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Migration for Development: From Challenges to Opportunities*

Klaus F. Zimmermann**

This contribution investigates the opportunities that migration provides for developing countries. The benefits of migration for sending countries are often undervalued. But migrants can foster trade, remittances, innovations, and investments back home, and even return home at some point with better human capital. Functioning diasporas can lead to stable factors of development, while migration policies in receiving developed countries can enhance the positive impact of migration for development. These include measures that support the early integration of migrants into the educational systems and in the labor markets, including providing jobs for asylees. Dual citizenship and circular migration contracts are also possible instruments. Migration policy can be an effective development policy.

Keywords: Remittances, Circular migration, Social remittances, Diaspora economics, Development, Refugees, Forced migration, Dual citizenship, Jobs for development, Brain drain, Brain gain.

JEL codes: F22, F24, F66, J61, O15.

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1 INTRODUCTION

In the growing territory of an evidence-avoiding world, migrants (including refugees) and robots (including digitalization) are the gundogs of globalization, who bring misery with them. Judging from the fierce debates about a perceived refugee crisis, migration seems to be an ever more threatening phenomenon. Migrants and robots have many similarities. For example, both can substitute native workers and lower wages. But a potential productivity effect by way of their complementarity in production can also create jobs and raise income. And robots neither require welfare resources, nor do they demand and consume goods and services.

While robots seem unstoppable, the advertised recipes for combatting migration are walls (“fencing-in”) and development aid. The idea is that through rising development expenditures, the global mobility pressure that comes in particular from poor developing countries can be stopped. This *fata morgana* ignores the fact that the development policies of the past have largely been a failure, since they have not brought about a sharp decline in world inequality. And even if these policies were successful, they would then increase, not decrease out-mobility. This is because it is not the very poor or the uneducated who are migrating. The migration impetus does not come from misery or potential fortune. It requires financial means and talent inspired by development and is fostered by ethnic networks and cultural closeness. Restrictions on migration increase the trouble that migration itself can potentially cause.

An alternative approach to the interactions between migration and development is that migration can stimulate development. A large share of the migration literature deals with the effects of immigration on a receiving developed world. An analysis of the opportunities migration provides for developing countries reveals however that there are many mechanisms where emigration is instrumental for fostering development in the sending countries. Migrants can stimulate trade, remittances, innovations, and investments back home, and often they even return home at some point, equipped with experience. Functioning diasporas can lead to stable factors of development, whilst those left behind in the labor markets benefit from an increased scarceness of labor.

Policies aimed toward immigrants in the receiving developed countries can increase the positive impact that migration has for development. A large proportion of the immigrants, either through the work channel or as asylum seekers, are the emigrants of tomorrow. Educated and experienced as workers, they possess development capital. Among those *indirect* development policies affecting emigrants (“onward migrants”) are measures that support

the early integration of migrants into educational systems and labor markets, including jobs for asylees. Dual citizenship and circular migration contracts are other possible instruments. Hence, migration policy can be an effective development policy.

The paper takes up these issues in two steps: Section 2 explains the opportunities migration may have for developing sending countries, whilst section 3 discusses policies in receiving and typically developed countries that can increase the positive impact that migration has on development back home. Section 4 concludes.

2 HOW SENDING DEVELOPING COUNTRIES MAY BENEFIT

Over the decades, the fear discussed has been that emigration leads to a “brain drain” that leaves the sending country depleted of its skilled human capital and in a worse situation. This seems to be intuitive if, what is often observed, migrants are highly-skilled or at least relatively highly-skilled with respect to the manpower of the country of origin. However, the term brain drain is often used more broadly to describe the flow of human resources built up by raising and educating people, in particular in developing countries. Recently, however, more and more insights suggest that emigration might lead to benefits in the receiving countries (Yang 2011; Plaza 2013; Bansak, Simpson and Zavodny 2015; Constant and Zimmermann 2013, 2016a, 2016b; World Bank Group 2016) and not lower wages or take native jobs away (Constant 2014; Peri 2014).

The purpose of this section is to better understand the background of this conjecture. The benefits are linked to the reactions of the labor markets, to remittances and social transfers, to the effects on trade, investments, and the transfer of human capital, to innovations, and to return and circular migration. These potential benefits interact with the existence of diasporas, which can be defined as devoted ethnic communities of migrants still attached via their identities to their countries of origin. Diasporas explicitly or implicitly organize the relationships between sending and receiving countries and undermine the role of the traditional national state. Their affiliations with policies at home are often closer than those of the left-behind population. While it cannot be ignored that there can be also negative impacts, this section attempts to highlight the positive impact the out-migration of citizens can have for the sending country, be it temporary or permanent.

Emigrant laborers may leave a job in their home country, or may have been unemployed or previously non-employed. Whilst a natural function of global labor markets, perceived as beneficial, is to absorb the excess-supply of jobseekers, it is often the educated job-owners who move, creating the idea of a drain of talent. Nevertheless, this leaves jobs for those left behind, and there is an overall upward pressure on wages since labor is now more scarce in comparison to capital. If the high-skilled are leaving, standard micro theory suggests that the high-skilled remaining at home benefit in terms of wages and job opportunities, while the low-skilled may suffer since their group size becomes relatively larger. This is the consequence of the law of relative scarcity, often named “complementarity,” which is implied by standard economic production theory. Hence, remaining workers benefit from emigration, although the actual impact depends on the concrete conditions.

At first sight, the prospects for the home country may not be good, if those leaving have a relatively higher level of talent, which is often the case. Innovation and growth might not develop as in the counterfactual situation. However, the talent might be much more productive elsewhere, with positive effects for the home country later. A first factor is return migration. Labor migrants often return home equipped with financial resources, human capital, and knowledge. Typically, a large proportion of labor migrants either move on or return to their home country at some point, in particular if mobility is unrestricted. If migrants move back and forth, if they are circular migrants, then receiving and sending countries share part of the benefits from them (Constant, Nottmeyer, and Zimmermann 2013). Free mobility on the basis of a work contract is the best possible arrangement to ensure this.

Typically, the greatest contribution of diasporas to the development of the countries of origin are remittances. Households in developing countries receive income from emigrant family members provided either as cash or as in-kind transfers. The migrants often remit substantial shares of their incomes, generally in small amounts (Yang 2011). This is not surprising, since emigrants are typically sent abroad with financial support from families or communities. For many countries, remittances are very large and sometimes even exceed foreign aid and foreign direct investment. As a few examples show, remittances as a share of gross domestic product in 2013 were 52% in Tajikistan, 25% in Nepal, 15% in Jamaica 11% in Senegal and 10% in the Philippines (Bansak, Simpson and Zavodny 2015, 247).

Motives for remittances include, among others, repayment for migration costs, altruism for family left behind, income smoothing within families, and savings for future entrepreneurial activities. For instance, Akay, Giulietti,

Robalino and Zimmermann (2014) found evidence in their research on rural-to-urban migration in China that both altruistic and contractual motivations are present between emigrants and their families at home. These families gain well-being by comparing their received remittances with those obtained by their reference group (Akay, Bargain, Giulietti, Robalino and Zimmermann 2016).

Empirical evidence suggests (see Plaza 2013 and Bansak, Simpson and Zavodny 2015 for reviews) that remittances reduce poverty, stimulate home country internal consumption, foster local investments in small or newly-founded enterprises, improve educational attainment by making early school drop-outs less likely, alleviate liquidity constraints, and may strengthen investments in the health system. They also have the potential of stabilizing economic fluctuations in the home country through contra-cyclical movements in the amount of remittances in response to economic shocks. An example of this is that real exchange rates and remittances are negatively correlated (Yang 2006).

Remittances inspire entrepreneurial activities (Yang 2006; Plaza 2013) after migrants return home. Giulietti, Wahba and Zimmermann (2013) show that return migration also promotes self-employment among household members who have not migrated. However, during the absence of the migrant, left-behind members are less likely to be self-employed when compared with those living in non-migrant households. Remittances compensate somewhat but not fully for the negative effect on those left behind, who might face a loss of labor supply and entrepreneurial skills due to the absence of the migrant.

A rising new strand of literature deals with the importance of social remittances, which are the transfers of norms and values back home during emigration, or with and after return migration, and the effects on social capital. An example is the recent study by Nikolova, Roman and Zimmermann (2017) using data from Bulgaria and Romania, where the authors examined the link between the out-migration of relatives and friends and the pro-social behavior of those left behind in the two post-socialist countries. Having close contacts abroad was found to be positively correlated with civic engagement. The strength of the civic engagement culture of the family or friend's destination country mattered for the pro-social behavior of respondents in their home countries. This may suggest that a cultural transmission of norms from abroad drives those findings. Other studies have dealt with norm transfers relating to gender roles and fertility (see Bansak, Simpson and Zavodny, 2015).

A broad literature supports the conjecture that migration and trade are complements and not substitutes (Plaza 2013; Genc 2014). As Genc (2014, 1)

summarizes: “A 10% increase in the stock of immigrants can boost trade by an estimated 1.5% on average.” The stimulus occurs through two channels: (i) the preferences of migrants and (ii) transaction costs operating both through diasporas. Emigrants generate demand for ethnic goods and products from home in the host country, with preferences resulting in a rise of the exports from the country of origin. This will be strengthened by spill-over to preference formation among natives of the receiving country. An example is the expansion of Sushi restaurants run by ethnic Koreans in many countries. It is only if the diaspora establishes the production of goods and services in the host country that the preference channel might become weaker.

Diasporas further reduce the transaction costs for trade (Plaza 2013; Genc 2014), since migrants have a large knowledge capital about types of available goods, market practice, language, culture, and legal restrictions in their country of origin. The advantage of the involved diaspora increases with the existence of informal trade barriers. Ethnic networks may help by providing market information and driving down trade costs. While preferences might only affect exports of developing countries, the transaction costs channel trade flows between both the sending developing country and the developed host country.

As is to be expected, the size and nature of the total trade effects vary with the types of goods, the type of ethnicities, the skill-level of migrants, and the size of the diaspora in question, and also depend on the diaspora policies of sending and receiving countries. For instance, the pro-trade impact of high-skilled migrants is larger (Genc 2014). But the empirical findings are overwhelmingly consistent, showing that migration has a positive effect on trade.

Finally, we will deal in this section with foreign direct investment (FDI), the transfer of human capital (knowledge, skills, and technology), and innovations from developed to developing countries (see also Plaza 2013). Uncertainty poses a significant challenge for companies wishing to invest and build manufacturing plants in particular in developing countries. Effective diaspora communities can therefore prove very helpful in providing the necessary information to identify investment opportunities and in giving advice about regulatory restrictions, since they also understand the cultural background and the necessary languages. It is therefore common for multinational companies to employ expatriates in executive roles. Through these mechanisms, diasporas decrease the information asymmetry for foreign investors.

High-skilled migrants in particular have detailed knowledge about chances and risks in their countries of origin and therefore enhance FDI (Foley and Kerr 2013; Kugler and Rapoport 2007). However, on this basis, low-skilled

migration to the developed world seems to partially substitute FDI. In the short-term, the establishment and development of diaspora is an incentive for immigration into developed countries. But in the long run, successful investments are likely to strengthen local employment in the sending regions and therefore reduce the pressure for out-migration.

Diaspora bonds are a potentially very important instrument for development policies (Plaza 2013). These are provided by issuers in the developing countries in order to raise (in particular short-term) funds from their diasporas. In this way, sending developing countries take advantage of the relative wealth of their emigrants. In return, they may provide diasporas with higher interest rates than those the ethnic communities would have received from their banks in the developed world. Diaspora bonds can also be issued in the local currency of the countries of origin, thereby reducing emission costs, as diasporas are likely to be better informed about possible exchange rate risks. A potential strong commitment of diasporas to their countries of origin leads to a greater loyalty even in times of economic or political turbulences. They are also mobilized more easily than normal investors to support development projects for improving infrastructure, health, and education. A number of developing countries have already issued diaspora bonds, including India, Israel, Bangladesh, Lebanon, Pakistan, Sri Lanka, the Philippines, Ghana, and Ethiopia.

Diasporas can also be useful in the process of the transferring of skills and technology from the receiving developed to the sending developing countries (Plaza 2013; Foley and Kerr 2013). This knowledge sharing can also foster research and innovation. “Increases in the share of a firm’s innovation performed by inventors of a particular ethnicity are associated with increases in the share of that firm’s affiliate activity in countries related to that ethnicity.” (Kugler and Rapoport 2007, 155) One mechanism is to draw on students educated abroad and either encourage them to return to their country of origin or to at least establish networks of knowledge exchange (“diaspora knowledge networks”). The diffusion of knowledge is known to establish innovations at home, and hence to foster economic growth.

3 THE POTENTIALS OF IMMIGRATION POLICIES

This section focuses on how immigration policies in receiving countries can foster development in sending countries. The question is, to what extent can immigration policy act as development policy? Given the limited success—some

even call it failure—traditional development policies have had, it might be worth thinking anew here. The standard concepts behind the design of immigration policies in receiving countries deal with how to (i) help immigrants to perform, (ii) make them profitable for the host country, and (iii) define the criteria for entry and exit, in particular encouraging or forcing them not to arrive or to leave. Here, it is suggested that a new category be added, namely how to (iv) make immigration to developed countries beneficial for the sending developing countries. This may involve dealing with the other three (traditional) channels.

The analysis in section 2 has shown that functioning diasporas can strongly foster development. However, the development of diasporas is also a consequence of immigration and integration policies.¹ If such policies aim to assimilate migrants (full adoption of the identity of the receiving country), reality may be also faced with separated ethnicities (full identification with the ethnicity of their country of origin). As a result, one would either have no functioning diasporas at all (assimilation) or diasporas that were potentially hostile to the host country (separation). Under the “integration” model, where migrants identify with both the culture of the country of origin and that of the host country, a developed or integrated diaspora could also fruitfully organize communication between the country of origin and the receiving country. Currently, existing diasporas closely follow the separation model and hence are considered to be problematic to the ethnic majority. But diaspora policies in host countries aiming at integration might be a useful instrument for supporting development.

The public migration debate focusses largely on the inflow of migrants. This ignores that most labor migrants are temporary, that they leave the country again at some point. Asylees and refugees are temporary migrants even by definition, at least in Europe. A substantial part of this inflow migrates when the dangerous situation in the country of origin has improved or a better long-term prospect in another country comes up. Typically, all countries with substantial inflows also show substantial outflows. This has led to the conclusion that it might be a waste of resources to offer immigrants vocational training, education, and early labor market access. However, such investments by the host country should be seen as development measures,

¹ Constant and Zimmermann (2013a) and Constant, Gataullina and Zimmermann (2009) discuss the policy regimes of assimilation, integration, separation, and marginalization. Due to the need for organized commitment to the country of origin, only the integration and separation regimes qualify as a basis for the successful formation of diasporas.

since immigrants returning with qualifications, degrees, and professional experience will be welcome assets to the home country.

In general, immigrants were not found to be harmful to the labor market prospects of natives, neither in Europe (Constant and Zimmermann 2013; Zimmermann 2017; Kahanec and Zimmermann 2009, 2016) nor in the United States (Blau and Mackie 2016). Diasporas have been activated for integration efforts during the recent European refugee crisis. Diasporas can also strengthen the economic position of the receiving country. Therefore, it should also be possible to activate diasporas in the context of migration and development policies with the acceptance of the native population. To strengthen the position of diasporas (and the human capital returning migrants bring to their developing countries of origin), coordinated labor market and migration policies should reduce ethnic discrimination and increase early job-access for immigrants.

An example of ethnic discrimination on the labor market is ethnic hiring (Neumark 2013; Krause, Rinne and Zimmermann 2012; Baert 2017). Labor economics has a long tradition of trying to reveal such discrimination, which is known to affect the economic performance of the companies involved and that of the whole country. Recent popular methods to substantiate such a bias include correspondence studies and anonymous job applications. In correspondence studies, fictitious job applications, differing only in a randomly assigned discrimination factor, are sent to employers in response to real job openings. Biased subsequent call-backs are taken as indicators for discrimination. In the anonymous job applications approach, the call-back rates observed on real job openings comparing real anonymous and non-anonymous applicants are studied. Results indicate that ethnic discrimination is widespread.

It is well known that early job access is crucial for the success of migrants in the labor market. Hence, the entry channel (work-related in comparison to family unification or refugee status) is important (Constant and Zimmermann 2016b). This suggests that diasporas would be better positioned if all developed countries were to establish a clear channel for work-related entry to transparently signal the conditions for a match. One successful instrument for such a legislation is a points-based system, such as those established in countries like Canada or Australia.

Asylees and refugees integrate more slowly than migrant workers. They have problems finding employment or becoming self-employed and also receive lower wages (OECD 2016). But this is largely the consequence of legislation and inflow regulation (Constant and Zimmermann 2016b). For a long time, asylees (those who have filed an asylum application) in Europe were

simply not allowed to work. Now there is wide variation among EU-states, ranging from immediate access to the labor market to only being able to work after a certain amount of time has elapsed. Most states allow asylum seekers to work after 6, 9, or 12 months, and only Lithuania and Ireland insist on formal refugee status before working is generally allowed. On top of this are the long delays that may occur between arriving in the country and being able to file an asylum application. It is not surprising that the starting conditions for those working who have refugee status are poor. These have long-term consequences on their performance in the host country, but also on their ability to support family elsewhere and to move onwards or back home if possible.

In the face of the large inflows of asylum seekers in 2015 and 2016, some states prevented asylees from countries declared “safe” from having access to work and education. The argument was that without a realistic chance of being recognized as a refugee, having such access would not make sense. This position is doubtful, since even if the person is not recognized and ultimately has to leave the country, the ability to finance themselves and to obtain work and education increases their acceptance among the native population and can be seen as an investment in development. In general, an early profiling of asylum seekers and the proper provision of access to the educational system and the labor market is in the interest of both migration policies and development policies.

A powerful means of fostering the creation and stabilization of integrated diasporas is the embracing of dual citizenship (Plaza 2013; DeVoretz 2013). This enables migrants to engage more successfully in the receiving countries, resulting in better paid jobs and more full-time employment, thus creating the economic basis for supporting economic activities in and for their countries of origin. Dual citizenship is often associated with fears about a limited loyalty toward the receiving country. This should, however, be compared with the counterfactual that these migrants keep the passport of their country of origin and stay in ethnic enclaves or just remain a separated diaspora. Dual citizenship can also encourage return or onward migration, since the passport of the host developed country is a fallback guarantee for such a risky decision. Developing countries have for a long time recognized the advantage of maintaining ties with diasporas, even if emigrants have given up their original citizenship. They allow diaspora members to enter the country without a visa (India), allow them to retain most of the rights and privileges of a citizen (Ethiopia) and let them keep a position in the social security system (Philippines).

Dual citizenship could also easily establish a partial regime of flexible labor markets between developed and developing countries by fostering circular migration (Zimmermann 2014; Constant, Nottmeyer and Zimmermann 2013). Since migrants have the right to work in both countries, they can decide which is the more profitable situation depending on the individual and macroeconomic conditions. Circular migrants take advantage of typically better employment and payment opportunities in the host country. They optimize and re-optimize their income, savings, and asset strategies, and this improves their economic, social, and personal situation. For the developed countries, circular migration is attractive, because it may help to alleviate labor market shortages by matching excessive demand in host countries and excessive labor demand in sending countries. But during phases of economic downturn or depression, with higher unemployment in developed countries, migrants can take a time out and return to their countries of origin until the situation improves. Countries of origin benefit from remittances of the migrants and from the transfer of knowledge and new ideas when they come back, even if only temporarily. Dual citizenship circular migration is the elaborated case of a circular migration regime since it cannot be regulated much by governments. It is more flexible and market oriented than the circular international migration of natives, who may face potential restrictions internationally.

Managing migration to build up diasporas is a difficult task.² Limiting labor migration does not necessarily stop immigration, particularly circular migration, as previous experiments (for instance US-Mexico, and Germany after 1973) have shown (Zimmermann 1996, 2014; Massey, Durand, and Pren 2016). Hindering labor migration by using fences and legal constraints have been shown to have the potential to generate even larger stocks of migrants. This may be caused by a decline in return migration and induced family and social migration, which changes the nature of the process. In general, the importance and impact of emigration from the host country is misunderstood and underestimated in public debates.

Points-based systems as entry mechanisms provide transparency for both the migrants and the host country population, and have been shown to be effective in screening and guiding mobility. The criteria of such points-based systems could include integration indicators, such as education, job characteristics, language proficiency, and social activities. A more controversial, but also effective approach is to use the labor market as a filter mechanism for admission into a country. A work contract enables entry into the country, and the

² For a broader discussion of the challenges and benefits see Zimmermann (2017).

immigrant may stay as long as the work relationship lasts. Those who cannot obtain a permanent residence permit and lose their job would have to leave the country after a transition period. Those who overstay illegally may lose their right to return at another time. Circular migration contracts between countries may ease such temporary relationships. Keeping successful foreign students within the host country labor market is probably the most effective long-term labor immigration policy. The labor market, as a more short-term filter and organizer of circular migration, and the recruitment of permanent migrants, in particular former students, could be strong elements of an immigration policy that establishes diasporas and return migration.

4 CONCLUSIONS

In a recent analysis of the migration and development nexus, the World Bank summarized: “Efficient allocation of labor provides one of the most critical paths for development. Many countries stay poor and suffer from inequality because their labor force is stuck in low-productivity locations, occupations, and sectors. Migration lowers unemployment and underemployment, and creates access to more-productive and higher-paying jobs. In short, migration is a powerful tool for development. The creation of better, more productive and higher paying jobs—regardless of where those jobs are and whether workers are high-or low-skilled—is important for development. This idea needs to occupy a general role in the migration policy debate, especially for low- and middle-income sending countries.” (World Bank Group 2016, 16)

The World Bank’s evaluation here is in line with the message of this paper. Migration and development are complements and not substitutes. The more the underlying dynamic processes are hindered by governments, the more costly it is for the welfare of nations and their people. Migration has the potential to foster trade, remittances, innovations, and investments in the country of origin. The effects are likely the strongest, and the diasporas the most integrated, in the receiving countries. This implies that migrants neither assimilate nor separate culturally, but play a respected role as a group in the labor markets, in the financial sector, and in the society of the receiving countries. Diasporas interact with their countries of origin, can be motivated by diaspora bonds, and care about family left behind. Migrants also often return home at some point or for some time, equipped with experience.

Therefore, functioning diasporas can lead to stable factors of development. But there are also challenges arising from this. Ethnic tensions and

ethnic rivalry can make policies more complex in receiving countries, in particular if the countries of origin are non-democratic and use diasporas as the radical arm of national interests. In any case, diasporas have the potential to undermine traditional national states.

A further focus of this paper has been to understand the potential development effects of migration policies inside the host countries. One aspect is related to the creation of a productive diaspora. If migrants, either as workers or refugees, are integrated early and well into the workplace and into society, then the corresponding diasporas can act more forcefully to support international economic and political relationships. They also contribute better to the economy of the receiving countries and thus reduce tensions surrounding immigration. A significant proportion of the migrants today emigrate back to developing countries tomorrow, taking education, experience, financial capital, and innovations back home with them. Return migration, whether temporary or permanent, can be strengthened by dual citizenship and circular migration contracts.

In the long-term, a prospering and developing world is in the common and also national interest. The motives of development and migration policies are therefore not only altruistic. Particular effort is nevertheless required in order for these policies to gain broad public support. Populations in receiving countries tend to substantially overestimate the size of the migrant stock and misunderstand the economic values that diasporas have (World Bank Group 2016; GMF 2015). A well-designed outreach program about the potentials of migration as a powerful tool for development through print and social media, combining facts, analysis, and communication techniques is needed to fight misperceptions. As Sides and Citrin (2007) have shown, such an approach has potential, and can also make use of an increasing amount of literature investigating the background of negative attitudes against migrants that are typically based on a misperception of the economic benefits of migration (Bauer, Lofstrom and Zimmermann 2000; van Noort 2016).

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