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Out-migration and Remittances

Evaluating the Relationship between Out-migration and Remittances on the Lebanese Economy

By

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Abstract

With socio-economic hardships arising and dramatically worsening as a cause of the present-day financial crisis, The World Bank has warned against severe cases of brain drain as emigration becomes increasingly desirable to the Lebanese population. Lebanon, already possessing one of the world's largest diaspora, can be characterized as being one of the largest remittance-receiving countries, where remittance inflows make up a significant proportion of national GDP. This thesis looks into the relationship between out-migration and economic development in Lebanon by analyzing relevant indicators to explore whether out-migration has a negative impact on the economy, i.e. brain drain, or if it may be beneficial as remittances are being contributed during such time of crisis. The thesis employs a single case study with the use of secondary quantitative data collected through various international organizations' databases and relevant academic publications. The data is then displayed graphically to be able to identify and discuss trends and changes observed. The thesis closes with a discussion about how out-migration may be both beneficial in that it serves as a 'safety net' for Lebanese households yet may also be negative in that it leads to brain drain. Suggestions for further research are included that argue for the importance of updated and complete official statistics on Lebanon so that more research may be conducted with higher reliability.

Keywords: Lebanon, Remittances, Diaspora, Out-migration, Brain Drain

Table of Contents

1. Introduction

With the rapid development of globalization, out-migration has for an extended period of time been a major issue for academics. With the primary concern mostly being the loss of human capital, the most significant consequence developing countries face with the out-migration of skilled workers is the perception of "brain drain". The concept of "brain drain" may be defined *as "the departure of educated or professional people from one country, economic sector, or field for another usually for better pay or living conditions"* (Merriam-Webster, n.d.).

Unlike the other countries in the Middle East region, Lebanon has been portrayed as being a country with a solid propensity to "export" inhabitants who are in search for better fortunes in foreign countries (Tabar, 2009). There are several factors that have contributed to this characterization ranging from national and international conflicts, corruption, and structural problems. Such factors have further contributed to economic instability and high unemployment rates being main reasons to why Lebanese emigration is at a high. The result is that Lebanon has become one of the world's most emigration-prone nations having a large diaspora whose numbers surpass that of the population residing in the home country (Abdul-Karim, 1992). Figures have shown that an estimate of 4 million Lebanese citizens live inside Lebanon while an estimate of 16 million live in diaspora, that of an estimation of 230,000 people having emigrated only in the first four months of the year 2021 (Anadolu Agency, 2021). In addition, the World Bank assessed Lebanon and warned against brain drain becoming an increasingly desperate option as the present-day crisis that became fully apparent in 2019 ranks in the top three most severe crises in the world since the mid-nineteenth century. The crisis entails specifically an economic and financial crisis, followed by COVID-19 and the explosion of the Port of Beirut in August 2020 (World Bank, 2021).

On the other hand, a very significant proportion of out-migration that results in the emigrant working abroad leads to remittances being sent back to the home country. In the particular case of Lebanon, the diaspora has always provided a regular inflow of remittances that constitute a large proportion of the Lebanese market share (Awdeh, 2014).

This paper seeks to explore the relationship between out-migration and economic development by examining trends of relevant indicators.

1.1 Problematization

As it has been established that Lebanon is considered as being a sending-country, the war in neighboring Syria has resulted in an influx of refugees to Lebanon making it a receiving-country as well. The fact that Lebanon can be considered both a country of emigration and immigration makes it a rich case to study when it comes to the effects this has on the economy. With the present-day financial crisis, which will be discussed in the upcoming sections of this paper, it is necessary to note that indicators reflect an increase in the number of people emigrating from Lebanon in search of better opportunities abroad.

It is vital to explore the effects that out-migration and the potential of brain drain might pose on Lebanon and its economy. With the current crisis being characterized by major inflation levels, the question arises regarding whether the effects of out-migration may compensate for the impacts of the crisis by the inflow of remittances in return. In other words, it seems interesting to explore this area of study that is mostly perceived as having negative impacts due to the broader worry that exists about population loss, brain drain, and the consequences that follow with such issues. However, it is striking to inquire into this subject to examine if in a situation of crisis, Lebanon's out-migration could be of a benefit for the economy in such a particular time.

1.2 Aim of Study and Research Question

The main aim of this paper is to explore the effect of out-migration and remittances on the economic development of Lebanon. Thus, this research employs a single case study method. Secondary quantitative data will be graphically presented and patterns will be analyzed in order to contextualize any effects of the indicators on Lebanese economic development.

Therefore, the following research question was formulated:

What is the relationship between out-migration and economic development in Lebanon?

The research question poses two potential hypotheses.

Hypothesis 1: Out-migration has negative impact on Lebanon since people who tend to leave are educated thus leading to brain drain.

Hypothesis 2: The effect of emigration may be beneficial to the Lebanese economy due to the inflow of remittances.

By presenting the two potential hypotheses stated above, it will be possible to address the research question by exploring the idea of brain drain against remittances and looking at two different scenarios set out in order to see if there is an effect on the Lebanese economy.

For the purpose of this paper, the term ‘economic development’ will be explored by looking at the Lebanese Gross Domestic Product (GDP) and Gross Domestic Product Per Capita as quantitative indicators that reflect economic growth. Such indicators are important because GDP gives the necessary information about the size of the economy and how the economy is performing (Callen, 2020). In addition, this paper looks at the trends of the inflow of personal remittances to Lebanon.

1.3 Relevance

The relevance to the real-world serves as a starting point to this research, yet there is the motivation to go through with the research since there seems to be a lack of existing academic literature on the concept of brain drain and its impact, especially on Lebanese development (Gustafsson and Hagström, 2018). Most of the research covers factors that lead to brain drain but fails to focus on the impacts of the phenomenon itself. In Lebanon, there exists insufficient research on whether out-migration has positive or negative consequences and if this has led to a perceived brain drain or not. Hence, existing research is lacking certain aspects (Robson and McCartan, 2016, p.62).

Moreover, the research will contribute to the existing general academic ‘brain drain brain gain’ debates. There are two sides of the discussion that drives the brain drain debate. The first is the notion that high-skilled migration deteriorates the human capital and fiscal revenues of sending countries (Bhagwati and Hamada, 1974). On the other hand, there is the opposite notion that a highly skilled and educated diaspora could be a powerful force for developing the local economy by foreign direct investment, remittances, and knowledge transfers. With this research, I aim to further investigate the possible effects that the emigration from Lebanon has on the economy.

More specifically, analyzing an exceptional case like Lebanon, that has experienced several consistent waves of out-migration, can provide valuable lessons on how the development of other countries that suffer from mass migration have and are being impacted.

1.4 Delimitation

As most case studies, my research is limited in regard to its external validity. The findings of this study are specific to the case I have chosen, that is Lebanon. However, as I have pointed out previously, the Lebanese case may serve as representative of other regions that have a high emigration characteristic and a similar economic situation, hence, indicative for a wider set of developing countries. Furthermore, the methodology and the theory framing my research are upholding the internal validity of my study and make it to a certain extent replicable in other contexts.

However, the largest factor delimiting the scope of this research is the data availability. As only limited and scattered data is available on out-migration by educational level from Lebanon, this research will not aim to prove brain drain but rather will claim that that there is the potential of it according to the scattered data. Moreover, the research limits its scope of analyzing out-migration to the period 1980-2020 and inflow of remittances to 2002-2020 as that is the only data points available.

1.5 Outline of the Thesis

This thesis is outlined as follows: I will begin by providing some background information regarding Lebanon and its previous out-migration trends to put the research into context. I will then go on to review the literature on brain drain in Lebanon and the existing brain drain debate, presenting the findings of previous studies that act as a facilitator for my own work. Then, I will introduce my theoretical framework, followed by the methodology I employ and the data I analyze. Subsequently, I will present the findings of my research and discuss my results. Finally, I intend to close this thesis with some concluding remarks that summarize my findings.

2. Background

2.1 Historical Overview of Out-migration from Lebanon

Out-migration from Lebanon is not a newly established aspect; it has been prominent for over a century. What has contributed to the dispersion of the Lebanese society over various parts of the world is a combination of factors mainly being economic desperation, religious discrimination, or political oppression (Abdelhady, 2008 p.57). However, there has been various accounts that affirm for economic factors as being the most influential in driving early emigration levels up (Suleiman, 1999; Naff 1993).

2.1.1 First Wave

Prior to the 1870s, part of the emigration from Lebanon was due to people being sent by the Maronite Catholic Church since the seventeenth century to learn in Rome and come back to serve the Church and its community as clergies (ibid.). Moreover, a part of the Christian population emigrated during this time to Egypt and the main centers of trade between Europe and the Near East (Hourani 1992). What seems to be remarkable over the coming years is that the spread of schools built by Catholic and Protestant missionaries was a direct cause to the spread of education in particular areas in Lebanon such as Mount Lebanon (Issawi 1992). Furthermore, social and economic capital transfer contributed by people who had emigrated strengthened education. Alongside the missionaries, remittances and capital that was saved by the migrants who returned is said to also have contributed to their children's education and skills, aiding in the improvement of their work opportunities (ibid.).

Overall, it is significant to point out that pre-WWI emigration from Lebanon served positively for political and economic development at that time. Of course there was positive impacts from the remittances sent home but it is also estimated that a third of the emigrants returned back to Lebanon and contributed to the development of the tertiary sector (Khater 2001). Khater (2001) writes about how they prompted cultural capitals that were beneficial in the spreading of a middle class culture and the development of concepts such as individualism.

2.1.2 Emigration post WWII

Between the two World Wars, emigration rates from Lebanon were not significantly high due to the depression that hit the world economy in 1929. Nonetheless, after 1945, emigration resumed and increased substantially in the 1960s. Moreover, after the outbreak of the Israeli war in the early 1970s, emigration numbers escalated.

During the period from 1950-1960, emigration seems to have slowed down as a result of the economic growth Lebanon experienced during that time. During this decade, the average annual number of emigrants was 3,000 (Labaki 1992, p.605). However, the number picked up again between 1960 and 1974. The average number of emigrants during 1960-1970 was 9,000 increasing to 10,000 between 1970-1975 (Labaki 1992). The reasons for this increase were mainly spurred by the rise in the demand for labour in the oil-producing countries of the Persian Gulf as a result of the oil boom (ibid.).

In addition, the start of the civil war in the early 1970s sparked much further emigration. It is believed that a net number of 990,000 Lebanese people, constituting 40 percent of the total Lebanese population then, are to have emigrated in the period between the years 1975 and 1989 (ibid.). The war that devastated Lebanon for a duration of fourteen years led to the destruction of the local economy while resulting in large sectors of the economy left unable to operate. Hundreds of thousands of Lebanese were forcibly made to leave their homes and villages while losing their resources and becoming homeless with very little or no economic, social, and educational services (Tabar 2009). In the 1980s, the political situation worsened as regional forces were involved in violent attacks such as the large scale Israeli invasion of Lebanon beginning in 1982, the Syrian army and Palestinian commandoes clashes in 1984, the Shite and Palestinian conflicts in 1986 and several inter-and intra-communal clashes in 1986 and 1989.

Lebanese people emigrating during the war were from diversified economic and professional backgrounds that comprised both white and blue collar lines of work (ibid.). However, the UNDP (Tabar 2009) estimates that 47 percent of all emigrants can be categorized as belonging to the professional and skilled labor force. The Lebanese youth (age group 20-29) constitute the majority of those who have emigrated in recent years. Hence, Lebanon, having an economic and political system that seems to have failed in the past and still is today, to generate sufficient job opportunities and decent living standards, has since the mid-19th century been uncapable in putting a stop to the increasing number of individuals leaving Lebanon. This will likely keep occurring as proven by the high emigration rates during the financial crisis that is happening in the present day.

2.2 The Present Financial Crisis

Since 2019, Lebanon has been heavily assailed by compounded crises involving an economic and financial crisis, followed by the COVID-19 pandemic, and finally the explosion of Port of Beirut on August 4th, 2020. The Spring 2021 Lebanon Economic Monitor (LEM) found that the Lebanese economic and financial crisis is likely to be ranking in the top three most severe crises globally since the mid-nineteenth century (World Bank 2021). The crisis is a result of a combination of compounded factors including a lack of political consensus over the agreement of effective policy initiatives.

The World Bank (2021) argued that the key constraints that hinder development in Lebanon are elite capture hidden behind confessionalism in addition to conflict and violence. These two distinct factors are in fact somewhat related to each other. In October 2019, demonstrations broke out all over the country protesting against the harsh economic conditions. In fact, Lebanon's GDP dramatically decreased from close to US$ 55 billion in 2018 to an estimation of $US 33 billion in 2020 while GDP per capita was declining by almost 40 percent (ibid.). The World Bank has reported that such a rapid contraction in a country's GDP is most often associated with conflicts or wars; however, during this time there was and still is no local or international conflict taking place in Lebanon.

It seems that monetary and financial turmoil are the driving crisis conditions, more specifically through the interplay between the exchange rate, narrow money, and high inflation (ibid.). Intense exchange market pressures in the local markets are a reflection of the troublesome fluctuations in the US$ banknote exchange rate. The official exchange rate of the Lebanese Lira being 1,507.5/US$ reached 33,000/US$ by the end of 2021. The majority of the Lebanese labour force is paid in the national currency and are in return experiencing a major decline in their purchasing power. In general, the World Bank Average Exchange Rate (AER) depreciated by 129 percent in the year 2020. This has resulted in soaring inflation with an average of 84.3 percent in 2020 (ibid.).

The burden of the crisis is mostly concentrated on smaller depositors and businesses as well as the bulk of the labour force. The banking sector informally implemented strict capital controls and have refrained from lending. Alternatively, banks have adopted a segmented payment system that differentiates between previous (pre-October 2019) dollar deposits and minimum new inflows of "fresh dollars". The former is prone to abrupt deleveraging as a result of de facto 'lirafication' and haircuts (up to 85 percent on dollar deposits). The continuing adjustment and deleveraging is severely regressive, with smaller depositors and Small and Medium Enterprises (SMEs) bearing the brunt of the situation. Indicators such as poverty and unemployment are inclining as the social impact is worsening. Lebanon has seen a drastic decline in essential services as a result of decreasing foreign exchange (FX) reserves and the high cost of FX import subsidies on food, gasoline, and medication. Acute fuel shortages have resulted in widespread power outages. Additionally, medicine is in limited supply, and health-care services have suffered greatly.

Furthermore, the impact of the Port of Beirut explosion has had immensely rough consequences at the national level. These add to the country's deep-rooted structural vulnerabilities that include poor infrastructure and unsteady public financial management. The World Bank Group, in collaboration with the United Nations (UN) and the European Union (EU), initiated a Rapid Damage and Needs Assessment (RDNA) right after the explosion to quantify the impact of the incident on inhabitants, physical assets, infrastructure, and service delivery. The RDNA used a "whole of Lebanon" strategy, including state officials, institutions, and civil society organizations. The evaluation determined that the worth of the destruction ranged from US$3.8 to US$4.6 billion, with losses to financial flows ranging from US$2.9 to US$3.5 billion. The impact has been notably extreme in important industries for growth such as banking, housing, tourism, and commerce.

3. Theoretical and Conceptual Framework

In this section, I will present the previous studies which act as a facilitator for my own research regarding the relationship between out-migration and economic development in general and in Lebanon. The previous research both provides the background information that sets my own research into an academic context and at the same time justifies the methodology adopted in my research. Moreover, I will explore the existing "brain drain vs brain gain" debate and underlying theories for the two sides that drive the discussion for this debate.

3.1 International Migration

The phenomena of migration, which is defined as "the movement of large numbers of people, birds, or animals from one place to another" (Oxford Advanced Dictionary, 7th ed.), has a long history. In its current usage, it involves the movement of people's displacement in the hopes of finding more personal convenience or trying to improve their material or social conditions. Rushdie (2002) writes that "the distinguishing feature of our time is mass migration, mass displacement, globalized finances and industries" (p.425). There are various events that lie behind the spike in mass migration that picked up since the second half of the twentieth century worldwide. Migration is rarely a clear and simple activity in which a person decides to relocate in search of better living conditions and quickly becomes assimilated in a new country (de Haas et al. 2020). Much more frequently, migration and settlement are long-term procedures that will affect the migrant for the remainder of his or her existence and affect following generations. Briefly, migration is often a collective action motivated by social, economic, or political factors (ibid.).

3.2 Theories of Migration

According to conventional knowledge, migration is prompted by regional variations in income, job, and other opportunities. The paradox is that economic and human development in disadvantaged cultures tends to initially boost migration. People's goals and ability to move often rise as access to education and knowledge, social capital, and financial resources improves (de Haas 2014). Since the late nineteenth century, several social science disciplines have come up with various theories that all aim to comprehend the nature and causes of migration processes. The assumptions, thematic focus, and depth of research of these theories vary, ranging from global assessments of evolving migration patterns to theories of migrants' transnational identities. Any migratory movement is the outcome of interacting macro- and microstructures. Macro-structures are large-scale institutional elements such as global political economy, labor market dynamics, interstate relationships, and efforts by origin and destination countries to regulate migration. Micro-structures incorporate migrants' activities, familial relationships, and beliefs. These two levels are linked by a number of meso-level social mechanisms and structures: examples of these include migrant networks, immigrant communities, business economic sectors serving to migrants and the migration industry. Such social institutions tend to encourage additional movement along pre-existing paths (de Haas 2020, p.43).

The nineteenth-century geographer Ravenstein (1885; 1889) made an early contribution to migration studies with two publications in which he outlined his 'laws of migration'. Ravenstein considered migration as an inextricably linked component of economic development, and he claimed that the primary drivers of migration were economic in nature. Moreover, according to Lee (1966), migration decisions are influenced by 'plus' and 'minus' factors in origin and destination places; intervening constraints (such as distance, physical barriers, immigration restrictions, and so on) and personal circumstances. Most migration theories may be separated into two main paradigms, which correspond to a more general divide in social sciences between 'functionalist' and 'historical– structural' theoretical paradigms. Functionalist social theory views society as a system, a collection of interconnected components (individuals, actors), similar to how an organism functions, with an intrinsic propensity toward equilibrium. In general, functionalist migration theory views migration as a beneficial phenomenon, or as an 'optimization' process that benefits the majority of people by boosting productivity and leading to greater equality within and across communities (de Haas 2020, p.44).

Historical–structural theories, which are grounded on neo-Marxist political economics, consider migration primarily as an exploitation mechanism. They stress how social, economic, cultural, and political systems limit and control human behavior in ways that do not typically lead to more equilibrium, but rather perpetuate such disequilibrium, unless governments act to redistribute resources. They stress the unequal distribution of economic and political power, and how cultural ideas (such as religion and tradition) and social behaviors tend to maintain such structural disparities. They regard migration as a source of cheap, exploitable labor that primarily serves the interests of the rich in receiving countries, produces a "brain drain" in origin areas, and thereby reinforces social and geographical disparities.

3.3 Functionalist theories

3.3.1 Push-pull models

The ‘push-pull’ model developed by Passaris (1989) is an analytical framework that identifies economic, environmental, and demographic factors that are considered to push people out of origin locations and pull them into places of destination. 'Push factors' are often population increase and population density, a lack of economic possibilities, and political repression. On the other hand, ‘pull factors’ include labour demand, land availability, economic opportunity, and political freedoms. According to this reasoning, 'gravity' models created by geographers in the early twentieth century were developed from Newton's law of gravity and forecast the volume of migration between locations and nations as a linear function of distance, population size, and economic possibilities in both the destination and origin locations (de Haas 2020, p.45). However, it seems that this model is incompetent in explaining migration due to its descriptive nature that take account of factors presumed to have ‘some’ part in migration in an arbitrary way without describing their function and linkages. Hence, there seems to be a lack of framework that brings these factors together in a more explanatory structure.

3.3.2 Neoclassical migration theory

Neoclassical migration theory, as part of the functionalist paradigm, believes that social forces gravitate towards equilibrium. At the micro-level, neoclassical theory regards migrants as individual, rational agents who make decisions based on a cost–benefit analysis in order to maximize their income. Migrants are assumed to go where they can be most productive and earn the greatest salaries. At the macro level, neoclassical theory regards migration as a process that enhances the allocation of factors of production; thus, migration will cause labour to be less scarce at the destination and scarcer in origin areas. However, the neo-classical theory assumes that this mechanism will ultimately produce a convergence between wages (Harris and Todaro 1970; Lewis 1954; Ranis and Fei 1961). Therefore, in the long-run, the concept of migration should aid in making wages and living conditions in sending and receiving countries to a greater extent equal, driving down people's incentives to migrate. This theory was developed by Todaro (1969) and Harris and Todaro (1970) to interpret rural-urban migration in developing countries yet it has as well been successfully correlated to international migration (Borjas 1989).

3.3.3 Human Capital Theory

In 1776, Adam Smith in his book "The Wealth of Nations" set the basis of what was later on to become the science of human capital. In the next two centuries, some schools separated the obtained capacities and skills as capital and the human beings as not being capital. Another school of thought established the thought that human beings themselves were the capital (Fitzsimons, 1999). Over the years, the human capital theory has been considered as an influential economic theory, used for government policy as an economic device.

Sjaastad (1962) applied the human capital theory to migration. He considered migration as an investment in human capital – such as knowledge and skills. People differ in terms of personal skills, knowledge, physical capacity, age, and gender, hence the level to which they may anticipate benefitting from migration will also range. People select to engage in migration in the same manner that they may invest in education, and they are anticipated to emigrate if the increased lifetime benefits (mainly increased earnings) in the destination outweigh the costs of relocating (Chiswick 2000). Disparities in projected "returns on investment" explain why the young and highly skilled tend to relocate. According to this view, student migration may also be seen as a human capital investment. Another key observation is that the geographical scope of labour markets typically expands with regard to specialization levels; it tends to be easier for lower skilled individuals to find employment close to home, whereas skilled individuals have it more difficult finding employment that is a right match for their skills.

3.4 Historical-Structural theories

Through the 1970s and 1980s, the historical-structural approach to migration offered an alternative explanation that regarded migration as an exploitation mechanism rather than an optimization mechanism as the neo-classical views saw it. It is seen as one of the outcomes of capitalism and unequal terms of trade between developed and underdeveloped nations (Massey et al. 1998). Migration is primarily viewed as a means of mobilizing cheap labour in exchange for capital. They emphasize that the availability and control of migrant labour is a product of colonialism as well as war and structural international imbalances (Cohen 1987). In this framework, historical–structural theory describes migration as a means of harnessing cheap labour for capital, principally to keep wages low and promote corporate profits and economic growth in destination nations while depriving origin nations of important labour and skills through brain drain (de Haas et al. 2020). In contrast to the neoclassical theory, historical–structural theory claims that migration widens geographical and class-based economic disparities by utilizing the resources of poor nations and people to enrich the already rich, contributing to greater inequalities within and across communities.

3.4.1 Dependency theory

Frank (1966) put forward the argument that global capitalism served as a key actor in the contribution to the 'development of underdevelopment' because poor nations were being drained of their resources due to migration. This leads to migration being viewed as one of the principal origins of underdevelopment and thus global inequality. As a contrast to the neo-classical view, the dependency theory reverses the idea that developing countries will be able to catch up with the developed countries; hence, underdevelopment is regarded as a result of these countries' exploitation of their resources, inclusive of their labour.

3.5 Critique of Functionalist and Historical-structural Theories

The functionalist and historical-structural migration paradigms are both critiqued to not be able to completely explain migration (ibid.). Firstly, neo-classical views do not fully take into consideration the historical reasons of movements and also minimize the role that the state and structural factors hold. Meanwhile, historical-structural views significantly emphasize structural factors as a cause and thus see the profit of capital as all-determining. They also do not succeed in demonstrating why individuals tend to have an interest in migrating and being employed elsewhere in spite of being exploited. To sum up, both types of approaches are suitable to form an understanding of different dimensions of migration processes, yet they share the flaw of being top-down perspectives that reflect individuals as passive reactors to larger macroeconomic forces. Thus, this paper will discuss a third set of theories that aid in explaining migration in a further array of structural constraints.

3.6 New economics and household theory approaches

As a critical response to neoclassical migration theory, the new economics of labour migration (NELM) formed. Stark (1978) suggested that in the context of migration to and from the developing world, migratory decisions are actually decided by families or households rather than independently. NELM also identifies variables other than revenue maximization as impacting migration decision-making. To begin with, NELM considers migration to be a risk-sharing act of families or households. They may decide that one or more of their members should move, not for increased earnings, but to broaden forms of income in order to spread and mitigate income threats with the funds remitted by migrants providing income insurance for families of origin (Stark and Levhari 1982). Above all, NELM regards migration as an investment performed by households who combine resources to allow for migration of one or more members. Moreover, NELM regards migration as a family investment strategy that allows for the provision of resources for investing in economic activities such as small-scale businesses. Through remittances, households will be able to surmount any market constraints by producing capital to use in economic activity that will enable the improvement of welfare (Stark 1980).

3.7 Migration and Development Debate for Origin Countries

It is not unusual for migrants to keep an active transnational relationship with their country of origin even after years of permanent settlement. In the majority of cases, the choice to migrate spurs from wanting to improve their family's living conditions back home. This is done by sending remittances back to their family which primarily allows them to minimize insecurity, advance housing, clothing, nutrition and education and health care services. It is also not unusual for migrants to return to their country of origin after they feel that they have sufficient funds to be able to invest in a business of their own. This section will primarily focus on the impacts of migration on the origin country's development. The majority of the academic literature on migration tends to focus on the impacts that the phenomenon holds on destination countries. While migration typically increases growth and innovation in destination nations, a far more controversial topic is whether migration promotes or impedes development in the countries of origin. This issue has sparked heated debate in policy and research over the previous decades, with 'migration optimists' contending that migration brings growth and prosperity to origin countries, and 'migration pessimists' arguing that migration undermines development by draining origin countries of scarce human and financial capital. In other words, pessimists envision a brain drain while the optimists envision a brain gain. This claim reveals the previously discussed general dispute between functionalist and historical-structural theories. As this research aims to fill that gap and explore the relationship between migration and development in Lebanon, as an origin country, this section is critical for this research. It will explore the background of the migration and development debate by looking at the theoretical basis of optimistic and pessimistic perspectives.

3.7.1 The Pessimistic View on Migration and Development

Migration pessimists argued that migration was not only harmful, but also one of the core reasons of underdevelopment in origin nations. Migration, according to Papademetriou (1985), contributed to "an unchecked depletion of their already meagre supply of trained labour – and the most healthy, active, and productive parts of their communities (p.111-112)". Scholars were concerned about the long-term development consequences of migration on origin societies. Migration was thought to be associated with brain drain, which was perceived as depriving impoverished nations of precious professional skills and draining their educational investments (GCIM 2005, p.23– 25). OECD nations have attracted the highest share of high-skilled migrants in what is sometimes presented as a worldwide race to acquire the "best and brightest" (Czaika and Parsons 2017). Increased student migration may well be viewed as an element of this brain drain.

Since the 1980s, the prevalent belief has been that remittances support consumption and that migrants rarely invest their money wisely. According to empirical studies, remittances were predominantly spent on consumption of commodities and 'non-productive' enterprises such as houses (Entzinger 1985). Because many of these goods (such as household appliances and fashionable clothing) had to be imported, this had the dual effect of crowding out domestic production while reinforcing the economies of richer nations, thereby widening the economic gap between origin and destination nations (de Haas et al. 2020). Pessimistic attitudes also saw migration's societal consequences unfavorably. Exposure to the relative wealth of return migrants and the products and ideas they bring would result in variations in rural preferences and an increase in consumerist attitudes (Lipton 1980). This further raised demand for imported items.

Migration would support the development of remittance-dependent, non-productive, and migration-obsessed populations through these mutually reinforcing social, economic, and cultural aspects (ibid.). These unfavorable viewpoints can be combined to form what Reichert (1981) referred to as the "migrant syndrome," or the vicious loop of migration, which leads to greater underdevelopment, which leads to more migration, and so forth. These types of views became mostly dominant in academia during the 1980s and 1990s.

3.7.2 The Optimistic View on Migration and Development

The decrease of labour surpluses, and thereby unemployment, in origin societies in addition to the influx of capital via remittances, were predicted to boost productivity and incomes in origin societies (Massey et al. 1998, p.223). Migration optimists believed that labour migration was able to bring about growth in origin and destination countries; the idea was primarily that while providing destination countries' industries with the needed labour, remittances and the skills gained abroad were anticipated to aid the modernization and economic growth of origin countries. Views such as these correspond within the neo-classical migration theory as migration is regarded a contributor to optimal allocation of labour and capital which in return leads to a higher level of productivity in both destination and origin countries. After the second World War, the thought was that large-scale capital transfers would allow poorer countries to catch up with rapid industrialization of more developed countries (de Haas et al. 2020). Therefore, migration and remittances were considered to play a key role in this course.

3.8 Remittances and Development

There was a relatively abrupt shift in judgment in the early twenty-first century. After years of pessimism and relative disregard of migration concerns by nongovernmental organizations and global institutions as the World Bank, policymakers realized migration's ability to stimulate economic and social development in origin countries. This newfound enthusiasm about migration and development was matched by a dramatic upsurge in North–South remittances. The publication in the World Bank's annual World Development Finance of a section titled 'Worker's remittances: an important and stable source of external development finance' (Ratha 2003) attracted attention to the economic importance of remittances for origin nations thus shifting the views in the existing debate. There was a newfound interest in remittances' contribution to development through various economic activities. Remittances shortly became a new 'development mantra' (Kapur 2003) and were commonly regarded as an optimal 'bottom-up' source of development assistance, as well as an adequate safety net for impoverished communities. Kapur argued that remittances reflect the notion of self-help, in which "Immigrants, rather than governments, then become the biggest provider of "foreign aid"' (Kapur 2003, p.10). Remittances are a significant source of income for developing countries. To illustrate, in the year 2017, the amount of remittances transferred to lower- and middle-income countries (US$ 442 billion) was over three times greater than the US$ 163 billion in official development assistance (ODA) and 82% of the US$ 537 billion in Foreign Direct Investment (FDI). Furthermore, it has been estimated that unreported remittances through informal routes may contribute 50% or more to recorded flows (World Bank 2007). Additionally, migrants send remittances directly to their family back home.

3.8.1 Migration and remittances' economic consequences

Data on remittances as a share of GDP indicate that it is typically the smaller countries with weak economies and high emigration rates that are generally most dependent on remittances (de Haas et al. 2020). Remittances received expressed as a share of GDP reflect the dependency on remittances. Ever since the 1990s, an increasing number of empirical studies have revealed the variety of migration outcomes, demonstrating that this influence is essentially determined by the unique conditions under which migration occurs. This trend toward more comprehensive perspectives reflects the rising impact of new economics of labour migration (NELM) and welfare approaches. These perspectives emphasize migrants' limited but real agency, as well as how internal and international migration is frequently a deliberate strategy used by poor and marginalized groups of people to overcome structural barriers (such as economic insecurity, disparities, and violence) and achieve better long-term well-being of families and communities in origin areas (ibid.). Various reviews of academia in this field based on empirical evidence show that despite being beneficial for welfare enhancement and poverty reduction, migration and remittances on their own are incapable of abolishing structural development barriers on national levels. Nevertheless, remittances are generally a stable source of income for households in origin countries that aids in sustaining and raising household income to enhance living conditions including healthcare and educational aspects. Moreover, on the national level, remittances represent a source of foreign currency that may be characterized as less volatile and increasingly reliable than other capital flows to developing nations. De Haas et al. (2020) emphasize the idea that remittances may in fact increase in flows under particular circumstances as a consequence of economic decline or environmental shocks.

Note that migrants and their families have excellent reason to expect significant financial advantages from crossing borders, especially those relocating from low-income to high-income nations. Income improvements can be substantial for both high and low-skilled workers. In Côte d'Ivoire, doctors can increase their real wages six times by emigrating to France (Clemens 2009). Additionally, such income benefits tend to compound over time, with language acquisition leading to enhanced labour market integration (Chiswick and Miller 1995). Other than revenues, migrants are at times driven by the motivation of their children gaining the opportunity of better living conditions and improved security. Another point is that remittances may allow households to invest in businesses such as small industry businesses. There are additional reasons to see migrants' propensity to spend money on consumption more positively than is commonly done. As suggested by Sen (1999) it is quite complicated to dismiss spending on matters such as education, food, and housing as 'non-developmental' since spending as these are prone to notably better people's well-beings. Furthermore, if remittances are spent on local products, services and housing, they can have considerable economic multiplier effects by creating jobs and incomes for non-migrants in the country (de Haas 2006). Aside from the importance of individual remittances in stimulating local economic activity, hometown organisations and other migratory groups contribute collective remittances to be used for community development initiatives (Goldring 2004).

4. Methods and Data

4.1 Research Design

This research employs a case study method. It is a single case study on Lebanon using quantitative data. The strength of choosing a case study lies in its intensity and focus on the research subject; thus, providing the ability to gain a deeper understanding of the Lebanese case (Bryman, 2016, p. 70). This approach was selected as it is practical for exploratory research since it provides an in-depth and comprehensive understanding of the chosen case. This type of design encourages the recognition of individual cases' circumstances, their extensive examination, and the display of cases in their wholeness and complexity. Furthermore, case study design may accommodate a wide range of data sources and data gathering methodologies (Punch, 2005). The aim is to generate knowledge that will allow for an analysis of whether migration and remittances have an impact on Lebanese development.

4.2 Data Collection

The research uses secondary quantitative data to explore Lebanese emigration and economic development from mainly the year 1980 and onwards. Because of the lack of official governmental statistics, data on emigration and economic indicators was sourced from databases of other organizations and agencies that are considered as being reliable such as the United Nations, The International Monetary Fund (IMF), and The World Bank. Other relevant data that were essential for this research were also extracted from various scientific journal articles, books, and relevant websites written by scholars and academics in the field.

Unfortunately, due to the newness and ongoing economic and financial crisis that has hit Lebanon, there is no availability of any existing data points on relevant quantitative indicators after the year 2020. On that note, data from different academic publications and articles served as helpful in understanding the severity of the present crisis in order to further aid in contextualizing and analyzing the patterns and fluctuations observed. The lack of systematic data resulted in the inability of serving as evidence for analysis yet still benefitted in creating an understanding of the Lebanese context and emphasizing results.

4.3 Data Analysis

The secondary quantitative data on Lebanese emigration and economic flows were collected and graphically displayed to identify and evaluate the scale, patterns and changes in the different indicators over the studied timeframe. By doing this, the characteristics of Lebanon and the relationship between the indicators is quantified and contextualized.

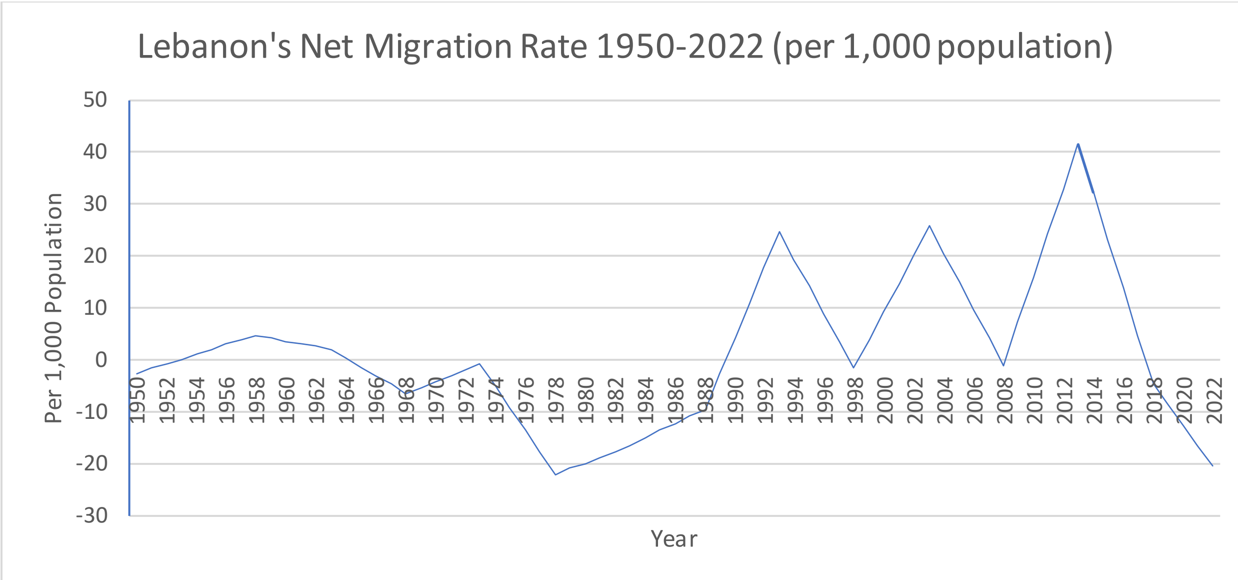
4.4 Case Study Design Limitations and Data Limitations

It is necessary to consider the possible limitations of this research. To the contrary, the single case study approach tend to have poor external validity due to their considerable and nearly exclusive emphasis on the setting of the chosen case and, as a result, a lack of possible generalizability (Punch, 2005). Hence, it should be highlighted that the purpose of this research is not to generalize its conclusions to other nations or locations, but rather to investigate the Lebanese context. However, as mentioned earlier, the case of Lebanon may be somewhat similar to countries that have a high emigration rate and a similar economic status, thus partly indicative for a larger set of developing countries. In addition, the lack of systematic data on relevant indicators and the newness of the crisis pose as limitations to the reliability of the study. The scarcity of data availability from official governmental institutions can limit the scope of the overall analysis and thus the way the results are portrayed.

5. Results and Evaluation

5.1 Emigration Rates from Lebanon

Due to the scarcity of data and lack of official records on emigration from Lebanon, this paper will rely on the net migration rate as an indicator most fitting to establish the best idea of emigration trends from Lebanon. The net migration rate is the number of immigrants minus the number of emigrants over a period, divided by the person-years lived by the population of the receiving country over that period, in this case Lebanon. It is expressed as net number of migrants per 1,000 population (United Nations Population Division, 2009). The data is represented below in Graph 1.

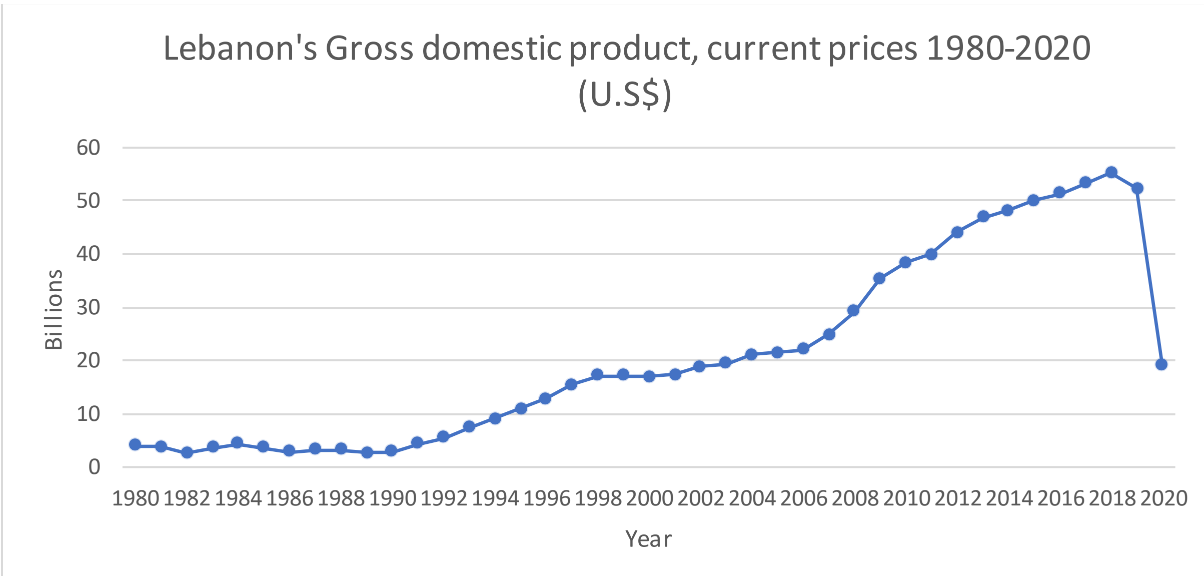


Graph 1: Lebanon's Net Migration Rate (per 1,000 population), 1950-2022. Data source: United Nations, Department of Economic and Social Affairs

In general, a positive net migration rate indicates that there are more people immigrating into a country than emigrating from it. The most dramatic peak in Graph 1 can be associated with the start of the Syrian civil war in early 2011. Since Lebanon is the country hosting the largest number of refugees per capita, with the most recent estimation being 1.5 million Syrian refugees (UNHCR, 2021), this fact tends to affect the net migration rate as there is an influx of refugees entering Lebanon.

On the other hand, the downward sloping curve in the graph reflects when the net migration rate is decreasing or equivalent to a negative value meaning that more people are leaving than entering the country. This is significantly reflected during the years of the Lebanese civil war starting in the early 1970s and in present times. It can be observed that since 2018 the net migration rate is decreasing which can be linked to the present financial and economic crisis in the country. This is a very significant period because it indicates extremely similar values to those recorded during the civil war meaning that Lebanese citizens are leaving the country. In section 3.2 of this paper, different theories of migration were put forward and discussed. The discussed functionalist theories and thoughts are most applicable to explain the trends in Graph 1. The push-pull model (Passaris 1989) can help in explaining the increase in the number of emigrants. Since 'push factors' generally include the lack of economic possibilities and political repression, which are major elements of the current financial crisis, the Lebanese population may be expected to emigrate to locations where 'pull factors' attract them. The data from the start of the crisis in 2018 nearing numbers witnessed during the civil war raises the question and interest in the similarities of the impacts of the war with the impacts of the financial crisis in regard to 'push factors' affecting emigration numbers. The two phenomena are different in nature but have both resulted in very similar emigration trends in the country which is important to note.

5.2 Lebanon's Gross Domestic Product



Graph 2: Lebanon's Gross Domestic Product, 1980-2020. Data source: International Monetary Fund, World Economic Outlook Database, October 2021

Graph 2 illustrates Lebanon's GDP in current $ US for the period 1980-2020. GDP is chosen as an indicator in this research that will allow for observation of Lebanon's economic growth. The World Bank (2021) defines GDP as "sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products".

Because this research aims to be transparent with the scarcity of data availability it is essential to point out that there is no official data on GDP prior to 1980 thus before and at the start of the civil war. Nevertheless, it is illustrated that there was no significant shifts in GDP during the 1980s. However, the year 1990 marked the end of the civil war. As demonstrated in the graph, Lebanon's GDP began to steadily increase when the war ended, generating a curve with an increasing slope. It was from the year 2018 to 2019, indicating the start of the crisis, when

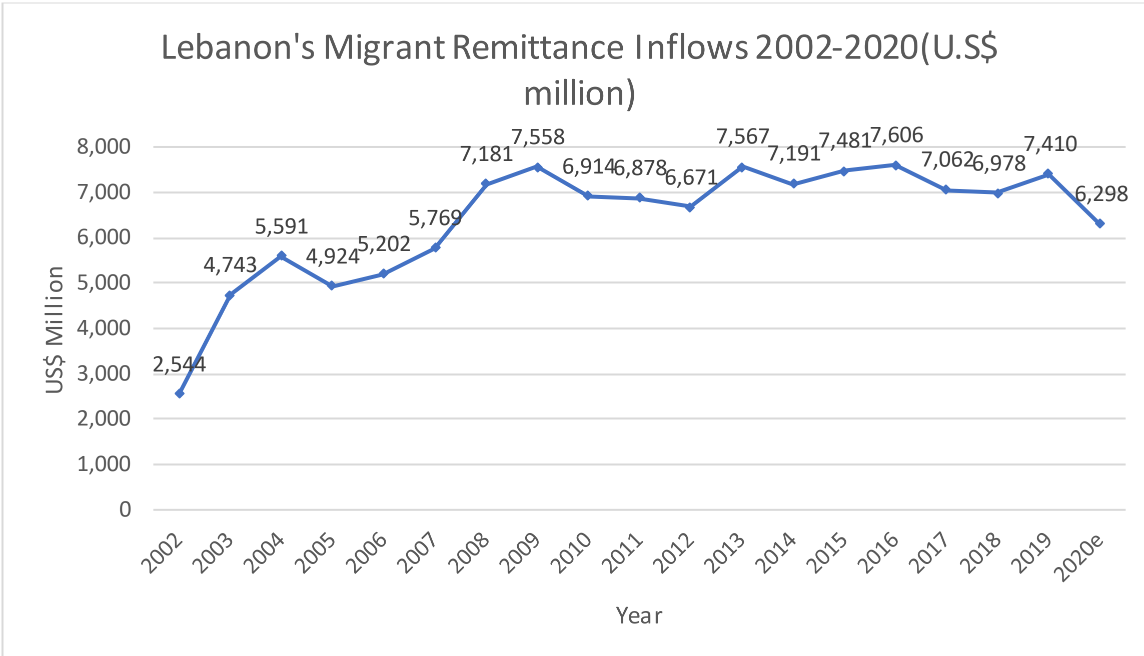
Lebanon began to experience a loss in GDP. However, from 2019 to 2020 the economy witnessed the most dramatic loss in GDP that it had seen during the period that this research is discussing. GDP plummeted from $52.3B in 2019 to circa $ 19B in 2020. What is alarming is the fact that Lebanon has not experienced economic growth since the year 2017.

As discussed previously, the factors contributing to this decline in GDP are many, including the collapse of the banking sector that led to the steady decline of the Lebanese currency, the economic stagnation of the COVID-19 pandemic, and the following explosion of the port of Beirut. This has all resulted in severe social hardships that are affecting the poor and vulnerable households and thus bolstering inequality. Moreover, the alarming state of political inaction is further reinforcing the severity of the crisis. The private sector is dangerously constrained by a crippled financial system which has negatively affected businesses all over the country. With lower firm productivity and less revenue generation, businesses have been forced to undergo layoffs and declare bankruptcies. The World Bank (2022) assumes that if no policy reform is done, real GDP is expected to contract by 6.5 percent in the year 2022.

5.3 Remittances

As the financial situation in Lebanon worsened, the Lebanese population became increasingly dependent on financial support from friends and family members residing abroad. This has resulted in Lebanon becoming one of the top remittance receiving countries worldwide in terms of percentage of GDP (BLOMINVEST Bank, 2021). Graph 3 below represents the inflow of remittances between the years 2002-2020. The figure shows steady fluctuations in the inflow of remittances throughout the years. However, in the year 2019, remittances amount to their fifth highest annual level between 2002-2019 being $6.29B.

It can be observed that the remittance inflows declined by 15.1 percent going from $7.21B in the year 2019 to $6.29B by the end of year 2020. Nevertheless, prior to that, remittance inflows increased by 6.31 percent between the year 2018 to 2019. The reason behind this may most fittingly be attributed to the global slowdown of economic activity of businesses following the onset of the COVID-19 pandemic as overall global remittance flows declined between 2019 and 2020.



Graph 3: Lebanon's Migrant Remittance Inflows 2002-2020. Data source: Knomad.org (2021)

Most importantly, it is essential to identify how much of Lebanon's GDP constitutes of remittance inflows which aids in determining the extent of reliance the economy has on remittances. The World Bank (ibid.) determined that the remittance inflows in Lebanon amounted to 18.9 percent of the country's GDP in the year 2020 in comparison to being equivalent to 14.52 percent in the year 2019. The high percentage directly indicates a remarkable importance level of contribution that remittances have on the economy during the period of dramatic GDP loss.

Moreover, the combination of factors that allowed for Lebanon's spiral into the crisis has led to no trust in the Lebanese currency. The exchange rate collapsing has resulted in unbearable domestic inflation. As presented in IFPRI's blog post (2022), the annual consumer price inflation in February 2022 reached 215 percent while food price inflation is close to double that at 396 percent. With the exchange rate continuing to deteriorate in such a manner, inflation rates are expected to remain skyrocketing.

5.4 Discussion

The mystery that this thesis is then trying to dig further into is whether during a time of dramatic GDP loss for Lebanon, may the inflows of remittances somewhat ease the burden of the crisis or just further worsen it as brain drain is prone to be a consequence?

As mentioned previously, Lebanon, having a significant rate of out-migration over the years serves as a suitable country to study such phenomena. As sending and receiving remittances have been facilitated by sending and receiving countries, the money sent "have emerged as a critical insurance mechanism for residents of countries afflicted by economic and political crisis (Lebanon during its civil war, Haiti) (…)" (Kapur, 2003). The importance of remittances is emphasized in the article published by Awdeh (2014) where he compares remittances to other sources of financial inflows into the economy. The comparison looks at inflows into the economy from remittances, exports of goods and services, and foreign direct investments (FDIs) to see how much they constitute of nominal GDP. The findings showed that from 2002 until 2010, inflows from remittances were larger than those from FDIs or from exports of goods and services. It was not until 2011 that remittances were exceeded by the inflows from exports. The factors affecting this change was due to economic activity being impacted by internal political instability and the impacts of regional political and security conflicts (ibid.). Similarly, in recent days as discussed prior, the proportion of remittances as a share of GDP declined. However, the contribution to GDP remains high at a value of 18.9 percent, higher than that during 2011 being 16.1 percent (ibid.). Furthermore, Lebanon is experiencing similar conditions today with soaring mistrust in the ruling political figures and state in addition to still hosting a large number of Syrian refugees. Nevertheless, the discussed data has shown that the sustainability of remittances to Lebanon despite all socio-economic and political obstacles.

It is also vital to note that due to the collapse of the Lebanese currency and exchange rate, friends and family members in the diaspora are able to send smaller amounts of money as it will result in a larger amount in LBP than prior to the financial crisis. Nonetheless, the people residing in Lebanon are in dire need of receiving remittances as local banks have imposed restrictions on withdrawals of sums in the country's local currency while completely cutting off withdrawals of dollars. Thus, it is needless to say that Lebanese households are becoming increasingly dependent on remittances as they have become part of a rescue plan to thousands of families in order to afford even the most basic necessities. This reality supports this thesis's second hypothesis that remittances pose as beneficial to the Lebanese economy. However, due to the unfortunate lack of existing research on Lebanon in this field in addition to the unavailability of recent research and databases, there is no official information that shows what these remittances are being used for in order to determine an overall impact on economic development in Lebanon. The research may still claim that on the macro level, remittances sent to Lebanon increase the economy's stock of foreign currency and when consumed generate a positive multiplier effect regardless of if they are on the biggest part used for household consumption. Furthermore, for several years, Lebanon stood vulnerable to a balance of payments crisis due to foreign debt being nearly five times the size of the country's exports. Hourani (2005) discusses this in her publication and attributes it to be a result of the remittances sent by the diaspora being closely equivalent to Lebanon's exports. Thus, the ratio of the economy's debt to exports is halved when one takes remittances and includes it in the denominator. They serve as a 'safety net' for most households in an economy with rising unemployment rates and few economic opportunities.

On the other hand, one cannot disregard the notion of potential brain drain as a consequence to the rising emigration rates. Although there is a lack of existing data on emigration by educational level to fully determine whether brain drain exists or not, scattered data has been outsourced from various reports that aid in establishing a general picture of possible brain drain in Lebanon. In 2013, outward migration was 810,000, equivalent to 18 percent of the total population, which of half have completed secondary education or higher (ETF, 2018). It has also been identified that most graduates in the fields of electricity, gas, and water supply (85 percent) choose to move abroad due to better living conditions and job opportunities when Lebanon is in fact in dire need of skilled professionals in such fields. The Lebanese diaspora come from various social and cultural backgrounds and generally possess skilled education which results in an ageing local population and reinforces the idea of brain drain (ibid.). Moreover, in September 2021, the Director-General of WHO warned that brain drain in the Lebanon's health sector was rising at an alarming rate as about 40 percent of skilled doctors alongside nurses have emigrated both temporarily and permanently.

6. Conclusion

6.1 Research Aims and Findings

To conclude, this thesis aimed to explore the effect of out-migration and remittances on the economic development of Lebanon. From the research findings, it is shown that out-migration has for a long time resulted in Lebanon's dependency on remittances and thus on the most part serving as a safety net for Lebanese households during times of crisis. Even if remittances go to personal use such as consumption it results in positive multiplier effect which in return serves beneficial to the economy. Moreover, during a time of loss in GDP, the country's inflows of remittances has shown to be steady and significant. This reinforces the hypothesis that claims out-migration may be beneficial to the Lebanese economic development through the inflow of remittances from abroad. Remittances are an essential source of foreign currency for the Lebanese economy and ensure the provision of a significant part of consumption. On the other hand, as more people are emigrating and hold educational degrees, the notion of brain drain cannot be disregarded. However unfortunate, it is not fully possible to scientifically prove brain drain in Lebanon without official statistics on emigration by educational level. This thesis understands the implications with the unavailability and scarcity of data in establishing a final answer to the research question posed. Nevertheless, progress has been made by looking at available evidence and weighing them against the two plausible hypotheses.

6.2 Implications and Future Research

The largest implication to this thesis and any similar research to be conducted on Lebanon is the unavailability of official statistics on relevant indicators. Thus, most important is to raise awareness of the remarkable need for official national and international agencies to retrieve updated statistics and databases allowing for scientific research to be conducted.

Lebanon may enhance its efforts to benefit from the large amounts of remittances being sent by the implementation of an inclusive plan, especially in such a time of crisis, which can substantially raise the impact of the diaspora on economic development and most importantly job creation to in return increase opportunities for the people that are choosing to emigrate for a better future.

Future research may also focus on retrieving qualitative data through interviews with diaspora to in a detailed manner identify and explore what types of economic activity their remittances are being used for. This will also allow for a more detailed picture of the impacts of remittances during times of crisis.

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