Spillover Effects of Sanctions on Migration and Remittances (the Case of Transition Economies)

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SUMMARY OF FINDINGS

The motivation for this study was to assess possible spillovers of the US and Western sanctions against the Russia Federation (Russia) into twenty-seven transition economies. In the literature the term "transition economies" is used to cumulatively refer to the countries of the Former Soviet Union, and Central and Eastern Europe. For this analysis the spillovers from sanctions were studied in terms of their impact on changes in migration and migrants' remittances from Russia to transition economies, and vice versa.

In March 2014, the first round of Western sanctions was indicted against Russia as a retaliatory measure for creating political instability in Ukraine and annexation of the Crimean Peninsula. Initially, these sanctions had a targeted nature and were focused only on individuals close to the political leadership of Russia. Soon, they took much broader scope and targeted entities and industries in Russia and Crimea, producing much deeper economic shock. The next round of imposed sanctions related to violation of human rights also known as Global Magnitsky Act. The third round of sanctions was indicted for Russia's interference in the US 2016 Presidential elections. Russia reacted and enacted reciprocal sanctions by putting embargoes on certain sectors, banning imports of agricultural products and restricting entries of individuals to its territory. For the purpose of current analysis, we focused on sanctions imposed by Western economies and the United States and our study covered the period from March 2014 to 2019.

To address the topics of interest we developed two gravity models. Usually, gravity models are used to study the character of movement of a specific determinant (such as trade, migration, foreign direct investments, migrant remittances, etc.) between two geographic locations and the factors affecting it. The first model we developed for this study was a gravity model of migration from transition economies to Russia, and vice versa. The second model was a gravity model of remittance flows between the same countries. We also used a comprehensive set of other explanatory variables to test if any other factors in addition to the sanctions impacted either migration or migrants' remittances.

The results of our research suggested that both, US and Western, sanctions had a significant impact on contraction in emigration from transition economies to Russia. It was estimated that if Western sanctions are increased by 1% the number of emigrants will decline by 11 individuals. In the meantime, 1% increase in US sanctions will reduce the number of emigrants from transition economies in Russia by 9 individuals. The results corresponding with the model testing the spillovers of sanctions on migrants' remittances shed more light on the nature of this relation. First, we assessed that both, US and Western, sanctions strongly affected the flow of remittances from Russia to transition economies. Thus, we estimated that 1% increase in Western sanctions cut the value of remittances by USD 0.014 million. While, 1% rise in US sanctions contracted the flow of remittances from Russia to transition economies by USD 0.01 million. We also estimated that the individuals, who sent the largest portion of remittances, were supporting dependent children or elderly left behind at home countries. Also, the largest share of remittances went to the countries with comparatively lower life expectancy. In other words, the emigration from transition economies, particularly CIS countries, and corresponding remittances were playing a very important role of poverty alleviation. Therefore, our recommendation was simultaneous to imposing sanctions against a target country to provide aid of welfare nature to smaller economies of the same region, which would smooth over the negative effects of spillovers there.