

Foreign Interests: Immigration and the Political Economy of Foreign Aid Allocation*

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Abstract

Migration and aid flows each create links between industrialized and developing countries. Surprisingly, the link between these two issue areas remains almost unexplored in scholarly literature. We hypothesize that an increased stock of migrants from an aid recipient in an aid donor will be associated with larger aid flows from the donor to the recipient for two reasons. First, donors may choose to promote development abroad in an effort to decrease the push factors behind migration. To do this they would focus disproportionately on countries that have historically sent large numbers of migrants, since new migrants are attracted to areas where earlier migrants from their home country have settled. Second, diaspora communities within donors may lobby their host government to increase aid flows to their country of origin. We develop these arguments and test hypotheses empirically on a broad sample of data comprised of bilateral aid flows from 19 OECD donors to more than 150 recipients over the period 1992-2005. We find evidence both that donors use aid flows to stem the tide of unwanted migrants and that immigrants within a donor successfully lobby for aid to their native land.

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Migration creates an important link between industrialized and developing countries. While in many cases migrants from developing countries become a vital part of developed country economies, the impact of immigration - particularly of low-skilled migrants - is not universally positive. As such, governments in industrialized countries may use various foreign policy tools in an effort to shape or restrict migrant flows. However, migrants from developing countries living within developed nations can also have a voice in the political process, lobbying the host government on many issues, including for policies favorable to their country of origin.

Host country governments have reason to expect that migration pressures from developing countries will continue to increase. A recent Gallup 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.¹ Given these numbers, it is likely that the continued inflow of low-skilled migrants is a political reality for developed country governments. Since historical evidence shows that countries can only imperfectly control their borders by the imposition of official migration restrictions, we should expect foreign policy aimed at stemming the flow of migrants to encompass more than the passage of immigration legislation.

One way that developed countries can limit unwanted immigration is to decrease the “push factors” leading migrants to leave their homeland. Out migration is a function - at least in part - of poor economic conditions in the sending country. Improving living conditions in the sending country is one potential way to decrease migration. Following this logic, we argue that developed countries will use foreign aid as one tool in their policy arsenal to combat unwanted migration.

In light of the fact that many low-skilled migrants originate in aid recipient countries and

¹“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>.

migrate to donor countries, the possibility of a connection between migrant flows and aid allocation merits further study. Although Bermeo (2008) demonstrates an empirical link between foreign aid and the stock of foreigners residing within a donor's borders, the causal mechanisms behind this relationship remain under-theorized and untested. We seek to fill this gap, by presenting evidence of the various pathways linking migration and foreign aid.

We examine whether a donor country that seeks to restrict migrant access simultaneously increases its allocation of foreign development assistance to migrant sending countries, believing that this aid will decrease immigration pressure. In doing so, we contribute to an established literature that seeks to understand foreign aid in light of broader foreign policy goals (e.g., McKinlay and Little (1977, 1978); Maizels and Nissanke (1984); Schraeder et al (1998); Alesina and Dollar (2000); Neumayer (2003); Berthelemy and Tichit (2004); Stone (2006); Bueno de Mesquita and Smith (2007, 2009)). Given the intense scholarly debate surrounding motivations behind observed allocation patterns, we find it surprising that so little work has been done examining the link between immigration and foreign aid.

While we believe foreign policy goals are an important part of the explanation linking migrant stock to aid flows, we do not think they can fully explain the relationship. Instead, we argue that domestic political considerations provide an important additional - and complementary - explanation. Migrants have the ability to lobby host country governments, and a particular incentive to do so when policy relates to their country of origin.

By highlighting the importance of migrant interest groups in determining aid allocation decisions we engage two distinct literatures. First, we add to a growing body of work on the domestic determinants of foreign aid flows. One strand of this literature has focused on ideological explanations for observed aid allocation patterns (e.g. Fleck and Kilby, 2001; Noel and Therien, 1995; Therien and Noel, 2000; Tingley, 2010). Separate work has focused on economic motivations behind support (or lack thereof) for foreign aid by elected officials (Milner and Tingley, Forthcoming, 2010) or individuals (Tingley, 2009).

Additionally, we add to the literature examining the effects of migration on the linkages between home and host countries. Research in this tradition focuses on both the effectiveness of a home country's diaspora in shaping the policies of the host country (e.g., Shain and Barth, 2003; Sheffer, 2003) and the ways in which migrant networks facilitate the cross-border movement of trade and investment (e.g., Rauch and Trindade, 2002; Leblang, 2010). These literatures are 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 toward common ends.

We examine the link between migrant stock and foreign aid flows by examining foreign aid commitments from nineteen donors to more than 150 recipients over the period 1992-2005. First, we show that the empirical link between migration and foreign aid is robust to a variety of model specifications. We then proceed to test our two main hypotheses: (1) that donors use aid as a tool to achieve broader immigration goals and (2) that migrant lobbying has an impact on observed aid allocation.

Our findings suggest that both the foreign policy and lobbying hypotheses are important in understanding the link between foreign aid and immigration. The strength of donor preferences regarding immigration varies over time and across donors. On average, when a donor adopts more restrictive immigration policies, we find that the importance of large migrant flows in determining aid allocation increases. Thus, restrictive policies are associated with reallocating development assistance from recipients which send few migrants to those which send more - evidence that the link between aid and migration is connected to broader immigration policy in donor countries. We also find that when *recipient* countries intensify their connections with their external populations we observe a larger effect of migrant stock on bilateral aid commitments. The more connected a diaspora community is to its country of origin, the greater the impact of that diaspora on aid flows - suggesting that lobbying effort varies across migrant groups and has an impact on observed aid allocation patterns.

Our arguments and evidence linking migration to the allocation of foreign aid are developed in the following four sections. Section one develops the causal linkage between migration and foreign aid allocation and derives testable hypotheses. Section two details the sample, data, measures and methods used to test the hypotheses and section three presents the empirical results. We conclude and provide some thoughts about future research in section four.

1 Immigration and the Politics of Aid Allocation

We hypothesize that migration influences a donor country's foreign aid allocation in two ways. The first, which we label the foreign policy mechanism, holds that foreign aid commitments are made to those countries which supply a large number of the donor country's immigrants. The rationale here is that foreign aid is designed to improve conditions in the recipient country to such an extent that there will be smaller emigrant flows and, consequently, a lower demand to enter the donor. But migrants in a donor country also put pressure on their host government to supply aid to their homeland; pressure that may take the form of voting, lobbying or general political activity. These two different mechanisms are not, we emphasize, mutually exclusive. Rather, they work in tandem, reinforcing one another.

1.1 Aid as a Tool of Immigration Policy

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. We suggest that, in addition to these often studied foreign policy goals, development aid serves the immigration priorities of donor countries.

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. Evidence shows that immigration from developing to developed countries can drive down the wages of unskilled workers in the host country (Borjas, 2005), leading such workers to prefer policies that limit migration inflows (Scheve and Slaughter, 2001; Mayda, 2006). Migrants can also create fiscal strain through use of publicly provided services, which may lower support for immigration among the native population (Hanson et al 2007). . Poor socio-economic conditions for migrant groups in France led to riots in 2005 and 2007. In Britain, a 2008 poll showed that sixty percent of those surveyed thought the UK had too many immigrants and an even larger number agreed that there was at least a “fair amount” of tension between different races or nationalities, and that this was at least “fairly likely” to result in violence.² Scholars have also documented how immigration boosts the electoral prospects of radical right parties (Knigge (1998); Lubbers et al (2002); De Vos and Duerloo (1999)). and drives policy makers to enact increasingly strict immigration policies (Thraenhardt (1995); Bale (2003); Van der Valk (2003)). Given the realities of migrant flows today, immigration policy has become an important political topic in many industrialized countries.

Despite the lack of attention in scholarly circles, there is evidence that donors are indeed using aid flows as a tool for implementing a broader immigration policy. The European

²“Britons Fear Race Violence - Poll”; BBC online, April 17, 2008, available at http://news.bbc.co.uk/2/hi/uk_news/7352125.stm

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” as part of their “Global Approach” toward migration. The Commission has called on members to “[p]romote 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.*”³

Individual countries have also adopted policies or concrete strategies linking migration and overseas development 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

³“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.

claims, *“This agreement will provide nationals from Southern countries with resources to build their futures in their homelands.”*⁴ The German development agency (GTZ) has initiated 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.⁵ Multiple agencies across aid donors 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 origins. In the US, the 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.⁶

Development strategies adopted by European donors in response to migration do not necessarily target the neediest groups within sending countries. Instead, as shown in the above statements, they focus on creating economic opportunities in areas where pressures to emigrate are already high. Since potential migrants are more likely to move to areas with an established diaspora community, donors interact with diaspora communities to target aid to these groups that are disproportionately likely to migrate to the donor country. The German policy of matching remittances, for instance, gives money to projects in the sending country that are already receiving financing from abroad. This is consistent with a strategy of promoting development within highly mobile populations, but inconsistent with a development strategy that targets those most in need; these groups are, by design of the targeted aid policy, the lucky ones already receiving financial assistance in the form of remittances.

Not all industrialized countries have the same policies regarding immigration and development. The Australian Agency for International Development (AusAID), for instance,

⁴See 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#>.

⁵See 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.

⁶See, 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.

supports a policy of concessionary immigration from small island states in the Pacific. The geography, market size, and population of these states is such that allowing people to emigrate “may be the only way in which Australia can provide meaningful development assistance” to these nations.⁷ While current European strategies suggest that a desire to curb immigration will be associated with increases in aid flows from sending countries, the Australian policy illustrates the opposite: more liberal immigration policies may be associated with a decrease in traditional, financial, forms of aid.

More generally, aid donors may express different preferences regarding immigration, and policies within an aid donor are not constant over time. The next section describes a newly coded variable reflecting changes in donor country policies toward migrant entry. While recorded policies and laws governing migration are an imperfect measure of donor country attitudes toward total migration - including illegal migration - we expect that changes in migration laws reflect the general direction of policy preferences in a donor country. Thus, when a donor country increases restrictions on entry we view this as indicative of an increase in the desire to curb overall immigration. We expect a direct effect between migrant stock from a developing country living in donor and aid allocation. However, since donors may seek to decrease migrant flows by promoting development abroad, we expect the effect of migrant stock on aid to be magnified when donors are actively looking to decrease immigration. Because migrants tend to follow previous emigrants from their home country, donors using aid to decrease migration would disproportionately focus this aid in recipients that already have a large stock of migrants in the donor. This leads to the following hypothesis:

H1: When a donor country has more restrictive policies toward migrant entry, the link between immigration and aid flows will be stronger than when the donor has a more liberal

⁷South Pacific Migration:New Zealand Experience and Implications for Australia, 1995; available online at http://www.ausaid.gov.au/publications/pdf/idis42_southpacificmigration1995.pdf.

migration policy.

It is important to note that we expect this to be an interactive effect. Donors who adopt more restrictive immigration policies may either increase or decrease the total amount of aid flows. In fact, one can imagine a scenario where conservative governments come to power and seek to cut both migration and foreign aid. What we hypothesize is that, despite any effect on aggregate aid flows, restrictive immigration policies are associated with an increase in the importance of migrant stock in determining how the pot of aid money is allocated across recipient countries.

1.2 Migrants as Lobbyists

We do not argue that government preferences over migrant flows constitute the sole link between immigrants and foreign aid decisions. Foreign aid choices, like those that govern all policy choices over 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 of the overall process of global immigration and as an important part of the growing importance of migrant networks that exist across national borders. In our formulation, migrant networks serve as a cross-border linkage between home and host country. Or in the language of foreign aid, they increase ties 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, others have emphasized the ways in which migrant networks serve as conduits for trade and capital flows. Our focus on migrant networks is not unlike the use of variables that seek to explain patterns of aid allocation by examining a country's colonial history or linking it to a donor based on shared language; it is yet another piece of the puzzle identifying common patterns of behavior or common interests.

The external policies of advanced democracies may partially result from purposeful lobbying on the part of domestic groups. 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 toward their respective 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. Glazer and Moynihan (1975) observed that ethnic influence has become “the single most important determinant of American foreign policy.” And Schain (1994), in his study of the role of ethnic lobbies in US foreign policy, 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. 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 addition to the literature on migration, the analysis of migrant lobbying for foreign aid contributes to our understanding of the domestic determinants of aid flows. It has been argued that liberal and conservative governments have different approaches to foreign aid (Fleck and Kilby, 2001; Noel and Therien, 1995; Therien and Noel, 2000; Tingley, 2010), and that domestic

political concerns at the district level influence legislative support (or lack thereof) for foreign aid (Milner and Tingley, Forthcoming, 2010). Indeed, while not focusing on a potential link between immigration and aid, Milner and Tingley (Forthcoming, 2010) do find that the percent of a district that is foreign born has a positive influence on US Representative votes for development assistance. However, few studies have looked at how domestic political pressures influence the choice of aid recipients as opposed to the overall amount of aid allocated.⁸ Indeed, Lancaster (2007), has argued that aid is an issue area without a natural constituency. If it is true that only a small proportion of a donor's population is mobilized to influence how aid is allocated across recipients, one would expect the potential impact of those groups that do lobby the government to be high relative to a situation where governments need to balance more contentious claims.

We are interested in testing whether increased lobbying by a diaspora community results, on average, in greater foreign aid flows to the native country of the lobbying group. Unfortunately, we do not have data that directly quantify the level of migrant lobbying from a broad range of sending countries. Instead, we focus on policies on the part of the migrant's home government that may increase the incentive of the diaspora to lobby on its behalf. Specifically, we argue that by allowing dual citizenship, sending countries strengthen the ties between the diaspora community and their home country, thereby increasing the likelihood that the migrant community will be motivated to lobby on behalf of its home country.

It is not unambiguous that migrant groups in donor countries will be willing to engage in lobbying for foreign economic assistance on behalf of their country of origin. Home countries and their overseas populations have had a long and storied relationship: emigres have been referred to as "traitors" and have been treated as "prodigal sons and daughters who had abandoned their national family and who therefore should not be allowed to retain their original nationality" (Martin 2003, 7). Recently, however, the relationship between country of origin and migrant has changed as home countries have attempted to reengage with their diasporas.

⁸Fleck and Kilby (2006) is an important exception.

Over the last three decades this anti-emigrant tide has turned as states increasingly see their diasporas as an asset. Countries such as the Philippines and Mexico have established home town associations to connect with their external citizens. India and China, following international incidents, have actively courted their diasporas by offering incentives for home country investment. In some cases—e.g., Mexico, Morocco and China—emigrees have come to be celebrated as national heroes, while in others politicians have traveled abroad to court their expatriates (Gamlan 2006). Countries have also increasingly been offering expatriates political rights. These strategies attempt to create, recapture or cultivate feelings of membership in the nation; a nation that is tied to yet is geographically disconnected to the state itself. And the use of dual citizenship policies are especially important because they are designed to evoke a feeling of inclusion in the homeland, a feeling that will, hopefully, lead the immigrant to seek connections to the homeland (Newland 2004; Gamlen 2006). As Fitzgerald remarks, “States deploy the language of nationalism precisely because migrants are outside state territorial borders but within the boundaries of the imagined nation” (Fitzgerald 2002).

These actions are used to shape attitudes and behaviors and to signal who is part of the “in group” and who is disconnected. Shain remarks that governments use this power to “promote and sustain the attachment of the people to the motherland” (1999, 662-3). And the use of dual citizenship strategies is instrumental. Ostergaard-Nielsen (2003) argues that the Turkish government attempted to engage its diaspora in order to help upgrade its image to facilitate entry into the EU. Itzigsohn (2000) and Goldring (1998) argue that the extension of dual citizenship should help persuade expatriates to become more involved in their home countries, an involvement that hopefully leads to a steady flow of capital through investments and remittances. It seems likely that this would spill over into other areas of engagement as well.

In addition to symbolically linking diasporas with their homelands, the extension of dual citizenship is often used to encourage expatriates to naturalize in their host countries. Jones-Correa (2001) and Mazzolari (2007) use micro-level data and find ample evidence - based

on Latin American immigrants to the United States - to support this conjecture. Encouraging naturalization, while seemingly at odds with the idea that sending countries attempt to strengthen ties with their diasporas, is a strategic decision. Freeman and Ogelman (1998) argue that “sending countries are likely to be strategic and to be directed toward such goals as enhancing their control and influence over their nationals living abroad and, through them, increasing their influence over the foreign and domestic policies of receiving states” (771).

The extension of dual citizenship by a migrant’s home country should, all things equal, increase the effect of migrant groups on foreign aid. By providing a stronger link between a recipient country and overseas citizens, dual citizenship increases the likelihood that migrants living abroad will lobby on behalf of their country of origin. Consequently we hypothesize that

H2: When a recipient country grants dual citizenship to migrants, the link between immigration and aid flows will be stronger than when a recipient country does not recognize expatriate dual citizenship.

1.3 When times get tough...

It is interesting to ask the importance of considerations regarding migrants relative to other considerations in overall foreign aid policy. One way to do this is to examine what happens to the relationship between migration and aid when there is an exogenous negative shock to total aid. When a donor experiences difficult financial times, it will likely focus its aid on the priorities most important to it, cutting aid for purposes less important for overall donor utility (such as aid predominantly motivated by humanitarian concerns). Since we argue that controlling immigration is important to donors (and perhaps even more so in difficult financial times), we expect the bias in favor of migrant stock to be even larger in difficult financial times, which we measure by the presence of a banking crisis in the donor country. This leads to the following hypothesis:

H3: When a donor country experiences a banking crisis, the impact of migrant stock on aid flows increases.

We also test whether our two different causal mechanisms fare differently in the presence of a banking crisis in the donor. We now turn to an explanation of the data, followed by a test of the hypotheses outlined here.

2 Sample, Data, Methods

Our main analysis examines dyadic aid commitments 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. We have data on bilateral foreign aid from all nineteen OECD donors to 159 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 for the purposes of the present analysis 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 exception are countries who "graduated" from ODA/OA eligibility; in these cases they are excluded for the years for which they are not aid eligible.

2.1 Dependent Variable: Aid Commitments

For the dependent variable we use dyadic data on foreign aid commitments taken from the OECD's online database, reported in constant (2007) dollars.⁹ The natural log of (one plus) the

⁹Specifically, aid data are from OECD.stat, DAC database, Dataset DAC3a; data for both ODA (Part 1) and OA (Part 2) are combined here to get total aid data and converted from \$millions to dollars, with negative numbers recoded

aid value is used as the dependent variable.

2.2 Main Explanatory Variables

Migrant Stock Our key explanatory variable is the log of (one plus) 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 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.¹⁰

Donor Migration Policy Immigration policy is notoriously difficult to measure, as countries differ significantly not only in how immigrants are treated once they arrive but also in how open their borders are to those who wish to enter. For our measure of *Migration Policy* we focus on the latter and code a country’s entry policy. For each country year we code whether entry policy—quotas, family reunification, recruitment of workers, etc—moves in a more liberal (-1) or restrictive (+1) direction. We take 1980 as the base year and give it a value of zero. For each subsequent year we add or subtract one if there is a change in policies governing the entry of immigrants; higher values on this variable indicate more restrictive policy. Because countries differ in terms of the overall liberalness or restrictiveness of their policies we always include a set of donor country indicator variables.

to zero in order to take the natural log; online access at www.oecd.org, extracted July 2009.

¹⁰Appendix 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.

Recipient Country Dual Citizenship We code dual citizenship by examining whether emigrees retain home country citizenship rights even after naturalizing abroad. This data is from Leblang (2010). The variable *Dual Citizenship* takes on a value of 1 if a recipient allows for dual citizenship of emigrants.

Refugees from Recipient in Donor We draw on data from the United Nations' High Commission on Refugees for dyadic data on refugees. Specifically, we include the natural log of (one plus) the number of refugees from a recipient country that have been granted asylum in a donor country at time t (*Refugees in Donor*).¹¹

Banking Crisis Data on banking crises are 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 this variable as one only during the initial year of the crisis (*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 (one plus) exports from a donor to a recipient (*Donor Exports*) from the IMF's Direction of Trade Statistics.¹² We control for the log

¹¹<http://www.unhcr.org/statistics.html>.

¹²Accessed January 11, 2010; converted to constant dollars using the US CPI from the Bureau of Labor Statistics (1982-84=100).

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

To measure military importance we include the (log of one plus) military assistance a recipient receives from the United States taken from the USAID Greenbook (*US military*).¹³ 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).¹⁴ 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.¹⁵ This variable (*Refugees in Recipient*) measures the number of

¹³ Available online at www.usaid.gov; data are in constant dollars and were extracted November 2009.

¹⁴ (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.

¹⁵ Available online at www.unhcr.org/statistics. The most recent report with statistics for the year under observation were used.

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 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 take the log of (one plus) the number affected for this variable, *Disaster*.¹⁶

3 Results

Our results are reported in Tables 1, 2 and 3. Unless otherwise noted all equations are estimated using a Tobit modeling specification with left censoring at zero and robust standard errors clustered on dyad. A Tobit model was chosen because about one-third of the observations on foreign aid commitments (the dependent variable) have a value of zero. 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. It is possible to view these zeros as either censored (where a value of zero masks differences in donor sentiment across recipients receiving zero aid) or corner solutions (in which zero simply represents a corner solution to a maximization problem without an assumption regarding the underlying distribution). In either case, standard ordinary least squares estimation will lead to inconsistent estimates of the parameter values.

Results relating migrant stock to foreign aid are contained in Table 1 where, for the sake of comparison, we present Model 1 as a benchmark. Consistent with existing literature we find that bilateral aid commitments in the post-Cold War are lower with higher levels of per capita gdp, larger bilateral distances, and more frequent civil conflicts in the recipient. And aid commitments

¹⁶Data are from EM-DAT: The OFDA/CRED International Disaster Database - 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.

are increasing with higher bilateral trade and when the recipient has a larger population, receives more military aid from the United States, shares a common colonial history with the donor, is more democratic, hosts a larger refugee population, or has experienced a natural disaster. Unless otherwise noted, all models include a set of donor fixed effects not reported here.

In Model 2 we add our variable of interest: the number (logged) of migrants from an aid recipient country residing in a donor country. The variable, *Migrant Stock* is positively signed and statistically significant. The estimated parameter is substantively large as well: a ten percent increase in the size of the migrant population from a particular recipient residing in a donor country increases aid commitments to that recipient by eight percent.

The rest of Table 1 establishes the robustness of our central finding. In Model 3 we drop the variables that measure recipient need and replace them with a complete battery of recipient-year fixed effects, a practice that controls for unmeasured attributes of aid recipients that are either constant or that vary over time. This specification, like the others, still includes a set of donor fixed effects so the estimated model only includes time-varying variables that capture bilateral donor-recipient linkages.¹⁷ The results using this very conservative specification remain broadly consistent with the estimates in Model 2: distance and colonial history continue to be statistically significant and in the expected direction, although exports are no longer a significant predictor of aid flows.¹⁸ The parameter estimate measuring the impact of the size of the migrant community from a recipient in a donor is still positive and statistically significant. The demanding nature of this specification results in a considerable decrease in magnitude on this coefficient. However, the effect is still substantively large—a ten percent increase in migrant population is associated with an increase in bilateral aid commitments between three and four percent.

¹⁷Note that the sample size in Model 3 almost doubles compared with the sample in Model 2. This is because of missing data associated with recipient countries on such variables as income, exports, etc. Consequently the results in columns three and five—which also includes recipient-year fixed effects reflect a more complete set of data.

¹⁸This is consistent with the varied findings regarding the impact of trade in the aid allocation literature: apparently the model specification matters for the significance of this variable.

	Model 1	Model 2	Model 3	Model 4	Model 5
Migrant Stock		0.834*** (0.06)	0.352*** (0.04)	0.561*** (0.03)	0.205*** (0.02)
Income	-2.255*** (0.13)	-2.566*** (0.13)		-1.132*** (0.12)	
Population	1.569*** (0.09)	0.927*** (0.10)		-1.380*** (0.21)	
Exports	0.069*** (0.02)	0.072*** (0.02)	0.017 (0.01)	-0.003 (0.01)	0.006 (0.01)
Distance	-2.301*** (0.19)	-1.330*** (0.19)	-2.042*** (0.18)	-0.659 (0.71)	-2.166*** (0.26)
Colony	7.477*** (0.72)	4.562*** (0.66)	3.024*** (0.35)	2.692 (3.19)	3.208*** (0.83)
US military aid	0.138*** (0.02)	0.124*** (0.02)		0.072*** (0.00)	
Democracy	0.344*** (0.09)	0.254*** (0.08)		0.230*** (0.03)	
Civil War	-0.413 (0.25)	-0.629*** (0.24)		-0.573*** (0.09)	
Refugees in Recipient	0.159*** (0.04)	0.162*** (0.03)		0.090*** (0.01)	
Disaster	0.144*** (0.02)	0.128*** (0.02)		0.045*** (0.01)	
Year	0.371*** (0.02)	0.356*** (0.02)		0.127*** (0.01)	
Constant	-730.407*** (41.22)	-700.238*** (40.48)	0.914*** (0.09)	-213.421*** (12.55)	-14.231* (7.63)
Sigma	7.706*** (0.11)	7.540*** (0.11)	4.126*** (0.06)		
N	26296	26296	46144	38281	46144

Table 1: **Impact of Immigration on Aid Flows, 1992-2005.** Tobit estimation with standard errors clustered on dyad. Donor indicator variables included but not shown. *Significant at the 10 percent level. **Significant at the 5 percent level. ***Significant at the 1 percent level.

Addressing potential endogeneity It is plausible to argue that migrants follow flows of aid; that is, that the stock of migrants is endogenous to aid commitments. To address this concern, in Models 4 and 5, we re-estimate the equations in Models 2 and 3 using the estimator suggested by Hausman and Taylor (1981). Hausman and Taylor develop an instrumental variables approach that yields consistent and efficient estimates of the parameters and standard errors in the face of a correlation between explanatory variables and the error. The Hausman-Taylor estimator calculates the deviation of the time-varying endogenous variable—in this case bilateral migrant stock—from its individual mean.¹⁹ We are unaware of any extension of the Hausman-Taylor estimator to a censored outcome so the results in Models 4 and 5 assume that bilateral aid commitments are normally distributed. With this caveat in mind we see that the stock of bilateral migrants continues to have a positive and statistically significant effect on aid commitments both when we estimate the model with defined recipient characteristics (Model 4) and when we use our recipient-year fixed effects specification (Model 5).

Now that we have established a robust positive effect of the stock of migrants from a recipient country on a donor country's commitments of foreign economic assistance we proceed to test the hypotheses identifying the causal mechanisms. We hypothesize that migrant stock from a recipient in a donor will have a positive effect on aid flows to that recipient, and that this effect increases if (1) the donor is attempting to further restrict immigration, (2) migrants have an increased incentive to lobby for their homeland or (3) both of these are true.

3.1 Aid as a Tool in Immigration Policy

Our first hypothesis suggests that foreign aid is directed towards those countries that supply large number of migrants in the hopes that it will diminish the demand for bilateral migration. In this formulation, foreign aid is a part of the donor country's overall migration strategy. To test this

¹⁹See Qureshi and Tsangarides (2010), and Carrere (2008) for an application of the Hausman-Taylor estimator to bilateral trade flows. Egger (2002) and Egger and Pfaffermayer (2003, 2004) show, in the context of bilateral trade, that the Hausman-Taylor estimator is superior to both random and fixed effects models.

hypothesis we include a variable measuring the donor country's policy regarding the entry of labor migrants; the variable takes on positive values when entry restrictions are intensified and negative values when entry restrictions are liberalized. We then interact this variable with migrant stock. Support for H1 is found if the impact of migration on aid commitments is stronger in the presence of more restrictive immigration policies - in other words, if the interaction between migration policy and migrant stock is positive.²⁰

The first two models in Table 2 replicate Model 2 from Table 1, but include the measure of *Migration Policy* and the interaction term *Policy*Stock* (Model 7).²¹ While we have no hypothesis about the direct effect of migration policy on overall aid flows, it is interesting to note that it is negative and significant. This suggests that governments who adopt more restrictive immigration policies also cut overall foreign aid budgets. The finding is consistent with an explanation of preferences over foreign aid and immigration moving in similar directions as the ideology of the government shifts or as the mood of a country toward "foreigners" changes more generally.²²

For the purposes of testing the impact of migration policy on aid flows, the relevant finding is the positive and significant coefficient on the interaction term *Policy*Stock* in Model 7. This, coupled with the results on *Migrant Policy* in Model 6, supports the view that when governments adopt more restrictive entry policies they lower total foreign aid, but focus the aid even more intently on recipients sending larger numbers of migrants to the donor. This again suggests that changes in migration policy reflect more general changes in sentiment toward foreign engagement. A government with a more negative view of "foreigners" restricts entry and reduces

²⁰We experimented with two alternative measures of a donor's entry policies. The first is a measure that is based on bi-decade surveys of respondents from immigration offices around the world carried out by the United Nation's Population Division while the second substitutes a measure of the electoral performance of extreme right wing parties in donor countries for the more direct measure of entry policy. In both specifications we find results consistent with those reported in Table 2.

²¹We obtain similar results if we use the procedures discussed in the context of Table 1: the inclusion of recipient-year fixed effects and/or the use of the Hausman-Taylor instrumental variables estimator.

²²The possibility of ideological changes in government accounting for this is strengthened by the fact that similar results are obtained if we control for government ideology or percent of votes going to far right parties in the last election instead of the measure of policy used here.

aid, but focuses the remaining aid more intently on further reducing the flow of migrants.

3.2 Migrant Lobbying

Our second hypothesis is based on a lobbying story—that migrants lobby their host country on behalf of their homeland. To gain traction on this idea we include an indicator variable which is coded 1 if the migrant’s homeland—the aid recipient—extends dual citizenship rights to their expatriates (Model 8 in Table 2. Once again the key test for our hypothesis relies on an interaction effect: in this case the interaction between dual citizenship rights and migrant stock (*Citizenship*Stock*), included in Model 9 of Table 2. Migrants who retain citizenship in their country of origin after having naturalized in their new country (in this case, the donor) on average have stronger ties to their original homeland. Thus, when dual citizenship is allowed, the effect of migrant stock on aid flows should be enhanced if migrant lobbying has an impact on aid allocation decisions.

As Model 8 shows, dual citizenship by itself is negative and statistically significant which indicates, all else equal, that recipients which offer dual citizenship receive less aid on average than those that do not offer dual citizenship. This is likely to be the case because the rise of dual citizenship is higher in countries that are richer and that have a longer history of political independence (Leblang 2010). The key test of our lobbying hypothesis is contained in Model 9, where the interaction between dual citizenship and migrant stock is positive and statistically significant. This indicates that migrant populations are associated with increasing amounts of aid commitments towards their homelands when dual citizenship rights have been extended. This result is consistent with a large amount of qualitative information—discussed in section one—that points to the ways in which countries of emigration have used political rights strategically to harness the external resources of their diaspora populations.

In Model 10 we include both interactions simultaneously to see if the the foreign policy story trumps domestic politics or vice-versa. The results actually support both hypotheses as the

	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11
Migrant Stock	0.879*** (0.07)	0.802*** (0.07)	0.932*** (0.07)	0.867*** (0.08)	0.795*** (0.08)	0.739*** (0.09)
Migration Policy	-0.461*** (0.08)	-1.001*** (0.16)	-0.456*** (0.08)	-0.459*** (0.08)	-0.965*** (0.17)	-0.744*** (0.17)
Policy*stock		0.078*** (0.02)			0.073*** (0.02)	0.050** (0.02)
Dual Citizenship			-0.697*** (0.27)	-1.751*** (0.64)	-1.734*** (0.63)	-1.268** (0.62)
Citizenship*Stock				0.164** (0.08)	0.159* (0.08)	0.142* (0.08)
Refugees in Donor						-0.153*** (0.06)
Income	-2.632*** (0.13)	-2.619*** (0.13)	-2.689*** (0.14)	-2.685*** (0.14)	-2.674*** (0.14)	-2.584*** (0.13)
Population	0.951*** (0.10)	0.949*** (0.10)	0.922*** (0.11)	0.903*** (0.11)	0.903*** (0.11)	1.076*** (0.10)
Exports	0.063*** (0.02)	0.063*** (0.02)	0.057** (0.02)	0.059** (0.02)	0.059** (0.02)	0.055** (0.02)
Distance	-0.776*** (0.20)	-0.728*** (0.20)	-0.657*** (0.20)	-0.610*** (0.21)	-0.578*** (0.21)	-1.194*** (0.20)
Colony	3.380*** (0.65)	3.285*** (0.66)	3.113*** (0.66)	3.162*** (0.65)	3.085*** (0.66)	2.878*** (0.65)
US military aid	0.135*** (0.02)	0.135*** (0.02)	0.129*** (0.02)	0.124*** (0.02)	0.124*** (0.02)	0.095*** (0.02)
Democracy	0.232*** (0.09)	0.232*** (0.08)	0.266*** (0.09)	0.276*** (0.09)	0.276*** (0.09)	0.290*** (0.08)
Civil War	-0.756*** (0.25)	-0.776*** (0.25)	-0.735*** (0.26)	-0.730*** (0.26)	-0.751*** (0.26)	-0.592** (0.25)
Refugees in Recipient	0.160*** (0.04)	0.157*** (0.04)	0.156*** (0.04)	0.166*** (0.04)	0.162*** (0.04)	0.104*** (0.04)
Disaster	0.108*** (0.02)	0.110*** (0.02)	0.100*** (0.02)	0.103*** (0.02)	0.105*** (0.02)	0.093*** (0.02)
Year	0.267*** (0.02)	0.265*** (0.02)	0.269*** (0.02)	0.269*** (0.02)	0.267*** (0.02)	0.211*** (0.02)
Constant	-523.945*** (39.13)	-518.223*** (38.99)	-528.186*** (40.18)	-527.430*** (40.26)	-522.105*** (40.14)	-405.114*** (42.80)
Sigma	7.243*** (0.11)	7.232*** (0.11)	7.230*** (0.11)	7.227*** (0.11)	7.218*** (0.11)	6.698*** (0.11)
N	23549	23549	22303	22303	22303	18168

Table 2: **Examining the Impact of Foreign Policy and Lobbying, 1992-2005.** Tobit estimation with standard errors clustered on dyad. Donor indicator variables included but not shown. *Significant at the 10 percent level. **Significant at the 5 percent level. ***Significant at the 1 percent level.

estimated parameters and their associated standard errors are largely similar to those obtained earlier.

Refugees It is important to note that while many migrant populations lobby their host countries on behalf of their homelands, this is unlikely to be universally true. Consider the case of Cubans residing in the United States: these migrants have a long history of lobbying the US government to enact increasingly harsh measures against their homelands. Although it is difficult to directly measure a group's antipathy toward their homeland, we proxy for this idea by including the number of refugees—those who have been granted asylum status—from a potential aid recipient residing in a donor country. We expect that the lobbying hypothesis that holds for many migrant groups will not hold for recipients with large numbers of refugees in the donor. Refugees who have fled from a government are unlikely to lobby to increase the resources available to that government. Furthermore, the circumstances that led to a large number of refugees being identified from a country may suggest that it is unlikely to be a strong candidate for aid flows even absent any lobbying effect. Model 11 in Table 2 adds a variable measuring (the log of) the number of refugees from a recipient living in a donor to the equation shown in Model 10. The result is as expected: increased numbers of refugees from the recipient in the donor are associated with less foreign aid. Additionally, inclusion of the refugee variable has no important impact on the variables of interest to the central hypotheses tested here.

3.3 Exogenous shocks to aid

In Table 3 we examine the effect of an exogenous shock on foreign aid flows - caused by a banking crisis in the donor country - on our key causal relationships. Model 12 replicates Model 2 from Table 1, but includes an indicator variable that takes on the value of 1 in the first year of a banking crisis in the donor country. The coefficient on *Bank Crisis* shows that the direct effect of a banking crisis on aid flows is to decrease foreign aid. This fits with the idea that during times of

fiscal duress donor countries will, in general, decrease overseas foreign economic assistance. However, when the total amount of aid decreases it does not necessarily follow that all policies pursued with aid dollars are affected equally. Instead, one might expect that donors cut the least strategic programs first, further biasing aid allocation toward the areas that donors deem most important.

Since we are interested in the relative importance of migrant stock in determining aid flows, in Model 13 we interact *Banking Crisis* with *Migrant Stock*. The positive and significant coefficient on *Crisis*Stock* suggests that in the face of a banking crisis, aid allocation shifts in favor of countries that are sending more migrants, relative to other factors determining aid. To be clear, overall aid to a recipient falls with a banking crisis in the donor, but it falls less for countries that send more migrants - in other words, migrant stock dampens the negative effect of a banking crisis. In a separate analysis (not shown) we observe that in a banking crisis countries that receive more US military assistance and those who trade more with the donor are less adversely affected, while aid motivated by humanitarian concerns for former colonies and countries with larger populations is decreased the most. This supports the idea that strategic objectives dampen the blow from adverse supply shocks to aid.

We are also interested in how our two causal mechanisms fare in the presence of a banking crisis. While we hypothesized that migrant stock would decrease the negative effect of a banking crisis on aid commitments, we were agnostic about whether this worked primarily through one or the other of our causal mechanisms (immigration policy or lobbying), or through both simultaneously. To test this, Models 14 and 15 in Table 3 separately examine the impact of each causal pathway on the relationship between migrant stock and aid commitments during a banking crisis.

In Model 14 we include the interaction *Crisis*Stock* as well as our variables for testing the foreign policy mechanism, *Migration Policy* and *Policy*Stock*. We are particularly interested in whether *Policy*Stock* operates differently in the presence of a banking crisis. Recall that a

	Model 12	Model 13	Model 14	Model 15
Migrant Stock	0.849*** (0.06)	0.801*** (0.06)	0.789*** (0.07)	0.807*** (0.08)
Bank Crisis	-1.912*** (0.26)	-3.824*** (0.49)	-1.347** (0.59)	-3.400*** (0.63)
Crisis*Stock		0.368*** (0.08)	0.034 (0.10)	0.464*** (0.10)
Migration Policy			-0.921*** (0.16)	
Policy*Stock			0.069*** (0.02)	
Crisis*Policy			-0.424 (0.42)	
Crisis*Policy*Stock			0.092* (0.05)	
Dual Citizenship				-1.033* (0.60)
Citizenship*stock				0.096 (0.08)
Crisis*Citizenship				-2.854** (1.16)
Crisis*Citizenship*Stock				0.046 (0.16)
Income	-2.576*** (0.13)	-2.579*** (0.13)	-2.619*** (0.13)	-2.632*** (0.13)
Population	0.920*** (0.10)	0.918*** (0.10)	0.952*** (0.10)	0.871*** (0.10)
Exports	0.072*** (0.02)	0.074*** (0.02)	0.064*** (0.02)	0.070*** (0.02)
Distance	-1.297*** (0.19)	-1.314*** (0.19)	-0.728*** (0.20)	-1.155*** (0.20)
Colony	4.509*** (0.65)	4.597*** (0.65)	3.338*** (0.65)	4.357*** (0.66)
US military aid	0.123*** (0.02)	0.122*** (0.02)	0.134*** (0.02)	0.115*** (0.02)
Democracy	0.254*** (0.08)	0.260*** (0.08)	0.236*** (0.08)	0.296*** (0.08)
Civil War	-0.635*** (0.24)	-0.619** (0.24)	-0.764*** (0.25)	-0.624** (0.25)
Refugees in Recipient	0.163*** (0.03)	0.164*** (0.03)	0.158*** (0.04)	0.164*** (0.04)
Disaster	0.123*** (0.02)	0.123*** (0.02)	0.107*** (0.02)	0.117*** (0.02)
Year	0.278*** (0.02)	0.275*** (0.02)	0.230*** (0.02)	0.276*** (0.02)
Constant	-544.060*** (42.36)	-537.425*** (42.35)	-449.076*** (42.79)	-532.744*** (43.56)
Sigma	7.526*** (0.11)	7.522*** (0.11)	7.226*** (0.11)	7.503*** (0.11)
N	26296	26296	23549	24918

Table 3: **Impact of a Banking Crisis.** Tobit estimation with standard errors clustered on dyad. Donor indicator variables included but not shown. *Significant at the 10 percent level. **Significant at the 5 percent level. ***Significant at the 1 percent level.

restrictive immigration policy in the donor is associated with a greater impact of recipient migrant stock on aid allocation decisions - suggesting that donors interested in decreasing migration do so both through direct policies and also by increasingly targeting foreign aid at recipients sending large numbers of migrants. We interact *Policy*Stock* with *Bank Crisis* to test the hypothesis that this effect is even stronger when there is a financial crisis in the donor. Given that difficult economic times in a donor may result in increased demand for stemming migrant flows, it is plausible that adverse economic shocks increase the bias of aid allocation in favor of recipient countries sending larger numbers of migrants.

The coefficient on the resulting interaction term *Crisis*Policy*Stock* is positive and significant ($p < 0.06$). This suggests that when faced with a financial crisis, aid donors focus disproportionately on achieving immigration policy goals - and this effect is stronger the more intent a government is on stemming the tide of migrants. Again, it is important to recognize that aid to any recipient is likely to decrease in the face of a crisis. However, recipients that send more migrants see less of a decrease, and the magnitude of this difference across levels of migrant stock depends on donor attitudes toward migrants more generally. The more restrictive donor immigration policy, the more the donor government will protect aid aimed at stemming the flow of migrants at the expense of other aid objectives when faced with an adverse shock to the aid budget.

Model 15 in Table 3 carries out a similar analysis for the lobbying mechanism. Here the higher level interaction term, *Crisis*Citizenship*Stock* does not approach statistical significance ($p < 0.78$). Thus, there is no evidence that stronger migrant ties to their homeland are translated into an ability to lessen the adverse effect of a financial crisis on aid to their country of origin. Furthermore, a financial crisis serves to increase the straight negative effect of dual citizenship on aid flows (observed above in Table 2, Model 8); the coefficient on *Crisis*Citizenship* is negative and significant. To the extent that dual citizenship captures a migrant group's desire to assist its homeland through lobbying, these results suggest that lobbying is a fruitful activity during times

of plenty, but returns to lobbying drop sharply in the face of a financial crisis.

Taken as a whole, the empirical results presented in this section show strong evidence that migrant stock from a recipient residing in a donor has a significant and substantively important effect on the quantity of foreign aid granted to the recipient by the donor. This appears to be strengthened when either (1) donors become increasingly intent on restricting migration or (2) migrants have an increased incentive to lobby for their country of origin, or when both are true. However, in the face of a financial crisis in the donor, it appears that aid continues to function as a tool to decrease migration in the presence of restrictive immigration policies, while the impact of migrant ties to their homeland does not dampen the blow to aid receipts caused by a financial crisis.

4 Conclusion

We develop an argument linking foreign aid allocation and migrant stock. 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 respond more to migrant stock 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 dual citizenship 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 shows that in foreign aid, a domestic politics and a foreign policy explanation can work hand in

glove. Aid flows disproportionately to countries with higher levels of migrant stock in the donor both in response to migrant lobbying and as an effort by donors to use aid to decrease migration from countries that have historically sent high numbers of migrants to the donor. 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.

The findings here have implications for our understanding of the role aid plays in the development strategies of donor nations. In order for aid to function as immigration policy in the way argued above, it must actually increase the welfare of potential migrants to the point where they (weakly) prefer remaining at home to migrating. This suggests that as donors increase their focus on aid as immigration control, aid should become more development oriented. However, the resulting aid allocation under this scenario is likely quite different from that which would be observed under an altruistically motivated development agenda. Likely migrants are not usually the poorest of the poor, but rather those who have enough income to be mobile. Thus, to be most effective at combatting migration, donors may choose to focus not on the poorest segments of society but on those which are, or soon will become, mobile.

Countries that have had a large number of emigrants often also receive significant remittances from these earlier movers. As aid targets recipient countries with large diasporas in the donor, these countries may end up receiving more in both remittances and aid than countries that have sent fewer immigrants to donor states but may have even greater need for outside assistance. Indeed, the German strategy outlined earlier is an excellent example of this: by reinforcing migrant remittances they are giving additional assistance to those already receiving external

revenue while promoting the welfare of a group that has connections in Germany, and therefore an increased probability of migrating there. For aid to function most effectively as immigration control, it may end up targeting development, but not in the communities with the greatest need. In the terminology of previous generations of aid literature, donor interest may come to include development promotion, but still not be meeting the most urgent of recipient needs.

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