

Migration and Net FDI: Role of Governance

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Abstract

Although the relationship between migration and Foreign Direct Investment (FDI) has been extensively explored in the literature. A notable gap exists in understanding the role of governance in shaping this relationship. This research has primarily focused on the direct links between migrants and FDI, dominating the importance influence of governance structures. Therefore, the aim of this study is to investigate the role of governance as a critical moderator influencing the migration-FDI relationship. We substantiate our conceptual model by applying it to an extensive global panel dataset covering 48 countries spanning from 2011 to 2019. Using Process Macro to test our hypotheses. The results reveal that a robust governance structure in a specific country enhances the relationship between migration and FDI directed towards that nation. The result revealed that 78% of net FDI comes from migrants and structure governance of hosted countries. Particularly, positive relationship between migration and FDI was significantly stronger at a higher level of governance. Therefore, our study introduces new insights into the boundary conditions that influence and provide an answer for when migration shapes the dynamics of FDI net flows through moderating role of governance.

Keywords: Migration, Governance, Foreign Direct Investment, FDI, Net FDI.

1. Introduction

Even though the relationship between migrants and Foreign Direct Investment (FDI) has become an area of interest among scholars, policymakers, and practitioners. However, investigation the relationship between migration and FDI, it is not a new area of research since it discussed heavily in the literature (Bang & MacDermott, 2019; Buch et al., 2006; Foad, 2012; Groznik, 2003; Isere et al., 2023; Jafari & Britz, 2017; Murat & Pistoresi, 2009; Tomohara, 2017). However, there is lack in the literature of understanding the role of governance in migration-FDI relationship. This study comes as a result of this gap to contribute to the literature and policy makers of importance of governance by strengthening the relationship between migration and FDI.

The nexus between migration and FDI is characterized of the contemporary global landscape (Zeitz & Leblang, 2021). While the migration-FDI relationship has been the subject of extensive research, the specific role of governance as a moderator introduces a

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novel dimension, revealing the nuanced ways in which institutional structures influence the outcomes of this synergetic relationship. Classical economic theories posit that migrants contribute to host countries' labor markets, influencing FDI decisions (De Haas, 2021). Our research, however, goes beyond these traditional perspectives, emphasizing the pivotal role of governance in moderating and shaping the migration-FDI nexus.

Governance, encompassing the quality of institutions, regulatory frameworks, and the rule of law (Botero et al. 2011). Thus, governance emerges as a crucial moderator influencing the strength and direction of the migration-FDI relationship. We delve into the ways in which effective governance can enhance the positive impact of migrant inflows on FDI, while weak governance may act as a limiting, leading to insignificant outcomes for both migrants and FDI.

Migrants gravitate towards familiar destinations where established social networks offer benefits. Additionally, conflict can serve as a contextual framework for individuals already contemplating migration as an avenue to escape various forms of insecurity (Lloyd & Sirkeci, 2022). Government and high-quality publications regarding migration offer the public extensive insights into population shifts resulting from global socio-economic, political, and environmental transformations. These demographic shifts, in reciprocal effect, impact national economies (Nguyen, 2024).

Numerous projects in both developed and developing nations encounter similar challenges, such as the imperative to attract increased FDI and the growing requirement for capital in diverse markets to facilitate essential financing (Kfawin, 2023). This arises from the recognition that conventional financial reports' information is inadequate in addressing the demands of external investors (Kfawin, 2023). Hence, in this study, we suggest that migration can serve as a catalyst for FDI, particularly when the host country streamlines business processes and provides facilities that act as compelling attractions for both investors and talented resources.

This work aspires to contribute to the scholarly discourse by shedding light on the underexplored aspect of governance as a moderator in the migration-FDI relationship. Therefore, it is expected to advance our understanding in this field and raise a future inquiry about the multifaceted dynamics of migrants, governance structures, and FDI.

2. Theory and Literature review

We adopt structuration theory as the basis for our conceptual model. This theory, articulated by Giddens (1984), is a social framework that studies the formation of social systems by analyzing both structural elements and agents. The benefits of applying a structuration view on migration have been stated in many studies (see, Wolfel, 2005). Mahdavi and Daryaei (2015) stated that structuration theory formed the ground for governance structures. Thus, implementing a structuration theory needs viewing FDI as a dynamic process. This perspective investigates the actions performed by relational actors, seeking to learn and understand the complicated relationship between these actors by evolving FDI process (Rouse, 2008).

2.1 Migration and FDI

The association between migration and FDI is included dynamic that significantly enhances global economic models (Pirju et al., 2023). Migration, indicating the movement and mobile of individuals across borders, can impact FDI in different ways (Buch et al., 2006; Helms, 2019; Nayyar, 2002). Skilled migrants, in particular, contribute expertise and innovation, often attracting FDI as businesses aim to increase the available talent pool. Subsequently, we argue that increased FDI in a country can further accelerate investments, potentially leading to job creation and attracting employees from other regions or nations. For instance, international corporations frequently relocate employees

across borders as part of their global operational strategy, contributing to the mobility of skilled labor (Williams et al., 2007).

According to an empirical study, reinforced percentages of migrants with managerial skills in a specific country are associated with elevated levels of FDI directed toward that nation (Cuadros et al., 2019). This connection suggests that emigrants, through acquiring advanced knowledge and international experience overseas (Zhang & Liu, 2022), contribute to the observed positive correlation in FDI. Another empirical study indicates a positive association between U.S. FDI abroad and the presence of migrants from the host country. Furthermore, the data emphasizes that the relationship between migration and FDI becomes more robust when considering migrants with tertiary education (Javorcik et al., 2011). Building on the preceding argument, we posit the first hypothesis (Figure 1):

Hypothesis (H1): Migration has a positive effect on Net FDI

2.2 Moderating role of Governance

Governance in this context refers to a comprehensive concept that not only involves the actions and responsibilities of formal governmental bodies but also extends to various other pathways through which authoritative instructions are conveyed, including the articulation of objectives, issuance of directives, and pursuit of policies (Rosenau, 2021). In this essence, governance goes beyond traditional governmental activities, encompassing a broader network of channels through which decision-making and authority are implemented. This study conceptualizes governance from different dimensions such as control on corruption levels, government efficiency, political climate, regulatory framework, legal adherence, and public influence and accountability. Provinces characterized by elevated government efficiency and proactive anti-corruption measures tend to attract FDI (Cole, 2009). Since high-skilled migrants can amplify positive network externalities that may lead to positive FDI (Chen & Cheng, 2023).

In the context of the growing economies in South and Southeast Asia and the Arabian Peninsula, their examination reveals distinctive state regulatory frameworks, local labor market dynamics, and economic development trajectories (Ewers et al., 2022). Moreover, supporting this, an empirical study affirms the hypothesis that corporate governance and institutional quality serve as pivotal factors in attracting FDI (Fazio & Talamo, 2008). While Lithuania faces a cultural challenge as many skilled individuals leave the country, leading to a shortage of workers. This phenomenon occurs because numerous young and well-qualified citizens are migrating to other, often more prosperous, and larger national economies (Kumpikaite-Valiuniene et al. 2022). An empirical study for 4560 public-private partnership projects across 138 developing nations from 2002 to 2015 were analyzed, find that governance reduces the risks on private investment in these countries (Wang et al., 2019). Building on the previous argument, we posit the second hypothesis (Figure 1):

Hypothesis (H2): The stronger the country's governance, the stronger the positive effect of migration on FDI.

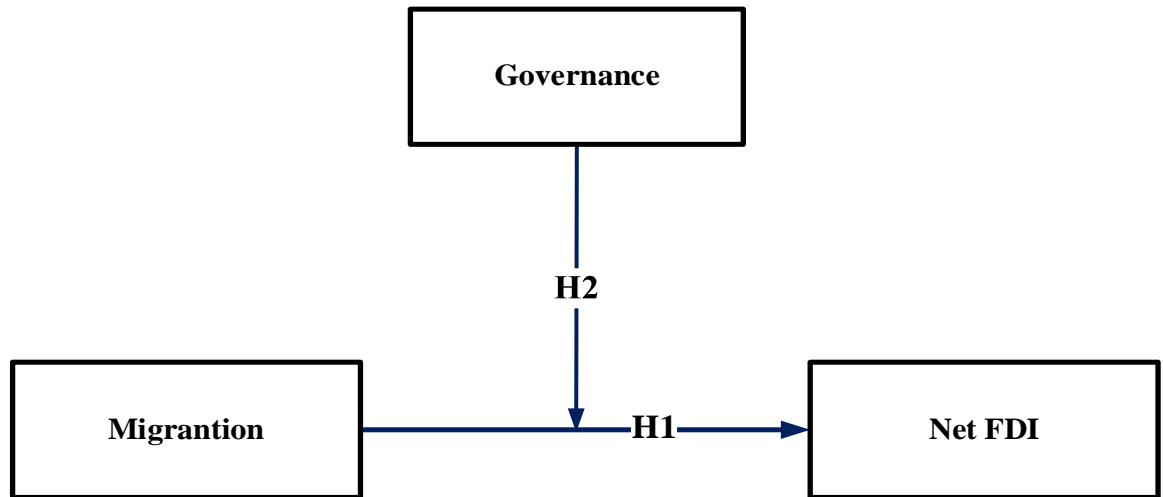


Figure. 1 Proposed hypothesized model

3. Methodology

The methodology employed in this research encompassed the collection of panel data spanning 48 countries, utilizing data available for the years 2011–2019.

3.1 Main variables

Dependent variable: Net Foreign Direct Investment (FDI), sourced from annual exports and investment data, was retrieved from the World Bank (2023).

Independent variable: Migration data were obtained from the United Nations (2023). Macro-level decision-making is discernible in significant works on migration, with studies emphasizing aggregate regional conditions as pivotal determinants of migration, thereby exemplifying macro-level migration modeling (Wolfel, 2005).

Moderator variable: Governance was assessed using the global governance indicators (GGI) provided by the World Bank (2023). These indicators measure control corruption, government effectiveness, political environment, regulatory environment, the rule of law, and voice and accountability.

3.2 Hypotheses test and analysis

The first step was to check the normality of our panel study. We found that both the Kolmogorov-Smirnov and Shapiro-Wilk tests reported non-significant p-values at the 5% level (0.200, 0.098), respectively. Second, we employed a multicollinearity test to verify the absence of high correlation among independent variables. The variance inflation factor (VIF) yielded an average value below 5. It is recommended that the VIF remains below 5, 8, or 10 to mitigate any concerns related to multicollinearity (Kalnins, 2018; Lahrech, 2023b).

Subsequently, we utilized the Process Macro by Hayes (2018) in SPSS, specifically applying the basic moderation model 1. To enhance the robustness of our findings, we incorporated mean centering through the Process Macro, addressed heteroskedasticity by ensuring consistent standard errors, and employed bias-corrected confidence intervals. Additionally, we conducted 5000 bootstrap draws to enhance the reliability of our results. This comprehensive approach enabled us to rigorously test our hypotheses using robust statistical methods.

For our initial hypothesis, we examined the association between migrants and FDI. Our findings revealed a positive and statistically significant relationship ($B = 0.537$, $t=5.158$, $p < 0.001$), affirming the validity of hypothesis one (Table 1). For the second hypothesis, our analysis indicated a significant and positive relationship between governance and FDI

($B = 0.168, t = 2.403, p < 0.050$). Additionally, when examining the multiplication between migration and governance on FDI, we observed a significant and positive effect ($B = 0.276, t = 2.164, p < 0.050$), providing support for hypothesis two (Table 1).

As depicted in Figure 2, the conditional direct effects of migration on FDI across three levels of governance manifested as follows: at the lower level ($B = -0.857, t = 1.484, p = 0.145, [-0.108, 0.710]$), at the mean level ($B = 0.110, t = 6.094, p < 0.001, [0.380, 0.755]$), and at the higher level ($B = 0.834, t = 10.295, p < 0.001, [0.671, 0.997]$). These outcomes illustrate that the positive relationship between migration and FDI was significantly stronger at a higher level (+1 SD) of governance, additionally, moderate at a mean level of governance, and negative and insignificantly weaker at a lower level (-1 SD) of governance, thereby providing further support for (H2).

Table 1. Regression and moderation results

Variables	Coeff. (B)	SE	t	p-value	LLCI	ULCI
	Dependent variable (Net Foreign Direct Invest (FDI))					
Migration	0.537	0.104	5.158	0.000	0.327	0.747
Governance	0.168	0.07	2.403	0.021	0.027	0.310
(Migration x Governance)	0.276	0.127	2.164	0.036	0.019	0.532
Constant	-0.105	0.068	-1.55	0.128	-0.241	0.031

Note: SE= standard error, LLCI= lower limit confidence interval, ULCI= upper limit confidence interval

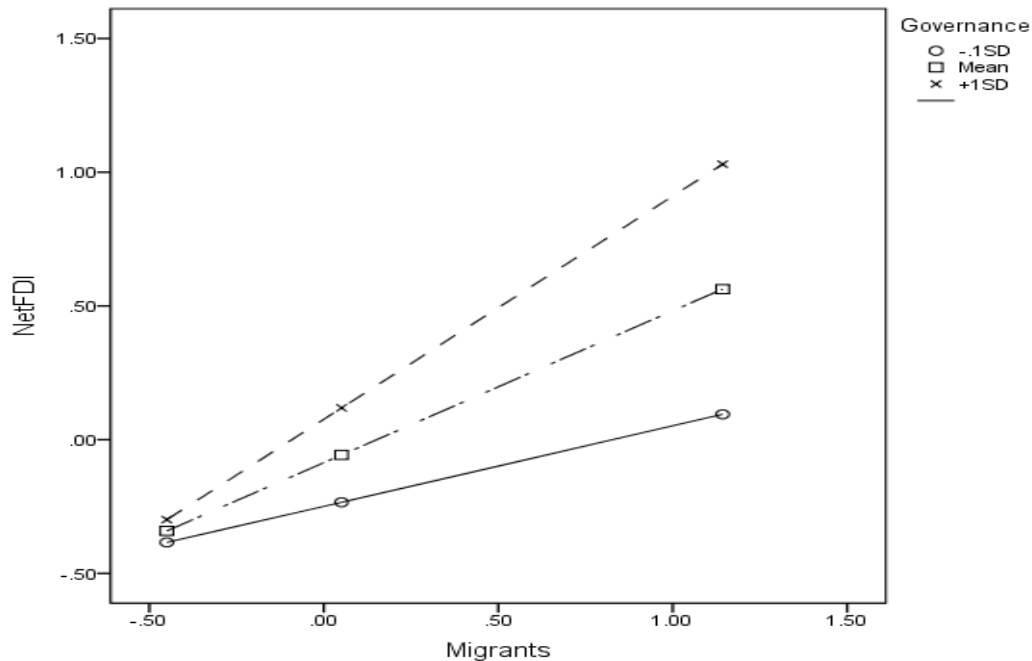


Figure 2. Moderation role of governance

4. Discussion

Our research seeks to understand the role of governance as a moderator, shaping the idea of when migrants influence FDI. Specifically, this paper embarks on a comprehensive examination of the interplay between migrants and FDI through moderating role of governance.

In our examination of the first hypothesis, we delved into the connection between migration and FDI. We find a positive and significant correlation—indicating that as the arrival of migrants to a particular country rises, so does the corresponding increase in FDI in that country. This aligns with findings in studies such as Groznik (2003), which underscore the predictive role of migrant flows in determining the movement of international capital between countries. Notably, this association holds particular relevance for developing nations seeking foreign capital for development, prompting the implementation of policies to attract FDI (Lim, 2021). Furthermore, our results align with the outcomes of another empirical investigation covering six South Asian nations from 1996 to 2012, employing both static and dynamic panel data models. Additionally, Matallah (2019), the main findings from their study reveal a substantial and positive influence of migration on FDI inflows.

For the second hypothesis that examines the moderation role in relationship between migration and FDI. We find support for the importance of governance environment to enhance the investment for particular countries. For instance, a governance index has the potential to moderate the impact of FDI, remittances, and trade openness on economic growth. Therefore, it can be inferred that enhancing economic growth necessitates a robust governance index (Ihsan et al., 2012). Our results highlighted the importance role of structured governance on investment and FDI, consistent with other study analyzing data from a panel of 95 countries spanning from 2006 to 2016, indicates that natural disasters discourage entrepreneurial endeavors in nations with weak governance, while fostering start-up activity in countries characterized by high-quality governance (Boudreaux et al., 2023)

4.1 Implications for policy makers

Policy makers should focus on enhancing governance structures in their countries, particularly to attract highly skilled migrants, for instance Gulf Cooperation Council (GCC) (Khadri & Shah, 2018). Given that the global significance of FDI advances nations and policymakers to actively promote their economies to attract both investors and migrants (Lahrech et al., 2023a), prioritizing effective governance can serve as a strategic approach to capitalize on these opportunities. Second, recognizing the crucial role of governance as a moderator holds substantial implications for policymaking. Therefore, policymakers face the growing responsibility of creating strategies that not only draw in skilled migrants but also foster an environment contributing to increase FDI. Our research provides insights guiding evidence-based policy decisions, emphasizing the necessity for governance (e.g., political stability, government effectiveness) reforms to optimize the mutual advantages arising from the migration-FDI relationship. Third, policy makers could offer specific training programs for the new migrants underscoring the need for policies supportive of FDI (Cuadros et al., 2019). For instance, to allocate the needed resources and funds to support training and learning activities (Aldabbas & Oberholzer, 2023). Fourth, policy maker may place increased emphasis on the social integration of immigrants in the design and implementation of selection and integration policies by viewing migration and integration policies as an overarching concern interrelated with various other policy domains (OECD, 2020).

4.2 Limitation and future studies

This work focused on migrants regardless of their skills and qualifications, acknowledging that low-profile migrants might influence FDI at different levels. As such it could open new window for the future research by segregating skills level of migrants and their effect on FDI. An additional constraint may arise from the omission of other crucial factors, such as culture, in this study. This limitation underlines the challenge of conducting comparative research across diverse cultural contexts, yet it also presents an opportunity to delve into the importance role of cultural factors and community

embeddedness, thereby offering valuable insights into this phenomenon (Aldabbas et al., 2024).

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