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**What are Migrants Willing to Pay**

**for Better Home Country Institutions?:**

**The Case of Viet Nam**

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**Abstract**

We conduct the first contingent valuation investigation of the preference of international migrants for better home country institutional quality. Our study uses contingent valuation questions in a survey of Vietnamese migrants living in New Zealand (NZ) in 2016 to establish the compensating differentials that make those migrants indifferent between residing in New Zealand and returning to Viet Nam (VN) in hypothetical scenarios. We find that the estimated willingness to pay for an incremental unit improvement in institutional quality in Viet Nam is, on average, NZD 79.80 per week (approximately 33 percent of the average weekly wage in Viet Nam for the same period), and positively associated with the respondents’ age and the perceived importance of institutional quality in Viet Nam to their repatriation intentions. This study underscores the importance of institutional quality to migration decisions by showing that migrants are willing to trade-off part of their regular income for better home country institutional quality.

**Keywords**

return migration

institutional quality

contingent valuation method

willingness to pay

Viet Nam

**JEL Classification**

F22; O15; H40

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# **1. Introduction**

Institutions of various types have been recognized as important drivers of the spatial mobility of people. The quality of institutions not only shapes emigration (Baudassé *et al.* 2018), but also matters for return migration decisions (Tran *et al.* 2018a) and return migration intentions (Tran *et al.* 2018b). The persistent gap in institutional quality between countries encourages individuals and families to emigrate from countries governed by weak institutions, and steers them to destinations with advanced institutions. The literature on the motivations for return migration argues that migrants have an intrinsic preference for the home country, and that positive homeland amenities are strong pull factors influencing return migration decisions (Gmelch 1980). Because migrants might gain higher utility from consumption in the home country, some of them would be willing to give up positive wage differentials and higher living standards in developed host countries to return to less developed home countries to maximize their life-course utility (OECD, 2008). However, return migration is also sensitive to the home-country social and institutional context (Cassarino 2004). Empirically, poor quality of institutions in the home country acts as a negative pull factor, reducing the willingness of migrants to return (Tran *et al.* 2018b).

Given migrants’ preference for the home country and the importance of institutional quality in return migration decisions, migrants would be better off if the institutional quality gap was reduced or eliminated. A question arises as to how strong the preferences of diasporas are for home-country institutional quality. In other words, are migrants living in a host country with higher institutional quality willing to pay for an improvement in the institutional quality in their home country? The current study addresses this question by estimating the compensating variation, which is the maximum that Vietnamese migrants living in New Zealand would be willing to pay for better institutional quality in Viet Nam, using the contingent valuation method (CVM).

The CVM is a survey technique that has been used widely to elicit the economic trade-off a person would make when presented with a hypothetical choice, and is frequently used to estimate the value of non-market goods or services (Carson 2012, Kling *et al.* 2012). This study pioneers the measurement of the implicit monetary value of an improvement in institutional quality by means of the CVM applied to the return migration channel. Notably, this is the first application of the CVM to measuring the willingness to pay for institutional quality, using a survey of migrants.

The remainder of this article is organized as follows. Section 2 establishes the theoretical background. Section 3 describes the research design and data. Section 4 reports the results. Section 5 concludes.

# **2. Theoretical Background**

In the static human capital model, migration is determined by exogenous wages, economic costs of migration, and *inter alia* the quality of institutions (see Bodvarsson *et al.* 2015). Chiswick (1999) broadly defined migration costs to include the fixed monetary costs of moving and the full costs (monetary and psychic) of relocating in, and adjusting to, the destination. The full costs of relocation are individual-specific, and depend on a migrant’s skills, his or her preference for the home country, and contextual conditions in both the home and host countries (Clark *et al.* 2007, Grogger and Hanson 2011, Hatton and Williamson 2011). To capture the effects of institutions, Hatton and Williamson (2011) used the compensating differential to represent the non-economic preference of a potential migrant for the home country.

If institutional quality in the home country is worse than that in the host country, the compensating differential in favour of the home country will be negative, thereby increasing the net benefit of migration. Isolating the influence of wage differences, migration costs, and institutional quality, migration decisions depend on the net benefit gained from the before tax wage change (purchasing power corrected) in the host country compared with the home country, net of migration costs and the compensating differential for institutional quality in the home country. Theoretically, migration decisions depend on both the after-tax wage difference and the tax difference, with the tax ‘buying’ utility-yielding public goods. Therefore, it is possible to refer to the before tax wage difference in this identification by assuming that the income-adjusted level of public goods in both countries is the same and funded by the tax rate multiplied by the gross wage. Institutional quality can then be interpreted as measuring the quality of the public goods.

Appling the static human capital framework to the return migration decisions of Vietnamese migrants living in New Zealand, the net benefit gained by an individual with skill *i* when considering returning from New Zealand to Viet Nam permanently (labelled ) is given by:

|  |  |
| --- | --- |
|  | (1) |

where is the before tax wage rate of an individual with skill *i* in country *j = {NZ,VN}*, represents net return migration costs (corrected for the psychic costs of living abroad and the difference in amenities between the two countries) incurred when an individual with skill *i* returns from *NZ* to *VN*, and denotes the compensating *differential* in favour of institutional quality in NZ of an individual with skill *i* (that is, . All variables are measured for the same time period, that is, interpreted as costs or benefits per period. Note that for most Vietnamese migrants living in New Zealand, , and which renders . Since there is some return migration actually observed, for those migrants and the following would hold:. An individual is indifferent between residing in New Zealand and returning to VN when in Equation (1) is equal to zero, which implies that:

|  |  |
| --- | --- |
|  | (2)[[1]](#footnote-1) |

or

|  |  |
| --- | --- |
|  | (3) |

Estimates of the differential in favour of institutional quality in New Zealand, , can be obtained by means of Equation (3). The higher Vietnamese migrants living in New Zealand perceive institutional quality in New Zealand to be relative to that in Viet Nam, the greater will be, thereby decreasing the net benefit of returning to Viet Nam. Consequently, they would require a much higher wage rate in Viet Nam,, relative to their current wage rate in New Zealand, , to offset the perceived gap in institutional quality between the two countries in order to be indifferent between living in New Zealand and repatriating to Viet Nam.

The required wage rate in Viet Nam may be elicited by means of contingent valuation (CV) questions. The discrepancy between the required wage rate in Viet Nam and the current wage rate in New Zealand establishes a wage differential known as an equivalent variation for a potential unfavourable change in institutional quality resulting from repatriation, given the expected migration costs, psychic costs and the amenities available in New Zealand and Viet Nam. This wage differential can then be used as a starting point when comparing hypothetical scenarios that involve varying institutional quality in Viet Nam, controlling for other differences between Viet Nam and New Zealand.

# **3. Research Design and Data**

This study scrutinizes primary data collected using a survey of Viet Namese migrants living in New Zealand in 2016. The multi-purpose questionnaire included two CV questions designed to establish the compensating differentials that make the respondents indifferent between living in New Zealand and returning to Viet Nam. The two CV questions, which took the form of payment cards with ascending categories, allowed the respondents to choose required income intervals. Each CV question was followed by an open-ended question, asking the respondents to state an exact amount of income within their chosen intervals. If the respondents did not answer the open-ended questions, the mid-point method was applied to transform the required income intervals into continuous variables. Before answering the CV questions, the respondents were asked several questions related to their background characteristics, migration experience, integration in New Zealand, ties with Viet Nam, evaluation of institutional quality in the two countries, and the importance of institutional quality in Viet Nam to their repatriation intentions.

The first CV question:

*Given your perceptions of the difference in institutional quality between New Zealand and Viet Nam, what would be the smallest level of weekly income before tax in Viet Nam where you would be happy moving back to Viet Nam permanently?*

was designed to establish the weekly income in Viet Nam that would make the respondents indifferent between living in New Zealand and moving back to Viet Nam permanently. This income then compensates for the perceived differences in institutional quality and other amenities between the two countries, as well as migration costs. Hence:

|  |  |
| --- | --- |
|  | (4) |

where is the smallest weekly income in VN that renders in Equation (1) greater than zero. indicates the required income elicited by means of the first CV question.

The second CV question:

*Now imagine that the institutional quality in Viet Nam changed so that it was equal to New Zealand in all ways* (*and everything else remained the same*)*. If this happened, what would be the smallest level of weekly income before tax in Viet Nam where you would be happy moving back to Viet Nam permanently?*

was designed to determine the weekly income in Viet Nam that would make the respondents indifferent between residing in New Zealand and returning to Viet Nam permanently, given a hypothetical scenario where the institutional quality gap between the two countries was eliminated, that is, = 0, but all other differences between the countries remained the same. As a result of holding institutional quality in both countries equal, this required income differential includes the compensation for the perceived costs of return migration from New Zealand to Viet Nam, also accounting for differences in amenities and psychic costs. Substituting, = 0 in Equation (4), we get:

|  |  |
| --- | --- |
|  | (5) |

where denotes the smallest level of weekly income before tax in Viet Nam that renders in Equation (1) greater than zero under the assumption that there is no loss in institutional quality when migrating from New Zealand to Viet Nam. exhibits the required income elicited by means of the second CV question.

By subtracting from , we establish the weekly compensating differential for the perceived difference in institutional quality between New Zealand and Viet Nam, *ceteris paribus*:

|  |  |
| --- | --- |
|  | (6) |

This compensating differential can be referred as the respondent’s willingness to pay (WTP), that is, the maximum amount of money that the respondent would be willing to give up per week, during the rest of his or her working life, for an improvement in institutional quality in Viet Nam that is enough to offset his or her perceived gap in institutional quality between the two countries. Since and in Equations (4) and (5) cancel out as a result of the subtraction, the WTP is the difference between the required amounts of income elicited by means of the CV questions, given by:

|  |  |
| --- | --- |
|  | (7) |

A major strength of the WTP calculation in Equation (7) is that it is independent of respondents’ current income in New Zealand, which might subject to measurement error and which many respondents may be reluctant to provide accurate answers to, and independent of return migration costs and psychic costs, which are hard to capture in a survey.

However, the perceived gap in institutional quality between the two countries will vary across respondents. Hence, a metric for institutional quality needs to be designed in order to define the WTP for a one-unit improvement in institutional quality. The latter can be calculated by dividing the left-hand side of Equation (7) by the individually perceived gap in institutional quality in predefined units. The respondents’ perceptions of the disparity in institutional quality between New Zealand and Viet Nam were explored by means of questions asking the respondents to successively evaluate 30 items pointing to different dimensions of institutional quality[[2]](#footnote-2) in the two countries. These questions were answered by five-point Likert scales (*Very Poor, Poor, Acceptable, Good, and Very Good*). The Likert scales were assigned scores ranging from one to five, where higher scores corresponded to better institutional quality, as subjectively perceived by the respondents. The perceived gap within an item is the score of that item in New Zealand minus the score of the same item in Viet Nam. For instance, if an item was scored five (*Very Good*) in New Zealand and three (*Acceptable*) in Viet Nam, the perceived gap of that item is two units. Since there are 30 items, the overall perceived gap in institutional quality between the two countries is the average value of 30 perceived gaps, rounded to the nearest integer.[[3]](#footnote-3) As a result, the marginal willingness to pay is calculated as:

|  |  |
| --- | --- |
|  | (8) |

where is the index of an individual’s perceived institutional quality difference between New Zealand and Viet Nam, calculated as outlined above. Equation (8) measures the WTP for a one-unit improvement in institutional quality in Viet Nam. The estimated MWTP of individuals represents the implicit monetary value of an improvement in institutional quality in Viet Nam by one unit, benchmarked against institutional quality in New Zealand as per the perception of the respondents, elicited via the return migration channel. Finally, we run multivariate regressions using the ordinary least squares (OLS) estimator to identify the determinants of the estimated MWTP.

Table 1 describes the variables of the multivariate analysis and provides descriptive statistics for our sample characteristics. Our useable sample contains 64 respondents who completed the questionnaire distributed to Vietnamese individuals and associations in New Zealand as either a web-survey (n=37) or a written survey (n=27). The respondents were recruited through posts on Facebook pages of Vietnamese associations in New Zealand (web-survey), or directly through Vietnamese associations in New Zealand (written survey). A response rate cannot be calculated as the number of invitations that were received is unknown.

**Table 1: Description of Variables and Sample Characteristics**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Variable | Description | N | Mean | SD | Min | Max |
| MWTP | The willingness to pay for a one unit of improvement in institutional quality in VN benchmarked against institutional quality in NZ, as per the perception of the respondents (New Zealand dollars - NZD) | 64 | 79.8 | 216.91 | -500.31 | 700 |
| Age | Years from the reported date of birth to 1 January 2017 | 64 | 37.84 | 10.16 | 23 | 70 |
| Gender | Male=1, female=0 | 64 | 0.47 | 0.50 | 0 | 1 |
| Marital status | Married or in a long-term relationship=1, otherwise=0 | 64 | 0.63 | 0.49 | 0 | 1 |
| Education | Having a postgraduate degree=1, otherwise=0 | 64 | 0.33 | 0.47 | 0 | 1 |
| Current income | Weekly income before tax in NZ (NZD) in 2016 | 64 | 609.14 | 328.71 | 0 | 1,385 |
| Duration-of-stay | Years from the reported date of first emigration to 1 January 2017 | 64 | 11.39 | 9.23 | 1 | 38 |
| Legal status | Permanent residency or citizenship in NZ=1, otherwise=0 | 64 | 0.70 | 0.46 | 0 | 1 |
| Return intention | Yes=1, otherwise=0 | 64 | 0.17 | 0.38 | 0 | 1 |
| Integration | The first principal component of nine indicators: (1) Employment in NZ (employed or self-employed=1, otherwise=0), (2) Having close family member(s) in NZ (yes=1, no=0), (3) English fluency (yes=1, no=0), (4) Having friend(s) born in NZ (yes=1, no=0), (5) Member of association(s) in NZ (yes=1, no=0), (6) Voting participation in NZ (yes=1, no=0), (7) Owning real estate in NZ (yes=1, no=0), (8) Owning a business in NZ (yes=1, no=0), and (9) Having investment project(s) in NZ (yes=1, no=0) | 64 | 0 | 1.63 | -2.82 | 2.6 |
| Ties | The first principal component of seven indicators: (1) Having close family member(s) in VN (yes=1, no=0), (2) Frequency of visiting VN (yes=1, no=0), (3) Member of association(s) in VN (yes=1, no=0), (4) Frequency of remitting money to VN (yes=1, no=0), (5) Owning real estate in VN (yes=1, no=0), (6) Owning a business in VN (yes=1, no=0), and (7) Having investment project(s) in VN (yes=1, no=0) | 64 | 0 | 1.48 | -1.54 | 5.77 |
| The importance of institutional quality | The first principal component of 30 five-point Likert-scale answers, presenting the self-reported importance of institutional quality in VN to the respondents’ return intentions  | 64 | 0 | 4.31 | -10.46 | 6.80 |
| *Notes*Close family members include spouses, dependent children, grown-up children, and parents. Associations include transnational associations, professional associations, community associations, religious associations, and political parties. Integration, ties and the importance of institutional quality are measured by a score with a mean of zero. Higher scores for integration represent higher levels of attachment to the host country. Higher scores for ties represent a stronger linkage with Viet Nam. Higher scores for the importance of institutional quality indicate that the respondents placed more importance on institutional quality in Viet Nam when considering repatriation. Missing values of the continuous variableswere replaced with their respective means. Missing values of the categorical variables were replaced with their respective medians. |

# **4. Results**

As report in Table 1, the estimated MWTP is, on average, 79.80 NZD per week. This is about 13 percent of the income a Vietnamese migrant earned per week on average in New Zealand in 2016 but is roughly 33 percent of the average weekly wage in Viet Nam.[[4]](#footnote-4) This is the compensating variation that the respondents would be willing to give up per week for the rest of their working lives in exchange for an improvement in institutional quality in Viet Nam by one unit benchmarked against institutional quality in New Zealand as per the perception of the respondents. This compensating variation represents the implicit monetary value of a positive change in institutional quality in Viet Nam elicited by means of the CV questions administered to Vietnamese migrants living on New Zealand.

**Table 2: Pearson's Correlations of MWTP and Continuous Variables**

|  |  |
| --- | --- |
|  | MWTP |
| Age | 0.30\*\* |
| Current income | 0.04 |
| Duration-of-stay | 0.26\*\* |
| Integration | 0.19 |
| Ties | 0.04 |
| The importance of institutional quality | 0.20 |
| *Notes*N=64. \*\* *p*<0.05. |

To identify the determinants of the estimated MWTP, we initially conduct bivariate analyses. Table 2 reports Pearson's correlation coefficients between MWTP and the continuous variables. Although MWTP is positively correlated with all of the continuous variables, only age and duration-of-stay have a statistically significant correlation with MWTP at the five percent level of significance. Table 3 examines whether mean values of MWTP vary across the categorical variables. Due to the high standard deviation (SD) in MWTP (see Table 1), there is no evidence of significant differences in mean values of MWTP by gender, marital status, education, and return intentions of the respondents. Mean values of MWTP differ significantly by the respondents’ legal status in New Zealand at the five percent level.

Since our sample size is small, we allow only two independent variables to enter OLS regressions at a time to identify the determining factors of the estimated MWTP. The bivariate analyses reveal that age, duration-of-stay, and legal status in New Zealand are potential determinants of MWTP. Therefore, we successively examine the effect of each of these variables with one control variable at a time. The estimated coefficient for age is significantly positive regardless of the control variable in the regression, unless duration-of-stay is controlled for. Similarly, the estimated coefficient for duration-of-stay is significantly positive across all regressions, unless age or integration is controlled for. Notably, the effect of the importance of institutional quality is statistically significant, when included with duration-of-stay, even though the raw correlation (see Table 2) with MWTP was not statistically significant. The estimated coefficient for legal status in New Zealand is significantly positive across all regressions, unless age, duration-of-stay, or integration is controlled for. The importance of institutional quality also has a significantly positive relationship with MWTP when included with legal status. Drawing from these multivariate analyses, we identify four potential determinants of MWTP, that is, age, duration-of-stay, legal status in New Zealand, and the importance of institutional quality.

**Table 3: Mean Values of MWTP**

by Categorical Variables

|  |  |  |  |
| --- | --- | --- | --- |
|  | N | Mean MWTP (NZD) | *t*-test (*p*-value) |
| Full sample | 64 | 79.80 |  |
| Gender |  |  |  |
| Male | 30 | 114.98 | 0.226 |
| Female | 34 | 48.76 |
| Marital status |  |  |  |
| Married or in a long-term relationship | 40 | 73.93 | 0.782 |
| Otherwise | 24 | 89.58 |
| Education |  |  |  |
| Postgraduate | 21 | 111.71 | 0.415 |
| Otherwise | 43 | 64.22 |
| Legal status in New Zealand |  |  |  |
| Permanent residency or citizenship | 45 | 114.72 | 0.047 |
| Otherwise | 19 | -2.91 |
| Return intention |  |  |  |
| Yes | 11 | 102.55 | 0.706 |
| Otherwise | 53 | 75.08 |

Our final specification examines the effects of these four potential determinants. Since the correlation coefficient between age and duration-of-stay was 0.66, we exclude duration-of-stay from the final specification to reduce the possibility of multi-collinearity issues. Although the estimates are based on a small sample, Table 4 shows that age and the importance of institutional quality each have significantly positive influence on MWTP at the ten percent level, after also controlling for legal status in New Zealand. The effect of age indicates that older respondents were more likely to have a higher MWTP. This finding is plausible since there is evidence that older migrants may be more likely to want to repatriate (Waldorf 1995, Carling and Pettersen 2014, Bilgili and Siegel 2017, Paparusso and Ambrosetti 2017 and Tran *et al.* 2018b). The effect of the importance of institutional quality reveals that those respondents who placed more importance on institutional quality in Viet Nam when considering repatriation were more likely to have a higher MWTP.

**Table 4: OLS Regressions of MWTP**

|  |  |
| --- | --- |
| Age | 5.033\* |
|  | (2.657) |
| Legal status in New Zealand | 91.538 |
|  | (58.771) |
| The importance of institutional quality | 10.478\* |
|  | (5.985) |
| R-squared | 0.118 |
| Prob > F | 0.022 |
| RMSE | 207.056 |
| *Notes*N = 64. Standard errors are reported in parentheses. \* *p*<0.1. |

# **5. Conclusions**

This study conducts a pioneering exercise to measure the intensity of preference of international migrants for home-country institutional quality by means of the CVM, showing that the quality of institutions is important to their migration decisions. Since our research design involves comparing individuals, migrants in this study were assumed to face the same net migration costs and have the same marginal utility of the available amenities. Based on this assumption, we estimate that Vietnamese migrants living in New Zealand would be willing to pay, on average, NZD 79.80 per week for the rest of their working lives for a one unit of improvement in institutional quality in Viet Nam benchmarked against institutional quality in New Zealand as per their perception of the institutional quality gap between the two countries. The estimated willingness to pay is positively associated with the respondent’s age and the importance that they place on institutional quality in Viet Nam when considering repatriation. By showing that migrants are willing to give up part of their economic benefit for better home-country institutional quality, the study further emphasizes the importance of institutions in migration decisions.

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1. It is possible that , but for most people who are actually indifferent . Equation (2) still holds because is negative and is positive. is negative because is the difference between the monetary costs of return migration and the psychic costs of staying in New Zealand. The psychic costs are much larger than the monetary costs. If that were not the case, there is no single person who is indifferent, that is, Equation (2) applies to no-one because but . [↑](#footnote-ref-1)
2. These dimensions were developed by Kaufmann *et al*. (1999), including Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. [↑](#footnote-ref-2)
3. Items with ‘*Don’t Know*’ answers do not contribute to the overall average perceived gap. If a respondent gave a score for institutional quality in New Zealand and consistently chose ‘*Don’t Know*’ when evaluating institutional quality in Viet Nam, the overall perceived gap of institutional quality between the two countries was assumed to be at the lowest level, that is, one. [↑](#footnote-ref-3)
4. The average weekly wage in Viet Nam was 243.72 NZD in 2016. This number was calculated from the Labour Market Reports published by the Ministry of Labour – Invalids and Social Affairs of Viet Nam (MOLISA) and converted to New Zealand dollars at the 2016 purchasing power parity (PPP) exchange rate of 5,113.55 Viet Nam dongs per New Zealand dollar, calculated using data on the Implied PPP Conversion Rate from the World Economic Outlook (WEO) dataset compiled by the International Monetary Fund (IMF). [↑](#footnote-ref-4)