insight.

Edinburgh University Economics Magazine

Issue 11

- MIGRATION -

Autumn 2015

WINNER OF THE WRITING PRIZE

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Letter from the Editor-in-Chief

Welcome to the 11th issue of Insight!

As this magazine reaches its teens, we mark the highly topical and indeed divisive topic of migration, which is significantly older than we are. Whether directly or indirectly, most of us are affected by migration to some extent, and we hope this issue can shed light on how, where and why migration happens, and the wealth of appropriate - and inappropriate - responses to it.

We have taken great care to select articles covering multiple angles, in the hope that the issue presents food for thought in your future conversations.

Huge thanks go to the writers, the editing team and the School of Economics, without whom this issue would not have been possible.

Enjoy reading,

Alex Everett

November 2015

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School of Economics

Cover photo credit: UNHCR UN Refugee Agency

The Changing Choices of Migration

As George Wood uncovers, since the dawn of the Neolithic Revolution, migration has been a struggle fought between push and pull factors.

THE RISE OF SETTLEMENTS

FOR the majority of humanity's existence, with estimates around 90%, we have held the role of hunter-gatherer; rather than that of domesticator. Until as recently as 10,000 years ago, nearly all societies took this role as we migrated across lands in search of resources such as food; similar in a sense to many wild animals today that seek out required resources during different seasons.

However, even though hunter-gatherers often had a large territory in which they travelled around, they would often settle for short periods at different locations. The foods which they ate (particularly nuts, berries, and others similar) would quickly be exhausted in one area and a long time for rejuvenation was required, hence the frequent migration around the broader territory.

Through the Neolithic Revolution, the most recent ten percent of humanity's existence has been revolutionised from the previously Palaeolithic society into one Neolithic. This marked the transition from societies based on hunting and gathering to ones based on farming and the raising of livestock. By doing so, rather than the collection of food being a priority, production through cultivation and domestication was now the priority. This occurred alongside other significant changes, such as: permanent constructions and infrastructure, whence the cultivation and domestication allowed a surplus to be generated. This, in turn, was crucial to enabling the specialisation of roles within societies.

Through specialisation, not only was land and labour capital raised (increased output per land unit and greater knowledge of certain jobs, such as construction, respectively), but technological advancements further allowed productivity increases to a rate never previously seen.

FROM FEUDAL TO MERCANTILE

Hereafter, the introduction of Feudalism and the subsequent rise of merchant towns impacted societies greatly. The Feudal period characterised the period between the highly centralised organisations of the Roman Empire and integrated state monarchies. A complex (albeit simplified here) hierarchical system existed with a monarch at the top, lords beneath, and peasants at the bottom; the hindmost of which worked on a lord's land in return for protection.

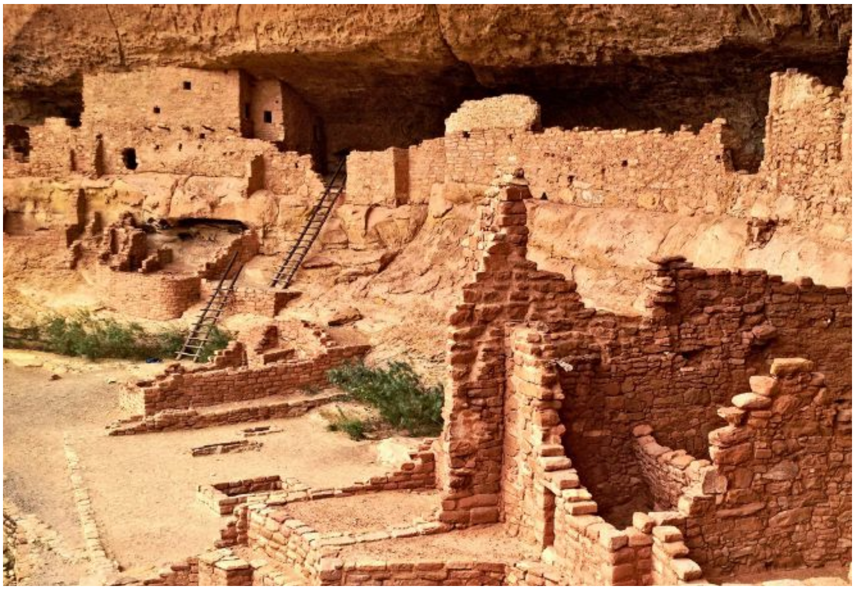
Although tensions may have existed, for the most part the stability of society helped forge the emergence of merchant towns. These local areas of commercialisation offered the birth of capitalism, enabling those who produced and showed entrepreneurship to gain from it. Joint-stock companies further fuelled commerce and trade, with many banking and insurance institutions being established.

We can then consider the influence this early form of capitalism may have had on people's desire to migrate. In short, there are two variants of factors as to why someone might move: push and pull factors. A push factor is one in which a change in circumstances requires someone to move and often without choice. An example would be a drought destroying all the surrounding crops, resulting in migration. Pull factors, on the other hand, may occur with no change in current circumstances (such as no drought), rather that someone may better themselves through increased income, productivity, living conditions or motivated by other socio-political reasons. Thus, they are drawn to move.

The synergies of greater civic freedom, increased population and technological improvements provided an environment in which trade thrived. Many citizens migrated to gain a better income for themselves and their families, with most moving from rural to urban as technological improvements increased agricultural output. One must also consider the opportunity cost of migrating. However, in most cases the citizen would surely be rational, in which case the perceived or longed for gain from moving would outweigh the foregone gain from remaining in the same location. There is, therefore, a level of uncertainty involved, as any potential gains from migrating have a likelihood rather than certainty.

INDUSTRIAL REVOLUTION

It has been suggested that the Industrial Revolution was the era in which many of today's Western economies escaped the Malthusian Trap. Malthus argued that up until this period, income was largely stagnant as technological advances merely served to accommodate population growth, rather than facilitate improvements in living standards.



Russ McCabe

The main premise behind this theory being that when the ability to subsist increases, so will population by the same proportion, leading to income and living standards not materially increasing.

Although various theories exist for why nations escaped the so-called trap, the most widely accepted is that technological improvements in agriculture meant that subsistence farming was no longer a necessity. With agricultural output significantly improved, levels of migration from rural to urban areas rose along with other minor, albeit important, factors such as cheaper and faster transportation. One can argue that both push (less need for workers in agriculture) and pull (greater productivity and output in urban areas leading to greater income) acted as catalysts for this movement.

We should consider temporal variations in this major and defining moment of any developed nation, for example why did this movement occur first in Western Europe, then over a century later with the Asian Tigers and still to this day in many developing countries. The two following theories have found credibility: firstly, the abundance of easily accessible (close to the surface) cheap natural resources in Europe (particularly England) coupled with a high labour cost (given the high demand for labour at the time) spurred the development of labour-saving technological innovation to escape the Trap. Secondly, the social and political system in Western Europe (at least relative to other nations during this period) allowed for greater labour occupancy and social mobility. While the low cost and abundance of labour may have acted at a catalyst for Western Europe, it is arguably the implementation of political reform allowing occupancy movement that enabled migration during this period.

VARIATIONS OVER TIME

Reasons for migration outlined in the previous three sections are not confined purely to those timeframes, in fact many mentioned still occur in today's world. One need only look at the European Union with the agreement of freedom of movement as an example: enabling an increase in human capital and subsequent output (this clearly acting as a pull factor). Intuition around what constitutes a push or pull factor may suggest that pull factors are more desirable as a catalyst for the migrator. Unfortunately, it is likely that both will always exist, as I shall now discuss.

Throughout history, with a particular instance being the slave trade, and a contemporary example of fleeing war torn countries such as Syria, instead of movement resulting from technological improvement, land or labour productivity increases, individuals are forced to migrate for socio-political factors. In some cases, migration for development may seem contrary to that which one might expect. Towards the end of the Great Famine in China during the late 1950s and early 1960s, citizens were moved from urban to rural environments to increase agricultural output. Interestingly this is an example of a push factor with the governmental aim of increasing output, not a personal choice.

Natural disasters are likely to cause significant economic impacts as well as environmental damage. Such events are generally infrequent and typically give rise to a strong push factor influencing many in one go. In 2005 we witnessed the effects of Hurricane Katrina, leading to forced migration and decreased productivity and output. Looking to the future, the impact of climate change may dramatically increase the scale of forced migration, especially to those populations living in the Pacific Islands. The displacement of millions of civilians affected by the crisis in Syria and surrounding areas has left political and social foundations in ruins, with economic productivity output significantly decreased.

Perhaps in light of modern factors affecting or catalysing migration, we may see the link between push factors, on average, decreasing productivity, output and income levels while pull factors result in increases. The variety of draws and causes for migrating is likely to always exist, a prime example being rural to urban migration in developing countries. I think we can all be thankful, however, for the occurrence of the Neolithic Revolution; we all enjoy (at least a little) stability in our lives. ■

Immigrants & Refugees: Victims or Burdens?

Monica Rivera explores two types of immigration, and the respective attitudes and management regarding them.

MASS immigration is one of the most urgent yet controversial political and social subjects at the moment. Not only is every headline currently covering the subject of the Syrian crisis, and every other political debate in the EU and America arguing for a feasible economic and humanitarian policy that could sustain the influx of newcomers, but every citizen from each age and culture seems to have a passionate and personal stance on the subject. Policy makers and economists are making their claims on national television, university students are signing petitions and going on peaceful strikes on behalf of the Syrian refugees, or oppositely, some are simply ignoring the issue and resenting the potential economic impact this could bear on them. Because of their size and recent developments, two types of mass immigrations call for critical discussion and comparison: the Syrian refugee crisis, and the entry of illegal immigrants in the United States. What can be learnt from two of the different types of immigration happening at the moment?

A BRIEF OUTLOOK

There are different political attitudes inside and outside the EU at the moment in regards to immigrants and refugees. According to the data provided by Mathis Wagner, a consultant for the World Bank as well as an Assistant Professor of Economics in Boston College, the Syrian migration is not a new subject, even though the EU is only 'opening the gates' for refugees ever since Angela Merkel made the first welcome act of receiving 800,000 refugees this year. Turkey has been taking in around 1.9 million refugees of the 4 million that have fled, while Lebanon and Jordan are currently hosting 1.7 million, and have been taking in refugees since as early as 2011. Meanwhile the United States of America has been receiving a figure of more than 12 million immigrants mainly from Latin America, according to the Center for Migration Studies.

The nature of each situation is completely different. The Syrian crisis is rightly defined as such because of the ongoing war and dictatorship in Syria, and because these people have been forced from their homes in order to save themselves and their families. In this sense, politicians are both concerned and pressured to opt for the humanitarian stance on the subject, however pragmatic their national agenda. No cost benefit analysis can really justify not taking in these refugees, and the capacity for intake seems like a secondary concern in a situation that is for these groups of people, literally, life or death.

However, despite the vastly different response, similar arguments can be put forward concerning the immigrants coming into America as well, although not at all for the politicians. Around 40% of the immigrants come from Central America, and many of these come from countries and cities that have such high homicide rates per capita, they are globally considered informal war zones (most of which are caused by the contemporary 'war on drugs'). While their homes are not being directly bombed, these people are still escaping an impoverished and highly dangerous life. Nevertheless, because of the lack of a formal crisis label, there is little pressure for North American politicians to take in and aid these masses, and little incentive and interest amongst the American population to empathise with these groups. An outlook into how these groups are really viewed within America can be heard by the recent speeches delivered by American presidential candidate Donald Trump, compounded when considered alongside his rising popularity in voter polls.

Gémes Sándor/SzomSzed

Sgt 1st Class Gordon Hyde, National Guard Bureau

There is a wide disparity in both the Syrian and America situations, and approaches to resource allocation, the job force and the legal procedures contrast considerably as well - some policies are inclusive and exemplary, and the benefits of these can be measured in the economic growth after the policies took place. However, others are just causing further delays and bumps in the process for the immigrants and refugees, resulting instead in the rise of the unmonitored and illegal markets.

HUMAN DIMENSION & COMPETITION

Outside of discussing immigration as an economic concept, there is the obvious and more important human dimension that regards these foreigners as, well, humans. Inevitably, some people might need more help than others, mainly; the elderly, the disabled, and the child refugees and immigrants. The case for humanitarianism is made for these groups, yet they are the ones to suffer the highest non-economic burden of the transition. Strong images in the media are being displayed of the drowned children of families trying to arrive at new borders, as well as the children of illegal immigrants in America who have been forcefully left behind and separated from their parents, who are undocumented. This leads to the natural question for other citizens in these countries: don't these people take up jobs? Don't they use services paid for by regular taxpayers and regular citizens, such as healthcare and education?

On employment issues, there are a few points. First of all, even though Turkey has been perceived as generous in taking in thousands of refugees, permitting them to work in their desired job is not part of the deal immediately. Therefore, the people who do 'take up' most of the spaces in the workforce are usually those with lower wage, low skilled jobs, and these jobs are 'taken from' other low skilled, low educated workers within the region. This is not to say that the refugees who are taking these jobs could not be more highly educated, and could in fact have the capacity to work in higher performing jobs – they are simply not allowed. Who has been most afflicted by the 'taking up of jobs' is therefore those with lower wage Turkish jobs, where the competition and need has increased. This is still an issue that requires management, including allowing for refugees to practice in their corresponding skill set, so that employment issues is not concentrated only on the most vulnerable income and skill spectrum. In spite of these persistent socioeconomic issues, the net result for Turkey's economy on the intake of refugees, however, has been mostly positive, with a 2% growth in their GDP last year, and economists point to the intake of refugees as part of their economic growth.

In America, the same cannot be said; undocumented workers are taking the lower skilled jobs, might not pay taxes (though not receiving benefits) and are therefore almost inevitably working in markets that are not regulated and are not contributing to the formal economy in America. By contrast, these workers can be a drain on public finances - evidence of this can be seen in America's vast expenditure upon simply deporting the illegal immigrants, never mind the taxes it ignores by not extending citizenship to the workers anyway (there is an estimate by the Social Security Office that immigrants contribute up to $7 billion per year). According to recent figures of the US Department of Homeland Security, it costs the American government $90 a day to feed and bed apprehended immigrants, and there are approximately 11.3 million immigrants in the United States! Although it might be costly for the American government to sustain such an increasing population, it seems almost a futile and expensive effort to apprehend and 'keep out' these people.

INCLUSIVITY & OPPORTUNITY

As many economists and analysts have already pointed out, it is too early to determine whether the Syrian refugee crisis will ultimately result in net economic benefits or costs to the countries accepting refugees. However, from recent history it can be predicted that by formally both including and treating the refugees and immigrants as potential contributors to the economy, nations can reduce the changes of these people becoming economic burdens to other taxpayers at best, or becoming criminals who reap the benefits of the illegal unmonitored markets, at worst. By allowing migrants to develop themselves professionally, the host countries are allowing for more growth and social inclusion than any 'hard' policy that imposes the refugees and immigrants to be accepted by other citizens. Both current crises could perhaps prove a chance to steer away from some of those attitudes, and instead shift attitudes within existing citizens and politicians from seeing migrants only as burdens or victims, and instead seeing potential professionals and people. ■

Europe's Migration Crisis - the Challenge for EU Integrity

Martyna Piotrowska explores whether recent refugee flows challenge the power and unity of the European Union.

'The European Union is built upon the rule of law and respect for human rights, including the rights of persons belonging to minorities.'

THIS founding principle constitutes one of the fundamental objectives for the functioning of the European Union. However, do the values of security, solidarity and social justice underpin every action and decision made by EU delegates? Or are they nothing more than just a pleasant-to-read statement created for marketing purposes? Well, history shows that we can only learn the true picture in times of crisis, which challenge the predetermined way of organisational functioning.

The current migration crisis which we see almost daily in the news is no different. Undoubtedly, the recent events associated with migrants coming to Europe disrupted the stability and peace within the EU institutions. Is the EU reacting according to the fundamental values and principles established 11 years ago by Constitutional Treaty?

MISSING THE POINT

Xenophobia, racism, indifference – these are just few out of many accusations EU states have been hurling against each other. The proposal to redistribute 120,000 asylum seekers across all member-states was threatened with legal challenges by Hungary and Slovakia, showing that even through attempts to find a unified plan, EU members engage in the scramble over normative statements. In this context, Western European countries have criticised their Eastern European counterparts for not cooperating to establish a common solution to migration crisis, while those in the East defended their position by using economic and cultural arguments. This is reflected in the words of the Italian Prime Minister, Matteo Renzi, who argued that since Eastern European Countries have been benefiting from financial support provided by rich Western countries in past years, their refusal to accept the migrant quota and redistribution is immoral and racist. Meanwhile, Hungarian Prime Minister, Viktor Orban, has reminded other European leaders not to instruct him how to solve his country's problems, despite the financial burden migration can impose.

It appears that whilst EU representatives focus on arguing about differences in views and defending the interests of their home countries, the real problem of refugee flows remains unsolved and becomes a secondary issue in this debate. Are those internal conflicts just a way to postpone coping with the real problem? Or are the EU states desperately trying to hide their inability to take concerted actions and deal with the crisis effectively?

Evidently, the financial, political and social situation differs among EU

28 DIFFERENT REALITIES - 1 FIX?

members and it would be naïve to assume that for example, Germany and Greece are equally capable of dealing with the economic impact of hosting migrants. However, so far it only accelerates the chaos within the EU, with some countries welcoming refugees and others avoiding legal responsibility and ignoring international law regarding migrants, namely the Dublin Convention.

The EU has been struggling for years to reconcile its asylum policy with individual state aims. It appears that in the face of real trouble, any existing division and dysfunction between EU states expands further. Most European leaders agree that in order to effectively deal with the crisis, Europe needs a revised, unified strategy which will impose binding, reasonable obligations towards refugees' quotas and treatment, not allowing countries to avoid their responsibilities and flout international law. Ultimately, there exists a trade off within the behavior of European nation states. It appears that intentions to address the problem on a collaborative level are insufficiently incentivised, so in a Prisoner's Dilemma-type scenario, though collaboration would be mutually beneficial, individual states ultimately end up in 'conflict' by not cooperating, with a worse result for all concerned.

ANOTHER BRICK IN THE WALL

It appears that the migration to and within the EU has managed to trigger two crises – the well-known European Migration Crisis and what we could name 'EU Communication Crisis'. So far, the EU response has been insufficient and has failed to deal with the complexity of the crisis. Is the European Union actually so strong and unified? EU officials seem to forget that whilst they are quarrelling, tragedy is unfolding, with thousands of people dying. Is Europe building another wall within its borders? The near future will show us whether the EU can pass the test for integrity, unity, equality and peace. ■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Economics of Refugee Camps

Jakub Zowczak — winner of the Autumn 2015 Insight Writing Prize — explores how economics can improve the life of 20 million refugees worldwide.

TWENTY million refugees worldwide should be hard to overlook. For every war, thousands of people are forced to leave their homes and placed in emergency camps. But as the time goes by, the public tends to lose interest in refugee crises. Camps — an emergency solution — end up shaping the long-term circumstances of their inhabitants.

Around two-thirds of all refugees are in a protracted displacement situation. Located in over 300 camps worldwide, they are living proof that the existing approaches to refugees are failing. Finding a solution will require an understanding of the economics behind the situation.

The economics of refugee camps are far too complex and dynamic to produce a simple solution, but it's worth focusing on four key aspects of refugee livelihood: economics of humanitarian aid, market distortions, local integration and micro-finance, which this article will analyse through the prism of four different refugees camps at various stages of development.

ECONOMICS OF AID

People arriving in Suruc emergency camp from Syria have close to nothing. Upon arrival, they are located in tents and given basic food and hygiene items by the UN Refugee Agency. Suruc is the largest camp in Turkey, home to over 25,000 refugees.

Even though new refugees arrive at Suruc daily, basic necessities are scarce. Despite their efforts, international agencies struggle to cope with the crisis due to lack of funding. Recent findings suggest, however, there is a way for aid go further – giving it less in kind and more in cash.

Cash is, above all, easy to transfer and distribute. As The Economist points out, overhead takes up to 65% of money spent on aid delivered in kind. By contrast, cash can be provided to refugees at virtually no cost by electronic transfers. What's more, it benefits entrepreneurs within refugee communities who suffer when donations crowd-out their business.

Some have questioned how money will be spent by refugees. Behavioral economics suggest refugees might suffer from a 'scarcity mindset,' overvaluing present benefits relative to future benefits. There has also been some concern over 'Dutch disease,' if the influx of cash leads to inflation of the host country's currency.

Despite these concerns, empirical studies suggest that almost 20% more refugees could benefit if aid was delivered in cash, though more fieldwork is needed to determine whether these predictions hold true for emergency camps such as Suruc. However, providing aid in hard cash offers a way to stretch already scarce aid funding.

MARKET DISTORTIONS

By contrast to Suruc, refugees arriving at Kyangwali camp in Uganda receive a plot of land, farming equipment and food to survive the first seasons. The camp has been in use since the 1960's as a 'resettlement camp' for refugees awaiting relocation to a third country. However camps of this sort present their own challenges.

Refugees, as Harvard economist Eric Werker put it, live in the most extreme example of a welfare state. Aid and isolation, which initially bring them relief, in the long run stifle their productivity. Werker tried to model refugee camp economy on the example of Kyangwali and found that it was characterised by extreme distortions.

For instance, refugees in Kyangwali need permits to travel or sell their products outside of the camp. Permits are costly and their issue may be refused by the settlement commander without reason. Even those that do obtain permits must transport goods 80 miles to the nearest city. This increases market uncertainty and worsens the terms of trade for refugees, effectively preventing them from connecting with the wider Ugandan economy.

As a result, the market in Kyangwali is dominated by monopolists and monopsonists who offer refugees discriminatory prices. Poor information exacerbates the situation, since refugees do not know which crops are the most profitable in a given season. As a result, nearly all of the farmers grow one type of crop and avoid specializing, reducing productivity.

Humanitarian aid distorts the market even further by changing the cost-benefit schedule for refugees. Conditional 'targeted' assistance is especially distorting, as poorly designed programs may discourage refugees from work.

Such institutional failures distort the market outcomes in Kyangwali and lock refugees in a suboptimal equilibrium. According to Werker, the solutions can be twofold. Firstly, smarter interventions such as bundling food with training could reduce the negative impact of aid. Secondly, political empowerment of refugees could allow them to improve the institutional environment in a way that economically benefits both refugees and local communities.

Piotr Apolinarski

LOCAL INTEGRATION

When authorities wanted to close the Kakuma camp in Kenya, local communities went into uproar. For its hosts, Kakuma is the main source of employment and business opportunities. A recent study by the World Bank dubbed this interdependence a 'Yes in my back yard' (YIMBY) phenomenon, in contrast to the 'NIMBY' approach typically associated with refugees camps.

There are over 180,000 refugees in Kakuma, providing a sizable consumer base for their host economy as well as the biggest source of labour and employment. Refugees operate several hawala banks which allow them to receive remittances from abroad, boosting the local economy. The interaction is not only economical. Intermarriages between the locals and refugees tie the communities even closer.

As a result, the line between humanitarian and development aid in Kakuma is very thin. Better-funded schools and hospitals for refugees are intentionally built on peripheries of the camp so that host communities can take advantage of them. This way, short-term refugee assistance is designed to work for the long-term development goals of host countries.

Even though it is widely believed that refugees impose an economic burden on their host countries, cases such as Kakuma camp show that the 'burden versus benefit' debate is more complex, and at least partially dependent on how refugees are handled. From a political point of view, local integration may be a way to tackle permanent displacement of refugees, while from an economic standpoint, it can be an exchange that benefits everyone.

MICRO-FINANCE

The bakery in Basse camp in Gambia is one of the success stories of micro-finance. Refugees in Basse received small grants, up to 30 USD, to help them start their businesses. The funds were intended to break the refugees' cycle of dependency on aid. One of the refugees had been a baker prior to his displacement and used the funds to open a small bakery. As demand increased, he started to employ other refugees and then to sell his products outside of the camp.

Small grants may allow refugees to use the skills they already possess to turn them from receivers of aid to producers of goods. Criticism of micro-finance more generally is well founded, but in the case of refugees it should be regarded as a means of development rather than a way to generate income. As refugees find themselves in a protracted displacement situation, micro-finance is a way to move them from short-term survival to long-term development.

Despite glimmers of hope for some as outlined herein, for most refugees, the reality is dire. Comparatively few economists work extensively on refugees, and so the field remains under-researched and poorly understood. Further economic studies will be key to rethink how we approach refugees. Since the outbreak of crisis in Syria, the UN's humanitarian agencies have found themselves on the verge of bankruptcy, struggling to meet the basic needs of millions of people. In recent months, the UN has announced drastic cuts in food aid and shutting down of healthcare operations across the Middle East, leaving millions of people without help. There are probably few fields in economics where research could bring a more powerful change to human lives. ■

Oskar Birol

Africa's Urban Future: Nightmare or Opportunity?

Oskar Birol summarises Sir Paul Collier's recent guest talk to the University of Edinburgh Economics Society.

AFRICA recently had its best decade ever, which gives a false impression that Africa has turned the quarter. It started with complete debt relief, Africa's soaring export prices, and unprecedented borrowing opportunities from international finance institutions. Yet increasing debt levels and crashing commodity prices are making investors and lenders pull out; marking the end of that hopeful decade. Does it return to its previous, tragic state, or is there a new story?

AFRICA'S OPPORTUNITY

Africa's opportunity now resides in honing the region's two comparative advantages. Africa, as opposed to the West and China, has a low ratio of dependency on workers. A young workforce has an exceptional ability to adapt to 'new stuff', and to fully utilise this, the African economy must move on from peasant agriculture. Secondly, Africa is the least urbanised continent, for now. By 2050, its cities' population will have tripled (largely due to rural-to-urban migration). That is to say, two-thirds of its urbanisation has yet to occur; and Africa has a unique opportunity to design how it will occur. It will be an advantage if it manages to get a 21st century urban city right, the first time. However, many local officials are pessimistic, or actively against this prospect, because the first third of urbanisation was not a success. Weighing in officials' minds is fear of the nightmare scenario of rioting youth in dense cities, much like the Arab Spring. Clearly, the instinct of focusing on the nightmare side is a problem - there is a need to be optimistic about the potential.

PRODUCTIVITY & CONNECTIVITY

The key is designing cities that can foster productivity—a result of scale and specialisation—because it is in the cities that young people's new ideas will flourish. Scale and specialisation have a spatial counterpart: bringing people together. Essentially, tomorrow's African cities must be planned to facilitate its population in dense areas. Early investments into infrastructure thus create a high-productivity environment ideal for its young workforce.

THE DILEMMA

Africa now faces a choice. Should it put its resources into retrofitting urban infrastructure in the third of the cities that's already built? Today's citizens will want their unsuccessful city to be fixed, despite the high costs associated with vacating populated areas in order to demolish buildings. Or, instead, say 'OK, that was a mistake. We'll get to it sometime. We'll get the two thirds right.' Economically, it will be more important to get the future two thirds right, rather than to try and retrofit yesterday's mistakes. ■

New Silicon Valleys

Abhimanyu Bhargava explores new tech scenes in Chile and Kenya and the effect they have on entrepreneurial migration.

JOSEPH Schumpeter argues that innovation is the engine of economic growth. The success of Silicon Valley — the cradle of innovation — surely backs this up. Countless cities and business parks worldwide are now mimicking the iconic name by adding their own, 'innovative' twist. Silicon Prairie in Texas, Bit Valley in Tokyo, Silicon Glen here in Scotland, and others claim a similar entrepreneurial atmosphere as the original Valley. Unfortunately, it's not that simple.

According to Slate's David Auerbach, tech-hubs that successfully attract and support entrepreneurs are characterised by 'easy research money, easy start-up money, mobility and patience.' Deceivingly simple, these qualities are elusive, not to mention all the risky infrastructure investment required before entrepreneurs can benefit from agglomeration economies. Nonetheless, is it possible for countries to facilitate innovation? If so, how? Silicon Savannah in Nairobi, Kenya and Chilecon Valley in Santiago, Chile, are attracting entrepreneurs in a pioneering, daring manner.

MO(BILE) MONEY, NO PROBLEMS

Kenya leads the way in mobile money. Safaricom, the country's largest mobile-network operator, launched M-PESA in 2007, which is used by 95% of its adult population. This pay-as-you-go technology and micro-financing brings financial services to the unbanked. In 2013, a staggering 43% of Kenyan GDP flowed through M-PESA. Instantaneous mobile money transfers not only safeguards against corruption, but it also gives urban workers the ability to transfer money to their families in rural areas.

The prevalence of mobile activity has also created services such as M-FARM, which allows farmers to access real-time market prices, with the opportunity to sell products and buy supplies through the mobile phone. Because of advances in rural development services like M-FARM, not as many hands are needed on the farm and rural-to-urban migration is now more than 250,000 people each year. As the investment into Kenyan technical infrastructure and knowledge is rapidly increasing, Nairobi is becoming the hotspot for African tech-business. The government is channeling $14.5 billion into Konza Techno City, a cutting-edge satellite-city 64km from Nairobi, aiming to generate 200,000 jobs and pave the way for future technological entrepreneurs. The rise of Silicon Savannah is due to both the public and private sector; nonetheless we see its effects not only on economic growth but also on improving services and access for the poor, a macroeconomic indicator in its own right.

AN ENTREPRENEURIAL EMBRACE

Start-up Chile is a government-backed programme granting entrepreneurs from around the world $40,000 to help their businesses grow. Their only obligation is to stay for at least six months; and to occasionally lecture and mentor young entrepreneurs at local universities, to foster an entrepreneurial culture in Chile. This idea was introduced in 2010 by Chilean Stanford graduate Nicolas Shea, after noticing how many foreign students left the United States because of visa difficulties. Accordingly, the programme provides selected entrepreneurs with a one year working visa, fast tracked paperwork, free office space and a friendly embrace that celebrates the risks inherent to start-ups.

Thus far, this initiative has funded over 1000 start-ups. Shea sees investments here as net positive: these entrepreneurs' businesses stimulate the local economy, and their visitors boost Chilean tourism. Furthermore, on average six Chilean workers are hired per start-up, and the companies that expand elsewhere still retain on average three employees in Chile. Hernan Cheyre, who oversees Start-Up Chile, claims that the real effect of the programme will only be known 5-10 years from now, if the Chilean business culture, which currently punishes failure, can change its tone. Steve Wozniak, cofounder of Apple, claims "I would love to go there if I were young. This is the greatest program I have seen of this type in the entire world." Start-up Chile is an example of a successful top-down programme to build an innovative ecosystem, and now venture capitalists world-wide are flocking to Chilecon Valley to provide further funding for these start-ups.

The neoclassical view of innovation, as Andy Haldane articulately stated, is 'manna from heaven, a surprise gift that keeps on giving.' Kenya and Chile are but two examples of the role of institutions and organizations in fostering the innovation process. The characteristics embodied in Silicon Valley are beginning to show themselves in both Nairobi and Santiago, and to see their ultimate effect we simply need to hone into one key entrepreneurial characteristic ourselves: patience. ■

Immigrants as Innovators

Alexandre Aubert discusses the determinants of migrant entrepreneurship in Europe among legal immigrants coming from developing countries.

AS Europe starts to show some signs of recovery, much uncertainty lies ahead and unconventional policies are increasingly being put on the table to face the situation. Among these unorthodox alternatives, a growing attention has been paid to the role that legal immigrants might play in bringing European economies back on their feet. Immigrants include people that carry with them experience, skills and knowledge that can translate into significant economic benefits for their host countries. One way through which they have demonstrated their economic potential is in their ability to notice previously unseen profit opportunities and to discover unexploited markets; in essence, to be entrepreneurs. They act as agents of change who seek to generate value through the creation or expansion of economic activity. A more complete picture of their contribution to entrepreneurship would also include self-employed immigrants who work in their own business mainly for the purpose of earning a profit.

In the UK, France, Belgium, Denmark, Sweden and Norway, the share of entrepreneurs in total employment is 1.6 to 2.9 percentage points higher for migrants compared with natives. With a total of 3,194,981 firms in the UK, migrant entrepreneurs are behind 14.5% or 1 in 7 companies with turnover between £1m and £200m. Several hypotheses have been put forward to identify the potential determinants of migrant entrepreneurship in Europe and four of them seem to be particularly important: low risk aversion, the immigrant's educational background, the ethnic social network and their ability to connect their home market with their host economy.

LOW RISK AVERSION

In comparison to the returns one receives from traditional wage employment, the financial rewards of entrepreneurship are more uncertain. Thus, a key characteristic of entrepreneurs is a low degree of risk aversion. The immigrant's decision to leave his or her country and to be willing to face the numerous cultural, social and financial obstacles that comes along such a choice is clearly an expression of risk taking. This would particularly be the case for those known as the opportunity immigrants; highly educated immigrants for whom entrepreneurship is a choice and is seen as the best alternative for success in their career. On the other hand, immigrants for whom entrepreneurship is seen as a means to survive, also referred to as necessity immigrants, may have an inherent tendency towards more risky behaviours due to the lack of alternatives and the need to respond to their needs for subsistence.

EDUCATION & ENTREPRENEURSHIP

The immigrant's educational background plays a substantial role in explaining their attitude towards entrepreneurship. Given their lack of skills, necessity immigrants typically display lower rates of employment and earn lower wages than natives. As a result, the opportunity cost of setting up a new business for the immigrants is substantially low, thereby increasing the appeal of entrepreneurship. It has been demonstrated that the structural shift away from unskilled labour in the 1970s and 1980s, which decreased the number of unskilled jobs available, can account for much of the increase in migrant entrepreneurship in Europe. Concerning the opportunity immigrants, they have a higher tendency to pursue scientific and engineering studies as opposed to their native counterparts. Thus, it follows that a disproportionate portion of the immigrants are involved in the innovation of new products and processes, thereby increasing their likelihood of being part of entrepreneurial ventures. Evidence have shown that immigrants who came to Europe initially as students have higher rates of patenting, commercialising patents, and publishing than natives.

THE ETHNIC SOCIAL NETWORK

Another important feature for understanding the link between immigration and entrepreneurship is the presence of a dense social network of co-ethnic members in the host country. Migrants typically originate from countries with lower level of development, where society's institutions and social relations are still heavily based on informal and traditional forms of authority leading people to group into tight kinship and peer networks. As migrants move to other countries, these cultural habits are often preserved and facilitate the building of tight immigrant communities in host countries. Consequently, when new immigrants move to another country they often find upon their arrival a well-developed co-ethnic network. These social networks provide a strong social capital that may turn entrepreneurship into a more promising option than trying to enter the mainstream job market.

More specifically, it provides the immigrant entrepreneur with resources and opportunities upon which a viable business may be launched. First, it offers an ethnic niche market composed of co-ethnic

Pexels

consumers, to whom the immigrant entrepreneur will sell a product that is sought after by the ethnic community. Certain ethnic goods may require specific skills that the native entrepreneur does not have, thus creating a comparative advantage for the ethnic entrepreneur. Second, the ethnic community may be an important source of labour favourable to the immigrant's entrepreneur. The difficulty ethnic newcomers face on having access to the job market of the host country may mean that they will be ready to supply long-working hours at low costs in return to receiving the status of worker. Furthermore, tight social networks may also facilitate access to capital; a key ingredient to any entrepreneurial venture.

CONNECTING MARKETS

Finally, the immigrants' involvement into entrepreneurial projects can also be explained by their superior knowledge of international markets and their ability to connect markets, particularly in the case of opportunity immigrants. As globalisation intensifies, firms increasingly see their internationalisation as necessary for their survival. However, new firms face many obstacles in trying to internationalise, particularly due to a lack of awareness of foreign business opportunities, limited knowledge of foreign markets and few foreign contacts. With their local cultural and economic insights, migrants can become very valuable assets when a start-up decides to expand internationally and it has been shown that many successful immigrant entrepreneurs often trade with their country of origin. Indeed, the Swedish Agency for Economic and Regional Growth found 22% of foreign-owned business target their goods and services for the international market, compared to 15% of natives.

IMPLICATIONS FOR EUROPE

Entrepreneurs introduce new goods and services, develop new processes for producing output and thus are key drivers of economic growth. However, innovation and productivity in Europe has been slowing for decades. Some observers have noted that the Great Recession and its protracted recovery was more than just the bursting of a bubble or the end of an economic cycle. The event was symptomatic of deep structural changes operating within industrialised economies. Faced with these obstacles, European countries have to consider all the elements that could shape together the path towards economic prosperity.

Given their propensity to entrepreneurship, immigrants have tremendous potential in generating positive economic outcomes. Not only do they contribute to job creation and innovation, but they also act as conduits for trade between countries. Therefore, more concerted efforts should be directed towards fostering immigrant entrepreneurship and providing immigrants with the necessary support to launch sustainable businesses. Several countries such as Sweden and Norway have started to modify their immigration policies in order to encourage immigrant entrepreneurship.

Nevertheless, many European countries are still lagging behind and migrants often find it complicated to qualify for these programmes designed to help them with their entrepreneurial ambitions. More support targeted to the specific obstacles faced by immigrants in creating new businesses should be provided. For instance, enhancing migrants' access to credit would strongly contribute to their success. Furthermore, foreign students have proved to be endowed with high innovative capacities and thus making it easier for them to stay in their host country should be a priority. Ultimately, the formation of an environment more favourable to immigrant entrepreneurship will also come through changes in norms and perceptions and through the recognition that rather than stealing jobs, migrants may actually create some. ■

The Staff Interview

Alex Everett talks to Professor Martin Fransman about innovation, James Bond movies as indicators of incremental change, and the pursuit of knowledge.

How did you end up where you are today?

I joined Economics in 1978 as a development economist, at a time when many of my colleagues were very pessimistic about the opportunities for developing countries, believing there were significant constraints. However, the emergence of the so-called Asian Tiger economies – Hong Kong, Singapore, Korea and Taiwan – turned this all around. These countries began to grow very rapidly, managing to compete very successfully with European, American and even Japanese competitors. Economists at the time hadn't thought this was possible, so it was very puzzling.

I wanted to understand what was happening, so I undertook my own research, particularly within the sector of advanced computer-controlled machinery. I spent time in all of the Asian Tiger economies, conducting research which led me to the phenomenon I came to call 'catch-up.' Historically, we'd already seen this with Germany and the US, who followed the UK Industrial Revolution in the 17/1800s. However, the key example of catch-up in the post war period has been Japan. In order to better understand Japan's catch-up success and scale, I lived there for a year and a half overall. I was fortunate enough that my host professor at Tokyo University was an adviser to the Prime Minister at the time, so I was able to conduct some really fascinating interviews, giving me a much better understanding of the Japanese catch-up story. I was delighted when one of my books; The Market and Beyond: Information Technology in Japan, won the Masayoshi Ohira Prize – this was vindication that I at least understood some things about Japan!

As I've since continued my work I've really tried to tackle the questions of why growth happens. In my view, some kind of theoretical, conceptual framework is needed, and to be honest, I have found the mainstream theories of economic growth very disappointing. It's very clear to me that innovation plays a key role. However, this presents a huge problem for mainstream economics, because innovation is essentially about an imagined future that doesn't yet exist - you can't model it in a probabilistic sense! Additionally, most would-be innovators fail, so it's very hard to measure accurately.

'Innovation has always been occurring, and can still occur, including less high profile innovation in developing countries.'

Innovation seems to be 'in vogue' at the moment, particularly with trailblazers such as Facebook and Google. It seems to be confined, though, to wealthier nations and companies who can afford it. Is innovation just a luxury, or can it form part of earlier stages of growth?

A lot of my work has focused upon Schumpeterian evolutionary economics, which can explain things rather well. Schumpeter defines innovation as consisting of four things: new products and services, new processes and technologies, new organisational structures, and new markets. The crucial thing to realise is that innovation is not only about radical, fundamental change – we also have incremental innovation, which, cumulatively speaking, can become very significant.

James Bond movies are a great indicator of incremental innovation in the mobile phone space. We can see the first mobile phones in the older movies where they look like bricks with aerials…fast forward to today, where after a lot of incremental innovation, we have smartphones!

Innovation has always been occurring, and can still occur, including less high profile innovation in developing countries. This may be a question of modifying imported machinery to suit local conditions, such as adapting to dust or unreliable power sources. Innovation of this kind can make a very significant difference.

How, then, do we model innovation?

Looking historically, it seems that at particular historical junctures, there have been innovation clusters driving long waves of economic activity. The crucial point about all of these is that although each innovation cluster has been driven by a central discovery (such as the steam engine in the industrial revolution, or the transistor in the ICT revolution), there are broader effects and complementary innovations as a result. Such discoveries create completely new opportunities for both investment and consumption, driving economic growth. Early-comers make scarcity rent profits, before others follow suit. Margins are competed down, and eventually economic growth loses its pace, before the next cluster comes along!

Evidently, there is no way to predict what kind of innovation will occur in the future. Currently we're seeing a few economists predicting that the next cluster won't happen any time soon, despite the advent of robotics, 3D printing and artificial intelligence. It has been suggested

Martin Fransman

that these won't have wider-scale impacts to really impact the economy as a whole, and there exists a view that we are seeing secular stagnation wherein technology isn't fulfilling the role it used to. If this is the case, we may well have to satisfy ourselves with productivity growing much more slowly than we have become used to. This has impacts upon rates of returns, rates of earnings and subsequently asset prices!

This issue of Insight shows a shift in attitudes towards migration over time, which perhaps is some evidence of the incremental change we've mentioned. Can we learn anything about innovation in social constructs?

It's clear that ideas also evolve; at any point in time, some people come up with new ideas, but it's not quite clear whether a new idea is going to be acceptable to others or not. This is just as a new technology may float or not. In short, both technology and ideas are subject to selection mechanisms - those which are selected are those which then go on to become more prevalent.

We can also look at how innovation may be able to form a solution to issues such as climate change, impacts of war, health issues, famine… The consideration, here, is to what extent innovation can be ordered or organised in response to societal challenges. This is something that I've been working on in the Chinese context. I've been looking into who the players are that can innovate, and how it might be possible to bring them together in some kind of coherent way to incentivise them to generate innovative solutions to these societal challenges. If sufficient incentives do not exist, we have to consider if/how we can change the system to achieve the socially desirable outcome. Similarly with migration, there are going to be a lot of questions of 'what can be done'?

People often talk about trying to see problems through new lenses, but quite often it seems there is some kind of paralysis, with a tendency towards the traditional, the normal, the known. Do we see enough innovation in ideas?

In economics and indeed in all areas, if you go with the ideas of Thomas Kuhn, every area of thought is characterised by dominant paradigms - it's particularly so in economics. This structures the way in which people think about things, though interestingly, if we look over time, these paradigms don't last forever.

My own view is that outside thinking should perhaps be encouraged more than it is at present. I think the student Pluralism movement in Economics is a very good thing - it can encourage other ways of thinking! We'd be very arrogant to think that we have the only way of thinking, and certainly history doesn't support that.

So in our pursuit of knowledge and trying to solve problems of any kind, how do we ever know when enough is enough?

The key thing about knowledge is that it never ends! It's not something that results in an equilibrium like mainstream economic models! Knowledge continuously unfolds - that's its nature - and I think it's very hard to imagine knowledge ever reaching a terminal point. I'm sure it applies equally to religion and music as it does to the sciences and social sciences. It's an evolutionary process which goes on and on. In a sense, then, there never is enough.

However, at any point in time, different people are attracted to different problems and puzzles, and I think that's what academia is all about! People become fascinated with issues and sit down to try to understand them in much more detail. This is precisely the benefit of universities as some of the only fora in society for thinking, and long may that continue. ■

A Tale of Divided Cities

Mary King examines the economic impact of migration of the wealthy within cities.

THERE was a time when areas within cities were not defined by the wealth and class of those that lived in them. Migration of the rich is a relatively new concept within cities; something that really began around 400 years ago in the UK, in an attempt to emphasise social differentiation. Edinburgh is a prime example of this - with new architectural styles becoming fashionable, rather than re-building and improving their homes in the centre, new houses were built north of the old town, and the richest in society began to move out of the shared streets into new, exclusive areas. It is no coincidence that the word 'class' started to be used around this time in order to differentiate groups of people. The rich now had limited interaction with those outside their inner circle. This was the beginning of a social phenomenon which accentuated differences between the rich and the poor, establishing a type of geographical social segregation that was here to stay, as a result of the migration of the wealthy.

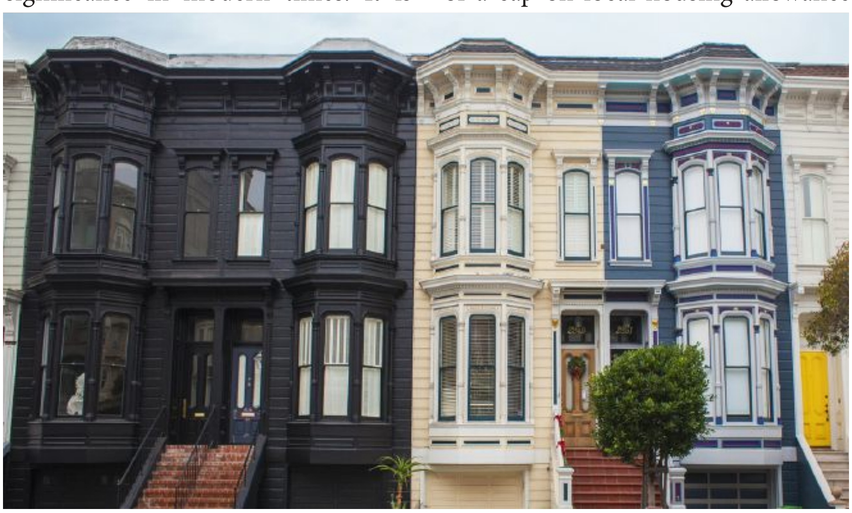
IMPACT ON THOSE LEFT BEHIND

The migration of wealthier families to certain areas within a city may well be seen as one of little significance in modern times. It is now expected that when one begins to earn a higher living, they will then move to a more affluent area. It is certainly more likely this would occur in today's society than four centuries ago.

However, poor families are becoming increasingly geographically isolated. The National Survey of America's Families estimate that whilst in 1970's America only 14% of poor families lived in predominantly poor areas, this number increased to 28% by 1998, and is still rising. An increase in income inequality and a disproportionate rise in house prices have made it more and more difficult for the poor to integrate themselves with other sections of society. Despite the benefits for the individuals who are fortunate enough to be moving to more affluent areas, it seems that migration of the wealthy within a city only helps to promote the notion of inequality, further reducing social mobility. It has become 'acceptable' to discount whole areas because of a bad reputation, whilst simultaneously admirable to earn enough to move out of a less well-heeled area. The former UK coalition government did little to prevent the advancement of segregation with the introduction of a cap on local housing allowance in 2010. Critics of the scheme accused the government of 'social cleansing', which in some extreme cases attempted to rehouse families in homes miles away from their current residence due to the price of rents in the area. Policies such as this reinforce separation, widening the gap between different sectors of society both in monetary and social terms, the latter referring to the resultant perceptions individuals have on others.

WIDER ECONOMIC IMPACTS

Widening inequality through segregation of the rich and poor has negative impacts on the economy as a whole, as well as those individuals left behind in poorer communities. Separating the rich and the poor helps to maintain the wealth gap in society by presenting a barrier to earning higher incomes. Poverty stricken areas have less access to quality education, and therefore less access to higher paid jobs, which arguably reduces overall productivity. Those individuals who are left behind when the rich migrate are stuck in a trap: a continuous cycle as their place of residence determines. Of course there are exceptions to this rule, some individuals who break the mould and are able to better themselves financially, but these cases are not the norm – social mobility in Britain is extremely limited, such that it is far harder to reach the top if you start at the bottom. The wealth gap that is ever widening impacts the economy enormously, holding back economic growth. In order to reduce income inequality and narrow the wealth gap, the issue of geographical barriers must first be addressed. The first stage of this is to reduce the segregation of different incomes in society. ■



Bernadette Gatsby

Pixabay

Finding Fiscal Paradise

Verena Wiedemann discusses the phenomenon of capital migration for tax purposes and possible solutions.

IN 2013, foreign direct investment (FDI) into the Cayman Islands, a British overseas territory in the Caribbean Sea, exceeded FDI into the world's third largest economy, Japan, by 3 billion US dollars. One might wonder how a small island state could attract such a large amount of capital. The answer is straightforward: as of 2015, corporations in Japan pay an effective average tax rate (accounting for differences in tax percentages) of 37.5% on profits and property. Meanwhile their counterparts located in the Cayman Islands, fingered as one of the world's largest tax havens, pay no income tax at all.

Tax avoidance, or the process of legally shifting profits to minimise a firm's overall tax burden and the focus of this article, is not to be confused with tax evasion (which is illegal). Tax avoidance is made possible by an interplay of national and international tax regulations like tax treaties and transfer pricing rules. While it is not considered illegal, it is viewed as an undesired outcome by governments and international organisations. The main goal of capital shifting is to reduce a firm's tax base in high tax countries and redirect profits to low tax countries via royalties, interest payments and alike. It remains difficult to assess how much profit is actually shifted for tax purposes. Such estimates are based on the assumption that profits reported by multinationals actually occurred in jurisdictions different from the one they had been reported at, evidence for which is not always given. An estimate put forward by the Organisation for Economic Co-operation and Development (OECD) claims that 100 to 240 billion US dollars in tax revenue is lost annually due to tax avoidance.

REFINING THE EXISTING SYSTEM

The proposed solutions to the problem are almost as numerous as the various methods of tax avoidance cooked up by multinationals. Increased transparency through the disclosure of tax-related business figures based on the country of operation, so-called country-by-country reporting, is the favoured approach of several international organisations. Other researchers, however, express doubts that the disclosure of additional information alone will prevent multinationals from adopting tax minimisation strategies.

Various options to limit profit shifting by closing loopholes in tax laws have been put forward by the OECD's final Action Plan on Base Erosion and Profit Shifting released in October 2015. These include, among others, improved regulations on transfer pricing, measures to increase transparency and guidelines for bilateral tax treaties to prevent firms from shopping around for favourable tax deals.

SEARCHING FOR THE SOLUTION

Tax systems as they are found in most countries date back to a time when physical capital was a critical factor in the production process. Nowadays intellectual property plays an increasingly important role in the value creation of corporations. Moreover, the operations of today's multinationals span across both national borders and continents. One proposed way of fundamentally reforming the international tax system by accounting for these developments is to implement a worldwide formula for apportioning profits. When assessing the tax burden of a firm, profits would be distributed to individual countries according to a formula which takes into account the location of various factors including a firm's capital, sales and payrolls. The sums apportioned to each country would then be taxed according to local rates set by the respective government.

While factors like sales are considered difficult to manipulate, others like capital could still be relocated over the long-run. Moreover, coming up with a suitable distribution formula would be a highly politicised process. A study by the International Monetary Fund points out that advanced economies would gain from formula apportionment while conduit countries would lose out, as intended. But the outcome for developing countries would be ambiguous, since they account for large amounts of production yet relatively little in sales revenue. Depending on the weight assigned to sales figures in the formula, developing countries may decrease their tax take.

The debate on how to deal with capital migration often bears a striking resemblance to debates on human migration. As with many migration-related issues, the problem of tax avoidance can only be solved by a coordinated, unified effort on behalf of an international community with widely disparate incentives. It will be difficult to come by. ■

Premature Deindustrialisation - Migrating Companies

Giulio Bianchi looks at the causes and dangers of modern deindustrialisation trends relative to their historical predecessors.

FORMER World Bank economist and renowned photographer Sebastião Salgado, dedicated the vast majority of his career to portrait photography. His prolonged infatuation for the human eye ended abruptly when he embarked on a project documenting human migrations around the world, and in the war-ridden African regions. His realisation of men's inherent violence, and hardship in the act of migration led him to shift his lenses towards the study of nature's purer forms through landscape and wildlife photography in his acclaimed book Genesis. Salgado's unforeseen search for an immaculate reality following his research on humans' migrations reveals the extent of our species' clumsiness as migrators relative to the inhabitants of the natural world.

Nature's great migrators, contrary to humans, are expert observers of the maturity of seasons and have reaped the fruits of a borderless world centuries before our invention of the term 'globalisation'. In our world, globalisation has entered vocabularies hand in hand with a vast array of promises and a dangerous occlusion of the natural concept of maturity. Neoliberal theories suggest that globalisation has the ability to encourage competition, enlarge markets, spread technology, and enhance good governance. As Martin Wolf famously declared: 'we need more global markets, not fewer, if we want to raise the living standards of the poor of the world'. Contrary to expectations, globalisation has been a key driver of economic growth for only a few developing countries, as a Panglossian convergence of living standards has remained an aspiration for the majority. One of the possible causes of this lack of convergence has been identified as the premature migration of resources from the manufacturing to the service sector within developing countries. While this trend had been experienced by developed countries from the late 1960s, the causes of deindustrialisation were natural consequences of sustained growth. Meanwhile, partly due to globalisation, the manufacturing sectors in developing countries have been crippled prematurely. The economist Nicholas Kaldor was one of the main champions of the sectoral superiority of manufacturing over agriculture and services. In his view, the manufacturing sector encourages the accumulation of technologies, skills and capital, which are three essential components for long-term growth. Meanwhile, the service industry often has limited potential for productivity increases as the productivity enhancing features of standardisation and replication are not as readily available as in the manufacturing sector. Within the framework, one can discern that the premature deindustrialisation trend should be considered an eminent enemy of economic growth.

DEINDUSTRIALISATION NOSTALGIA

Deindustrialisation affirmed its presence in history by drastically transforming modern developed countries during the second half of the twentieth century. Data from Rowthorn and Ramaswamy shows that industrial countries' share of manufacturing employment collapsed from twenty-eight per cent in 1970 to approximately eighteen per cent in 1994. This process is sharply delineated when juxtaposed to the opposite rise in the relative and absolute share of the manufacturing labour force between the end of World War II and the mid-1960s.

In the 1970s, as world trade expanded, the manufacturing share of employment started declining and the first symptoms of deindustrialisation appeared. The figures are clear: between 1982 and 1992, the direct investment flows from OECD to non-OECD countries increased from 20 billion U.S. dollars to 200 billion, while manufacturing imports from non-OECD countries increased from 87 to 426 billion U.S. dollars. Therefore, if correlation were to imply causation, globalisation would seem to be the main culprit of deindustrialisation. Theoretically, this correlation will appear to be more than a simple coincidence, yet, many academics have argued against the importance of this cause. In the United States, for example, manufacturing imports from developed countries were worth only two per cent of GDP in 1994, a portion that many trade economists have judged to be too small to alter the North American low-skilled manufacturing sector. Therefore, the vast majority of the literature on the causes of deindustrialisation seems to agree that internal causes were the main drivers of deindustrialisation in developed countries. Economists, constantly competing with the many-handed god Vishnu, have argued that internal

Alejandro Islas

deindustrialisation predominantly depends on manufacturing goods negative relationship with income levels, manufacturing sector's tendency to outperform the service sector's productivity growth, a rise in education levels and the statistical illusions related to the creation of a subcontracting service industry. The view that internal causes have been the main driver of past deindustrialisation aligns with the perspective that this process is a natural and inexorable feature of economic development.

DEINDUSTRIALISING TOO SOON

Since the 1980s, developing countries in Africa and Latin America started following a deindustrialisation trend that appeared to be similar to the one experienced by modern developed countries. This trend though has been labelled with a variety of gloomy labels such as 'premature', 'spurious', 'negative', 'non-conforming' and 'anomalous'. The labour forces in Africa and Latin America have predominantly flown out of the manufacturing and agricultural sectors towards the service sector. In these countries, the manufacturing share of employment has been falling before reaching the peaks and income levels achieved by modern developed countries. Developing countries began de-industrialising when reaching a level of only U.S.$3,000 GDP per capita, compared to the U.S.'s level of U.S.$10,000 GDP per capita.

While the main drivers of past deindustrialisation were internal endogenous factors linked to economic growth, developing countries have faced stronger pressures from external exogenous factors linked to globalisation. Describing globalisation as a Ponzi scheme, where developed countries convince developing countries to become shareholders of an unsustainable growth fraud, would be overly pessimistic. On the other hand, the altered nature of globalisation and its power to encourage deindustrialisation during the past three decades have limited developing countries' access to the growth opportunities experienced by past industrialisers.

The transformations in the dominant ideological framework during the 1980s led to a deepening of international markets and an alteration of the relationship between state, growth and the market. Policymakers' inability to adopt a range of interventionist policies sentenced the manufacturing sector to the powers of volatile capital markets and the competition of well-established rivals. In addition, global supply chains have been dramatically altered by the advent of information and communication technologies (ICTs). Multinational corporations are empowered by this type of 'footloose' supply chain as they can easily change supplier and treat developing countries as extractive sites. Countries joining a supply chain struggle to maximise technological spillovers as the supply chain remains in control of a third party. Finally, one should note that the rise of offshoring has not been limited to the manufacturing industry. Offshored services have become a source of job creation, competing with, or substituting the role of, the manufacturing sector in developing countries. Developing countries with strong deindustrialisation trends such as Malaysia, Chile, India and the Philippines amongst others have been the main absorbers of offshore services.

DOES IT HURT?

Historically, only a minority of countries succeeded in becoming prosperous without building a strong manufacturing industry. The opening lines of a United Nations report entitled *Development Strategies in a Globalising World* published in 2003 explain that: 'in almost all successful cases of rapid and sustained growth in developing countries, a dramatic shift in economic structure from the primary sector to manufacturing has triggered a progressive rise in productivity and income levels.' Notable cases of successful growth such as Japan, Korea, Hong Kong, Singapore, Taiwan and China relied heavily on the expansion of their manufacturing industries. One should note that industrial policies have also had a less lustrous history in Latin America where inadequate management and corruption in the manufacturing sector have triggered unintended consequences for the economy. Overall though, while a strong manufacturing sector is not a sufficient factor for growth, history proved that only few countries were able to grow without industrialising.

The renowned Roman poet Ovid delineated the imagination of ancient and modern thinkers by vividly describing Icarus's death while attempting to imitate birds' flight with wings made with wax. Following Ovid's advice, ancient Romans learned not to imitate birds and rather observed their migrations to interpret omens and auspices. Today, policymakers should observe these experienced migrators once again to learn the importance of timing when migrating. If this happens, Salgado might decide to turn his lenses to human faces once more. ■

How Does a Rational Person Decide to Migrate?

Andriy Mantrov considers the decision process involved in migration from a micro-economic point of view.

MUCH microeconomic theory can seem quite abstract and unrelated to the real world. This article will put the theory to the test by applying it to the current problem of migration to see how much can be explained by it.

I will attempt to look into the factors that influence the decision process of a representative migrant considering migration purely for employment purposes. This individual will be modelled as a rational, risk neutral person with a job in his or her native country. For now we exclude individuals whose lives might be in danger.

People have a choice between migration or remaining in his or her home country; uncertain income abroad represents an opportunity cost if it does not exceed home income, and vice versa. As we are dealing with risk neutral people, we can operate in monetary terms instead of utility. Uncertainty around income abroad is modelled through expectations: $E(Y_A)=pI+(1-p)B$ (where I is the employment income, B is non-employment incomesuch as benefits, and p is the probability of earningI). A rational individual will only choose to migrate if $E(Y_A)-C\geq E(Y_H)$. In other words, the decision to migrate rests upon income abroad, $E(Y_A)$ minus the costs of migration, C (e.g. visa costs, travel costs etc.) being greater than home income $E(Y_H)$. If this equation does not hold, the opportunity cost will be too high and the person will decide to remain working in his home country.

UNDERSTANDING THE 'P' FACTOR

So how does $E(Y_A)$ vary? Our focus in this article will be on the p factor in the equation above – the probability of receiving I. Expected income abroad depends on the probability of getting a job, but when you make a decision to migrate you do not know this probability, so you use your personal belief of the value of p, given the information available. It is possible to argue that the value a prospective migrant assigns internally to p is much lower than it should be for two reasons. Firstly, migrants do not know the job market as well as natives do. Although some research suggests that people use social media to get more information about potential job markets abroad, asymmetry of information certainly exists. Secondly, personal beliefs of p depend on the individual's aspirations, which in turn depends on their reservation utility – the amount of income they could receive in the status quo, which is home income $E(Y_H)$ in our case.

Ceteris paribus, underestimating p means migrants will have lower expectations of their expected income abroad, potentially resulting in a disincentive from migration. However, as our assumption states, people are rational, so they will try to increase their probability of getting a job, and therefore increase $E(Y_A)$. A rather common way to achieve this is by increasing one's level of education. Despite its positive externalities, this will also incur the cost of foregone earnings. As a result, migrants will self-select into two different groups: those who invest in their education, and those who choose not to. If a higher skilled job abroad will satisfy $E(Y_A)-C\geq E(Y_H)$, the educated first group will apply for those jobs, while the second group will see less benefit from migrating, or may be better off remaining in their country of origin.

THE ROLE OF GOVERNMENT

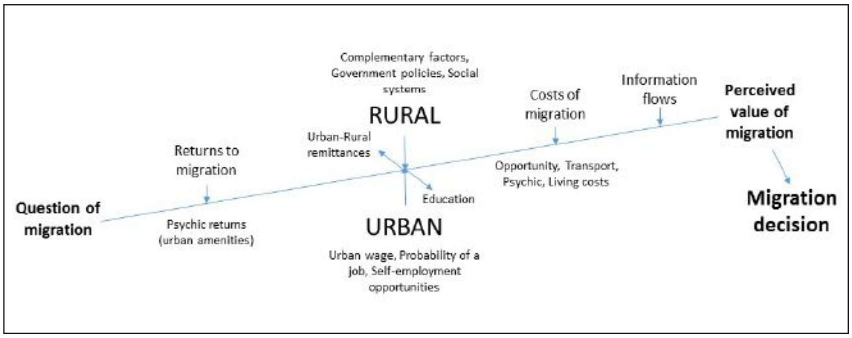
So far we have left out the role of the government, which makes decisions as the principal which will affect our representative migrant – the agent. For reasons which other articles in this issue cover, the government will look to control the amount of migrants, based upon macroeconomic indicators of employment and wages, for example. Using existing data, the government can forecast how many migrants will likely enter the job market, thus making policy decisions according to its preferences. So the principal can influence the decision the agent makes by imposing restrictions such as quotas, or simply by increasing migration costs. The government plays a crucial role in the agent's decision making, because any policy intended to encourage or discourage migration will adjust the agent's value of p.

As we have seen, if the equation $E(Y_A)-C\geq E(Y_H)$ holds a person will decide to migrate. However, impacts of education, government policy and individual aspirations can substantially affect a potential migrant's decision process. Potential migrants' choices depend on incomplete information and the resulting beliefs. Microeconomics can indeed help us understand the migration decision, though admittedly the model presented here is highly stylised. Nevertheless, more advanced modelling enables this discussion to be extrapolated to less restrictive and arguably more realistic assumptions, aiding the discussion further. ■

Migration – Theory & Perspectives

Ioana Subasu examines Michael Todaro's migration model.

MICHAEL Todaro was the first in his generation to create a dynamic model of migration; Todaro excels at giving a modern explanation of behind-the-scenes in the migration decisions. Nevertheless, Todaro hardly accounts for two essential factors in today's migration decision: culture and psychology, both of which link to relative utility.



Ioana Subasu using Todaro and Smith (2011)

THE TODARO MODEL IN A NUTSHELL

As my co-writer Andriy Mantov succinctly exposes, choosing to migrate must be an economically profitable decision. Todaro's model is based on the premise that an agent decides to migrate if their expected urban income is higher than the expected rural income less transition costs – migrants respond to the perceived value of migration. This is combined with Lewis' concept of labour transfer. Lewis refers to an 'army of labour' from poor backgrounds (in a traditional economy characterized by low levels of productivity and peasant production) migrating to modern sectors (which are industrialised wage economies characterized by high levels of productivity and capital) as a low-cost labour force.

However, Todaro's model is innovative – it views migration in a less isolated and simplistic sense than Lewis', more as a choice based on behavioural, social, cultural and political considerations. This model is made particularly interesting by the way it accounts for risks such as the chance of finding employment, time horizons, institutional frameworks and others, in order to produce a fairly accurate and life-like model.

WHAT TODARO MISSED

I remember a very popular billboard back home in Romania and this phrase caught my eye: 'We are happy to be different'. This is exactly my point: being different, having different mentalities, coming from different cultural and political backgrounds make us unique. No economic model can encompass a 'one size fits all' approach. Simplifying leads us, more often than we want to admit, to sweeping generalisation, overlooking heterogeneity among individuals.

I deem social factors to be by far the most important component of this model, as this economic theory is about us, people. Economists and philosophers alike named us social animals with animal spirits, living irrationally, seeking happiness and social confirmation the psychic costs in the diagram. This means I may well derive happiness from which someone else might derive sadness and frustration. This is relative utility and I believe that migration revolves around that.

Why so? Cultural afflictions can be so embedded in the community that even though it would be profitable for the people to migrate, they choose not to. There are two major causes: social stigma and unawareness due to a lack in information flows, prevalent mostly in developing economies. Todaro assumes that people are informed about potential jobs in another area or country; this is significant, because the agents could have an insight into the living standards and the job opportunities. However, this is not always the case. In Rwanda for example, men are expected to build a stable house and family, and seeking a home elsewhere is not socially encouraged. The aforementioned psychic costs outweigh the psychic returns, decreasing the perceived value of migration, even though the expected income 'elsewhere' is higher and living standards are potentially superior. This demonstrates how Todaro's theory fails to assess the impact of relative utility on migration decisions. Is there a way the model can adjust for this failure?

There is another potential factor failure: measurement in living standards, which again relates to relative utility. Migration has one sole purpose: making people better off. Higher living standards are known to bring prosperity in one's life, but the way we measure these is relative. Earning a higher income might not make a person relatively wealthier due to price differentials between their home and destination countries. With higher relative prices, a larger proportion of income is spent on education, health (if there is no government intervention), commuting, housing and food. Social protection might be scarce, city life could be more stressful and pollution could be detrimental to health. People coming from developing countries could find themselves in another form of poverty trap, disguised by longer working hours, underemployment and higher relative prices eating up their earnings. How can Todaro explain and adjust for this relativity in measurement?

All in all, every economic model has its positive and negative aspects. I hope that you can take forward one concept from this article: the world is relative and we cannot compile 196 countries and their people's needs in only one model. Instead, we must allow ourselves free reign in questioning the status quo and designing solutions tailored to individual situations that view migration as an informed choice by migrants themselves. ■

A Climate of Migration

Harriet Johns explores how climate change could displace millions as parts of the world become inhospitable.

RECENTLYLY, on *Question Time* the singer, Charlotte Church, was ridiculed for suggesting that the crisis in Syria was caused by climate change, the argument being that a drought lasting 3 years caused many rural occupants to move into the already overcrowded cities. Whilst it is hard to argue that climate change is the main reason for the uprising in Syria, it may well have contributed to the crisis. Above all it poses an important question – what will happen to, as the UN estimates, the 250 million people worldwide who will be displaced due to climate change by 2050?

THE ENVIRONMENTAL MIGRANT

An environmental migrant is someone who is forced to leave his or her home due to extreme weather conditions. Whether you believe climate change is a natural process or caused by humans, it is clear that adverse weather conditions are affecting millions of people. Droughts have caused problems not just in Syria, but also in large parts of sub-Saharan Africa, which are becoming increasingly arid, impacting them greatly as they rely on farming for as a main source of food and income. These developing countries are already struggling with poverty and growing populations, and rising temperatures and a lack of water supply are furhter exacerbating this.

At the other end of the weather spectrum, some countries are battling with rising sea levels which cause extreme flooding, such as the Maldives, the lowest lying country in the world. This could become a reality for the 44% of the world's population who live within 150km of the coastline, according to the International Organisation for Migration. Even the UK has witnessed increasing levels of flooding and coastal erosion in recent years – this is not comparable to what other countries have had to go through, much less what they may yet have to, but it certainly gave us a taster of what things could be like in the future. Ironically the places where refugees are trying to settle now may also become inhospitable in future.

TIME TO ADAPT

The climate may be changing rapidly, but so is technology and innovation. Will the effects of climate change really cause as much migration as we think or will we learn to adapt to our new weather conditions? A country that has had to adapt for many years already is the Netherlands, as the majority of the country lies below sea levels and is prone to a greater risk of flooding. Ijburg, on the outskirts of Amsterdam, is a good example of the Dutch government looking beyond the normal flood prevention techniques such as dykes to more innovative approaches. Here architects discovered that they could build on water by creating floating houses on concrete blocks that rise and fall with the water level. This idea has also helped solve Amsterdam's housing shortage in a more sustainable way than other countries that choose to build on flood plains. From the above-mentioned countries, however, it is clear that climate change has a disproportionate effect on developing countries that are not currently able to afford these sophisticated solutions.

WHAT NEXT?

For governments, choosing how to tackle issues surrounding climate change is always difficult; in times of austerity this isn't necessarily high on the political agenda. It can be said that there has always been a level of environmental migration, with a lot of communities relying on more extreme rural to urban migration. However now there is a sense of permanence and extremity in these movements, as in the case of the low lying Pacific Islands, whose inhabitants must now leave their countries rather than just their cities. In the future it may well be that instead of fleeing extremism, humans may have to flee extreme weather conditions. As well as adapting to climate change, we may also have to adapt to embracing the migrant flows that result. ■

Iran's Reopening

Matthew Mitchell discusses the lifting of sanctions on Iran.

HAILED as 'the biggest untapped market before Mars and the Moon' and 'the world's last big unexploited economy', Iran has a lot to live up to when it re-enters the global economic stage, following the lifting of sanctions.

Iran is ripe for investment with a $400 billion economy and a young, educated population of 80 million. The likely unprecedented migration of investment to Iran is sure to shape not only Iran but also neighbouring countries' futures.

The Joint Comprehensive Plan of Action (JCPOA) agreed on 14 July between representatives from Iran, the P5+1 (China, France, Russia, UK, US plus Germany) and the EU requires that, in exchange for the lifting of economic sanctions, Iran gives up large and integral parts of its nuclear programme for at least 15 years.

The sanctions have hit Iran's economy hard. Vehicle sales, for instance, halved between 2011 and 2013, as sanctions tightened. Another indicator of the cost to Iran are estimates of the lost revenue from oil. Some put the figure at $160bn since 2012 alone.

The potential for resurgence is therefore massive. Sanctions relief should release $50–120 billion of Iranian assets frozen abroad, and repatriation from the diaspora could add $20 billion more. There is plenty of opportunity: $100 billion of investment required over three years into oil and gas, $85bn into petrochemicals, accordin to Iranian government sources.

Many European and American conglomerates, eager to secure 'first-mover' advantage, already started drawing up plans to enter the market as early as the interim deal back in November 2013. There is plenty of eagerness on both sides — Iran's oil ministry even chose London as the venue for a much-publicised conference to unveil some 30 upstream energy projects.

Europe has had a tempestuous relationship with Iran. From being Iran's largest trading partner a decade ago, EU countries — the UK and France especially — have since become some of the most stringent sanction imposers. However, despite the fact that Russia, China and India have largely filled this role in recent years, there are signs of a growing appetite for the re-establishment of the European-Iranian trade partnership.

British expertise is much sought after in several sectors, including construction and engineering, to replace Chinese companies who have a reputation for poor safety and workmanship and to repair and improve vital infrastructure such as roads, airports and ports which have faced terrible neglect in recent years. Rebuilding oil and gas infrastructure and further investment in environmental technology, such as desalination and biotechnology, are also much needed.

Meanwhile French carmakers, once market leaders in Iran, are seeking a comeback. PSA Peugeot Citroen and Renault are looking to form partnerships with domestic carmakers, who now account for the majority of sales. But after their withdrawal, there is as much chance for any company to become the market leaders, and Mercedes and Volkswagen are said to be gearing up to replace Peugeot.

The absence of Western companies has allowed a larger role, as mentioned, for companies from Asia; many of which sustained their trade links after Western countries had left. Peugeot's rapid exit in 2012 left the door ajar for Chinese carmakers, which have set up a network of importers. India, already heavily invested in Iran, is looking to invest more than $15.2 billion to build projects including taking up full-scale development of Chabahar Port if Tehran offers better terms including cheaper gas. Additionally, New Delhi is Tehran's second biggest oil client after Beijing.

Still, there are stumbling blocks for such full scale (re)investment. Full implementation of the nuclear deal could take at least six months. More pressingly, however, Iran has suffered from a drought for the past 15 years which puts massive pressure on the farming sector and on urban infrastructure. Much of the industry Iran hopes to see invested in is heavily reliant on evermore scarce, and therefore costly, water.

There are political barriers too. Iran's economy is largely run by powerful elites linked to the country's Supreme Leader and Revolutionary Guard. The Revolutionary Guard is a pervasive force in Iran's economy, with control of the many state monopolies. The Border Guard has a monopoly on smuggling, which costs Iranian companies millions every year. While the country looks willing to open up economically, politically the Revolutionary Guard seem to have as tight a grip as ever, a matter which goes well over the paygrade of the reformist president, Hassan Rouhani. Additionally, despite all the sanctions relief, some pre-existing American financial sanctions remain in place, which will hinder American investment accordingly.

Uncharted territory lies ahead, both for Iran and for the countries that wish to invest. Any relationship will be rocky at best and all those involved would be well-advised to tread carefully. ■

Pexels

Who Said Anything About Love?

Flora Mao explores the history and modern ethics of marriage based migration.

MARRIAGE has always been a way to create family ties and maintain social stability. It forms the basis of family units and local communities, tying people together for a supposed eternity. But marriage has many other benefits as well. It can offer economic incentives to either partner in the form of dowries and bride prices, and in some cases can even prevent a partner's imprisonment. Most importantly, a wedding can offer the opportunity for someone to migrate. The question this leaves for us to ask is how we measure such a union. Is marriage any less legitimate because of the economic desires of migration tied into the start of a partnership? Should it be? The examination of a marriage based on perceived legitimacy is an overarching piece of immigration history and continues to define modern policy. But in this history we have overlooked the possibility that the entirety of our understanding of migration and matrimony needs to change to facilitate safer and more efficient pathways of immigration.

A TALE AS OLD AS TIME

Marrying for the sake of migration has been an occurrence since migration first became regulated. One of the earliest examples could be seen in the early 1900's in the United States: As Japanese agricultural labourers in Hawaii and the West Coast were under new regulations due to the Gentleman's Agreement of 1907, the flow of immigration to the US was stopped completely out of an American fear of foreign aliens. However, the treaty allowed for immigration in the case of family reunification and this presented the men with the opportunity to bring their wives over. For those that were not yet married, a loophole in the family register system made it simple to arrange and enact a marriage between the labourer and his would-be wife without having ever met each other. The phenomenon of the 'picture bride' was thus born.

These women would set off to their new homes with nothing more than a photo of the man they would marry, often driven by family ties or a desire for adventure and opportunity. When they arrived at the docks they would often find that their husbands were not as advertised. The pristine photos could be staged in front of borrowed cars and homes, and some men would opt to use photos of their younger selves to hide their ages. The plantation owners, nonetheless, saw these women as a great boon to their bottom line. A married man was an industrious, law-abiding worker compared to his unwedded counterpart. Many of the women meanwhile, whether bound by determination or the price of a ticket to return home, remained in their new homes and made do.

CROSS-NATIONAL LOVE: A MODERN ISSUE

In the modern era, the concept of family reunification has become widespread. Many countries now offer the opportunity for family members from foreign countries to gain residency or citizenship. According to the Migration Observatory at Oxford, every year over 60,000 people gain British citizenship through the policy of family reunification, while on the other side of the Atlantic in the United States 65 percent of all permanent type migrants are reuniting families as well. Most immigration processes usually require sponsorship from a local national to vouch for the migrant, thus there are work visas, student visas and a multitude of others as well. A visa application in the UK for an elderly family dependent results in an automatic indefinite leave to remain without the usual temporary visa. Wait times for residency permits are shortened if someone is waiting for you upon arrival, and the application process is simplified depending on the status of the sponsor.

This returns the argument to our understanding of marriage as a force of family. A spouse or fiancé can be sponsored under these concepts, and when they gain an Indefinite Leave to Remain (ILR), they can bring over their own family as well. In some cases, people who marry internationally are partially motivated by the desire to gain a better quality of life for themselves. The gain for the spouses from the nation that is playing host to the wedded couple is one of potential love and companionship. Of course, others enter these unions for financial profit. In some cases, the foreign national offers a large sum of money to the citizen for the wedding and subsequent two years of marriage to take place.

There are many possible benefits that arise from these unions. Immigration increases in the most socially stable way, since the argument that immigrants are a burden on the social welfare system is silenced with the implementation of a minimum income requirement on the sponsor. They also allow for cross-cultural communication as these kinds of marriages are often between people of different backgrounds. Yet, the exploitation of the people involved is a constant part of the equation. The continued growth of mail order bride operations, in which women from economically unstable countries in eastern Europe, southeast Asia, and Latin America to name a few, marry men who book places on marriage tours, or choose women to write letters to from a special catalogue to name a few modern methods. There are numerous cases of domestic abuse as well due to the potential power imbalance in the couples, as the foreign wife waits out the few years until the spousal visa expires and she can gain a permanent residence card.

WHO CARES ABOUT LOVE?

Of course, it is impossible to discuss cross-national marriage without considering the prevalence of sham marriages. There have been cases of false marriages being arranged between a foreign national and an American resident, with the resident being paid large sums and offered free trips and housing in exchange for being a part of the crime. There are cases in which a foreign national has won a green card or other forms of permanent residency through the allocation lottery system and subsequently auctioned off their own hand in marriage. A majority of the foreign nationals applying for spousal visas were previously denied visas through other more traditional means. It is this desperation that leads to the prevalence of the cross national marriage market as a form of migration.

It is normal to try to assign a sense of morality to our reasoning for implementing legislation, but there comes a point where legislation can go no further. People looking to gain a spousal or fiancé visa usually have to deal with a battery of interviews and paperwork in a system meant to prevent potential fraud. However, this system is riddled with holes and potential headaches due to the subjectivity of an applicant's answers. The UK has recently changed the length of the spousal visa to five years up from two in an attempt to curb sham marriages by preventing the foreign spouse from leaving the union for an additional three years. Meanwhile, the number of people attempting to migrate in this way is growing as traditional paths to immigration are tightened and substitute forms become more attractive. If we return to our definition of marriage as a way to form family units, can we thus allow the inclusion of governance into our application of its legitimacy? The question also lies in an understanding of what counts as a private matter. Does the state ever have a right to delve into something as personal as marriage? Cross national marriages have so much space to go wrong, but in the argument between the rights of the individual and the rights of the society, we need to consider if the control we are attempting to exercise is worth the investment. In requiring the examination of the legitimacy of marriage in the context of immigration, border agencies utilise numerous resources that could easily be put to better use. Marriage for the sake of migration has always been a way to skirt the law, but it may now be necessary to question if the law is hurting us more than it helps. ■

China Approaches a Turning Point

Philip Moore on China's challenges after huge urban migration.

Alex Gindin

EARLIER this year, at the 45th Annual World Economic Forum in Switzerland, Chinese Premier Li Keqiang addressed his country's need to adapt to a changing economic landscape using an old Chinese proverb: 'When the wind of change blows' he said, 'some build walls and some build windmills.'

China's recent industrial dominance, sparked by the 1978 economic reforms and fuelled by a huge wave of labour migration, has seen GDP growth average at about 10% each year since: unprecedented urban expansion has ensued. A country so famed for its wall-building prowess has been constructing relentlessly for the past three decades as a result; walls, windmills, and just about everything in between. There are now six aptly named 'Megacities' in China, each boasting over 10 million inhabitants. Shanghai (23m) and Beijing (19.5m) are just two examples of these vastly populous conurbations. The seemingly limitless deluge of cheap labour flowing into the sprawling, export-processing industrial cities was a catalyst for China's economic miracle and it has shown no signs of abating – until now.

INEQUALITY IS RIFE

China's economic transformation needed cheap labour and its call was answered emphatically. 275 million people in the current workforce, about one fifth of the entire population, are migrant workers from the countryside. However, inequality between urban and rural citizens is widespread. Those born in cities qualify for the urban hukou, a household registration certificate required to see a doctor, buy a home and even receive an education. 55% of the population live in cities yet only 36% of the population qualify as urban hukou holders, leaving around 200 million individuals restricted from fully accessing these basic services.

Outside of the cities, ownership rights of farmers are ill-defined, scarcely protected and often violated. As rural areas are swallowed up by an expanding city, their inhabitants become urbanised, albeit involuntarily.

Add to these issues the huge strain on infrastructure – perhaps some sympathy for those stuck in the National Highway 110 traffic jam for 5 days in 2010 – and it is clear that China's urbanisation could not continue at such a rate forever. Industrial land is heavily subsidised so factories remain within urban areas. Cities are geared towards the needs of production instead of the needs of consumers, and are polluted and expensive.

A HUGE DEMOGRAPHIC SHIFT

Amid concerns over poor economic growth and an ageing population, China announced an end to the 35 year reign of its one-child policy on the 29th October. The one-child policy, quality of life depreciation and hukou bureaucracy have caused a huge demographic shift that poses a serious threat to China's economic miracle; urban migration has slowed down to such an extent that some economists believe that it is in fact shrinking and that China is rapidly approaching its Lewis Turning Point. Named after Nobel-Prize winning Saint Lucian economist Sir William Arthur Lewis, the Turning Point represents the moment at which an economy with a previous abundance of low-cost workers becomes a labour shortage economy. IMF economists estimate that this specific moment will occur sometime between 2020 and 2025.

The repercussions of encountering The Lewis Turning Point could be huge. With all surplus labour in the agricultural and subsistence sectors drying up a labour supply shortage could emerge and wages would consequently increase. This in turn would allow poorer African nations and other Asian economies to offer the low-cost manufacturing that China no longer could. With a slowdown of its industrial sector could come a decline in China's growth, the effect of which would be felt worldwide. Australia's coal, iron ore and copper markets have already been hit by a falling demand from Chinese manufacturers.

If China is indeed approaching a Lewis Turning Point, the consequences will soon become clear. 'The world economy is sailing across the ocean without any lifeboats to use in case of emergency,' warned HSBC's Stephen King in May. China's wind of change looks set to unsettle the ship. ■

Insight Scoop

Sevi Rodríguez Mora

Professor of Economics

Main interests: Macroeconomics, Inequality, Political Economy.
Place of origin: Barcelona, Spain

Academic background: I did my undergraduate in UAB in Barcelona, and got a PhD from MIT. Before Edinburgh I have worked at UPF and the University of Southampton, and have spent long periods in Stockholm and Minneapolis.
Current research: I am currently working on understanding the effects of meritocracy when combined with inheritance, on correlating intergenerational mobility measures with economic outcomes, on understanding how mobility interacts with migration patterns, on explaining the evolution of labor market discrimination against women, on measuring trade frictions and gains from trade, and on understanding the timing of sovereign defaults and recovery... probably too many things.
Hobbies: I love to scuba dive in the summer and ski in the winter, but now I have young children... so I scuba dive much less than I used to. I also read a lot, mostly history and pop-biology. Finally, I am quite passionate (perhaps too much) about certain political issues, and I am a bit active on that respect.

Tatiana Kornienko

Senior Lecturer in Economics

Main interests: Applied Game Theory, Behavioural and Experimental Economics.
Place of origin: Russia/Ukraine

Academic background: After my undergrad at Moscow Phystech and a few Perestroika-era jobs, I got my PhD in Economics from the University of Pittsburgh, Pennsylvania. Before joining Edinburgh in 2007, I was at the University of Stirling and the University of Manitoba in Canada.
Current research: My work looks into the human tendency to care about what others do – whether because of concerns with social status, or because of rivalry-based allocation mechanisms, or simply because one can learn about the world by observing others' choices. In this context, the concept and implications of inequality are complex - and unexpected. I build and use theoretical models, and hope to understand what people do in my economic experiments and why they do it.
Hobbies: I travel a lot - the only continent I have never been to is Antarctica (though I spent 4 months on the scientific ship which now takes tourists there). And I love (some) contemporary art.

Ana Nuevo-Chiquero

Lecturer in Economics

Main interests: Demographic Economics, Labour Economics, Health Economics.
Place of origin: Barcelona, Spain

Academic background: I studied Economics in Madrid, and went to the US for my graduate studies. I obtained my PhD from Boston University in 2011 and have moved around a bit since: I spent 2 years at the University of Barcelona, another 2 years at The University of Sheffield and I moved to the University of Edinburgh in September, where I hope to spend more than that!
Current research: My research focuses on contraceptive and fertility choices and their labour market consequences, but also on studying the effects of early life parental investments (even during pregnancy!) and their ability to explain phenomena like the birth order effect — why first borns perform better than their younger siblings. I am a second born, in case you were wondering.
Hobbies: I enjoy traveling around, going back to my sunny country and spending time with my family and friends. If they are not around, a good book will do!

Ed Hopkins

Professor of Economics

Main interests: Game Theory, Social, Experimental and Behavioural Economics.
Place of origin: London, England

Academic background: I studied economics with history and philosophy as an undergraduate, then did an MSc in economics at LSE. My PhD is from the European University Institute in Florence, Italy. I was lucky to get my first academic job in Edinburgh in 1995 and have been here ever since.
Current resarch: I am interested in using game theory to understand how people interact in social situations and how individual decisions are influenced by others. I also work in experimental economics, looking at how people learn and use information. Most recently, I have started a new project looking at how education might signal self-control.
Hobbies: I work while listening to music including especially jazz and soul. When I am not working I like both cooking and eating, visiting art galleries and the occasional black and white movie.

Run, Run, as Fast as You Can...

Max Leslie explores the economic impact and human cost of displaced peoples resulting from civil war.

'Some people tried to hurt us to protect themselves, their family, and communities...This was one of the consequences of civil war. People stopped trusting each other, and every stranger became an enemy.'

– Ishmael Beah

A HOUSE DIVIDED CANNOT STAND

BORNE out of Ishmael's tales as a boy soldier in Sierra Leone is the fact that millions of people across the globe today live with the imminent fear of death. Clinging to the little they can carry with them, these victims of conflict are often forced to flee their homelands and places of upbringing, or stay to fight in some of the bloodiest conflicts known to man. Nevertheless, civil war and internal strife not only have a profound immediate impact on the citizens of a nation, but also on the short and long-term economic performance of these nations trapped in a cycle of self-destruction.

WHEN MIGRATION IS NECESSARY NOT VOLUNTARY

Many of us will never be able to fully empathise with the myriad of fears that drives an individual and their family to flee from one's homeland. This life-changing economic decision is frequently made with little or no knowledge of the future conditions. The great private cost of uprooting in such a fashion leaves immediate and rapid emigration (with no expectation of return) as a final solution to escape bloodshed. Indeed, often there is a significant chance of death during the exodus: lacking food, water, and shelter during the journey; not to mention vicious attacks from armed forces involved in the current conflict. When death is the most apparent alternative, these individuals must literally run for their life.

The definition of forced migration promoted by the International Association for the Study of Forced Migration (IASFM) can be classified into three types:

1. Conflict-induced displacement (civil war and persecution)
2. Development - induced displacement (development projects that remove existing habitants of the local area - such as dams, roads, ports, airports, and other urban clearance initiatives)
3. Disaster-induced displacement (natural disasters, climate change, and human-made disasters)

In the case of civil war, what we find is that Type 1 displacement is more profound in the short-term with the potential for Type 3 displacement occurring in the long-term; as a result of the recurrent fighting destroying or significantly damaging the immediate environment. Indeed, a weakened state will also likely fail to protect its people from these disasters (e.g. Guatemala). This will be further assessed later in the article.

However, not all those who flee their homes are able to escape the country of conflict as refugees or asylum seekers (each term defined under the 1951 UN Refugee Convention). Individuals and families may remain as internally displaced persons (IDPs). In such cases, these individuals may be forced into labour camps and/or conscripted into makeshift military forces to continue the war effort, or otherwise are unable to return home. IDPs make up the majority of forced migrants globally, with the 2010 estimate at 27.5 million IDPs worldwide (IDMC, 2011) – however, statistics on IDPs are controversial with underreporting suspected and debates over definitions. What is certain is that conflict-induced displacement imposes a significant human and economic cost upon both an individual and society more broadly, as my family experienced during the Spanish Civil War

HOW THE SPANISH CIVIL WAR KILLED MY GREAT GRANDFATHER

Pale, thin, and exhausted, my great-grandfather embraced his daughter, Maria, for the first time in too long. The effect of the Spanish Civil War (1936-39) had visibly taken its toll on his body; this relatively young man died within months of returning home. Caught in the wrong place at the wrong time, Fidel Hernandez was trapped in Madrid whilst visiting

Fidel Hernandez


Elkan Vander

from his hometown of Zamora for a doctor's appointment. His story is one applicable to many in Spain during the civil war: the fighting began almost overnight, with inter-regional migration restricted by military force, provincial siege-style bombing, and the initiation of occupation campaigns. In fact, regional divisions and tensions have remained in Spanish society for generations after the civil war – affecting the migration patterns and economic performances of the different provinces even today.

General Franco and the Republicans were victorious, but Spain was left in tatters. The economic costs were profound: 10-15% of the national capital stock was destroyed, per capita income diminished by 28%, and a third of Spanish merchant shipping went out of action. The war economy crippled Spain with high levels of national debt and inflation. Madrid alone needed to replace roughly 70% of the capital stock, including the entire tram network, and the bombing campaigns had reduced much of the national housing stock to rubble.

The effect on the labour supply was equally significant. The war had encouraged a brain drain, whereby skilled labourers had emigrated, been killed, or needed retraining in their specific professions. Indeed, later my grandfather, after marrying Maria, Fidel's daughter, relocated from Madrid to Mexico City. He emigrated in order to seek a higher wage for his skilled labour as a multi-linguist and a better standard of living for his young family; Spain's economy under Franco remained weak. Even though later reform was to strengthen Spain as a western European nation, Spain's recovery has been significantly assisted by neighbouring strong economic powers in Europe and the United States. These desires to provide financial and structural aid stemmed from the mutual trade benefits of a stronger Spain, but this is not necessarily the same for all civil wars.

As described by Paul Collier in his book entitled, The Bottom Billion, civil war represents 'development in reverse'. Put forward as one of his Four Development Traps, the Conflict Trap represents the frequent relapse into repeated or extended internal conflicts and its subsequent impact: by preventing the development of a nation state and successful economy. This situation can often result in ethnic persecution, for example in Guatemala (which experienced the longest and most violent civil war in Central America) where the indigenous Maya and ladino (mixed) population were targeted specifically. Persecution on the grounds of ethnicity, political opinion, religion, or social group provides a strong barrier to the economic progress of a nation and the potential for severe leakage of labour through emigration. In Guatemala and El Salvador, large-scale emigration to the United States and elsewhere has created a diaspora and significant labour shortages. Thus third party humanitarian work is necessary in order to support and educate not only the people living through civil unrest, but more importantly the governments and political factions which maintain these nations in a state of turmoil.

RECONSTRUCTING A NATION

The perceived inequitable distribution of resources amongst the citizens of a country can often be the cause of severe internal grievances and so the provision of foreign monetary aid alone is not necessarily the solution. Pouring cash into fractured nations may in fact widen the existing divisions, instead of plugging the divide. Solutions may involve internationally agreed upon and co-ordinated military intervention to provide political and economic stability in post-conflict regions for the restoration of order and the maintenance of peace. However, simple military force is not an effective solution without the fundamental reconfiguring and/or alteration of the economic bases of these nations.

State-creation initiatives are vital in order to foster a vibrant and growing economy. During the post-war era, by exploiting the vulnerability of the state, Guatemalans were subjected increasingly to dangerous and coercive practices from drug traffickers, organised-crime rings, and violent gangs. This weak and poorly established state was also unable to economically support its citizens effectively in the wake of natural disasters (e.g. Hurricanes Mitch 1998, Stan 2005, and Agatha 2010). Consequently, Guatemala has experienced repeated Type 3, disaster-induced, displacement in the long-term.

What is clear is that aid in the establishment of the rule of law, formation of charters, and shifting policies governing international trade are all theoretically effective solutions in creating a more developed economy. Nevertheless, trust (as Ishmael Beah discovered), both amongst the citizens and between economic agents of a country, is the cornerstone of a successful economy. Sadly, the deep wounds of civil war may often take many generations to entirely heal, with significant economic damage and a dysfunctional society perpetuating into the long term. ■

Bidding Wars: The Growing Need For Migrant Labour

Alec Edgecliffe-Johnson — runner-up for the Autumn 2015 Insight Writing Prize — examines the necessity of migrant labour in developed countries.

GREY HAIR AND EMPTY PRAMS

IN the second half of the twentieth century, advances in technology made enormous population growth, and economic growth, possible. While this growth led to massive improvements in standards of living, it also decreased fertility rates in developed countries. Better sexual education, increased use of birth control and a decreased dependency on children may have all played a role in this phenomenon. Regardless of the underlying mechanics, the result has been a rapid fall in Total Fertility Rate (TFR), the number of children to which a woman will give birth in her lifetime. The consequences of this could be drastic, especially for economic powerhouses like Germany, for which the European Commission predicts a 19% contraction in population by 2060.

Furthermore, advances in medical science, which made the initial growth in population so profound, have kept this population alive well past the current retirement age. A radical demographic shift is underway as working-age populations and younger generations are replaced by economically unproductive elderly generations. When you factor in a slightly later entrance into the workforce (as academic qualifications become ever more important) what we see is not just greying hair, but stooped shoulders straining under the weight of unsustainable social security and pension programs.

Fortunately, this trend is not universal. In developing countries, especially in Africa and some parts of Asia, population growth is still robust. Between now and 2050 experts suggest that the population of Africa could double, swelling from 1.1bn to 2.3bn people. We can expect perhaps another billion from Asia over the same period. Furthermore, the populations in these countries tend to be much younger, ensuring future generations of working-age populations.

MIGRANT BIDDING WAR

Developed countries have essentially two options to combat chronically low TFR rates: expand native populations or attract immigrants. Increasing native TFRs through procreation incentives, unfortunately, has proven costly and often unsuccessful. Immigrant labour, it seems, will be at the core of economic growth, a reality that experts believe will likely lead to a bidding war for human capital.

Intelligent immigration policy and incentives will become increasingly crucial to the economic future of the developed nations. In countries like Germany (already largely dependent on migrant labour), there has been a simplification of the process for granting visas that other countries will likely emulate. Additionally, a one-year 'grace period' is given to foreign-born university students in Germany while they search for a job. As university attendance in developed countries becomes more feasible for developing-world citizens, I think this offer will become increasingly commonplace.

On the whole, an easing of immigration restraints and greater cultural acceptance of immigration is the most feasible solution. While this will represent a divergence from the current policies in countries like Japan and the USA, it is somewhat inevitable. The implementation of policies that aid assimilation, like multilingual education, health benefits, and political inclusion will become increasingly crucial to the survival of these countries. Adaptation to immigration will be easier for some nations, especially those that enjoy natural advantages like geographical proximity to labour pools, established cultural heterogeneity and low language barriers. With that in mind, countries like Russia, Japan and the Nordic states may face a slightly greater challenge than the USA and the UK.

In addition to ensuring ease of cultural assimilation, countries should establish economic incentives to entice foreign workers, especially foreign entrepreneurs. Through advantageous lending schemes, tax laws, entrepreneurial hubs and business consultation, countries will compete for the right to host innovators and innovative projects. This trend is already underway; in 2011 immigrants accounted for 28% of new small business activity in the USA and almost half of the 50 top Silicon Valley startups had at least one foreign founder.

The coming mass immigration will not be without its challenges and it is likely to reshape our conceptions of national identity. Even if developed countries are able to win the proverbial bidding war, the potential for wage-rate depression and xenophobia could pit existing populations against the newcomers. It will be the responsibility of the leaders of both countries and communities to ease these tensions and prevent immigrant deterrence. If they fail to do so the result could be bleak: a slow hobble into economic obscurity. ■

Nadja Friedl

Three Worlds in Ten Days

Nadja Friedl tells us about the latest Go Abroad Economics trip to South East Asia.

THE 'Go Abroad Economics' Trip in August 2015 took a group of fourteen Economics students and two lecturers to South East Asia. Despite the time frame of ten days, this journey felt like visiting three worlds: the Malaysian capital Kuala Lumpur, the city state of Singapore and the Indonesian cities of Yogyakarta and Jakarta on Java.

Having studied the three countries' economies before we left, we knew about the stark differences in economic development – however, having GDP per capita figures in your head is a very different feeling from actually walking through a city's different housing areas. When we visited the World Bank in Singapore, Jared Haddon, an Edinburgh alumni and now Infrastructure analyst, highlighted the government and civil service's ability of long-term planning as an influential factor in explaining the contrasts we had seen. And these contrasts had been immense – traffic, housing, and prices are only three examples.

TRAVEL

'I will never complain about a late bus ever again – at least we have public transport.' Donata voiced what we were all feeling during our time in Jakarta, a city of over ten million with no efficient public transport. The Indonesian capital is currently ranked the city with the world's worst traffic, measured in stops and starts per driver. Sitting on our tour bus during rush hour on a Monday night truly made us experience this – countless motorbikes around our bus, no attention paid to lanes or traffic lights. Chaos was the rule, not the exception. If the police ever call you out, our tour guide told us, it only takes you 100,000 Indonesian Rupiah, approximately five Pounds, to get away with it.

The traffic management we had experienced in Singapore a couple of days earlier felt like a completely different world. The Mass Rapid Transport (MRT) brings you almost anywhere in the city; the government currently aims at having at least one MRT station within a seven minute walking distance. In order to tackle the congestion of the streets, the Singaporean government additionally introduced the 'Electronic Road Pricing' (ERP) system to reduce traffic. ERP toll gates were omnipresent in the streets; our taxi driver could not stop laughing when we asked him whether he knew routes to avoid them. Based on a pay-as-you-use-principle, any vehicle is charged a fee when passing a toll gate. At peak time, this fee rises in order to further discourage people from taking the car. 'For most Singaporeans,' our taxi driver told us, 'ERP stands for Everyday Rob People.'

In Malaysia, ethnicity suddenly

	Indonesia	Malaysia	Singapore	UK
Wage	60,000 - 80,000 rupiah per/day	5 ringgit per/hour	S$5.30 per/hour	£6.70 p/h (over 21)
Wage in £	2.64	0.75	2.44	6.70
Big Mac price	20,000	7.65	3.44	2.69
Big Mac in £	0.88	1.16	1.59	2.69
Big Mac/hour	0.378	0.647	1.535	2.491

Nadja Friedl

became an issue when getting from one place to another. When Malay taxi drivers refused to take us to places in Chinese areas of the city, it made us realise how deeply the ethnic cleavages are rooted in everyday life in Malaysia.

HOUSING

Ethnicity was an issue we would have expected to come across when visiting the Housing and Development Board's gallery in Singapore. Having researched ethnic housing quotas—a government policy to encourage desegregation of the Chinese, Malay, and Indian populations in Singapore—I was surprised not to find a single reference to the rules of selling your flat – in a Chinese-constrained area, an Indian or Malay flat owner is not allowed to sell to a Chinese buyer. In contrast, smiling couples on interactive displays talked us through the benefits of public housing and 'Singapore, Singapore' songs played while we recovered from the night train in the Gardens by the Bay at Marina Bay Sands.

Walking through residential areas was on top of our to-do-list in every city – and personally, I have never seen such wealth or such poverty in my life. Judy took us to the metro station of Bangsar in Kuala Lumpur. Here, you could tell a person's income by the exit they were taking. On the left, we encountered street dogs and peeked into flats that had neither windows nor air conditioning. On the right, however, you left the very same metro station through a glass door guarded by security – and were surrounded by skyscrapers and palm trees only seconds later.

Nadja Friedl

But still, this could not prepare us for Jakarta – in a little over 24 hours, we saw the shining Central Business District, the port, old colonial buildings and walked through the narrow streets of a kampung. It was hard to describe who looked more shocked – our group facing the poverty or the locals seeing us (one of us in particular – Will, 6'7").

In a region famous for its local food, who would have thought that we would have visited a McDonalds in every city? All for economics' sake of course – our goal was to compare the hourly wage across the three countries.

As the Big Mac itself and the tasks of producing it are highly standardised, it is reasonable to compare how many Big Macs you can buy for working one hour at McDonalds. In Indonesia and Malaysia, you do not even receive one Big Mac for working an hour – only about one third or two thirds respectively. In Singapore, the same time working buys you one and a half Big Macs, whereas in the UK you get two and a half. Matthew also compared spiciness, and might have regretted that a little in Singapore.

We compared more than just Big Macs however; we also strolled through grocery stores and shopping malls. While we found electronics at very similar prices as in the UK, most food and every-day products were a lot cheaper in South East Asia, especially in Indonesia. However, some products we use a lot are rather uncommon in South East Asia – 'Why would anyone want to buy cow milk'? Judy (our amazing Malaysian who saved us at least three times a day by translating, bargaining, organising taxis...) asked during one of our preparation meetings. Of course she was right — semi-skimmed milk and olive oil were more expensive in all three countries we visited than in Edinburgh's grocery stores – soy milk, in contrast, was very cheap!

SURPRISES

Food prices in all three countries actually were the biggest surprise of the trip for many of us – it was hard to believe that we ordered a dish for one pound or fresh fruit for 50 pence. Overall, we got surprised in so many ways: by very open and friendly people and by vibrant and starkly different cities. Researching a country is only one side of the story, actually visiting a place is always a different experience – and this trip made us realise how lucky we were in getting to see three worlds in ten days. ■

Thank you for reading this issue of Insight!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