Migration and Globalization

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Abstract

Scholarship on globalization since the 1970s has focused on the increasing integration of world markets for goods, services, and capital. International migration, by comparison, has received relatively little attention. As recent scholarship has shown, the absence of migration from studies on globalization has made our understanding of other aspects of globalization incomplete. Immigration policy interacts with trade and capital policy. All three policies affect firms' production strategies and their support for openness in the other policy areas. Migration, trade, and capital flows also interact. For instance, increased migration can increase trade and investment as well as help states maintain fixed exchange rates. This entry discusses these effects in greater detail and discusses paths for future research.

INTRODUCTION

Recent scholarship on globalization has focused on the increasing integration of world markets for goods, services, and capital. In contrast, international migration has received far less attention by international relations scholars. This is likely because the flow of people has not kept pace with the flow of goods and services across border, in large part due to more restrictive policies, and further, policymakers have tended to frame migration policy as domestic policy.

Migration, along with trade and capital flows, was a hallmark of the nineteenth century era of globalization. As Keynes famously reflected in *The Economic Consequences of the Peace*:

> The inhabitant of London could order by telephone, sipping his morning tea in bed, the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep; he could at the same moment and by the same means adventure his wealth in the natural resources and new enterprises of any quarter of the world, and share, without exertion or even trouble, in their prospective fruits and advantages; or be could decide to couple the security of his fortunes with the good faith of

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> the townspeople of any substantial municipality in any continent that fancy or information might recommend. *(Keynes, 1919, p. 11)*

The Great War and then the Great Depression ended this era. New restrictions on immigration restrictions were coupled with tightened capital controls and heightened tariffs. These actions put a halt to the movement of people, money, and goods.

In the wake of World War II, policymakers, especially those in the United States, sought to reopen world markets for goods and capital. These efforts were bolstered as the Communist threat took shape (Barton, Goldstein, Josling, & Steinberg, 2006; Hull, 1948; Ikenberry, 2001). Believing that economic deglobalization had fomented military conflict, they forged a patchwork of interlocking international regimes to govern global security, trade, and finance. They hoped to secure the benefits of the integration achieved in the nineteenth century without surrendering the policy autonomy they had reclaimed in the interwar period. Yet, apart from arrangements to accommodate refugees, provisions to govern international economic migration were conspicuously absent. Left as a domestic policy, international migration has been increasingly restricted at least since the end of Bretton Woods. As a result, trade regained its pre-World War I levels by the 1970s, and global financial flows regained their peak in the 1980s (Obstfeld & Taylor, 2003), but migration flows still remain well below their pre-World War I levels (United Nations Development Program, 2009).

Scholars studying migration have similarly conceptualized migration as a domestic concern, focusing on four domestic-level variables to explain changes in policy: the role of labor unions, who dislike that immigrants compete with them for jobs; nativists who dislike immigration for cultural reasons; tax payers, who dislike the burden that immigrants might place on the social welfare system; and immigrants themselves, who seek to maintain openness for their own security or to bring in friends and family. Recently, however, there has been a new wave of interest in migration as scholars have coupled these traditional perspectives with a new focus that examines how immigration interacts with other aspects of globalization. Two lines of this research are discussed as follows: first, the interaction of immigration policy with trade and capital policy; and, second, the interaction of immigrant flows with flows of goods and money.

FOUNDATIONAL RESEARCH

The foundational research for the study of migration as a component of globalization comes from economics, particularly models of trade. The Stolper–Samuelson model is the canonical model tying together trade, capital, and migration policy. The Stolper–Samuelson model of trade builds on the Ricardian model of comparative advantage in which countries are assumed to have different factor endowments. In the simple model, there are two countries: one relatively abundant in labor and the other relatively abundant in capital. Each country faces an incentive to specialize in production that utilizes its abundant factor most intensively. Each country then engages in trade to enjoy the diversity of products. Within each country, owners of the relatively scarce factor suffer a real decrease in the returns to their factor (and thus their income) as the country specializes in production that uses the abundant factor intensively. In contrast, owners of the abundant factor will see a real increase in the returns to their factor. Similarly, opening borders to the movement of labor or capital will lead to movements that tend to equalize the distribution of these factors across countries. Movement of factors, therefore, also increases the real returns to the abundant factor while decreasing the real returns to the scarce factor. For countries looking to open their economies, economic theory does not prioritize which factor should be liberalized.

Furthermore, Mundell (1957) argues that closure to one of these flows may stimulate the flow of the others. For example, if trade is closed but immigration is open, states with abundant capital will see an increase in immigration as people move from states with abundant labor to those with scarce labor. In contrast, if trade is open but immigration is closed, trade should increase as the movement of goods essentially replaces the movement of people. From this foundational research, it is clear that migration, trade, and capital movement are inextricably tied to one other and should be studied together.

Hatton and Williamson (1998, 2005) have led the charge in testing these theories empirically. Specifically, they examine the trends in migration from the nineteenth through the twenty-first centuries. They argue that migration was an important part of globalization in the nineteenth century, contributing to the convergence of wages between the higher wages of the New World and the lower wages of Europe. Using econometric tests, they also show that wages between the developed and developing world would converge faster today if migration were more open.

RECENT RESEARCH

Research on the Interaction of Immigration, Trade, and Capital Policy

Peters (2014, 2015) argues that trade and capital policy can affect on immigration policy. She argues that immigration policy, particularly with regard to low-skill immigrants, is largely driven by a given country's trade policy and the ability of that country's firms to move production overseas (henceforth, *firm mobility*). Changes in trade policy and firm mobility affect the demand for immigration by firms, changing political support for open immigration.

The Stolper–Samuelson theorem states that trade closure leads to an increase in low-skill intensive production (and a concomitant increase in wages) in states where low-skill labor is scarce. Without an increase in the labor supply, any advantage that firms gain from trade protection may be erased due to increasing wages. As a result, firms lobby for increased immigration when trade is restricted. As firms tend to be powerful, immigration should be relatively open (Peters, 2014, 2015).

In contrast, liberalizing trade in such states leads to a decrease in low-skill, labor-intensive production, reducing the need for labor and, in many cases, forcing businesses to close. Businesses that close no longer lobby the policymaker. For those that remain open, the fall in wages reduces their incentives lobby policymakers. Given the existence of groups who oppose immigration, the policymaker will respond by restricting immigration (Peters, 2014, 2015).

Changes in capital mobility have a similar effect because it affects firm mobility. When firms are immobile across borders, they are wholly dependent on the domestic labor market. This increases their support for immigration. When firms relocate abroad, they can take advantage of foreign lower cost labor without migration. Once they "offshore," they have less incentive to care about immigration policy at home. This removes potentially key support in favor of open immigration (Peters, 2014, 2015).

Finally, we can consider how trade and capital policy respond to immigration policy. Open immigration may increase support for open trade as it increases the competitiveness of those firms that might otherwise be threatened by trade. To maintain this support, however, immigration would have to continue to open in proportion to increasing trade openness. But this is likely unsustainable at high levels of trade openness because the level of immigration necessary to sustain firms' competitiveness would greatly decrease wages, potentially increase fiscal costs, and likely lead to a nativist backlash. Open immigration may also reduce pressure for open capital, again, because firms would be more competitive at home. In contrast, a restrictive immigration policy may make open trade harder to achieve, as labor costs remain high, and may increase pressure for open capital so that threaten firms can move overseas (Peters, 2014, 2015).

Research on the Interaction of Migrant Flows with Trade and monetary Flows and Policy

The second direction of research examines how migrant flows, and the remittances they engender, interact with other aspects of globalization. One line of inquiry examines how migrants help bridge the informational gaps and transaction costs associated with international trade and international investment (e.g., Dunlevy, 2006; Felbermayr & Toubal, 2012; Gould, 1994; Hatzigeorgiou, 2010; Jacks, 2005; Leblang, 2010).

Migrants can facilitate trade and investment through several channels: they often have valuable ties with their home country, including knowledge of home country language, markets, preferences, and business contacts (Gould, 1994, p. 302; Leblang, 2010). Migrants sometimes relocate specifically to develop trade or invest overseas. Migrants also create a market for goods from their home country when they live abroad and, perhaps, a market for goods from the foreign country when they return home. Similarly, migrants often invest in their home country after moving. In addition, migrants can help firms in the states that receive them trade and invest in their home countries by providing language skills or making their language more common. They might also bring knowledge of market opportunities for trade or investment to firms. Migration may increase familiarity in the receiving country about the type of work ethic, quality of labor, and business culture that exist in the home country, increasing the desirability of investment (Leblang, 2010, pp. 586–587). Finally, migrants may have knowledge of arbitrage opportunities. In a recent US Supreme Court case, for instance, a student from Thailand bought textbooks in the Thai market, where the books are much cheaper and then resold them in the United States at a considerable profit.

Migrants can also increase the trust necessary for cross-border exchange. Trade and investment often involves contracts in which payment and delivery do not occur simultaneously. Migrants can mitigate the risk involved in these contracts through their ties with specific trustworthy individuals back home or in the receiving country. They might also reduce the perceived risk by familiarizing citizens in the receiving country with the sending country more generally. These effects might be especially important for forms of investment—like foreign direct investment or venture capital—that are more risky (Leblang, 2010)[1] or for trade with countries where corruption is thought to be high (Dunlevy, 2006; Gould, 1994).

Migrants and the remittances they send home can also affect policies regarding capital and exchange rates. As the Mundell–Fleming model shows, states must choose two of the three following policies: stable exchange rates, open capital markets, and macroeconomic policy autonomy. Many developing countries today choose to fix their exchange rates to increase their credibility. Fixed exchange rates lower transaction costs for investors, traders, and other groups that interact with the global economy

1. Foreign direct investment and venture capital are more risky because the investment is sunk into a company or physical plant that are hard to move out of a country in a time of crisis. To contrast, portfolio investment—investments in stocks or bonds—can easily be sold in a time of crisis.

(Frieden, 1991). Fixed exchange rates are also a way to combat inflation: by fixing the currency, the country imports the macroeconomic policy of the country whose currency it ties itself to.

Fixing the exchange rate, however, is not without risks. Given the globalization of international capital, few states are able to maintain capital controls. In essence, fixing the exchange rate becomes a choice to renounce using macroeconomic policy as a tool to combat recessions. Remittances from migrants help solve this problem because they are countercyclical and act as a fiscal transfer (Singer, 2010). Remittances increase during recessions and can help increase spending at a time when spending in the economy is otherwise decreased. This spending then has a multiplier effect that helps stimulate the economy (Singer, 2010, p. 313). Remittances, thus, reduce the (political) costs of maintaining a fixed exchange rate and make it more likely that developing states will adopt one (Singer, 2010).

DIRECTIONS FOR FUTURE RESEARCH

Current research suggests two lines for future inquiry. First, scholars should examine how firms' increasingly long supply chains affect migration. We know from other economic research that increased trade, opportunities to move production overseas, and technology have contributed to the decline of manufacturing in many wealthy countries (Feenstra & Hanson, 1996; Kremer, 2006). This manufacturing has often moved to developing countries. How will this move affect employment opportunities in developing countries and how will that affect the desire for migration? How will these multinational firms affect the politics of migration in developing countries? Will they lobby of increased immigration or decreased emigration to keep their wage bills low? How will governments respond?

A second line of inquiry is to further explore how migrants, as economic and political agents, increase economic and cultural ties. Much of the current research has determined a link between migration and trade or investment but has not tested more fine-grained causal mechanisms about why migration has these effects. As such, there is much variation left to explain. For example, are certain migrants or migrant networks more or less likely to facilitate the integration of economies? If so, why? Do characteristics of the sending or receiving affect this process?

In addition, we could examine whether migration fosters peace. Many scholars have examined trade and investment as a source of the democratic peace, but few have examined whether migration has a similar pacifying effect through the increased understanding of different cultures that comes with migration. Migrants may also pass norms and institutions from one country to another. For example, do migrants who go to democracies spread democratic norms when they return home or are they disillusioned by democracy? If there is variation in this effect, why does that variation exist?

CONCLUSION

Scholarship on globalization has focused on the integration of world markets for goods, services, and capital. But because migration has been studied primarily as domestic policy, it has only recently been considered from the perspective of globalization scholarship. Recent scholarship shows that studying migration from this perspective enhances both our understanding of migration and of globalization more generally. Immigration policy is affected by trade and capital policy and, as well, may affect those two policies. Furthermore, scholars have shown that increased migration can increase trade and investment as well as help states maintain fixed exchange rates. Going forward, scholars should continue to examine how migration interacts with other aspects of globalization to create a more complete understanding of how the world economy works today.

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Margaret E. Peters is an Assistant Professor in the Department of Political Science at Yale University. Her work focuses on migration as part of international political economy. Her book project focuses on the diversity of immigration policies within labor scarce countries over the last two centuries. She shows that immigration policy has been affected by prior policy choices to open the economy to capital and/or trade. Other aspects of her work examine public opinion on immigration and trade policy; when states use treaties to regulate migration; how immigration policy affects the integration of migrants; and the effect of remittances on support for democratic governance. More about Professor Peters can be found at http://margaretpeters.commons.yale.edu/.

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