactly what we see. Once again, the unconditional effect of immigration on aid remains strong; even in donors that do not grant voting rights to migrants there is an impact of migrant stock from a recipient on a donor's aid disbursement to that country (coefficient on migrant stock is 0.587). However, the interaction between voting rights and migrant stock is also positive and significant: when donors grant voting rights to migrants the impact of migration on aid flows increases by approximately 10 percentage points.

Perhaps the most interesting results are reported in Model 4, which jointly tests H1, H2, and H3. Recall that H3 suggests an interaction between migrant lobbying and a donor's desire to decrease unwanted immigration. In this scenario, large migrant groups lobby for increased aid for their country of origin (recipient). Donors respond by working with these diaspora communities to target aid in a manner meant to decrease migration from these same recipients. Thus, the diaspora communities in the donor become part of the donor policy to improve living conditions in their country of origin, thereby decreasing (it is hoped) unwanted immigration. If this scenario is true, we should observe a larger impact of migrant stock on aid flows when the donor is actively

	Model 1	Model 2	Model 3	Model 4
Migrant Stock	0.644*** (0.03)	0.615*** (0.03)	0.587*** (0.04)	0.535*** (0.04)
Policy		-0.613*** (0.17)		-1.040*** (0.18)
Policy*Stock		0.061** (0.02)		0.066*** (0.02)
Voting Rights			-0.420 (0.33)	-0.926*** (0.34)
Vote*Stock			0.103** (0.05)	0.102** (0.05)
Policy*Vote*Stock				0.161*** (0.02)
Income	-2.360*** (0.11)	-2.373*** (0.11)	-2.359*** (0.11)	-2.370*** (0.11)
Population	1.066*** (0.08)	1.059*** (0.08)	1.076*** (0.08)	1.063*** (0.08)
Trade	0.211*** (0.01)	0.213*** (0.01)	0.209*** (0.01)	0.212*** (0.01)
Distance	-1.562*** (0.18)	-1.578*** (0.18)	-1.596*** (0.18)	-1.575*** (0.18)
Colony	4.130*** (0.72)	4.096*** (0.71)	4.415*** (0.73)	4.368*** (0.72)
US military	0.060*** (0.01)	0.061*** (0.01)	0.060*** (0.01)	0.060*** (0.01)
Democracy	0.115** (0.05)	0.114** (0.05)	0.114** (0.05)	0.120*** (0.05)
Civil War	-0.483*** (0.12)	-0.487*** (0.12)	-0.482*** (0.12)	-0.484*** (0.12)
Refugees in Recipient Disaster	0.094*** (0.02) 0.003 (0.01)	0.094*** (0.02) 0.003 (0.01)	0.093*** (0.02) 0.003 (0.01)	0.094*** (0.02) 0.003 (0.01)
Year	0.137*** (0.01)	0.132*** (0.01)	0.135*** (0.01)	0.127*** (0.01)
Constant	-258.833*** (17.51)	-248.105*** (17.81)	-253.223*** (17.71)	-236.361*** (17.98)
Observations	25218	25218	25218	25218

**Table 1: Impact of Immigration, Migrant Voting Rights, and Immigration Policy on Aid Flows, 1991-2006.** Dyadic Random Effects Tobit estimation. \*Significant at the 10 percent level. \*\*Significant at the 5 percent level. \*\*\*Significant at the 1 percent level.

seeking to decrease migration (Policy=1) *and* when the diaspora has more political voice in the donor (voting rights=1). Donors where this is true for some or all years are Ireland, New Zealand, Finland, Netherlands, Switzerland, Denmark, Sweden, Norway, and Austria.

This is what we see in Model 4. Note that the direct effect of migrant stock on aid flows remains strong, although less than in Model 1 suggesting that some of the initially observed impact is due to the policy and voting hypotheses tested in subsequent models. The impact of migrant stock still increases when the donor expresses a desire to decrease migration but does not grant voting rights to migrants (coefficient on Policy\*Stock=0.066). It also increases when the donor grants voting rights to migrants but does not express an explicit desire to decrease overall immigration (coefficient on Voting\*Stock=0.102). However, the greatest impact of migrant stock on aid flows occurs when the donor both (1) expresses a desire for decreased immigration and (2) grants voting rights to migrants. When both of these conditions are met, the impact of migrant stock on aid flows increases by about 16 percentage points (coefficient on Policy\*Vote\*Stock). This suggests that hypotheses 1 and 2 act more as complements than as substitutes. Furthermore, the magnitude of the effect of migrant stock on aid flows when the donor wishes to decrease migration *and* grants migrant voting rights is substantial: when both these conditions are met a doubling of migrant stock from a recipient in the donor results in an 86.4 percent increase in aid flows to the migrants' country of origin.

### **3.1 Extensions**

Table 2 provides results for the two extensions hypothesized above. In Model 5, we repeat Model 1 but this time also include a variable for (natural log of) the number of refugees from the recipient living in the donor. Unfortunately, we only have these data back to 1995, so there are fewer observations. Nevertheless, we see that increasing the number of refugees from the recipient residing in the donor decreases the amount of aid sent to the recipient.

In Model 6 and 7 we analyze the impact of a crisis in the banking sector of the donor country.

	Model 5	Model 6	Model 7
Migrant Stock	0.526*** (0.03)	0.660*** (0.03)	0.603*** (0.03)
Refugees in Donor	-0.041* (0.02)		
Bank Crisis		-0.984*** (0.11)	-2.552*** (0.20)
Bank*Stock			0.307*** (0.03)
Income	-2.310*** (0.12)	-2.355*** (0.11)	-2.314*** (0.11)
Population	1.312*** (0.08)	1.063*** (0.08)	1.070*** (0.08)
Trade	0.190*** (0.01)	0.201*** (0.01)	0.198*** (0.01)
Distance	-1.969*** (0.18)	-1.584*** (0.18)	-1.578*** (0.18)
Colony	4.399*** (0.72)	4.047*** (0.71)	4.143*** (0.71)
US military	0.025*** (0.01)	0.060*** (0.01)	0.059*** (0.01)
Democracy	0.169*** (0.05)	0.114** (0.05)	0.128*** (0.05)
Civil War	-0.233* (0.13)	-0.492*** (0.12)	-0.447*** (0.12)
Refugees in Recipient	-0.009 (0.02)	0.093*** (0.02)	0.099*** (0.02)
Disaster	0.011 (0.01)	0.001 (0.01)	0.001 (0.01)
Year	0.118*** (0.01)	0.092*** (0.01)	0.091*** (0.01)
Constant	-218.988***	-167.691***	-165.445***
Observations	20283	25218	25218

**Table 2: Impact of Refugees and Banking Crises.** Dyadic Random Effects Tobit estimation. \*Significant at the 10 percent level. \*\*Significant at the 5 percent level. \*\*\*Significant at the 1 percent level.

Model 6 replicates Model 1, but this time includes an indicator variable that is equal to 1 if there is a banking crisis in the donor in year  $t$ . Model 7 additionally adds an interaction between migrant stock and banking crisis ( $Bank*Stock$ ). A banking crisis—our proxy for a country’s fiscal crisis—decreases the amount of foreign aid given; this is likely due to the existence of a fiscal imbalance and an overall reduction in government expenditures. The parameter estimate for a banking crisis in Model 6 is statistically significant and negative indicating a reduction in overall foreign aid. But, as we argue above, migrants should serve to stabilize flows of foreign aid. We test this in model 7 where we include an interaction between banking crises and migrant stock. In this specification banking crises are still negative and statistically significant but both migrant stock by itself and its interaction with crises are positive and significant. Taken together this means that migrants, as their size grows larger, help mitigate the negative consequences of a banking crisis as they continue to lobby for foreign economic aid for their home country.

## 4 Conclusion

We develop an argument linking immigration to a country’s foreign aid policies. We present empirical evidence to support the argument that immigration influences foreign aid in two different, but complementary, ways. The empirical findings from a large set of panel data confirm a robust statistical relationship between the stock of migrants from a recipient country in a particular donor and flows of aid to that recipient. The results show that foreign aid can be part and parcel of a larger set of immigration policies—policies that are designed to decrease the demand for immigration into a particular donor country. We find, all else equal, that flows of aid increase more when donor countries have policies in place to decrease immigration into their country. Additionally, immigrants often represent the interests of their home countries and lobby their host governments for foreign economic assistance. When migrants are granted non-citizen voting rights, the impact of migrant stock on aid flows increases significantly.

This paper adds to the broader political economy literature in a number of ways. First, it adds to the domestic politics story in the large and growing literature on the determinants of foreign economic assistance. Scholars contributing to that literature have gone to great lengths to describe the conditions in the recipient country that give rise to aid flows; our contribution is to address political conditions in the donor country—an focus that has received scant attention thus far. Our second contribution is to an expanding literature on the politics and policies surrounding immigration. This literature, for the most part, has emphasized the consequences of immigration for economic, political and social phenomena in their host country. We add to the understanding of immigration by exploring how immigration can influence the content of a country’s foreign economic policies. Finally, our paper adds to a long and diverse literature on the role of a country’s diaspora. Rather than treating a diaspora as a potential threat to the home country, we argue that diasporatic links provide a benefit to the home country by serving to advocate on their behalf.



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