Illegal Immigration, Foreign Aid and the Transit Countries

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This paper examines the problem facing an advanced, final-destination country as it seeks cooperation from its less-well-off neighbours to impede unauthorized, third-country migrants from transiting their territories. With that aim, it transfers aid to the transit countries in support of their border-control efforts. Aid recipients, however, may have an incentive to divert resources to border security objectives other than immigration control. We characterize the donor's optimal allocation of aid between the transit countries and the optimal use of aid by the latter in the Nash equilibrium. These values of the policy instruments are subsequently compared with those in equilibrium where the transit countries (i) compete for a share of aid, (ii) collude to maximize joint welfare and (iii) when they follow the donor who moves first.

JEL Classification: F22

Key Words: Foreign Aid, Immigration Control, Transit Countries

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