The Impact of Democracy on Migration

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The purpose of this study is to determine the inter-temporal changes in the significant linkages between migration (both emigration and immigration) and degree of democracy between Malaysia and Asia Pacific countries. We employed cross-sectional analysis to investigate the relationship by employing data on emigration and immigration as for economic condition we employed variables such as degree of democracy (democracy index), macro-variables like real income (real Gross Domestic per capita) and real interest rates. Two different points of time were regressed cross-sectionally, with White Standard being employed to remove traces of heterogeneity. Results clearly indicated that inter-temporal effects are significant in the 2006-2010 periods. Degree of democracy is found to be significant to emigration and not for immigration. Level of national income and real interest rates are found to have significant relationship with only emigration and not immigration. As expected, the results provide some evidence on the important roles played by only certain variables in influencing migration.

Keywords: Democracy, Economic Growth, Migration

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1. INTRODUCTION

In the past decades globalization has fuelled migration across borders and boundaries, permanently or temporarily (Torpey, 2000). Migration has captured the attention of the world’s press, and at each instance it is not only migration, but the intertwining of migration and legal controls which attract attention. There are two things about this phenomenon which are essential to our discussion namely national sovereignty and migration law. At the cusp of the 21st century, migration has become an international economic contraction, a moral panic and a political trauma (Dauvergne, C. 2003). An analytical discussion is directed to determine whether there is a relationship between degree of democracy in the host country and its emigration. At the crux of our analysis, an analogy will be drawn on the strength of the relationship between degree of democracy in the host country and its emigration across chosen countries, divided into different degrees of democracy/political freedom, i.e. full democracy, flawed democracy, hybrid and autocratic regimes.

The Oxford dictionary defined the meaning of democracy as “a system of government by the whole population or all the eligible members of a state, typically through elected representatives”. However, it is better to initially explain the ideas which have been developed by scholars about the definition of democracy. The great statesman Lord Acton observed that “power corrupts, and absolute power corrupts absolutely” (Acton, 1887). As Rawls (1999) argue, political and civil liberties and rights are important for people to be autonomous; that is to be able define how they want to live their lives and act accordingly. Rawls et al. (1999) focused on the distribution of political and civil rights in his elaboration justice. These are according to Rawls lexically prioritized over economic welfare considerations. Under the Rawlsian veil of ignorance, individuals would not be willing to compromise their political and civil rights for economic gains. Even if this claim could be questioned, most political theorists and philosophers argue that freedom and basic rights and liberties outside the economic realm are normatively valuable in themselves (Sen, 1999; Nozick, 1974; Beetham, 1999).

Schumpeter, (1976) who is very famous for his minimalist approach towards democracy, states that it is an institutional arrangement to reach political decisions in which individuals acquire power to decide by means of a competitive struggle for the people’s vote. Supporters of democracy argue that the motivations of citizens to work and invest, the effective allocation of resources in the marketplace, and profit maximizing private activity can all be maintained in a climate of liberty, free-flowing information and secured control of property (North 1990).

The first part of this paper presents the introduction on the overview of migration and democracy. The second part contains arguments in the migration literature related to international economic and political migration flows see (Segal, 1993). Democracy and migration will be investigated using theoretical background of the development-migration nexus. We shall attempt to explore possible explanations for the emigration from developing countries, such as Malaysia to high income First World countries. For the empirical analysis, section 3 deals with the institutional framework of migration, some stylized facts about emigration from Malaysia to the various destination countries. Also, the section covers the methodology used and the description of the data set where, the estimations were based on a panel data or time series cross section.

Therefore, the objective of this study is to establish whether there is a relationship between democracy and emigration via economic development. The underlying goal of this study is to explore how migration can be interpreted and explained according to different degrees of democracy, economic development, immigration and real interest rates.
2. LITERATURE REVIEW

2.1 Degree of Democracy and Migration

There have been conjectures linking degree of democracy to freedom of expression and its association with the migration of people between countries. It is frequently divulged that exodus of people cross borders to seek asylum and escape from the crutches of tyranny and persecution. Welfare of citizens are in some ways influenced by the level of freedom exercised in the country. Democratic liberties fulfill an essential longing for freedom and engagement do indeed bring about ample benefits to the society in terms of peer recognition (Fukuyama, 1992), may result in the reluctance of individuals to settle for anything less democratic (Przeworski, 1992). Regardless of the reasons people leave their home countries for foreign lands, migrants tend to emigrate from authoritarian countries or developing democracies to more established democracies (Armendáriz and Crow, 2009).

Schmitter and Karl (1991), democracies depend upon the presence of rulers who occupy specialized and who decree legitimate commands to others therefore, what distinguishes democratic rulers from non-democratic ones are the norms that condition how the former come to power, and the practices that hold them accountable for their actions. A study on German immigration from 86 African and Asian countries in 1981-95, Vogler and Rotte (2000) found positive effects for political freedom and negative effects for the immigration reforms of 1987 and 1993. Greater emigration will result from greater freedom in source countries. Karemera et al. (2000) found that migration was positively related to measures of political rights and individual freedom in source countries.

In the context of culture, migration might increase the home country population’s exposure to democratic values and norms, be it directly, through contacts with return migrants and relatives abroad, or indirectly, through the broader scope of migration and diaspora networks and have been shown to foster trade and improve economic growth (Rauch and Casella, 2003, Iranzo and Peri, 2009). Thus Inglehart and Welzel (2005) examine why economic development goes with democracy, hypothesizing that cultural changes provide the link between development and democratization.

In view of the evidence established above, there might be a link between migration and the democratic freedom that people revel. However, few studies had been conducted with regards to direct impact of degree of democracy on migration. Global Commission on International Migration (2005) advocates that democracy is one of the three (3) ‘Ds’ which drives emigration, the others being development and demographics. Democracy is considered to be the regime type that best secures the protection of individual rights and political freedom. We might therefore assume that individuals value democracy in its own right and not only because of its instrumental value in bringing forth different economic other outcomes.

2.2 Economic Growth and Migration

The migration-development nexus had been extensively discussed in the literature. Many studies have used gravity model to analyze the relationship including Egger (2000), Carillo and Li (2004), and Lewer and Van den Berg (2008). The result concludes that international migration is in concurrence with the gravitational-like forces explained in the model. Migration theory states that higher level of immigration will take place from a country with lower GDP per capita to a higher one. Potential migrants are driven to emigrate due to the lure of higher income that could have been earned and a higher standard of living in the destination country.

Keenan and Walker (2011) suggests that the link between income and migration decisions is driven by geographic differences in mean wages especially the importance of the role of expected income in making the decision to migrate. This is known as the ‘pull’ factor. Mayda
(2010) and Ortega and Peri (2009) indicate that the differentials in the level of income per person between destination and origin country have a positive and significant effect on bilateral migration flows. Felbermayr et al. (2010) found that there is a positive and significant relationship between higher number of migrants and per capita income. However, the motivation for labour migration to ‘richer’ or ‘poorer’ countries is subject to the labour’s skill level. The higher the skill of a worker, the greater the incentive to move to a richer region but a lower-skilled worker tends to relocate to a poorer region (Giannetti, 2003).

Economists are increasingly interested in the impact of institutions on economic development. Rigobon and Rodrik (2005), Dollar and Kraay (2003) and Acemoglu and Robinson (2000) argue that high quality institutions in a country, represented by a number of dimensions such as the protection of property rights and a functioning democracy, foster economic development because they promote investment in human capital and physical capital. Countries that are governed by high quality institutions experience higher capital accumulation, productivity, and output per worker (Hall and Jones 1999). Rodrik (1999) shows that the extent of democracy in a country which has a positive impact on wages received by manufacturing workers.

In a different perspective, migration may result in higher economic growth through the medium of remittances. Catrinescu et al. (2009) found that, with the assumptions of proper institutions, migration of labour via remittance could be a determinant to long-term economic growth to the countries of origin.

2.3 Democracy-Growth-Migration Nexus

To integrate the effects of democracy into the link, Barro (1996) in his endogeneous growth theory suggested that an expansion of political rights - more "democracy" - fosters economic rights and tends thereby to stimulate growth. The indirect positive effect upon growth can be justified by having a vibrant democracy (Feng, 1997). If the economic growth is stimulated, it provides a fertile ground for migration, inward and outward migration to take place. Recent studies (Ortega and Peri, 2009; Felbermayr et al., 2010; and Boubtane and Dumont, 2013) had implied that economic growth is a significant influence on migration.

However, the literature that affixes the systematic net effects of democracy on subsequent economic growth and its resulting migration trends are still dubiously identified (Helliwell, 1994). Alternative findings suggest that higher economic growth tends to discourage emigration. Employing the nexus between migration-development, there is a little incentive to emigrate when the economic growth is substantial (Todaro, 1969, De Haas, 2000). Karemera, Oguledo and Davis (2000) also show that a sustained foreign financial investment effort and a sound growth of the domestic economy result in a reduction of emigration rates. The effect is consistent across regions as trade and economic integration had the effect of slowing emigration from Europe to the Americas, between southern Europe and northern Europe, and in Asian Tiger countries such as South Korea and Malaysia (Widgren and Martin, 2002).

A democratic society is often regarded as a prerequisite for economic growth and development. Yet, most empirical studies are not capable of identifying a positive link between GDP growth and democracy indexes. Higher levels of economic development lead to better established democratic institutions (Rasiah et al., 2013). On the contrary, studies have showed that migration trend is contingent upon the specific stage of development, rather than the level of development. Migration trends tend to differ across different stages of development. Early stages of economic development lead to an increase in migration flows and migration tends to slow down when the development reaches a more advanced stage (Portes, 2011).
2.4 Real Interest Rate and Migration

Real interest rates are regarded as the cost of capital for investment. The inverse relationship between cost of capital and investment may have a bearing on the migration networks via remittance. Higher real interest rate is associated with lower investment. Woodruff and Zenteno (2007) examine whether migration networks are associated with lower capital costs, or the alleviation of capital constraints using data measuring access to remittance flows among small-scale entrepreneurs in Mexico. It was found that migration is associated with higher investment levels. In the banking sector, financial liberalization and the associated low interest rate affect the investment positively, thus creating more jobs opportunities and hasten the migration from the rural to urban areas. Low interest rate policy in the commercial banking sector causes the urban unemployment to decline in a small open Harris-Todaro model (Daitoh, 2003).

3. DATA AND RESEARCH METHODOLOGY

3.1 Data

The democracy index is an index compiled by the Economic Intelligence Unit (EIU). The EIU’s Index of Democracy is the world’s most comprehensive and reliable measure of democratic practice and provides a snapshot of the current state of democracy worldwide. It is published every two years in September for 167 countries of which 166 are sovereign states and 165 are UN member states and two territories. This covers almost the entire population of the world and the vast majority of the world’s 192 independent states (27 micro-states are excluded). To date, there have been three editions of this index. The first edition was published in 2006, the second in 2008 and the third edition in 2010. Admittedly, there are other indices such as Effective democracy index (EDI) has scale properties that are superior in a way that incorporates substantiating qualities of democracy which the other indices neglect (Alexander et al. 2012). Bollen (1980), Gasiorowski (1996) and Vanhanen (2000) previously used different types of indices to measure democracy with their shortcomings. Due to the insufficient data availability, EIU Democracy Index is used.

3.2 Methodology

Besides the Democracy Indices for the respective countries, we employ the income level (GDP per capita), real interest rate (RIR) and immigration (IMMI) as the explanatory variables. They also assume the role of control variables. The inclusion of control variables reflects the widely viewed notion that absolute and relative levels of income and human development affect migration patterns. The data was taken from The Economist Intelligence Unit’s index of democracy 2006 and 2010.

Previous literatures include, Karemera et al. (2000) used a modified gravity model and panel data of 70 countries over a time period from 1976 to 1986. Similarly, Mayda (2010) investigates the determinants of bilateral immigration flows using annual data on immigrant inflows into 14 OECD countries from a country of origin between 1980 and 1995. Earlier studies concentrated on a single destination country over time (Brucker et al. 2003). Most of the studies are conducted on migration flows to OECD from developing countries using mainly variables such as income without incorporating the elements of democratic freedom. To our knowledge, there are even fewer research carried out on the emigration from countries with high democracy index.

We attempted to investigate the antecedents using emigration from high democracy index as the dependent variable. Other factors such as institutional settings and social network are not included. However, the economic and democracy based factors are used. Larger number of
explanatory variables may not be feasible because it reduces the degrees of freedom. However, there could be reverse causality between migration flows (emigration and immigration) and income level. Therefore, concerns of endogeneity may arise leading to problems of biased estimates. We shall address the potential problem by assuming that migration flows and income level are predetermined as per Mayda et. al (2010).

We estimated a cross sectional analysis due to the limitation of the availability of time series data therefore hampering us from conducting a time series analysis. Data are taken from the years 2006 and 2010 from 26 countries from the High Democracy countries. Results obtained from 2006 are compared to that of 2010. To cater for heteroscedasticity, which is common in a cross sectional analysis, we used White Standard Error.

\[ \text{Model 1} \]
\[ \log (EMI) = \beta_0 + \beta_1 (\log \text{DIndex}) + \beta_2 (\log \text{IMMI}) + \beta_3 (\text{RIR}) + \beta_4 (\log \text{GDPPC}) + \varepsilon \]

\[ \text{Model 2} \]
\[ \log (IMMI) = \gamma_0 + \gamma_1 (\log \text{DIndex}) + \gamma_2 (\log \text{EMI}) + \gamma_3 (\text{RIR}) + \gamma_4 (\log \text{GDPPC}) + \mu \]

\[ \log \text{EMI} \quad - \quad \text{logarithm of number of citizen emigrating to foreign countries} \]
\[ \log \text{DIndex} \quad - \quad \text{logarithm of the democracy index} \]
\[ \log \text{IMMI} \quad - \quad \text{logarithm of percentage of immigration of foreign citizens} \]
\[ \log \text{GDPPC} \quad - \quad \text{logarithm of income level (proxied by Real Gross Domestic Product per capita(in USD))} \]
\[ \log \text{RIR} \quad - \quad \text{logarithm of real interest rate} \]

4. RESULTS AND ANALYSIS

<table>
<thead>
<tr>
<th>Variables</th>
<th>2006</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>16.633*</td>
<td>29.392*</td>
</tr>
<tr>
<td></td>
<td>(3.5907)</td>
<td>(5.0148)</td>
</tr>
<tr>
<td>National Income</td>
<td>0.862**</td>
<td>1.003*</td>
</tr>
<tr>
<td></td>
<td>(2.0704)</td>
<td>(2.204)</td>
</tr>
<tr>
<td>Democracy Index</td>
<td>-1.379*</td>
<td>-12.6953*</td>
</tr>
<tr>
<td></td>
<td>(-3.1094)</td>
<td>(-3.2396)</td>
</tr>
<tr>
<td>Immigration</td>
<td>-0.0215</td>
<td>0.9208**</td>
</tr>
<tr>
<td></td>
<td>(-0.4163)</td>
<td>(1.9746)</td>
</tr>
<tr>
<td>Real Interest Rate</td>
<td>-0.0557</td>
<td>-0.1349*</td>
</tr>
<tr>
<td></td>
<td>(-0.5483)</td>
<td>(-2.1288)</td>
</tr>
</tbody>
</table>

*Significant at 5% level; **Significant at 10% level; ( ) denotes t-statistics. Figures above have been corrected for heteroscedasticity by using the White test. i.e. the estimates are White Heteroscedasticity-Consistent Standard Errors and Covariance.
Table 2 - Result for Determinants for Immigration (Model 2)

<table>
<thead>
<tr>
<th>Variables</th>
<th>2006</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>-26.642</td>
<td>-10.935**</td>
</tr>
<tr>
<td></td>
<td>(-0.371)</td>
<td>(-1.7637)</td>
</tr>
<tr>
<td>National Income</td>
<td>6.097</td>
<td>0.441</td>
</tr>
<tr>
<td></td>
<td>(1.3618)</td>
<td>(1.225)</td>
</tr>
<tr>
<td>Democracy Index</td>
<td>-7.404</td>
<td>3.294</td>
</tr>
<tr>
<td></td>
<td>(-0.3656)</td>
<td>(0.946)</td>
</tr>
<tr>
<td>Emigration</td>
<td>-0.805</td>
<td>0.091</td>
</tr>
<tr>
<td></td>
<td>(-0.3656)</td>
<td>(0.608)</td>
</tr>
<tr>
<td>Real Interest Rate</td>
<td>0.106</td>
<td>0.016</td>
</tr>
<tr>
<td></td>
<td>(0.2569)</td>
<td>(0.467)</td>
</tr>
</tbody>
</table>

*Significant at 5% level; **Significant at 10% level; ( ) denotes t-statistics. Figures above have been corrected for heteroscedasticity by using the White test. i.e. the estimates are White Heteroscedasticity-Consistent Standard Errors and Covariance.

For Model 1, the estimations and results for the years of 2006 and 2010 are shown and summarized below. The results for 2006 revealed that there is
(i) significant positive relationship at 10% between emigration and GDP per capita;
(ii) significant inverse relationship at 5% between emigration and democracy index
(iii) insignificant relationship between emigration and immigration
(iv) insignificant relationship between emigration and real interest rate

The estimations and results for the years of 2006 and 2010 are shown and summarized below. The results for 2010 revealed that there is
(i) significant positive relationship at 5% at between emigration and GDP per capita;
(ii) significant negative relationship at 5% between emigration and democracy index
(iii) significant positive relationship at 10% between emigration and immigration
(iv) insignificant relationship between emigration and real interest rate

The higher the countries’ score on the Democracy Index the lower the tendency for the residents to emigrate, vice-versa. Indicating that the democracy index could be used a determinant of emigration, higher index could act as a “retainer” for prospective emigrants whereas lower index could exacerbate push factor, among others. This is consistent with studies which show that higher level of democracy allows greater room for personal and economic freedoms, believed to be a contribution to the standard of living.

However, the higher the countries’ national income will lead to higher tendency for the residents to emigrate, vice-versa. Home countries’ high national income paved the way for the greater affordability to venture to countries with greener pastures. It is in contradiction with Barro’s theory that but consistent with migration inverted-u theory. Higher income level may hasten emigration. The reason may be due to higher national income translated into higher affordability to emigrate.

Comparison between the results in 2006 with 2010 shows some changes. The sign for national income has remained positive but the significance level increased to 5% from 10%, implying
the robustness of the variable. The sign and significance of democracy index have not changed. Level of immigration is now positively associated to emigration. Though its significance level is only at 10%, it provides additional insights into the understanding the drivers of emigration. The argument that people are emigrating due to greater influx of foreign immigrants seem to be convincing. However, more investigative studies are required to elucidate with regards to the issue.

For the real interest rates, the negative sign implies that lower returns seem to boost emigration, vice-versa. The 5% significance attained in 2010 show that the variable serves as a push factor. Treating the real interest rates like rates of return, emigrants behave like investors trade better investment opportunities abroad for domestic investment.

For Model 2, the estimations and results for the years of 2006 and 2010 are shown and summarized below. The results for 2006 revealed that the relationship between immigration and degree democracy is insignificant. Identical results are obtained for immigration and level of national income, emigration and real interest rates. There is little evidence to suggest that immigration is influenced by the factors as mentioned.

5. CONCLUSION

In this study, the results suggest that people may emigrate due to democratic or economic factors. Inter-temporal changes during the 2006-2010 periods are found to be quite significant in identifying the growing importance of national income, level of immigration and real interest rate as drivers of migration. The marked changes of the impacts of economic variables of income and real interest rate on migration may lead us to believe that the landscape is rapidly changing in the countries involved. Within the scope of the study, it is apparent that the roles played by traditional economic variables have diminished over the years. Migration could have partially attributed to other institutional factors such as changes in immigration policies and national policies governing education and equal opportunities for its citizens may have had a greater impact of emigration and immigration of Malaysia (Wong, 2010).

The changes suggest that factors are playing a bigger role as the globalization takes centre stage in the world today. The ease of physical movement of the people and the extensive communication network may contribute to the changes. The results show evidence of disappearing impediments of migration as pull-push factors (Lee, 1964). Addressing these findings, appropriate policies should be implemented to benefit the nation. As immigration is not significantly attributed to democratic and economic factors, policymakers should explore other qualitative avenues to attract productive workers from abroad. The world now recognizes the importance of degree of democracy in influencing economy and migration directly or indirectly. As the world becomes more inter-connected, these issues rank as one of the top national concerns for many countries. The microeconomic approach could be used to improve the understanding of what causes migration by incorporating the cost-benefit analysis of decision on whether to migrate. The “magnetic pull” of existing family members in destination countries may play an important role to entice potential migrants vis-à-vis the cost of adapting to countries with higher degree of democracy.

In tandem with factors such as similarities in culture, religion, language and colonial histories, the understanding on the migration could be enhanced further. This warrants more studies to be conducted. Nevertheless, the contribution of democratic factors to migration is considered as an en route to gain greater and deeper insight into the psyche of an increasingly mobile population of the world today.
REFERENCES


