Visa restrictions and economic globalisation

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\textbf{Abstract}

The cross-border mobility of people, goods and services, and capital has expanded enormously both in intensity and diversity over recent decades. States have a general interest in facilitating these flows in order to benefit from economic globalisation. Yet, mainly due to security concerns, most governments grant visa-free mobility only very selectively. Drawing on a new bilateral visa policy database covering up to 194 destination and 214 origin countries over the 1995 to 2013 period, our analysis finds that the introduction of a visa restriction by a destination country for citizens from a particular origin country deters tourism inflows by about 20 per cent. Visa restrictions also reduce bilateral trade and foreign investment, but to a smaller extent than previous studies have suggested. We further find that some of the deterred flows in tourists and goods and services are redirected to other (visa-free) destinations. This deterrence-cum-deflection effect of restrictive visa policies implies significant economic costs for both visa-issuing and visa-targeted countries, but it creates some positive externalities for countries with a more liberal visa policy. Liberalised visa policies would in particular help poorer countries to partake more in the benefits of economic globalisation.

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1 There is no right in international law to enter the territory of a foreign sovereign nation-state. Even the non-binding Universal Declaration of Human Rights only postulates rights about entering one’s own country, not foreign countries.

2 Naturally, it is an imperfect first line of defence. For example, the 9/11 terrorists all entered the US on valid visas.

1. Introduction

In this article, we analyse the economic cost of forfeited bilateral tourist arrivals, trade and foreign direct investment (FDI) as the consequence of one important policy instrument that governments have at their disposal with which to monitor, control and limit the cross-border flow of people: namely, visa restrictions. These impose a burden on those subjected to the restriction and allow the country imposing the restriction to pre-screen individuals before they arrive at its border. Torpey (1998: 252) calls visa restrictions the ‘first line of defence’ against the entry of ‘undesirables’, that is, ‘risky’ and therefore ‘unwanted’ travellers who potentially pose a threat to the security, wealth and identity of a country (Mau, Brabant, Laube, \& Roos, 2012; Torpey, 2000).

Globalisation, understood as the ‘widening, deepening and speeding up of worldwide interconnectedness in all aspects of contemporary social life’ (Held, McGrew, Goldblatt, \& Perraton, 1999, p. 2), is a broad process that interlinks social, cultural and economic developments across spatial and political boundaries. In this article, we focus on three main aspects of economic globalisation, namely international tourism, trade and FDI. Technological progress and market competition have radically reduced the costs...
of air travel and other means of transportation as well as communi-
cation over increasingly large distances (Castells, 1996), and in-
ternational market integration has spatially expanded opportunities
for business, trade, investment and tourism. As a conse-
quence, the world has seen an unprecedented rise in the
cross-border mobility of people, goods and services, and capital.
Over the past two decades, global travelling has more than doubled
with international tourist arrivals reaching a total of 1.844 million in
2015 (see Fig. 1). International travel and tourism has grown to be
the world’s fourth largest industry (after fuels, chemicals, and
automotive products), contributing 9.8 per cent of global GDP, 4.3
per cent of total investments, 5.7 per cent of world exports and
more than 250 million jobs, i.e. 9.4 per cent of total global employment (WTTC, 2015).

Visa restrictions impose costs other than economic costs on
both the imposing and the target country. Such restrictions are a
highly visible and often symbolic representation of the relationship
between two countries. Countries tend to grant visa-free access to
their allies and close partners and the imposition of visa restrictions
is typically regarded as an unfriendly act by the government of the
affected country. As the example of the relationship between the
European Union (EU) and countries like Georgia, Turkey and
Ukraine shows, the issue of visa restrictions that citizens from these
countries face when entering the EU can take on a highly politised
dimension. Also, as Neumayer (2006) has shown, visa restrictions
are systematically employed by predominantly richer countries to
keep out immigrants from poorer countries. Such unequal access to
foreign spaces reinforces existing inequalities between highly
privileged citizens from some nation-states and those who face
severe restrictions to their international mobility (Czaika, de Haas, & Villares-Varela, 2017).

In this article, we will exclusively focus on economic costs. Mobility barriers established by visa restrictions may prevent the
reaping of the full benefits of economic globalisation as their
implementation entails not only significant administrative costs
but comes with substantial economic costs as a result of forfeited
tourism and travel, trade and investment. For instance, Hu (2013)
estimates that the US Visa Waiver Program (VWP) has saved be-
tween US$ 1.9 billion and US$ 3.2 billion in administrative costs
and contributed a further US$ 6.9 billion to US$ 10 billion in direct
tourist spending per year. Studying the impact of post-9/11 visa
policies on travel to the US, Neiman and Swagel (2009) find that
changes in visa policy were not important contributors to the
decline in travel to the US after 9/11, however. They find that the
largest decline was among travellers under the visa waiver pro-
gram, i.e. those who were not required to obtain a visa (see also,
Bangwayo-Skeete & Skeete, 2016). For China, Song, Gartner, and
Tasci (2012) and Li and Song (2013) demonstrate detrimental
impacts from visa restrictions on tourism and the wider economy.

Cross-sectional studies at the global level by Neumayer (2010,
2011) provide evidence that visa restrictions decrease travel flows
(by between −52 per cent to −63 per cent), bilateral trade (−21 per
cent) and FDI (−32 per cent). Lawson and Roychoudhury (2016)
find an even higher effect on tourist travel of −70 per cent. All
three studies employ a similar definition of visa restrictions but due
to the cross-sectional nature of these studies, the authors cannot
include dyad- or source/destination-specific year fixed effects.
These previous analyses of the economic costs of visa restrictions
suffer from severe methodological shortcomings. Most impor-
tantly, these studies suffer from omitted variable bias since they
cannot control for many unobserved factors that impact on tourist
arrivals, trade and FDI and that might be correlated with visa re-
strictions. In this article, we use a new bilateral visa policy database
from the DEMIG project at the University of Oxford, which covers
194 destination and 214 origin countries over the 1995 to 2013
period. The time-varying measure of visa restrictions allows us to
identify the effect of visa restrictions on tourism, trade and FDI,
respectively. To identify effects we employ the most stringent
econometric specification that dyadic panel data allow, namely the
inclusion of dyad-fixed effects in combination with time-fixed
effects that vary for both members of a country dyad. Such a
specification excludes the possibility that unobserved time-invariant heterogeneity across dyads as well as time-varying het-
erogeneity across countries bias the estimated visa effect
(Anderson & Van Wincoop, 2003; Baier & Bergstrand, 2007; Klein
& Shambaugh, 2006). As a result of this rigorous specification, we
find the effect of visa restrictions to be much smaller than the ones
reported in Neumayer (2010, 2011), who accepts that his estimates
are likely to be upward biased. We also disaggregate the global
sample into one of high-income and low-income destination
countries to assess whether the effect is stronger in one or other of
these groups.

We make a number of further contributions. Firstly, we inves-
tigate asymmetric visa policy effects by formally distinguishing a
negative effect as a result of a visa introduction and a positive effect
due to a visa waiver or removal of a visa requirement. Secondly, in
addition we allow the effects of visa introductions and visa re-
movals to differ over time, thus relaxing the constraining assump-
tion of temporal homogeneity. Finally, we estimate spatial
diversion effects which capture the extent to which visa restrictions
produce positive externalities by shifting tourist, trade and in-
vestment flows to other, visa-free destinations. Just as trade
agreements result in both trade creation within the trade agree-
ment area and trade diversion from outside the trade agreement
area, so do visa restrictions deter the flow of tourist arrivals, reduce
trade and FDI for the dyad under observation but divert some of
these flows to other destination countries. We are able to quantify
the extent to which outbound flows of people, goods and services,
and capital are diverted to other, visa-free destinations.

2. The economic costs of visa restrictions

A visa restriction requires a citizen who aims to travel to a visa-
restricted country to apply for a travel visa, which is usually valid
for only a short period of time (between 30 and 180 days). The
applicant can do this either via post, which can take weeks or
months to be processed, or in person, which requires visiting the
destination country’s embassy or one of its consulates and waiting
in the queue, possibly for hours. Alternatively, one can employ a
professional visa service which charges a substantial fee in addition
to the cost of the visa itself. In a few cases, one can apply for a visa
upon arrival at the border. The pecuniary and non-pecuniary costs
of receiving a visa will deter some from seeking entry into the

![Fig. 1. World inbound travelling (in millions), 1995–2015. Source: UNWTO (2015).](image-url)
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