

DUAL CITIZENSHIP INSTITUTION

A Pareto Improvement?

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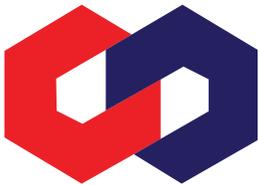
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Non-Technical Summary

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ABOUT THE AUTHORS



DR. ROLAND PONGOU is Associate Professor of Economics at the University of Ottawa, Canada. In addition to that, he is the Director of Research and Evaluation with the Global Economic Institute for Africa. He

specializes in political economy, network economics, and demography. His research focuses on the analysis of how formal and informal institutions (including social norms and cultures) determine economic outcomes. Some of the topics covered by his research include the formation of “infidelity networks” and HIV/AIDS spread, human capital accumulation, the competing economic impacts of the slave trade and missionary activity in Africa, the effect of social media on political cycles and instability, and the economic consequences of tactical voting in democracies. He saw first-hand the devastating effects of HIV/AIDS in his native Cameroon; Dr. Pongou’s research examines ongoing discussions and development of new approaches toward reducing the spread of HIV/AIDS in Africa. Professor Pongou’s research has earned national and international recognition. He received the 2013 Polanyi Prize for Economic Science from the Government of Ontario and the 2014 Young Researcher of the Year Award of the University of Ottawa. He was a visiting scholar at the Massachusetts Institute of Technology and the University of Oxford. He also won the prestigious Bell Fellowship at Harvard University. Dr. Pongou holds a PhD in Economics from Brown University in Rhode Island. He also holds degrees in Mathematics and Demography



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EXECUTIVE SUMMARY

THE POLITICS AND ECONOMICS OF DUAL CITIZENSHIP remain a contentious issue, especially within the context of globalization. Dual citizenship is a status in which a person is legally recognized as a citizen of more than one country. Legislation on dual citizenship varies widely across countries and time. Certain countries at some point have had policies that prohibit dual citizenship, in which people automatically lose their citizenship if they voluntarily acquire a foreign nationality. On the opposite end, other countries not only permit it, but in fact view it as a way of allowing their citizens to connect with the rest of the world. The number of countries allowing dual citizenship has substantially increased since the 1930s. While almost all countries prohibited dual citizenship in 1930, over 24% of developed countries and 26% of developing countries now allow it.

Some scholars argue that individuals who obtain a second citizenship without giving up the benefits of their first citizenship may have dual loyalty, or may find it difficult to adopt the values of their second country, thus degrading national identity and cohesiveness (Guarnizo, Portes and Haller, 2003). While dual citizenship is primarily viewed by lawyers and political scientists as a political institution, Roland Pongou and Julius Oloufade argue, in this paper, that dual citizenship is also likely to have important social and economic impacts.

The authors assemble new panel data on dual citizenship legislation to investigate some of these economic impacts for developed and developing countries. In particular, they focus on the role of dual citizenship in connecting diasporas with origin countries, as well as its implications for the development of transnational solidarity and business networks, and the associated benefits for households and national economies. Furthermore, they examine how dual citizenship legislation differs from other political institutions in terms of its economic impact. The authors conclude that dual citizenship recognition generates huge economic gains for countries and improves household welfare.



1.0 Introduction

DUAL CITIZENSHIP IS A STATUS in which a person is legally recognized as a citizen of more than one country. Legislation on dual citizenship varies widely across countries and time. Certain countries at some point have had policies that prohibit dual citizenship, in which people automatically lose their citizenship if they voluntarily acquire a foreign nationality. On the opposite end, other countries not only permit it, but in fact view it as a way of allowing their citizens to connect with the rest of the world. The number of countries allowing dual citizenship has substantially increased since the 1930s. While almost all countries prohibited dual citizenship in 1930, over 24% of developed countries and 26% of developing countries now allow it (see Figures 1-a and 1-b). Debate on dual citizenship has revolved around its implications for the patriotism, cultural assimilation, and political participation of dual citizens in their new countries (Staton et al., 2007; Renshon, 2004, Blatter et al., 2009, Iheduru, 2011).



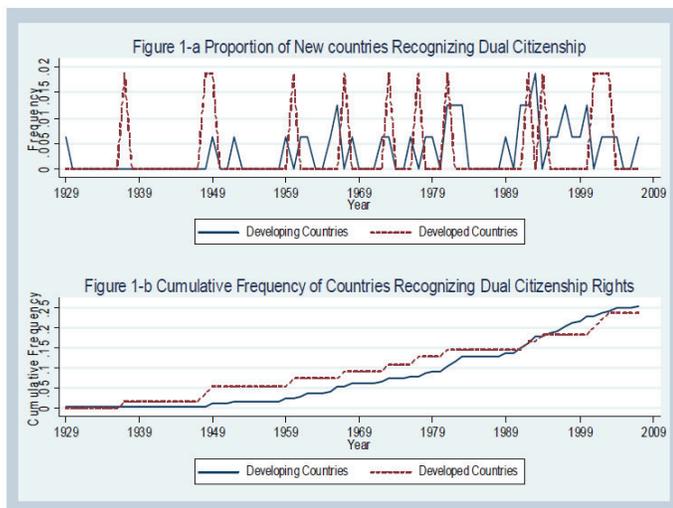
loyalty, or may find it difficult to adopt the values of their second country, thus degrading national identity and cohesiveness (Guarnizo, Portes and Haller, 2003). While dual citizenship is primarily viewed by lawyers and political scientists as a political institution (Staton et al., 2007), in this study, we argue that dual citizenship is also likely to have important social and economic impacts.

We assemble new panel data on dual citizenship legislation to investigate some of these economic impacts for developed and developing countries. In particular, we focus on the role of dual citizenship in connecting diasporas with origin countries, as well as its implications for the development of transnational solidarity and business networks, and the associated benefits for households and national economies. Furthermore, we examine how dual citizenship legislation differs from other political institutions in terms of its economic impact.

3.0 Benefits and Costs of Dual Citizenship

INDIVIDUALS LIVING OUTSIDE OF THEIR COUNTRY of origin most often become citizens of their host country because of the practical advantages that citizenship offers (Ruget and Usmanalieva, 2010). Such advantages include unrestricted residency, legal employment, property ownership, retirement funds, and eligibility for social programs including welfare, healthcare, and public education. If denied dual citizenship rights by their origin

Figure 1: Proportion of Countries Recognizing Dual Citizenship, 1929-2009.



Data Source: Citizenship Laws of the World database provided by the Office of Personnel Management of the US Government and additional information gathered by the authors.

2.0 Dual Citizenship: Economics vs. Politics

SOME SCHOLARS ARGUE that individuals who obtain a second citizenship without giving up the benefits of their first citizenship may have dual



country, such individuals lose all rights and public benefits attached to their first nationality, and incur a higher cost of maintaining ties with their families, friends and communities in the homeland as, for instance, a visa is now required to travel. In addition, due to the fact that most countries have restrictive policies on investment and property ownership by foreigners, members of the diaspora who have legally lost the public benefits attached to their first citizenship also lose the incentive and the right to invest in their origin country's economic and political prosperity. Prohibiting dual citizenship therefore disconnects the diaspora from its homeland socially, economically and politically.

INDIVIDUALS LIVING OUTSIDE OF THEIR COUNTRY OF ORIGIN MOST OFTEN BECOME CITIZENS OF THEIR HOST COUNTRY BECAUSE OF THE PRACTICAL ADVANTAGES THAT CITIZENSHIP OFFERS

Allowing dual citizenship, on the contrary, is likely to produce the opposite effects. Socially, recognition of dual citizenship is likely to increase connections between members of a country's diaspora and their families, friends and communities in the origin country, developing transnational trust, cooperation, and solidarity, and therefore raising

the potential for mutual assistance when needed. From the perspective of economic development, dual citizenship recognition is likely to facilitate the transfer of new ideas and technologies to the homeland by diasporic scientists and entrepreneurs, encouraging "brain circulation" (Nyarko, 2011), and increasing the documented positive effects of brain drain – or, conversely, mitigating its negative impacts (Beine, Docquier and Rapoport, 2008; Easterly and Nyarko, 2008; Bertoli and Brücker, 2011). Dual citizenship may also foster investment by diasporic entrepreneurs by allowing them to invest, monitor their investments, and hold domestic business partners accountable in case of a legal dispute, without facing differential treatment due to foreign status. Politically, dual citizenship is likely to encourage the diaspora to participate in homeland politics, encouraging political accountability and therefore affecting the allocation of public goods.

4.0 Empirical Strategy

IN ORDER TO TEST THESE HYPOTHESES regarding the likely impacts of dual citizenship, we consider three sets of outcome variables. The first set comprises the volume of remittances received by a country, and a country's child mortality rate. Variables in this set measure the extent to which the diaspora is connected with the homeland, and the implications of this connection for household welfare.

The second set comprises several macroeconomic indicators including gross capital formation, foreign direct investment net inflows, GDP, household expenditures, the volume of trade and the emigration rates of low- and high-skilled workers. The third set comprises government-controlled factors such as public spending on education and health. Any impact of dual citizenship on variables in this latter set would suggest that the diaspora affects the allocation of government funds to social programs. We estimate these effects separately for developed and developing countries.



sources of endogeneity that might vary over time but are identical for all countries in a given period, and those that might vary across countries but are fixed for each country over time, including, for instance, country-specific historical factors.

Endogeneity issues often lie at the heart of econometric analyses of causality. Confidence in the causal effects of dual citizenship in our analysis comes from it being mostly exogenous to foreign pressure. Indeed, the decision to allow dual citizenship follows a long legislative process, and is sometimes made through a referendum. Any external pressure affecting such a decision might therefore only come from a country's diaspora, especially if they constitute a large enough population to wield political influence. We account for this factor in our analysis by controlling for the size of diasporic populations. Also, we control for the fraction of a country's diaspora living in countries granting dual citizenship, as they are the ones most likely to exert pressure given the possibility that they have to legally obtain the citizenship of their host countries without having to give up their first citizenship. Moreover, we control for the potential financial power of the diasporic population, proxied by the average income and populations of the destination countries of a country's emigrants, in the assumption that any external pressure exerted by the diaspora may be stronger as their financial power increases.

We acknowledge that our concern for potential endogeneity issues associated with dual citizenship may be a bit exaggerated. In fact, most studies analyzing the causal impacts of public policies usually assume that policies are exogenous (e.g., Osili and Paulson, 2008; Besley and Persson, 2009), even when policy decisions are made by the executive power without consulting the legislative power. Dual citizenship decisions are both legislative and constitutional decisions, and thus involve many more decision-makers with possibly "conflicting" views than do executive decisions alone. This makes dual citizenship decisions complex and less likely to be affected by external and foreign lobbies, including foreign investors. Moreover, the temporal pattern of the introduction of dual citizenship does not differ much between developed and developing countries (Figures 1-a and 1-b), especially after the 1950s when most developing countries gained their independence, which suggests that dual citizenship policies are not determined by a country's level of economic development or level of democracy. As

We also control for institutional factors related to democracy. Furthermore, we control for time and country fixed effects, which takes care of potential



we argue later, among countries with very similar characteristics, some do recognize dual citizenship rights, while others do not, which indicates that these decisions may be random across countries and over time.

5.0 Analysis and Results

WE FIRST EXAMINE THE RELATIONSHIP between dual citizenship recognition and remittances. In theory, this relationship is not easily predictable. As argued earlier, dual citizenship recognition by a country is likely to increase remittance inflows as it fosters the development of transnational solidarity and business networks. At the same time, it encourages members of the diaspora to acquire the nationality of their host countries, making it easier for them to sponsor close family members (e.g., parents, spouse, children, etc.) to become citizens as well. Once the latter individuals leave their origin country for their new country, there are no more incentives to remit, thus decreasing foreign remittances towards the origin country. However, since under most legislation, only close family members can be sponsored, dual citizenship recognition by a country is likely to decrease remittance inflows only if the predominant family structure in that country is “nuclear”, as opposed to “extended”.

In collectivistic cultures or countries where family is defined more broadly, dual citizenship recognition is likely to foster remittance inflows, as emigrants will continue to remit to their distant family members and communities even after sponsoring and gathering their close family members. We therefore expect the effect of dual citizenship on remittances to vary across countries. In particular, we expect the effect to be positive for developing countries, and negative for developed countries .

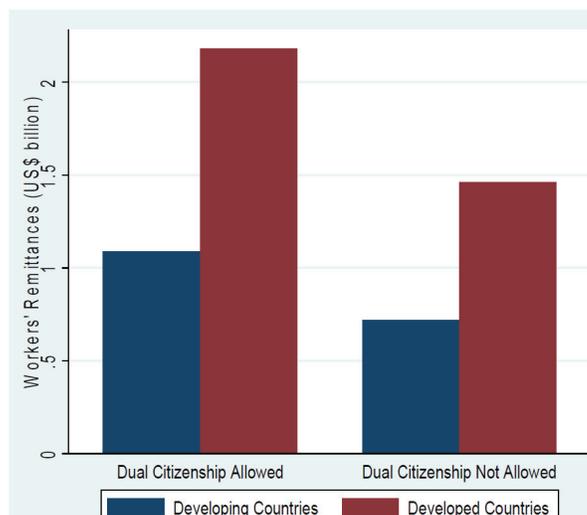
A descriptive analysis of the relationship between dual citizenship and remittances is presented in Figure 2. It shows that countries allowing dual citizenship receive more remittances from their diasporic communities than those that do not. This is true both for developed and developing countries. In multivariate analysis, we exploit cross-country and cross-time variation in the introduction of dual citizenship rights to econometrically identify the

causal effect of the latter variable on remittances. We confirm the results of the descriptive analysis for developing countries only. On average, the volume of remittances received by a developing country is about US\$1.2 billion larger when it allows dual citizenship than when it does not. However, in a developed country that allows dual citizenship, remittance inflows decrease by US\$1.4 billion.

These results are consistent with the fact that the extended family is more prevalent in developing countries while the nuclear family is the norm in developed countries (Todaro and Smith, 2012).

These results are consistent with the fact that the extended family is more prevalent in developing countries while the nuclear family is the norm in developed countries (Todaro and Smith, 2012).

Figure 2: Dual Citizenship and Workers' Remittances



Data Source: Authors' estimates from the World Development Indicators (WDI) database, World Bank (2011).

As mentioned earlier, the estimated impacts of dual citizenship on remittances are robust to the control of a wide range of variables including, but not limited to, the size of the diasporic population, the potential financial power of the diaspora, and the fraction of the diaspora living in dual citizenship-granting countries. Interestingly, the latter variable has a positive effect on remittances, and partly absorbs the effect of dual citizenship itself, which suggests that dual citizenship recognition by a country produces a greater effect among its dual citizens living abroad. Indeed, expatriates who reside in dual citizenship-granting countries have a greater propensity to send remittances to their origin country.



We also examine the impact of dual citizenship recognition on child survival. This latter variable is unanimously considered an important indicator of household welfare in both developed and developing countries, as it responds promptly to better nutrition and improved health care (Boone, 1996; Ross, 2006). We find a positive effect of dual citizenship recognition on this outcome. Moreover, this effect is entirely mediated by remittances in developing countries, suggesting that dual citizenship-induced funds are primarily used for consumption purposes, which is consistent with the literature on the allocation of remittances (Gupta et al., 2007; Osili, 2007; Clemens, 2011). Controls such as the size of the diasporic population as well as their potential financial power also improve child survival.

Next, we turn to the second set of variables, which are macroeconomic indicators comprising GDP, household expenditures, the net inflows of foreign direct investment (FDI), gross capital formation, domestic credit to the private sector, trade volume, and emigration rates of low- and high-skilled workers.

Importantly, estimating the effect of dual citizenship recognition on investment (measured by gross capital formation and FDI net inflows) in addition to remittances is motivated by the fact that the latter may not totally account for all funds directed to investment, especially in developed countries. When the banking system in the origin country is reliable, diasporic entrepreneurs may transfer important

funds directly to their bank accounts. Therefore, dual citizenship recognition is likely to have a distinct effect on investment. Our analysis indeed supports this assertion, especially in developed countries, where dual citizenship increases gross capital formation by US\$12 trillion, and FDI net inflows by US\$828 billion. It also fosters trade. In developing countries, dual citizenship recognition raises GDP. In both developed and developing countries, dual citizenship recognition increases household consumption, and fosters international labor mobility, which indicates that dual citizenship may be used as an instrument to stimulate emigration and induce foreign remittances, given the positive impacts of immigrants' productive inputs (see, e.g., Borjas (1995) for the US). The fraction of the diaspora living in dual citizenship-granting countries has a significant effect on most of these outcomes (e.g., trade, household consumption, GDP, and gross capital formation), showing that they constitute an engine of economic growth for their homelands.

The estimate of the effects of dual citizenship on public spending on health and education shows no significant impact, which implies that the diasporic populations have little say in homeland politics. Importantly, diasporas do not seem to influence political outcomes in origin countries, which is consistent with the notion that dual citizenship legislation itself is exogenous to external pressure, although it may be used by a country as an instrument to attract investments from the same diasporas.

THE ESTIMATE OF THE EFFECTS OF DUAL CITIZENSHIP ON PUBLIC SPENDING ON HEALTH AND EDUCATION SHOWS NO SIGNIFICANT IMPACT, WHICH IMPLIES THAT THE DIASPORIC POPULATIONS HAVE LITTLE SAY IN HOMELAND POLITICS.

Finally, we compare the effectiveness of dual citizenship and other institutional variables including government stability and the absence of internal and external conflicts in improving child survival. We find that dual citizenship is more effective in general, although its effect is less pronounced in developed countries.

6.0 Concluding Remarks

WE HAVE ANALYZED the economic impacts of dual citizenship legislation for both developing and developed countries. A country that permits dual citizenship allows members of its diaspora to retain several benefits in their homeland, including unrestricted entry and residency, easy access to investment and other economic opportunities, property ownership, and entitlement to social programs and other public goods. We argue that dual citizenship recognition therefore provides multiple incentives for members of the diaspora to keep ties with family, friends and communities in the origin country. These private international relations mobilize transfers of resources from the destination country to the origin country, improving household living conditions and the national economy.

Using a newly assembled dataset on dual citizenship legislation, we have found that dual citizenship recognition in developing countries increases remittance inflows, raises GDP and household consumption, and improves child survival. Also, dual citizenship recognition is more effective in improving child survival than other institutional variables such as government stability and the absence of internal and external conflicts. In developed countries, dual citizenship recognition increases gross capital formation and FDI net inflows, raises household consumption, fosters trade, and stimulates



international labor mobility. We have found no effect of dual citizenship on public spending on health and education, suggesting that the diaspora plays little role in homeland politics, and lending credence to the notion that dual citizenship recognition itself is mostly exogenous to external pressure. Importantly, however, we have controlled for several variables capturing external pressure, delivering finding that are interesting in their own rights.

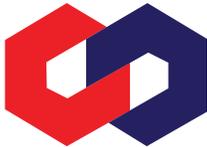
Dual citizenship is a hotly debated topic among political scientists, lawyers, and in the policy circle. Its recognition leads to countries sharing citizens and their potentials, as it fosters the free flow of people, money, and goods across national borders. In this paper, we have shown that dual citizenship recognition generates huge economic gains for countries and improves household welfare. 



ABOUT US

The Global Economic Institute for Africa (GEIA) is an Ottawa, Canada-based non-profit research and development organization fostering public-private dialogue on global issues, with a pan-African perspective.

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