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Mr. EU, Tear Down Your Walls: The Impacts of Emigration on Birth Country Institutions

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Mr. EU, Tear Down Your Walls: The Impacts of Emigration on Birth Country Institutions[1]

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Abstract

We analyze what happened to economic institutions using a natural experiment in Moldova after citizens of the country gained the right to travel to European Union countries with simplified visas. This policy constituted an exogenous change in the ability to emigrate away from Moldova to the European Union. After this policy shock, we find that economic institutions in Moldova improved significantly, and these effects are robust to various sensitivity analyses. We also provide evidence of a mechanism: Moldovan diaspora voters were most likely to vote against illiberal parties via Moldovan polling stations in the European Union. By contrast, we observe no such improvement in economic institutions in countries with similar experiences in obtaining the European Union simplified visa status, but without mass emigration to the West or polling stations established abroad. Our results suggest that mass emigration does not lead to institutional decay and, in the best-case scenarios, can improve home-country institutions. One important implication is that immigration restrictions in immigrant-receiving countries negatively influence institutions and economic development in some immigrant-sending countries.

Keywords: Immigration, Emigration, Institutions, Moldova, Exit

JEL codes: J1, J6, O43, P1

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1. Introduction

We ask a simple question: how does emigration impact the economic institutions of sending countries? To do so, we study how institutions in Moldova changed with a sudden increase in emigration after its citizens gained access to a simplified EU visa in 2008. This change in EU visa policy represented an exogenous shock to Moldovans' ability to emigrate, and emigration from Moldova increased drastically as a result.

Research on the impacts of *immigration* on *destination-country outcomes is extensive*. The general consensus of this literature is that immigration improves host country labor market conditions by encouraging business creation, innovation, productivity, occupational upgrading among natives, and in many cases lower deficits (Constant & Zimmermann, 2006; Hunt, 2011; Azoulay, 2022; Bedi & Jia, 2024; Hunt & Gauthier-Loiselle, 2010; Kerr & Lincoln, 2010; Lewis, 2011; Peri, 2012; Alesina, 2016; Card, 1990; Card, 2005; Ottaviano & Peri, 2012; Dustmann & Frattini, 2014; Bratsberg et al., 2014). And more cutting-edge research generally finds that immigration leads to institutional improvements conducive to long-term economic development (Powell et al., 2017; Clark et al., 2018; Bologna Pavlik et al., 2019).

Evidence also exists that *emigration* has beneficial effects on *birth* countries, too. While researchers have developed a theory of "brain drain," whereby birth countries stagnate because their brightest citizens are most likely to emigrate successfully (Bhagwati & Hamada, 1974; Cerna, 2009; Cerna, 2014), more recent research suggests that the overall impact of emigration on birth countries is more nuanced. This line of literature has pointed out that human capital formation is endogenous to the possibility of migration, with the prospect of migration increasing the returns to investment in human capital (Docquier & Rapoport, 2012). Immigrants also contribute to their home countries after emigration by remitting, promoting FDI, and facilitating exports (Gould, 1994; Rauch & Trindade, 2002; Adams & Page, 2005; Docquier & Lodigiani, 2010; Giuliano & Ruiz-Arranz, 2009; Javorcik et al., 2011; Parsons & Vezina, 2018).

However, it is less clear how emigration impacts institutions. On one hand, if those most likely to emigrate are also those most disgruntled with poor institutions, emigration can shift the median voter of the home country towards one who is more likely to vote for or support less economically and politically free policies. Recent empirical

evidence suggests that emigrants are, indeed, more likely to support democratic institutions (Giesing & Schikora, 2023; Auer & Schaub, 2024).

On the other hand, the ability to "vote with feet" through emigration can lead to Tiebout competition by forcing politicians to consider how bad policy induces the migration of their tax base (Tiebout, 1956). Recent cross-sectional and panel evidence indicate that openness to emigration is associated with greater democracy (Docquier et al., 2016) and that there is a negative relationship between inequality and high-skilled emigration (Facchini et al., 2026). Further, return migration and diaspora networks offer migrants the chance to be exposed to good institutions and to bring them back home. For example, returnee migrants who spend time in democratic countries tend to promote democracy and expect less corruption among officials upon their return (Spilimbergo, 2009; Batista & Vicente, 2011; Barsbai et al., 2017).

More relevant to our case study, a few others have used emigration from Eastern European countries as an identification strategy to study its impact on political institutions. Elrick (2008) finds that Polish returnee migrants from the West indirectly and subtly modernized their home communities economically, socially, and culturally. Careja and Emmenegger (2012) provide evidence that Eastern and Central European returnee migrants have a stronger preference for civic engagement and are successful in persuading their connections to engage more civically. The paper most relevant to our study uses community-level data to examine a wave of emigration from Moldova that began after the 1998 Russian financial crisis, which opened the migration window for Moldovans for the first time (Barsbai et al., 2017). The authors found that this wave of emigration was associated with the Communist Party in Moldova losing parliamentary majority in the 2009-2010 election. Further, electoral changes were driven entirely by *westward* emigration to more democratic countries. The association documented by the authors disappears when using *eastward* emigration to Russia as an explanatory variable.

This literature is incredibly important. The root cause of long-run economic growth and attendant high productivity and wages is inclusive political and economic institutions that encourage savings, investment, and entrepreneurship (Acemoglu et al., 2005; Rodrik & Wacziarg, 2005). And relative wages are a primary driver of migration patterns (Hanson & Spilimbergo, 1999). Therefore, if emigration leads to institutional deterioration and lower productivity, it can create a vicious cycle in which low relative wages drive emigration, resulting in further

institutional decline and even lower productivity and relative wages. On the other hand, if emigration leads to institutional improvements, it becomes a virtuous circle and "its own cure."

Our work distinguishes itself from Barsbai (2017) and other papers on the topic in several ways. First, we rely on Moldovans gaining access to a simplified EU visa in 2008 as a natural experiment, rather than on the 1998 Russian crisis. Second, the methodology we employ, the synthetic control method (SCM), accounts for endogeneity in ways that traditional OLS estimates cannot. Third, rather than political institutions, we focus on economic institutions as our outcome variable of interest, while supplementing that analysis with a case study of changes in political institutions following our natural experiment. To the best of our knowledge, the only other papers that address the impacts of emigration on economic institutions are Docquier et al. (2016), who rely on cross-country panel data and instrumental variables, and Li et al. (2017), who use geographic- and genetic-distance-based instrumental variables. While Docquier et al. (2016) find that emigration improves political and economic institutions, Li et al. (2017) provide evidence that emigration improves political institutions while leading to deteriorations in economic institutions. In addition to combining quantitative and qualitative evidence on the effects of emigration on economic and political outcomes, we seek to clarify prior mixed results using a newer case study and empirical strategy.

2. Theory

The logic behind the link between migration and institutions is that the movement of people across borders, unlike that of goods and services, affects the political economy of both destination and sending countries (Powell et al., 2017; Giesing & Schikora, 2023). However, the theoretical link between emigration and institutions is ambiguous: there are reasons to expect emigration to both worsen institutions and strengthen institutional quality.

On one hand, if those most disgruntled with bad economic and political institutions are also those most likely to successfully emigrate, one would expect institutions to deteriorate as emigration increases and those who are most likely to voice concerns about bad institutions exit (Li et al., 2017; Ashby, 2010; Hirschman, 1970). Using administrative data from Poland and the country's accession to the EU as a natural experiment, Giesing & Schikora (2023) document increases in the voting shares of right-wing parties after those most likely to vote for left-wing parties emigrated from Poland. Auer and Schaub (2024) also provide evidence that mass emigration from Central and Eastern Europe was driven by those most likely to support liberal democracy.

On the other hand, the prospect of losing high earners and the tax revenue they generate can encourage home-country governments to improve institutions by making the voice and political preferences of potential emigrants more potent (Hirschman, 1970). Because governments lose rents when people emigrate, they have an incentive to encourage people to stay. And because supporters of economic and political freedom are most likely to emigrate, encouraging citizens to stay entails institutional improvements (Li et al., 2017; Ashby, 2010; Tiebout, 1956). Sweden and Ireland in the 19th century provide historical evidence supporting this idea. The concern that mass emigration would result in stagnation spurred institutional reforms in both countries (Landgrave & Nowrasteh, 2016).

Emigration can also impact institutions in home countries through diaspora networks (Li et al., 2017). Emigrants maintain connections with family, friends, and business contacts in the home country, and information gained in host countries can be "remitted" back home. For example, Pérez-Armendáriz & Crow (2010) explain how cross-border communication and social networks affect nonimmigrant Mexican citizens' political participation and behaviors in ways conducive to democracy. Similarly, Ivlevs & King (2017) provide evidence from ex-Yugoslav countries, using data from the Gallup Balkan Monitor Survey, that non-immigrant households with friends and relatives abroad have significantly lower tolerance for bribing public officials and are less likely to be solicited for bribes. Others find that financial remittances promote democracy (Escribà-Folch et al., 2015; Konte, 2016). At the same time, still others find that financial remittances can reduce the positive impact of emigration on home-country institutions (Ivlevs & King, 2017) by providing recipient governments with access to funds (Abdih, 2012).

Finally, not all emigrants stay (Li et al., 2017). Many return, allowing emigration to impact institutions. Those who are exposed to democratic, economically free institutions tend to bring those institutions back with them if they return to their home country. For example, Polish returnee migrants from democratic Western European countries have promoted economic equality between the sexes (Elrick, 2008). Similarly, with a cross-country panel dataset covering foreign students between 1950 and 2000, Spilimbergo (2009) finds that foreign students who return to their home countries champion democratic improvements. Mercier (2016), with a dataset tracing 932 politicians from developing countries between 1960 and 2004, finds that countries with improved democracy scores were those with leaders who had studied in an OECD country. And Batista and Vicente (2011) designed a "postcard voting" experiment, administered to return migrants in Cape Verde. Interviewees are asked to express their opinions on corruption and the quality of public services, and returnees from the United States have higher expectations of political accountability

than their peers who returned from Portugal. In Mali, returnee migrants from non-African countries significantly changed municipal election outcomes in 1998 and 2009 through their own votes and by shaping their peers' political opinions (Chauvet & Mercier, 2014).

We test the above mechanisms using a natural experiment as the identification strategy: Moldovans gaining access to a simplified EU visa in 2008. This bilateral Visa Facilitation Agreement simplifies the process of obtaining short-stay Schengen visas up to 90 days for non-EU nationals, including reduced or waived application fees, simplified documentation, faster processing times, easier multiple entries, dual citizenship, and readmission agreements, which greatly promote the mobility of Moldovans to travel to the EU countries for short- as well as long-term/permanent emigration.

3. **Moldova as a Natural Experiment**

To study the causal impact of emigration on institutions, we rely on an exogenous change in Moldovans' ability to emigrate in 2008. Finding an appropriate exogenous natural experiment is crucial to studying any causal impact of emigration on institutions, because the decision to emigrate is endogenous to institutional quality (Ashby, 2010). Former socialist countries are perfect candidates for such a natural experiment because many have become more integrated with the European Union since the fall of the Berlin Wall, meaning their citizens have gained greater ability to emigrate. Indeed, after the fall of the Berlin Wall, there was mass emigration from the former Soviet Union, the Eastern Bloc, and the Balkan countries, and these countries have also experienced more pronounced institutional changes than other regions worldwide at the time.

However, many of these shocks to the ability to emigrate were highly anticipated. Countries that joined the EU straight away, such as Poland and the Czech Republic, had undergone a series of major institutional reforms before obtaining approval from all incumbent EU members. People had almost decades to anticipate and adjust behavior in response to EU accession, and, more importantly, institutional reform is a precondition for EU accession, which affects a variety of policies, including agricultural and tariff policies. This makes EU accession a bad candidate as a natural experiment.

Hence, a "cleaner" policy shock, such as the EU visa facilitation agreement (VFA) granting simplified EU visa status to a non-EU country, is a more suitable natural experiment for studying the impact of emigration on

institutions. This is because entering the VFA is much less anticipated than the full EU accession process. More importantly, because it is only the first step in the decades-long process toward eventual EU accession, a VFA itself does not fundamentally change the institutional quality of a bilateral agreement partner, but it does change the ability to migrate immediately.

Throughout the history of the EU, 13 countries have entered a VFA and gained simplified EU visa status through bilateral negotiations with the EU at different times. This includes Russia in 2007; six Western Balkan Partners (WB6) countries in 2008 (Albania, Bosnia & Herzegovina, North Macedonia, Moldova, Montenegro, and Serbia); and five Eastern Partnership (EaP) countries (Georgia, Armenia, Azerbaijan, Ukraine, and Cape Verde) between 2008 and 2014. Additionally, Belarus also signed a VFA with the EU in January 2020, but it was partially suspended in 2021.

Not all these 13 VFAs qualify as good natural experiments, though. Many VFAs did not result in subsequent increases in emigration.[4]

First, Russia, as a regional power, differs from the other 12 countries; it has been a net immigration country since the collapse of the Soviet Union. Even after obtaining EU simplified visa status in 2007, Russia's annual emigration to the EU remained below 0.3% of its population until 2021, far less than that of any other country in this group.

Historically, Ukrainians migrated mainly to Russia. By 2008, the year Ukraine gained the EU's simplified visa status, less than 2% of its population lived in the EU. Like Russians, Ukrainians did not suddenly switch to migrating to the EU after 2008. Immigrant flows remained stable, made up mostly of immigrant laborers, until the 2014 Crimean War. Later, both Russia and Ukraine saw sharp increases in migration to the EU after the 2022 War. Therefore, obtaining the EU simplified visa status does not constitute a major shock for emigration from Ukraine either.

Armenia is like Ukraine but has an even weaker EU-oriented migration system – Russia has been Armenia's emigration destination even after Armenia entered a VFA with the EU in 2014. Georgian emigration to the EU has been similarly smooth – about the same number of emigrants left for the EU before and after the EU granted its VFA

[4] The emigration statistics for this section are calculated by the authors based on the Eurostat International Migration and Asylum Database.

in 2011. Finally, due to its reliance on oil revenues, Azerbaijan has also experienced low emigration to the EU – its annual EU emigrant flow is, on average, below 0.1% of the population. Therefore, the VFA's emigrant effect on institutions should also be minimal.

Two Balkan candidates are also excluded. Albania had already experienced two waves of major migration to the EU, through irregular/semi-legal channels, in the first 10 years after the collapse of the Soviet Union. Albania's annual emigration to the EU had already peaked in the mid-2000s; by the time it reached its VFA with the EU in 2008, at least about a quarter of Albanians had moved to the EU. The insensitivity of North Macedonia's emigration pattern to its VFA with the EU also disqualifies it as the best candidate. Due to its strong legacy of Yugoslav Gastarbeiter ("guest workers") agreements with German-speaking Western European countries, North Macedonia is known for its long history of labor migration to the EU, tracing back to the 1960s.

Finally, Bosnia & Herzegovina, Montenegro, Serbia, and Cape Verde lack sufficient institutional data and therefore cannot be examined empirically.

Clearly, the above countries are not the best candidates for the purposes of this study. However, Moldova serves our purposes perfectly. First, Moldova, as one of the countries with the lowest institutional scores among former communist countries when entering the VFA with the EU, remains one of the poorest countries in Europe today (IMF, 2024). The post-Soviet collapse of Moldova's economy laid the economic foundation for Moldova to become a labor-export economy, meaning that, when allowed to emigrate, Moldovans tended to do so in the 1990s and early to mid-2000s. Second, due to its Soviet heritage and limited formal access to westward migration, a predominantly large proportion of Moldova's population has been emigrant workers in Russia, meaning that Moldova's VFA with the EU marked the first time in Moldovan history that EU migration was legally facilitated. Third, unlike Albania or North Macedonia, Moldova had no large-scale emigration before the late 1990s either to Russia or the EU, providing a much cleaner background for us to test any emigration shocks. In short, unlike in other countries that entered a VFA with the EU, Moldovan emigration to the EU surged after Moldova entered a VFA with the EU.

As illustrated in Figure 1, the number of emigrants from Moldova to the EU was below 10,000 in 2007, then sharply exceeded 30,000 the following year and remained above 10,000 until 2013. This policy shock has led to a disproportionate number of highly educated Moldovans migrating to the EU, whereas less educated Moldovans have continued to work in Eastern Europe and Russia, where language is less of a barrier (Cuc et al. 2006). Among all the

EU countries, Italy attracted the largest share of Moldovan immigrants – about 70% between 2008 and 2013. By 2020, about 44% of Moldovans were emigrants, up from about 20% in 2005. Although the Moldovan VFA explicitly facilitated only short-term migration, over 50% of Moldovan emigrants live in the EU (Eurostat, 2024), many of whom become long-term settlers rather than seasonal workers. Short-term stays were often leveraged into more permanent emigration through easier reapplications and the new ability of Moldovans to scout job markets and give in-person interviews before applying for other, more permanent visas.

[Insert Figure 1 about here]

While Moldova is the only country that received a VFA with the EU and experienced significant increases in emigration to the EU, we still present the results for and analysis of the other six countries that have experienced the same VFA shocks in section 5.2.3 as in-place placebo tests.

4. Data and methodology

4.1 Data

To estimate potential changes in economic institutions in Moldova, we adopt measurements from the Economic Freedom of the World Dataset, published in *The Economic Freedom of the World: 2023 Annual Report (EFW)* by Gwartney et al. (2023). The EFW summary index is a weighted average of scores across five subareas: size of government, legal system and property rights, sound money, free trade, and regulation. Under each of these five areas, there are further subindexes that include variables measuring the degree to which voluntary market transactions are protected from government intervention. In total, the EFW index covers 165 countries and traces institutions back to 1950.

Figure 2 presents the trends of Moldova's summary economic freedom index score and its five main subarea indexes in our sample period of 2000-2021. The summary economic and institutional score of Moldova generally increases over time, particularly through the late 2000s. These increases are mainly driven by increases in sound money and free trade. Scores for the size of government and regulation also show some improvement after the late 2000s.

[Insert Figure 2 about here]

Following Powell et al. (2017), we account for four covariates: crude birth rate, a dummy variable indicating whether the dominant religion is Christianity, real GDP per capita, and a measure of political institutions, measured using Polity2 scores. Our entire sample includes 3,304 country-level observations spanning 2000 to 2021; this choice is due to data availability: there are no institutional measures for Moldova prior to 2000, and Moldova's candidacy for EU membership was granted in 2022, which changed many aspects beyond emigration. Refer to Table 1 for more details about the variables employed.

[Insert Table 1 about here]

4.2 Methodology

Ideally, we would like to compare the institutional quality of Moldova, which has secured a visa facilitation agreement, with an alternate reality in which Moldovans did not enter into such an agreement. Such a controlled experiment is impossible; hence, we employ the synthetic control method (SCM) as our identification strategy to study the natural experiment of gaining simplified visa status. The SCM fabricates a "synthetic" counterfactual placebo by taking a weighted average of the outcome measure from a pool of "untreated" donor units (in our case, countries) to investigate potential policy effects (Abadie and Gardeazabal, 2003; Abadie et al., 2010; Abadie et al., 2015). The SCM is widely applied in social science disciplines, including political science and economics, and is gaining increasing popularity in empirical policy research in recent years. In one of the first and most well-known projects using the SCM, Abadie et al. (2010) studied the policy effects of the California Tobacco Tax and Health Protection Act of 1988 (Prop 99); Abadie et al. (2015) also studied the economic impacts of Germany's reunification in 1990.

To properly construct a synthetic counterfactual Moldova, we must be careful to avoid bias when selecting candidates for our donor pool.

First, we exclude from the donor pool all countries that had experiences like Moldova's within our sample period between 2000 and 2021. Specifically, we exclude the 13 countries that gained EU accession through a direct path in EU enlargements: Bulgaria, Croatia, Cyprus, Czechia, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, and Slovenia; we also exclude 12 other countries that have ever entered a visa facilitation agreement with the EU: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Cabo Verde, Georgia, Montenegro, North Macedonia, Russia, Serbia, and Ukraine.

Second, to produce a convincing post-treatment counterfactual trend, the synthetic control should ideally reproduce the treated trend in the pre-treatment period. This is measured using the pre-treatment goodness-of-fit statistic or the root mean square percentage error (RMSPE): the closer the RMSPE is to zero, the better the goodness of fit. In the context of this paper, RMSPE measures how well the institutional quality trend of the synthetic Moldova tracks that of the real Moldova between 2000 and 2007. Due to huge across-country variation in institutional qualities, some of the donor countries by nature will just not approximate outcomes of interest in our treated unit (in our case, institutions in Moldova) well, as indicated by a large RMSPE value, and the synthetic placebo constructed by these donors with poor fit may bias documented treatment effects. Therefore, we follow Abadie et al. (2010, 2015) and trim the donor pool by dropping donor countries whose RMSPE values exceed two times that of Moldova's, the treated unit. Eventually, we end up with a total of 35 qualified candidate countries in the donor pool to construct our counterfactual Moldova.

Our SCM fabricates a synthetic placebo by taking a weighted average of the institutional scores for the selected donor countries within our pool of 35 candidates. The weights $W^* = (w_1, w_2, ..., w_J)$, where J=35, are assigned in a way such that the difference in institutional scores between this synthetic Moldova and the real Moldova is minimized in the pre-treatment period, 2000-2007. Then, the treatment effect of gaining access to a simplified EU visa on institutional quality in the post-treatment period, 2008-2021, can be estimated as the difference between the institutional scores of the real Moldova and those of its synthetic counterfactual. Mathematically, the treatment is estimated as $Y_{1t} - \sum_{j=1}^{J} w_j^* Y_{jt}$, where t $(t = 1, \dots, 22)$ denotes any year between 2000 and 2021, Y_{1t} denotes institutional scores of the real Moldova at year *t,* and Y_{jt} denotes institutional scores of donor country *j* from the donor pool at year *t*.

As tabulated on the left panel of Appendix 1, our SCM creates a synthetic counterfactual Moldova based on eight donor countries. These include Benin, with the largest synthetic weight of 0.369; South Africa, with a weight of 0.195; Fiji, with a weight of 0.122; the Netherlands, with a weight of 0.102; and four other donors. These include China, the Philippines, Jamaica, and Nepal, all of which contribute weights less than 0.1. See Appendix 1 for a list of donor countries used to construct our synthetic Moldova, along with the weights assigned to each. In Appendix 2, we also compare the institutional scores for the synthetic and actual Moldova during each pre-treatment period. In

particular, the fact that the RMSPE is close to zero in the last column suggests that our synthetic counterfactuals have a decent overall goodness of fit.

5. Empirical Results

5.1 Gaining EU simplified visa status in 2008

In this section, we examine how the emigration shock associated with the 2008 EU simplified visa status in Moldova affected institutional quality, using counterfactuals constructed with an SCM as discussed above.

In Figure 3, we contrast the institutional trend of the synthetic "untreated" Moldova with that of the real Moldova "treated" by the 2008 emigration shock. Obviously, the institutional trend of the real Moldova (represented by the solid navy trend) aligns well with that of the synthetic Moldova (represented by the dashed maroon trend) in the pretreatment period between 2000 and 2007 (see Appendix 2 for the pre-treatment goodness of fit of our synthetic institutions in Moldova), but separates and grows increasingly higher than the latter starting from 2008. This result matches perfectly with the timing of Moldova gaining simplified EU visa status. Additionally, at a zero percent significance level, we find significant treatment effects for each post-treatment period as well as for the entire post-treatment period, as suggested by the standard joint pseudo p-values reported in the left panel of Appendix 3.

[Insert Figure 3 about here]

Following the main SCM result associated with gaining access to a simplified EU visa in Figure 3, we conduct three robustness checks. These include an in-place placebo test (Figure 4), a leave-one-out (LOO) robustness test (Figure 5), and an in-time placebo test (Figure 6).

First, in order to rule out the possibility that the treatment effect we observed is not due to Moldovans gaining access to a simplified EU visa, but some other factors that changed in our donor pool during the same time, we perform an in-place placebo test, where we pretend that the untreated countries were treated with the same immigration shock that Moldovans experienced in 2008. We then compare the fake "treatment" effects with those of our documented SCM treatment effects. As Figure 4 shows, the treatment effects in our placebo countries are much smaller than those in Moldova across all post-treatment years. What is more, the placebo treatment effects suggest deterioration in institutional quality. Despite these general decreases in institutional quality, we see an increase in Moldova. The continuous improvement in institutional scores in Moldova seems unique and has withstood general negative trends.

[Insert Figure 4 about here]

The second robustness check we perform tackles the potential issue of donor dependency. Specifically, we wonder whether the synthetic institutional trend in Moldova, as well as the treatment effect, are donor-dependent, especially when we consider large weights, as in Benin in our case. The leave-one-out robustness test (LOO) addresses such suspicions. In the context of the current study, the LOO test repeatedly constructs synthetic institutional scores for Moldova by dropping one donor country at a time. The idea is that if the synthetic Moldova in Figure 3 is not driven by certain donor countries, the cluster of these additional synthetic institutional trends generated by leaving out one donor at a time should stay close to the original synthetic Moldova trend generated with all available donors from Figure 3, compared to the distance in trends between our synthetic Moldova and the actual Moldova. This is, indeed, the case, as illustrated in Figure 5. The post-2008 institutional scores of the actually treated Moldova (the solid navy trend replicated from Figure 3) are significantly much higher than those of any other synthetic Moldova, whether created with all available donor countries (the dashed maroon trend replicated from Figure 3), or with any donor dropped (the cluster of all the other gray solid trends generated by LOO robustness tests). This suggests that the institutional improvement in Moldova we document is not dependent on any donor country.

[Insert Figure 5 about here]

Additionally, the observed treatment effect of emigration on Moldova's institutional quality may reflect other unobserved shocks that occurred either earlier or around the same time as the country's access to a simplified EU visa. We therefore perform an in-time placebo test to address these concerns. The in-time placebo test arbitrarily assigns a pre-treatment period and pretends the placebo intervention occurred at that period. We then reconstruct a synthetic Moldova. If we observe a significant and similar divergence between the reconstructed synthetic trend and the actual trend, starting from the fake treatment period, the in-time placebo test then suggests that the treatment effect we observed may not necessarily be causally related to our shock of interest, in this case Moldovans gaining access to a simplified EU visa, but has been picked up from other shocks around the same time. In Figure 6, we arbitrarily pretend a fake treatment occurred three years earlier, in January 2005, rather than the actual treatment time, January 2008, to reconstruct the synthetic control Moldova (the solid navy trend) and align it with the actual Moldova that experienced the real treatment (the dashed maroon trend replicated from Figure 3). We observe a minor gap between the two institutional quality trends around 2006, suggesting that Moldova's institutional quality may have temporarily

deteriorated around that time, perhaps due to other relatively minor shocks. Then, following the introduction of simplified EU visas in January 2008, Moldova continued to improve its institutional scores in subsequent years.

Digging further into the political and institutional changes in Moldova during 2005 and 2007, we indeed find some "other shocks" that can explain the observed negative institutional gap. Notably, the 2005 parliamentary elections caught our attention for several reasons. First, observers criticized the 2005 elections for their biased state-run media coverage favoring the incumbent party: the Communists of the Republic of Moldova (PCRM); second, in order to reach the required three-fifths majority rule, PCRM's co-optation of an unusual opponent party, the Christian-Democratic People's Party (PPCD), further undermined the checks and balances of its governance.

At the same time, due to data availability constraints, our pre-treatment periods seem relatively short, and an arbitrarily assigned fake treatment year set three years earlier makes them even shorter. Hence, we perform two additional in-time placebo tests, pretending the fake treatment occurred one and two years earlier, respectively. However, no noticeable differences are observed between these two placebo tests and Figure 6.[5] Since no improvement gap in institutional quality is observed prior to 2008 in any of these in-time placebo tests, the minor negative gap in the pretreatment period suggests that, even after accounting for deterioration in institutions between 2005 and 2007, gaining access to simplified EU visas improved Moldova's institutional quality in the years after 2008.

[Insert Figure 6 about here]

Overall, these results suggest that Moldova's improvement in institutional quality in the post-2008 period is causally attributable to gaining access to simplified EU visas in January 2008.

5.2 Additional robustness checks and discussions

In this section, we conduct additional robustness checks to address potential concerns regarding the test results above. These concerns come from other contemporaneous shocks, including the 2007-2009 global financial crisis, the 2009 European debt crisis, and Moldovans gaining EU visa-free status in 2014.

5.2.1 2007-2009 global financial crisis

The initial U.S. subprime debt crisis escalated into a global financial crisis when Lehman Brothers went bankrupt in September 2008. To tackle the most severe recession since the Great Depression, global governments not only adopted

[5] These figures are not included to save space but are available upon request.

aggressive monetary policies, coupled with large-scale bailout plans at the cost of rising government debt, but also tightened financial regulations in the aftermath. This contemporaneously global “treatment” represents a decline in worldwide economic institutional quality, and we cannot perform another “cleaner” synthetic control test, as the global financial crisis has more or less "contaminated” institutional qualities in every country, including Moldova. However, this should not negate the validity of our above findings. In fact, despite the negative institutional effects of the global financial crisis, we still observe significant and growing institutional improvement in Moldova after 2008, indicating that the effects of gaining access to simplified EU visas on economic institutions are real, and our estimate likely represents a lower bound. Had the global financial crisis not occurred at that time, we might have documented even greater institutional improvements in Moldova. Further, one of our covariates used to produce our synthetic Moldova includes real GDP per capita. By using trends in real GDP per capita in Moldova to help build our synthetic Moldova, we should account for how the global financial crisis affected countries in heterogeneous ways.

5.2.2 2009 European sovereign debt crisis

Related to the global financial crisis, the European sovereign debt crisis hit the entire Eurozone, particularly Greece, Ireland, Portugal, Spain, and Cyprus, between late 2009 and mid-2012. Similar to the crisis management measures implemented in response to the global financial crisis, Eurozone governments utilized policy tools such as loan bailouts, increases in public debt and taxes, and centralized supervision of the banking industry, all of which eroded the overall institutional quality of Eurozone countries for many years after the crisis.

Although Moldova is not in the Eurozone, the synthetic Moldova we constructed relies on some Eurozone countries as donors, which can lead to biased estimates if the Eurozone crisis has affected institutional quality. Therefore, we perform additional robustness checks with the “contaminated” EU donor country, the Netherlands, removed from the donor pool, and reconstruct a synthetic Moldova to estimate the treatment effects of gaining simplified EU visa status on Moldova's economic institutional quality after 2008.

As indicated in the right panel of Appendix 1, when the Netherlands is excluded, our SCM fabricates a new synthetic Moldova, with Jordan and Bangladesh added as replacements. It also drops Nepal from the donor pool while keeping the other six donor countries. The SCM trends with the adjusted donor pool are nearly identical to those with all donors in Figures 3-6; therefore, we omit them to save space. Still, we include the adjusted SCM donors and their

weights, the goodness-of-fit for the pretreatment periods, and the treatment effects alongside the results for all donors discussed above, in the right panels of Appendices 1-3, respectively.

5.2.3 Other countries with EU simplified visa agreements as placebo tests

As noted above, Moldova is not the only country to have entered into simplified visa agreements with the EU. While attempting to conduct SCM tests across these 12 countries, we can replicate only six: Albania, Armenia, Georgia, North Macedonia, Ukraine, and Russia, due to data availability issues. [6] As reported in Appendix 4, it seems that, except for Armenia, where institutions appear to be worsening, the other five countries show improvements in economic institutions after gaining simplified EU visa rights, when compared with the synthetic-control counterfactuals. However, all six SCMs seem to suffer from insufficient pre-treatment goodness of fit. Of the six countries, half have significant joint pseudo p-values for the overall post-treatment period: North Macedonia (p-value=0.091), Russia (p-value=0.012), and Ukraine (p-value=0). However, once we adjust for pre-treatment fit quality using RMSPE-standardized tests, the "adjusted" joint pseudo p-values increase sharply across all six cases, suggesting poor pre-treatment goodness-of-fit.

We believe these insignificant results align well with our front-end theory. Recall, trends in emigration from these six countries did not change substantially after their VFAs with the EU. VFAs are important to our theory only insofar as they can facilitate greater emigration. To the extent that they do not, we should not expect VFAs to cause any changes in institutions. And that is exactly what we see. Thus, we view these six SC tests as further placebo tests that lend more credence to our theoretical predictions.

5.2.4 Moldova's EU visa-free status in 2014

As a follow-up step to gaining access to simplified EU visas in 2008, the EU rolled out the Visa Liberalisation Action Plan (VLAP) in 2011 as a roadmap for Moldovans to eventually obtain EU visa-free status. After three years of negotiation, the European Parliament finally approved the short-term visa-free travel rights for Moldovan citizens in the Schengen Area on February 27 of 2014, which came into force two months later.

[6] Although data is available, we skipped Azerbaijan as its annual EU emigrant flow is on average below 0.1% of the population, or about a few thousand a year; therefore, any "emigration effect" should be expected to be minimal.

Like gaining access to simplified EU visas, gaining EU visa-free status in 2014 was another major shock that promoted westward emigration from Moldova, and we also expect it to have improved institutional quality in Moldova. So, although the 2008 shock may have had weaker effects after six years, the institutional improvements we observe in Figures 3-6 after 2014 are likely the combined effects of these two shocks. As an additional robustness check, we repeat the SCM tests shown in Figures 3-6, but with 2014 as the first post-treatment year. Not surprisingly, the institutional score of the actual Moldova still starts to diverge from, and then remain above, that of the synthetic Moldova after 2008, and continues to improve after 2014, suggesting that both the 2008 and 2014 emigration shocks improved Moldova's institutions. Since the patterns of the 2014 SCM trends are consistent with those of 2008, they are not included in the paper to save space but are available upon request.

However, the "pure" effect of the latter shock may not be separated from that of the earlier one. Regardless, because these two shocks affect Moldova's institutional quality in the same direction and the 2014 shock cannot affect Moldova between 2008 and 2014, our prior findings are not invalidated.

6. Mechanisms

Our results, including our placebo tests, suggest that we are picking up real effects of emigration on institutional quality in Moldova. However, our SCM does little to help us identify the mechanisms driving our results. Our results do suggest that emigration does not lead to institutional deterioration. But how exactly does emigration influence economic institutions in our case study? A short answer seems to be that the westward-migrating Moldovans, particularly those immigrating after gaining access to simplified EU visas in 2008, have been reshaping parliamentary election results since the late 2000s by transmitting and diffusing cultural information (Barsbai et al., 2017). In essence, economic institutions in Moldova were dramatically improved by reforms endorsed by the Moldovan diaspora and the officials they elected.

As a former Soviet republic, Moldova held its first-ever election in 1994, one of four parliamentary elections before 2008. In each of these elections, except for the 1994 election, the communist pro-Russian party, the Party of Communists of the Republic of Moldova (PCRM), won the popular vote. And the PCRM only lost in 1994 because its predecessor was banned in 1991, with the PCRM registering under its current name in 1994. This trend reversed immediately after our 2008 shock. In 2009, the PCRM failed to secure more than 50 percent of the vote for president, and it also lost the majority in the two subsequent parliamentary elections, one held in July 2009 and the other in

November 2010.[7] What is more, the PCRM has never won a majority in any election since 2010 and has gradually phased out into a small opposition party today. And these electoral shifts were driven largely by diaspora Moldovans voting from abroad at diplomatic missions. A summary of election trends throughout Moldova's history is provided in Table 2 below.

[Insert Table 2 about here]

This dramatic turning point in Moldova's history of parliamentary elections seems to align perfectly with the timing of the wave of westward emigrants triggered by the introduction of the EU simplified visa in 2008. In fact, it is this massive surge of Moldovan emigrants to the EU that has gradually shifted electoral outcomes away from the pro-Russian and anti-reform PCRM, which once held 71 percent of the seats in parliament in 2001, toward the pro-EU and pro-reform coalition that took the lead after 2009. Consequently, the newly elected pro-reform governments pursued reforms that embraced the EU and improved institutional quality, whose quantitative effects are captured by our SCM.

What is worth mentioning is that emigration has significantly improved Moldova's economic institutions, but not in other former Communist countries that have also seen changes in elections and increased emigration to the EU due to obtaining simplified EU visa status. We find that the difference lies in polling stations in EU countries. For example, we document no statistically significant improvement associated with entering into a VFA with the EU in Albania and Armenia, despite increased emigration. Indeed, though about a quarter of Albanians lived in the EU before their VFA, about 35%-45% of Albania's population lived in the EU by 2024. A key difference between Moldova and Albania, aside from emigration patterns, is that Albania did not have any polling stations in the EU until 2024-2025. While Armenia has a relatively smaller share of its diaspora living in the EU, it also does not host any polling stations, up to this day, in any of the EU countries. In contrast, Moldova set up its earliest polling stations at Moldovan embassies/consulates in Romania, Italy, France, and Germany in the early 2000s, expanding them to many locations outside the embassies/consulates after the surge in emigrant workers following its VFA with the EU. The ability of its EU diaspora to vote has greatly facilitated the role of emigration in Moldovan institutional development.

[7] There were three elections in 2009-2010 because the first two both lacked enough votes to elect a president.

Another piece of evidence also supports this mechanism, as illustrated in Figures 7 and 8. Moldovan immigrant stocks in the EU, either by citizenship or by birthplace, increased quickly after their VFA and did not go down until the middle to late 2010s, suggesting that although some Moldovan workers in the EU can be short-term circular immigrants, many of them actually stay in the EU and do not need to return home to vote. This suggests that, at least for Moldova, the "returnee migrants" channel is not necessary for emigrants to change their home country's economic institutions if polling stations abroad are available. Our finding also adds to the current literature (Elrick, 2008; Spilimbergo, 2009; Batista & Vicente, 2011; Careja and Emmenegger, 2012; Chauvet & Mercier, 2014; Mercier 2016; Barsbai et al., 2017) that emigration to the West serves as a bridge, bringing pro-reform information, culture, and political preferences back home through diaspora votes.

6. Conclusion

We provide robust evidence that emigrants from Moldova to the EU significantly improved the economic institutions of their home country. Our evidence suggests that emigration to more democratic, economically free countries can improve economic institutions back home. Our results further suggest that diaspora networks are a crucial mechanism behind this result. These diaspora networks transmitted institutional and cultural knowledge, as well as political preferences conducive to good economic institutions, by increasing voter turnout for liberal parties that support economic freedom. In cases where we document no significant improvements in institutions after an increased ease of emigration, we certainly do not document institutional drains associated with emigration.

Our results carry important policy implications. Scholars have long worried about a brain drain driven by the emigration of the highly skilled from poor countries (Bhagwati & Hamada, 1974). This worry includes a worry that emigration will reduce political pressures for institutional reform (Giesing & Schikora, 2023). However, our results suggest the opposite can happen. At least in the case of Moldova after 2008, emigration seems to have spurred institutional reform quite quickly by exposing a large share of Moldovans to better economic and political institutions. Competition operates in political markets, too.

However, political competition cannot function if individuals cannot switch governments. This is likely why the former Soviet Union spent so much time and effort building the Berlin Wall and preventing the free movement of its citizens. Our results suggest that current autocrats, like Kim Jong Un of North Korea, are receiving help from the immigration restrictions of wealthy, democratic, immigrant-receiving nations. By making walls redundant, we believe

our results suggest immigration restrictions contribute to institutional stagnation in poorer, less democratic, institutionally insecure countries.

And this is incredibly important, because institutions are a root cause of development and economic growth (Acemoglu et al., 2005; Rodrik, 2005). These differences in economic growth and development, in turn, drive emigration patterns (Hanson & Spilimbergo, 1999; Auer & Schaub, 2024). Therefore, if emigration leads to institutional improvements, it becomes "its own cure": poor institutions lead to emigration, which encourages institutional improvement. These institutional improvements then likely lead to higher standards of living, which reduces the incentive for those who stay behind to emigrate.

While we do what we can to make sure our results are credible, there is still more work to be done. Moldova is not the only country whose citizens have received the right to emigrate, and it is important to test if our results are subject to any boundary conditions. It is clear from our robustness checks that receiving greater ease of emigration without subsequent mass emigration does little for institutions. At the same time, research on past waves of mass emigration suggests that destination countries matter: while westward migration is associated with institutional improvements, past results also suggest eastward migration to poor institutions did nothing to improve institutions back home (Barsbai et al., 2017). By conducting more novel experiments, future researchers can test the boundary conditions of our results.

Totalitarians build walls and hide information for a reason. They want to prevent mechanisms that induce institutional improvements. They do not need to do that if immigrant-receiving countries build those walls for them, whether those walls are stone or virtual. That is why Mr. Gorbachev was once asked to tear down the wall. Our results suggest Mr. Kim Jong Un may not need to build walls and hide information as much as previously thought. The immigration restrictions of immigrant-receiving countries may be doing the heavy lifting for him and other dictators like him. Maybe it is time for Uncle Sam and Mr. EU to tear down their walls, if only just a little.

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Table 1: Summary Statistics and Data Sources

Variable	Num. of Obs.	Mean	Std. Dev.	Min	Max	Source
Economic freedom summary index scores	3,232	6.574	1.226	1.87	8.92	Economic Freedom of the World: 2023 Annual Report, Fraser Institute
Crude birth rate (per 1,000 people)	3,332	22.814	12.175	5.1	57.072	World Development Indicators, World Bank
Christian religion as the dominant religion	3,332	0.689	0.463	0	1	Religious Composition by Country, 2010, Pew Research Center
Real GDP per capita (constant 2015 USD)	3,332	13439.320	18421.190	138.8101	118141.5	World Development Indicators, World Bank
Polity2 score	3,304	4.356	6.281	-10	10	Polity5 Project, Political Regime Characteristics and Transitions, Center for Systemic Peace

Table 2: Parliamentary Election outcomes of the Party of Communists of the Republic of Moldova (PCRM), 2001-2021

Election Year	PCRM Vote Share (%), Total	**PCRM Vote Share (%), Diplomatic Missions (Diaspora)**	Notes
2001	50.07%	**N/A**	Landslide victory for PCRM and formed a majority government
2005	45.98%	**11.61%**	Reduced vote share but retained majority. Failed to reach the minimum 61 seats to elect a party leader as the president but eventually negotiated to get support from other parties to re-elect PCRM's leader, Vladimir Voronin, as the president.
April 2009	49.48%	**8.54%**	Failed to reach the minimum 61 seats required to elect a president, and mass protests triggered early elections in July 2009
July 2009	44.69%	**8.49%**	Lost majority
2010	39.34%	**6.85%**	Share continued decline, although it remained the largest single party in parliament
2014	17.48%	**1.33%**	Overtaken by pro-European parties
2019	3.8%	**1.56%**	Excluded from the legislature for the first time since Moldova's independence
2021	N/A	**N/A**	PCRM ran only as part of the Bloc of Communists and Socialists; the block won 27.17% of the votes and 32 seats; exact seat and vote share split not available

Note: Data source www. e-democracy.md. Moldova's parliamentary election requires a minimum 6% threshold for a single party to secure any of the 101 seats in parliament. Split votes from diplomatic missions are not available.

Figure 1: Annual Flow of Moldovan Immigrants to the European Union*

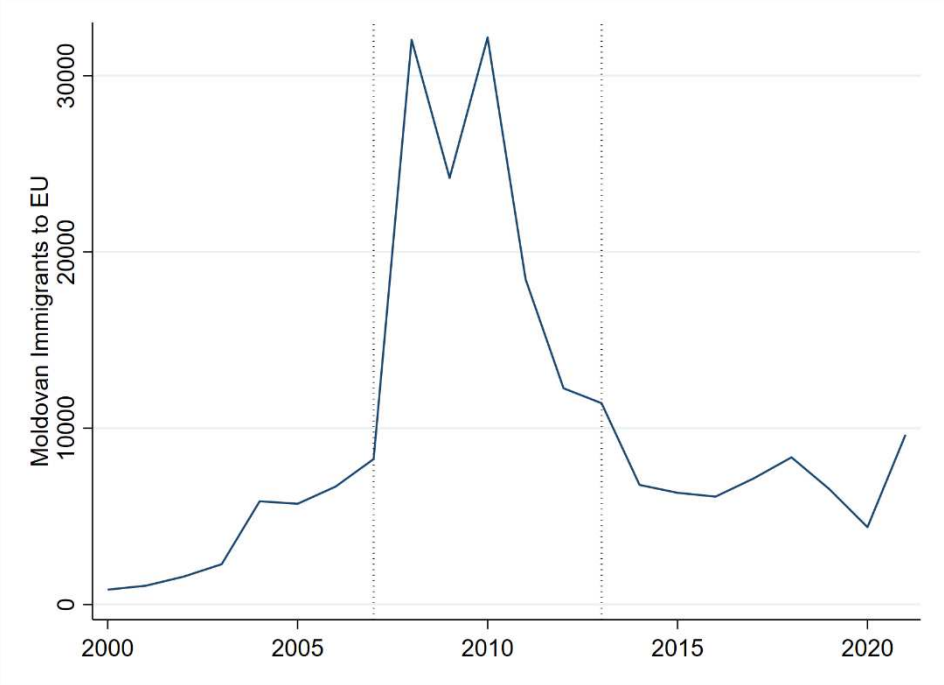


*Figure drawn by authors based on data from Eurostat

Figure 2: Moldova's Economic Freedom Scores

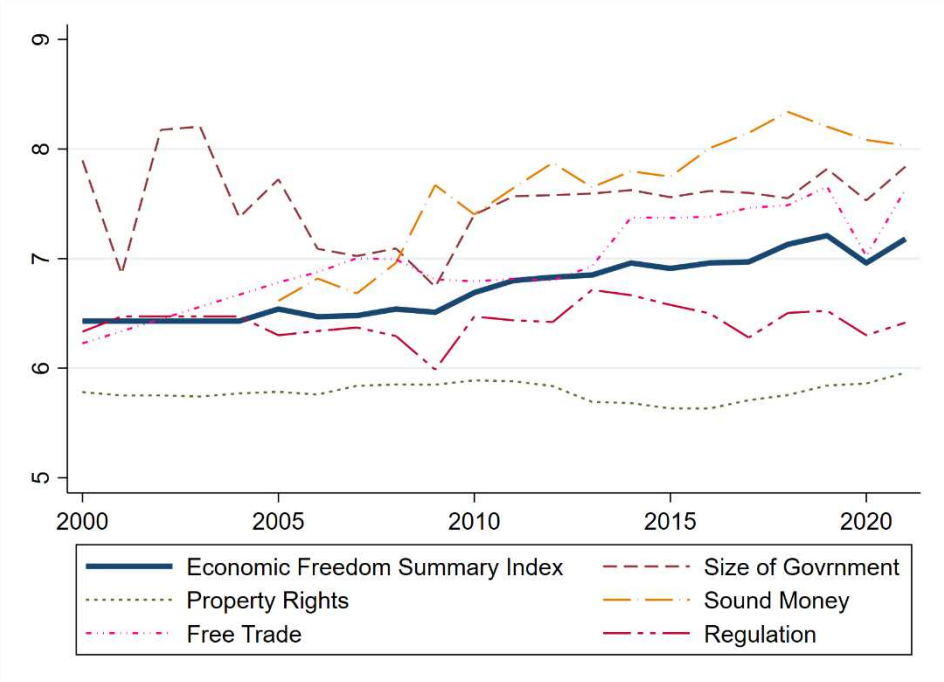


Figure 3: Treatment vs Synthetic Control Moldova, Before and After Gaining Simplified EU Visa in January 2008

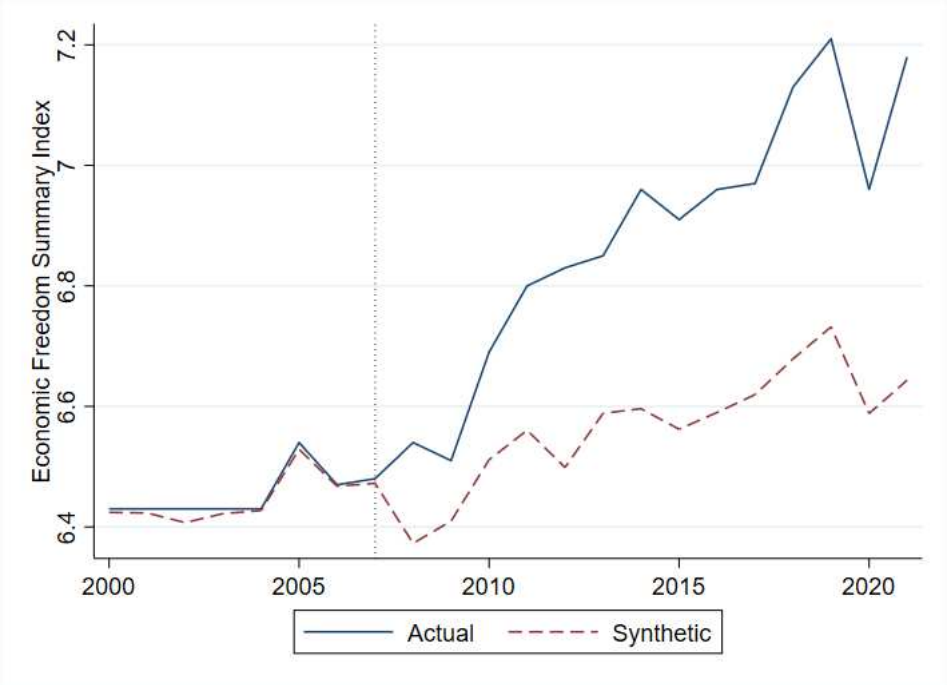
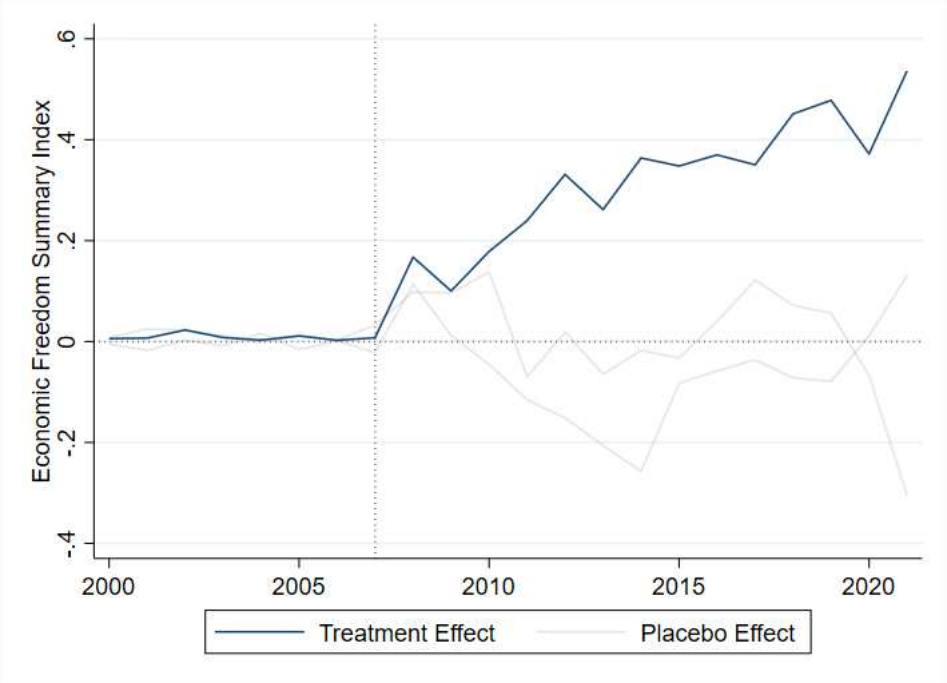


Figure 4: In-Place Placebo Tests, Treatment Effects Before and After Gaining Simplified EU Visa in January 2008



*Placebo countries with poor pre-treatment fitness, which is four times larger than that of Moldova, are excluded

Figure 5: Leave-One-Out Robustness Tests - Gaining Simplified EU Visa in January 2008

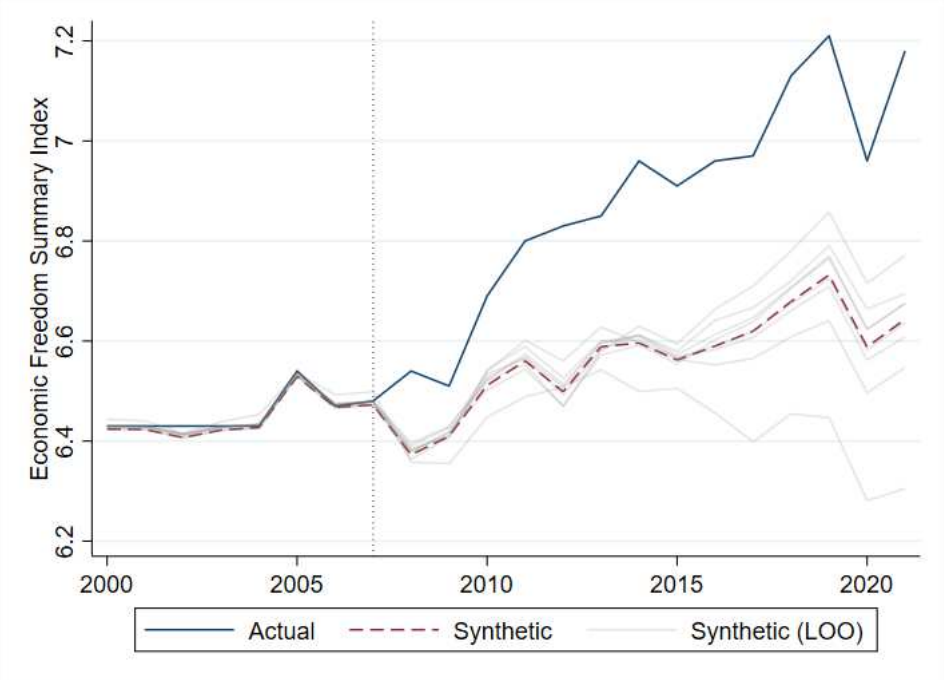


Figure 6: In-Time Placebo Test Before and After Gaining Simplified EU Visa in January 2008

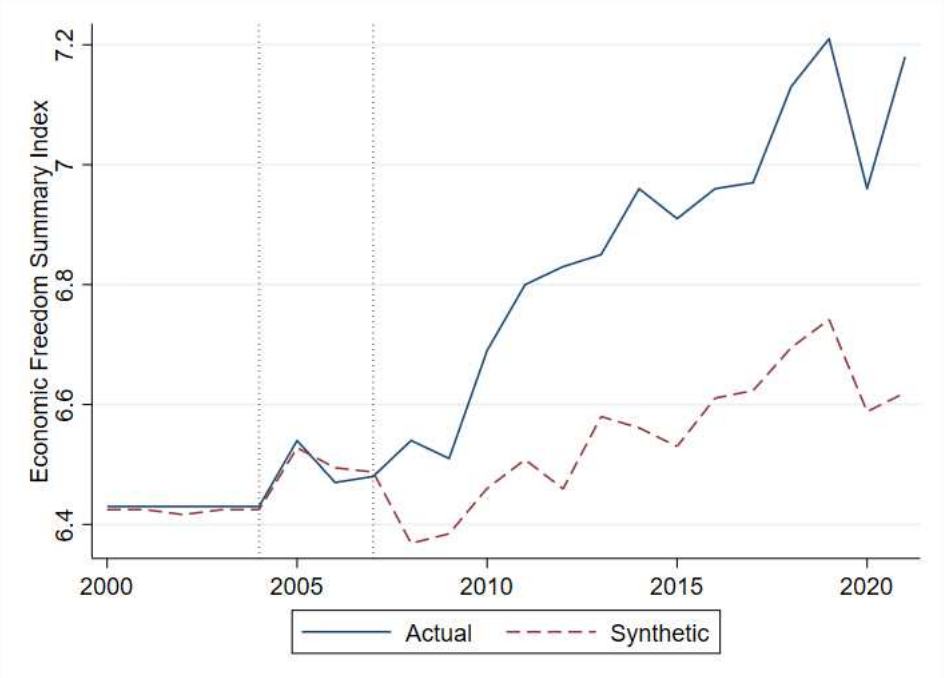


Figure 7: Stock of Moldovan Immigrants in the European Union, by Citizenship*

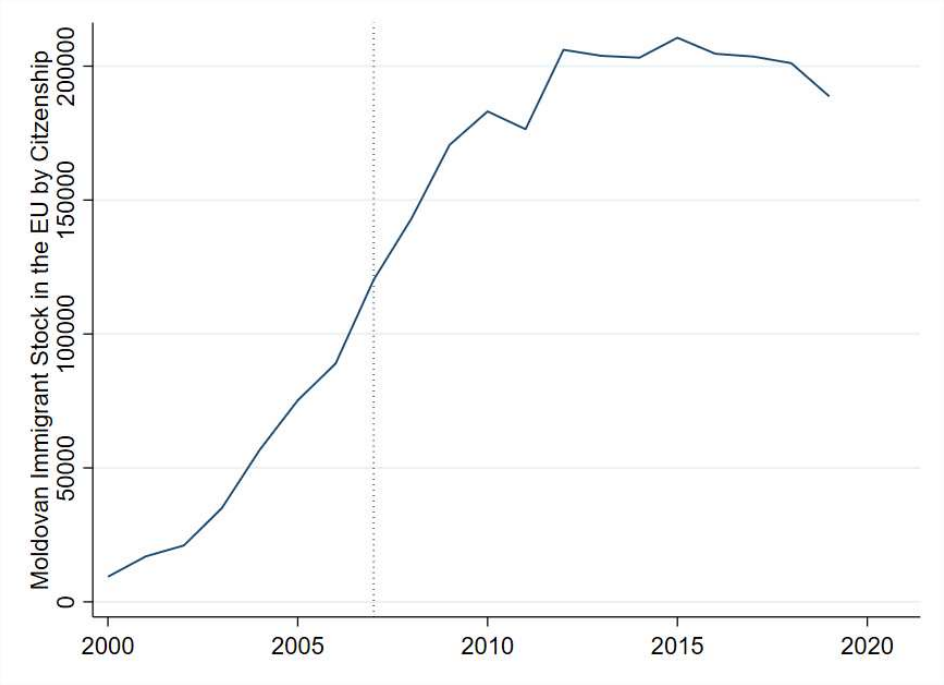


Figure 8: Stock of Moldovan Immigrants in the European Union, by Birthplace*

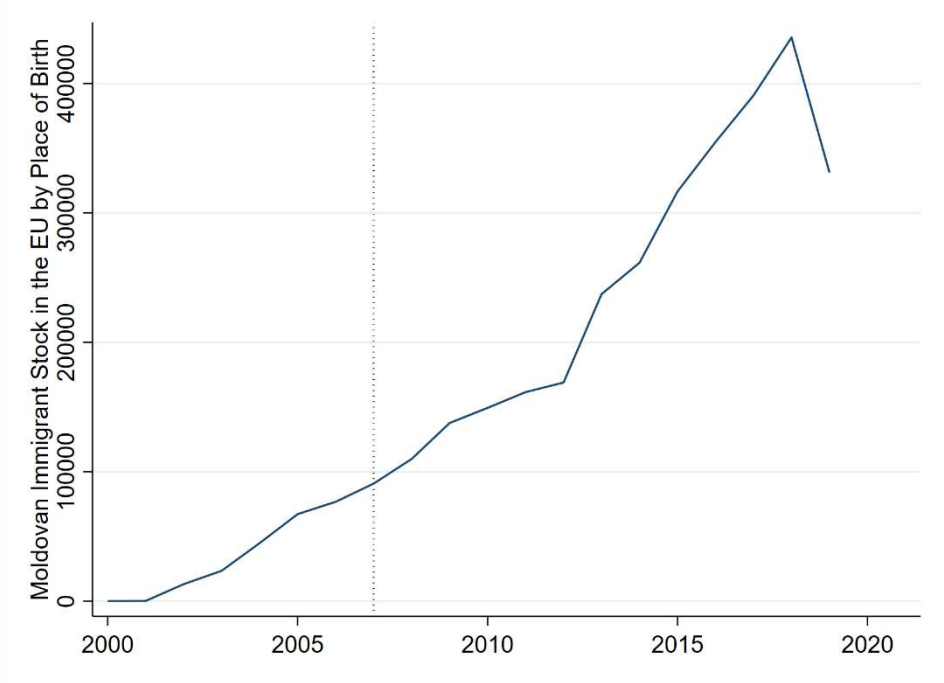


*Figure drawn by authors based on data from Eurostat

Appendixes

Appendix 1: Donor Counties and Their Estimated Weights for Synthetic Moldova - Gaining Simplified EU Visa Status in 2008

With all donor countries		Excluding EU donor countries	
Donors	Weights	Donors	Weights
BENIN	0.369	SOUTH AFRICA	0.341
SOUTH AFRICA	0.195	BENIN	0.260
FIJI	0.122	PHILIPPINES	0.133
NETHERLANDS	0.102	FIJI	0.114
CHINA	0.07	CHINA	0.065
PHILIPPINES	0.068	JORDAN	0.03
JAMAICA	0.063	JAMAICA	0.03
NEPAL	0.01	BANGLADESH	0.027

Notes: On the left panel, all countries that had similar experiences to Moldova, by either becoming EU members, gaining an EU simplified visa, or gaining visa-free status, between 2000 and 2021 are excluded from the donor pool, regardless of being former socialist countries or not. On the right panel, we further drop any EU donor country to avoid contamination from the 2009 European sovereign debt crisis.

Appendix 2: Goodness of Fit for Economic Freedom Summary Index Scores in the Pretreatment Period between 2000 and 2007 - Gaining Simplified EU Visa Status in 2008

	Actual Moldova	Synthetic control with all donors	Synthetic control excluding EU donors
2000	6.430	6.424	6.430
2001	6.430	6.423	6.429
2002	-	-	-
2003	6.430	6.422	6.428
2004	6.430	6.427	6.435
2005	6.540	6.529	6.534
2006	6.470	6.468	6.475
2007	6.480	6.472	6.478
Crude birth rate	12.212	27.694	27.343
Christian religion	1.000	0.919	0.878
Real GDP per capita	1722.683	6834.980	3266.842
Polity2	8.250	6.099	6.001
Pre-treatment Root Mean Squared Error (RMSPE)	-	0.006	0.006

*To avoid overshadowing the contributions of the control variables, SCM requires not including all years of the pre-treatment dependent variable as predictors, so the year 2002 is dropped to minimize the pre-treatment root mean squared prediction error (RMSPE).

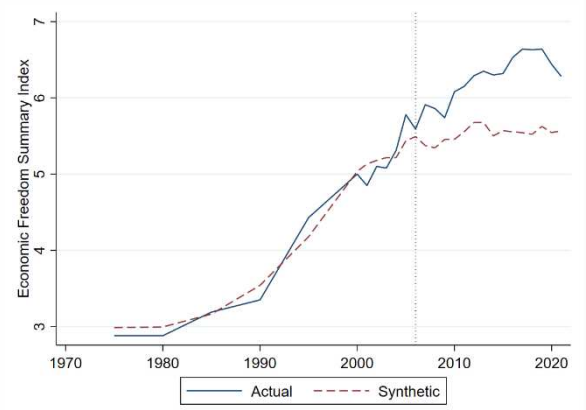
Appendix 3: Treatment Effects and Standard P-Values of the Pseudo T-Statistic - Gaining Simplified EU Visa Status in 2008

Year	With all donor countries		Excluding EU donor countries	
	Estimates	Standard p-values	Estimates	Standard p-values
2008	0.167	0	0.176	0
2009	0.100	0	0.103	0
2010	0.179	0	0.150	0
2011	0.240	0	0.198	0
2012	0.331	0	0.269	0
2013	0.261	0	0.222	0
2014	0.364	0	0.363	0
2015	0.348	0	0.347	0
2016	0.370	0	0.408	0
2017	0.350	0	0.404	0
2018	0.451	0	0.521	0
2019	0.478	0	0.569	0
2020	0.372	0	0.463	0
2021	0.537	0	0.632	0
Standard joint post-treatment p-value	0		0	

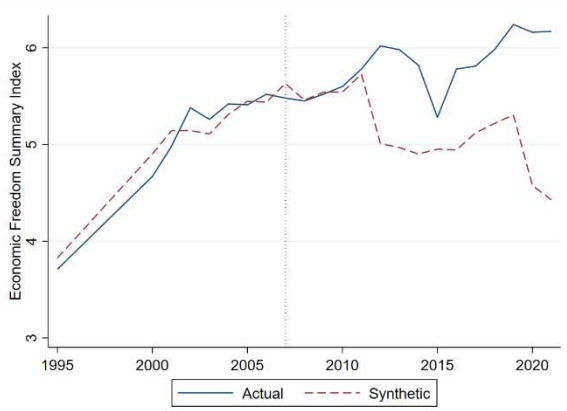
Notes: Positive estimates suggest an increase in institutional quality in a post-treatment year.

Appendix 4: Treatment vs Synthetic Control, Before and After Gaining Simplified EU Visa in Six Other Countries

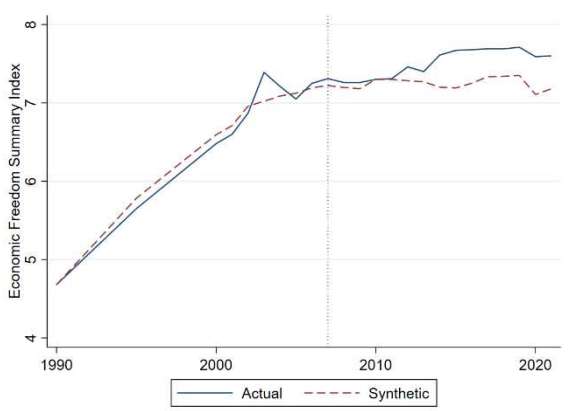
4.1: Russia, Gain Simplified EU Visa in 2007



4.2: Ukraine, Gain Simplified EU Visa in 2008



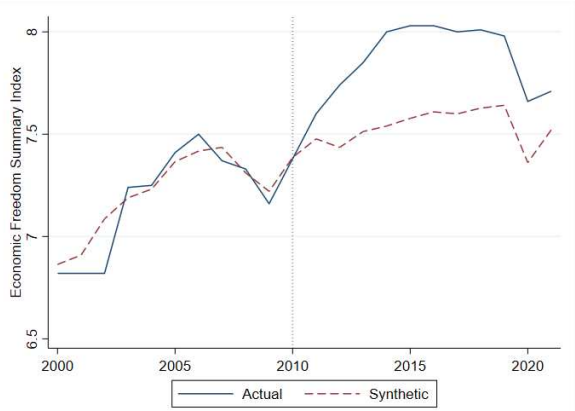
4.3: Albania, Gain Simplified EU Visa in 2008



4.4 North Macedonia, Gain Simplified EU Visa in 2008



4.5: Georgia, Gain Simplified EU Visa in 2011



4.6: Armenia, Gain Simplified EU Visa in 2014

