

REPORT

# REGIONALISING MIGRATION

THE NORTH EAST  
AS A CASE STUDY



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and Sarah Smart

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# CONTENTS

Summary .....	3
1. Introduction .....	6
2. Economic and demographic challenges in the North East .....	7
Economic challenges in the short and medium term.....	7
Demographic challenges in the longer term.....	10
3. Making migration work for the North East .....	13
Using migration to boost innovation and productivity .....	14
Could migration boost international trade?.....	16
Could migration promote regeneration?.....	17
Migrants and the North East’s higher education sector.....	17
4. Delivering a North East approach to migration .....	21
Devolution deals .....	22
Post-Brexit EU migration .....	23
A case for regional visas? .....	23
New opportunities for a regional approach in the UK.....	25
Recommendations for a regionalised approach to migration in the North East.....	26
5. How to address concerns regarding increasing migration .....	30
Recommendations for actions to manage social tensions .....	30
References .....	33

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# SUMMARY

## 60 SECOND SUMMARY

The outcome of the EU referendum makes it likely that the UK could leave the EU free movement zone and substantially reconfigure its broader immigration system. This provides an opportunity to think freshly and innovatively about how migration can best serve Britain's communities. Devolution deals to date have not featured greater local control over migration policy, despite growing recognition that different areas have different experiences of migration's benefits and disadvantages. This is largely because EU migrants have had the freedom to move and work across all regions of the UK. Yet the vote for Brexit means we should consider whether a more regionalised approach to immigration is possible and desirable.

This report takes the North East as a case study: a region of England that faces acute demographic challenges, skills gaps and productivity and investment challenges, as well as local concerns around migration. If harnessed properly, and managed in a controlled and effective way, a regionally-specific approach to migration could be part of the solution to the North East's current and future challenges.

Two factors make a regionally tailored approach to migration possible. Firstly, the Brexit vote means the government is considering the most substantial changes to immigration policy in decades, as it evaluates losing free movement within the EU and wider migration reforms. Secondly, a system of tough controls and frontline enforcement offers administrative capacity that was hitherto infeasible.

A tailored approach could ensure that future migration complements the skills of existing workers and gives the North East greater capacity to manage social change sensitively. The region could achieve this through provision of special work visas, compiling a regional shortage occupation list, providing measures to attract high value investors, and targeted action on social integration.

## SUMMARY

From the creation of the devolved administrations in 1999 through to the ongoing devolution deals, the 21st century has seen the apparatus of the British state becoming far more regionally diverse. Simultaneously, there has been growing recognition that the advantages and challenges brought by migration vary significantly across different parts of Britain – an idea brought home by the EU referendum. Yet migration policy remains entirely centrally administered, with Westminster making decisions that have blanket effects across the whole UK.

Since 2010, both the Coalition and Conservative governments have adopted, rightly, more devolved approaches to economic growth and public service reform. Yet despite the significance of migration to

economic prosperity, to date no devolution deal has included the ability for a mayor or combined authority to exercise any local discretion over, or input into, migration policy.

Concerns about immigration fuelled the Brexit debate and the subsequent approach taken by the new government. It seems unlikely that Britain will retain its current arrangements on free movement for EU citizens. The leave vote has made migration policy a matter of significant regional concern, with administrations in London, Belfast, Edinburgh and Cardiff arguing that aspects of migration policy be specially negotiated or devolved in order to satisfy the particular requirements of the regional economy in each location, and its business and political leadership.

It would be a mistake to think only of the devolved administrations in considering the regional dimension of migration. There are good economic reasons why other parts of the country might also require a regionally tailored approach to the skills it might want to attract – or deter – from overseas, including in parts of the country where a majority voted to leave.

### **Challenges in the North East**

The North East of England is a region in which 58 per cent of the population voted to leave the EU. Immigration may have featured highly among the reasons for this outcome nationally, but the North East is a region where there has been relatively little EU and non-EU migration. The region faces some significant economic challenges in the years ahead, not least as a result of an ageing population and the skills shortages that this demographic challenge brings. While upskilling the local population must remain the key component of any approach to economic development, a tailored approach to migration could provide a crucial complement to create more and better jobs.

Rather than assuming that the North East's vote to leave was a call to close the borders, this report shows that a more locally tailored migration policy could reassure people that immigration is being approached on their own regional terms to support economic growth and to deliver local benefits. The risk for the North East is that a new migration framework is developed that works better for other, more economically prosperous, parts of the UK. If the vote to leave the EU was a vote for greater control, that would be a poor response. An approach tailored to the North East's unique circumstances is therefore needed.

### **Tailoring migration policy regionally**

There are unprecedented conditions that now make a regionally-tailored approach to migration possible. The Home Office has reformed the administration of Britain's immigration regime with, for example, the introduction of migrant identity cards, and the legal duty on employers, banks and landlords to verify immigration status. Previously, it would have been impossible to enforce a regionalised component of Britain's immigration policy. This is no longer the case.

There are also successful precedents overseas. In Canada, for example, provinces sign special agreements with the federal government so that they can target and nominate migrants according to local economic

needs. In Australia, regional visas are part of the points-based immigration system, with variations in thresholds making it slightly easier for migrants to enter certain states and territories which, like the North East, are keen to attract skilled migrants who might otherwise be drawn elsewhere.

### **Recommendations**

This case study sets out how a tailored, regionalised approach to migration could address some of the economic and demographic challenges the North East faces. Under such a system, policymakers would have to address certain issues to ensure future migration complements the skills base of existing workers and that social change is sensitively managed.

We present a series of recommendations on how to develop a **regionalised approach to migration**:

- The creation of a **North East post-study work visa**, to allow international students with critical skills who have graduated from local universities to stay and work locally after their course.
- The introduction of a **North East shortage occupation list**, as a supplement to the national version. The North East should be able to attract key migrants directly to the region, whose presence will improve the quality of the job offer for local people.
- **Devolution of the tier 1 (investor) visa conditions** to the North East Combined Authority, to attract foreign investment and entrepreneurs, boosting output through migrant workers to generate a multiplier effect to create additional jobs.

We also recommend the following **social and integration actions** that local authorities should undertake to manage the impact of strategic migration, to reassure local communities and managing the social change migration brings.

- Improve employment prospects for the entire community.
- Tackle exploitation.
- Ambitious measures to ensure the existing community is not disadvantaged by the arrival of migrants, through affirmative action for local candidates, extra integration work funded by a levy on employers recruiting high numbers of migrants.
- A thorough, ongoing consultative exercise with the local community to assess the impact of migration on people's lives with a lead officer responsible for brokering solutions.
- Ensure appropriate service provision and accommodation for the entire community.

# 1. INTRODUCTION

The economic difficulties facing the North East of England since the decline of its heavy industries are on course to be exacerbated by demographic trends. The population is growing at a slower rate than in the rest of England. The average age is older than in the rest of the country and the people are ageing at a faster rate. Its population is one of England's sickest (CfHSCINE 2016). The region faces high unemployment, skills shortages and low productivity.

In part, these problems are more acute compared with other English regions because the North East has seen far lower levels of immigration seen than in the rest of the country. In regions of the UK that have seen higher migration flows, such as London and the South East, the demographic trends are less worrying as migrants are generally younger and have more children than the average citizen, contributing to the working-age population.

This report sets out how a tailored, regionalised approach to migration could address some of these economic and demographic challenges. We explain how such a system could work and the issues policymakers would have to address to ensure future migration complements the skills base of existing workers and social change is sensitively managed.

## 2. ECONOMIC AND DEMOGRAPHIC CHALLENGES IN THE NORTH EAST

In this chapter, we set out the region's economic and demographic trajectory, in response to which a targeted, managed immigration policy could provide a means of fostering growth and reduced unemployment.

### **ECONOMIC CHALLENGES IN THE SHORT AND MEDIUM TERM**

The North East has the highest unemployment rate in the UK. In the year to June 2016, all 12 of the region's local authorities have unemployment rates higher than the national average (Nomis 2016). A key component of the region's response to high levels of unemployment is job creation. The North East local enterprise partnership set out a vision in its North East Strategic Economic Plan, pledging that 'by 2024 our economy will provide over one million jobs, representing 100,000 new jobs and equivalent to an eleven per cent increase in jobs' (North East LEP 2014: 5).

### **Skills shortages**

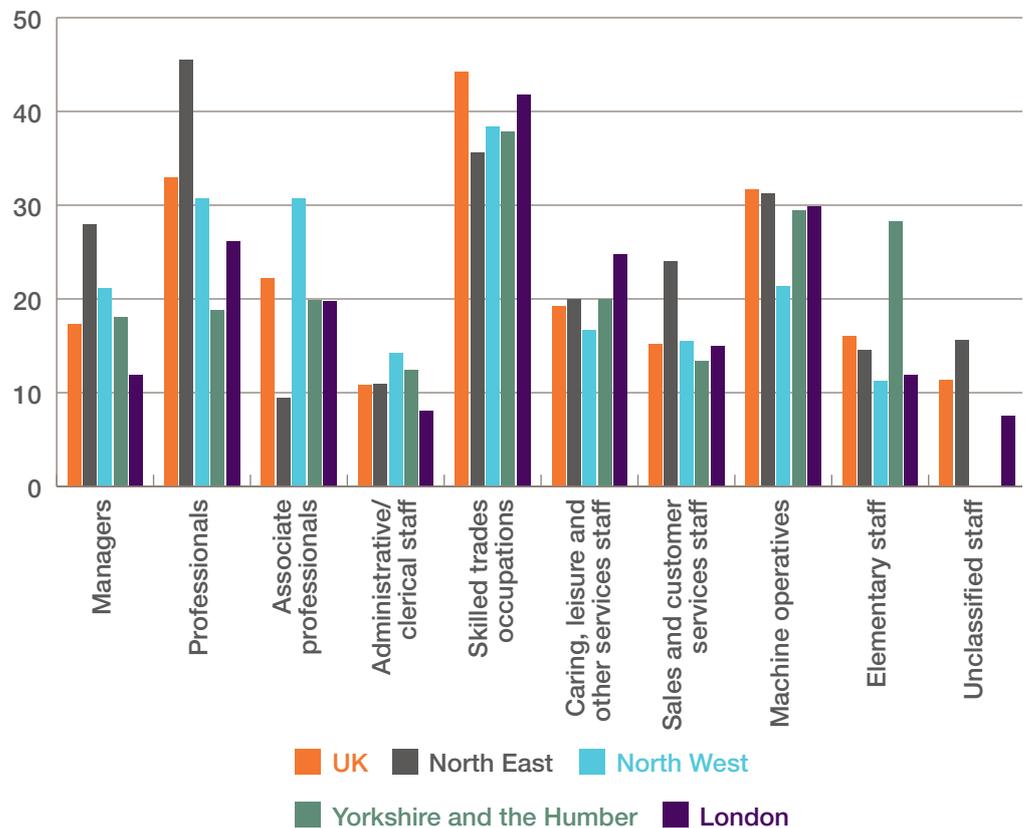
Aspirations to increase employment opportunities for the North East's residents are hampered by clear skills shortages in the region's labour market. IPPR's *State of the North* report highlighted that employers in the North consistently report skills gaps in their current workforce when recruiting (Cox et al 2016). Vivian et al (2015) found that, across the UK, 6 per cent of employers interviewed for the 2015 *Employer Skills Survey* struggled to recruit staff with the right skills for the job, twice as many as in 2011. Nationally, 22.6 per cent of the vacancies identified were classified as being associated with skills shortages, but in the North East 23.5 per cent fell into this category. The North East had slightly more established workers (5.7 per cent compared with 5 per cent) who were judged by their employers as not being fully proficient to do their job. Overall, the proportion of vacancies associated with skills shortage has risen in recent years. While the resident labour force is upskilling to fill these gaps, this is not happening at a quick enough rate to offset the challenges it poses for local firms.

Rather than 'across the board' skills shortages and gaps, the North East faces pockets of skills issues that pose a major problem for certain industries. Most are concentrated in particular types of roles and sectors. Vivian et al (2015) found that the density of skills shortages varies considerably between types of work, as shown in figure 2.1.

**FIGURE 2.1:**

**The North East faces disproportionate skills shortages in a number of its key sectors**

*Density of skills shortage vacancies in different occupations, UK and northern regions*



Source: Vivian et al 2015

In some areas, the North East mirrors the UK national picture. Professional, skilled trade and machine operative roles have the highest shortage rates nationally and these are also the areas in which skills shortage vacancies have increased most markedly since 2011. This situation is even more pronounced in the North East, with professional roles presenting a particular issue and relatively high levels of skills shortage among managers. The latter point is potentially problematic because it suggests that workforce *progression* may not provide the senior level skills needed for the region's industries.

The greater skills shortages in the North East, particularly in the parts of the region that lie outside the core city of Newcastle upon Tyne, may contribute to problems in recruiting in professional and skilled trades roles. The region has also relied quite heavily on retail and sales in recent job creation, so its relatively high level of skills shortages in these areas could present a problem in the longer term.

### **New jobs growth: opportunities and risks**

If the local labour market is not able to respond relatively swiftly to the skills requirements of developing firms, then the region will struggle to retain them and attract more. Other jobs, for example in construction and retail, which would be created as a consequence of economic growth similarly would be lost. While upskilling the local labour force must of course be the key plank of the region's economic strategy, the ability to fill key skills shortages swiftly is critical for wider economic growth. Policymakers should actively consider the role for migration in the solution.

The most recent official forecasts for the North East labour market (Vivian et al 2015) suggests that the private sector will be the key motor of jobs growth over the next decade, contributing around 94 per cent of jobs growth (compared with a national rate of 85 per cent) (NELEP 2014). Within this the most important sectors are likely to be health and social work, information technology, construction, and service areas including professional services, finance and insurance. Over the same period levels of employment in manufacturing and public administration are predicted to decline (Round 2016).

Jobs growth will be strongest in 'high-level' jobs; around 51,000 additional managerial, professional and associate professional roles are likely to be created. All of these jobs demand high levels of skills and qualifications in areas where the NE already has high rates of skills shortage vacancies. At the same time lower-skilled work is predicted to decline. By 2022 around 20,000 fewer people will be employed in 'middle-ranking' administrative, secretarial and some skilled trades roles. This suggests that some component of migrant labour could be deployed as a strategic option. Attracting migrants with the right skills to fill immediate gaps in the market is a better option than either training the local population to fill roles that are predicted to disappear in a few years, or letting the jobs go unfilled. Recruiting skilled migrant labour as a short-term solution means the roles can be filled immediately, safeguarding any dependent service jobs. A strategic labour force plan would anticipate the local economy of a few years' hence, and train the domestic workforce accordingly.

Unlike the case hitherto, migrant labour must be managed strategically and sparingly, as the North East does not have the same requirement for low-skilled labour. Indeed, the only lower-skilled areas where employment growth is forecast are care and leisure; however, these are increasingly professionalised and associated with apprenticeship or FE qualifications (Round 2016). There are legitimate concerns that, at the low-skilled end of the labour market, migrant labour can drive down wages for domestic workers (see Nickell and Saleheen 2015). For managed, regionally tailored migration to spur growth in the North East, policymakers must avoid this trap.

Tether et al (2005) found that innovation drove demands for more and different skills in the UK economy, but that the labour market had, by and large, not met these effectively. In particular, there was a shortage of highly-skilled 'technical' workers of the sort that make up a substantial part of the German and Japanese workforces. This is highly relevant for

the North East: it is reasonable to assume that regional skills demands may similarly be increased as current initiatives to increase innovation in the North East ‘feed through’ into the region’s economy. If these needs cannot be met locally the jobs created may go to other regions or offshore, the full benefits thus being lost to the region. Without the right skills to meet the demand, existing efforts to adapt the North East’s economy for the future may be hampered.

## **DEMOGRAPHIC CHALLENGES IN THE LONGER TERM**

Added to the workforce challenges that the region faces, demographic challenges are set to pose further obstacles to the North East’s economic prosperity.

### **Population size**

At current rates, the demographic divergence between the North East and the rest of England will widen substantially. Over the year to mid-2015 the UK resident population increased by 0.8 per cent, which is a similar annual rate to that seen over the previous decade. The North East, by contrast, had the lowest rate of population growth for any English region, at just 0.23 per cent (ONS 2016a). Recent population forecasts show the North East is going to grow at the slowest rate of all regions in England. Northumberland experienced a decline in population numbers over the 2012–15 period and only Newcastle had a rate of population increase higher than the English average (ibid).

While London’s population is projected to grow by 13.7 per cent over the next 10 years, and the South East’s by 8.1 per cent, the North East’s population will only grow by 3.1 per cent. Most of that growth will be in Newcastle, which is predicted to grow by over 5 per cent. Yet many of the region’s high-value and high-growth industries, including advanced manufacturing, are located a substantial distance from its core city. For example, the Nissan motor manufacturing plant is based in Sunderland, some 17km from Newcastle. A significant international investor, Hitachi, is located in Newton Aycliffe, some 35 miles from Newcastle, in an area of high unemployment.

Population growth in England’s fastest-growing regions is largely due to migration and its after-effects: migrants are on average younger than the average citizen and substantial proportions of the migrant population have larger families than the average. For example, in Britain the average British-born woman has 1.9 children by age 45, while an Afghan-born woman has 4.35 and a Pakistani-born woman has 3.82 (Eurostat 2015, cited in Holehouse 2015).

### **Age**

The North East population is on average older than the English at large and is getting older faster. In 2011, the median age in the North East was 41 years, compared with 39 years across England (ONS, no date). Northumberland was the area with the highest median age, at 45 years. Between 2001 and 2011, the median age of the region increased at a faster rate than the English average, rising from 38 years to 41 years at a time when the English mean age rose from 37 years to 39 years (ONS, no date). Only in Newcastle is the median age getting younger (33 years

in 2011 compared with 36 years in 2001). Three local authorities (Northumberland, Redcar and Cleveland, and Sunderland) experienced a rise of four years (ibid).

The North East's old, and ageing, demography is in part due to comparatively low levels of migration (see Box 2.1. for key facts and figures on migration to the region). In addition, the North East has the lowest total fertility rate in England (outside of London) at 1.72 children per woman. Another demographic factor is internal emigration out of the region. In the year ending June 2015, the age bands 20–24, 25–29, 30–34 and 35–39 all showed net emigration. Only Yorkshire and the Humber also saw emigration across all four of these age bands.

Population ageing presents challenges for the regional economy. It entails increases in public spending. As the population ages, local authorities need to spend more money on health and care services to look after a growing number of old people – as well as younger workers to carry out that care. The prevalence of long-term health conditions increases with age. According to a 2010 estimate made by the Department of Health, such conditions account for 70 per cent of total health and social care spending in England. The Department of Health also estimates that the average cost of providing hospital and community health services for a person aged 85 years or more is around three times greater than for a person aged 65 to 74 years (Cracknell 2010).

In regions with higher levels of migration, this trend is offset by the arrival of migrants. Even in the North East, migrants coming to the region are likely to be younger than the North East average. In 2011 in the North East, the majority of foreign-born residents arrived in the UK between the ages of 20 and 24 years. This trend was replicated in four of the North East's local authorities (Newcastle upon Tyne, Sunderland, Middlesbrough and Gateshead). In the remaining eight, the majority of foreign-born residents arrived before they had reached the age of five (ONS, no date). Yet while migrants are younger than the population at large, they are not arriving in sufficient numbers to reverse the increasing average age.

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### **Box 2.1. A region with little history of immigration**

- The North East is the region with the lowest proportion of foreign-born residents in the UK (5 per cent) and is the destination of only 3 per cent of the total migrants that come here (ONS 2013).
- Between 2001 and 2011 the number of foreign-born residents in the North East increased by only 2 per cent – the smallest increase in the UK (ibid).
- Where it is taking place, migration is helping reverse demographic imbalances. Newcastle, the area of the North East that has seen the highest levels of immigration, is the only area where the average age is lowering (ONS, no date). This is partly due to the city being home to two of the region's universities, which attract a large number of international students.

- Yet the pace of migration is markedly different between the local authorities in the region. In some areas, the migrants who have settled have been there for a long time: in Northumberland, North Tyneside, and Redcar and Cleveland newly arrived migrants (that is, those who have been here for less than two years) make up fewer than 10 per cent of those authorities' residents born outside the UK (ONS, no date).
  - Middlesbrough is the only local authority in the UK where asylum dispersal exceeds the Home Office's 1:200 cluster limit (where there is more than one asylum seeker to every 200 local people in the local authority area, a ratio which the Home Offices endeavours to stay below (HoCL 2016).
  - The most common nationality after British in the North East is Polish (10,000), then Indian (6,000), then Chinese and Irish (5,000 each) (ONS 2014).
  - The statistics on foreign-born residents overstate the scale of migration in the North East. Statistics on the foreign-born population show that, in 2011, some 9,797 residents of the North East were born in Germany (ONS, no date). This is, however, not an indication of immigration: only around 1,000 North-Easterners have German nationality (which is generally transmitted by blood, not birth (see Murray 2016). Rather this is due to the high preponderance of forces families in the North East, and the large number of UK military bases in (formerly West) Germany.
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### 3.

## MAKING MIGRATION WORK FOR THE NORTH EAST

The North East has many unique challenges with regards to demography and the economy. Could adding foreign workers to the population through migration really help address the challenges outlined in chapter 2? We argue that it is possible that managed migration could plug skills gaps, encourage industries to remain in the North East and inspire more businesses to move to the region.

One of the key drivers of high unemployment in the North East is the fact that productivity is lower than the national average (ONS 2015), although the region has seen strong productivity *growth* since the end of the recession (NELEP 2014). As argued in IPPR's *State of the North* report, the northern powerhouse will be a success when, among other things, it generates 'a better type of economic growth, one that combines rising productivity with more jobs and higher wages for all' (Cox and Raikes 2015: 3). Targeted, specific migration that takes account of skills complementarity can stabilise a regional economy and promote growth.

The goal for the North East, therefore, is not simply to encourage any and all migration to the region. Indeed, at the lower skilled end of the market that could prove counterproductive, running the risk of increasing wage competition and driving down wages (see Nickell and Saleheen 2015). Rather, it is to ensure that migrants coming to the region have skills that complement (not duplicate) those of the local workforce. Put another way, the task is to ensure that the North East generates the kind of economic immigration that creates jobs and growth, rather than increases competition for jobs. Using targeted, complementary migration as a lever to generate this kind of job-creating growth could stimulate further demand in the regional economy.

The skills shortage issue discussed above applies to *both* of the combined authority areas in the North East, and is already the subject of substantial work on the part of the relevant local enterprise partnerships (the North East LEP and Tees Valley Unlimited). Tees Valley currently has a devolution deal in place, which includes substantial responsibilities for economic development (including seeking investment) and managing elements of the skills system. The Tees Valley Combined Authority could in theory seek additional devolved powers of the kind proposed here to address both of these areas, working with the LEP to understand how best to deploy them.

In September 2016 four of the seven local authorities that form the North East Combined Authority area rejected the devolution deal that had been agreed previously with the government. For the moment, it is unlikely that the combined authority could take on these powers

without a devolution deal and an elected mayor. At the time of writing the possibility of a 'North of the Tyne' devolution deal has been floated. This would cover just the three authorities that voted in favour of the original offer (Newcastle, Northumberland and North Tyneside), and as in the case of Teesside it could potentially include powers for local management of skilled migration. Alternatively, if these were to become an established item on the devolution 'menu' offered by central government, they could help to bring the dissenting local authorities back to the table – especially if they prove successful in meeting their aims for a neighbouring combined authority similar to the Tees Valley.

### **USING MIGRATION TO BOOST INNOVATION AND PRODUCTIVITY**

When migrant labour is too easily and cheaply available and replicates skills already in ready supply in an economy, it can reduce the incentive among employers to innovate. Why invest in machinery or take risks with new technology or business models when a ready supply of cheap labour means that profits can be guaranteed with less risk? However, it does not follow that immigration *always* has this effect on local economies. When managed properly, migration can play a positive economic role.

There is evidence to suggest that when the skills of migrants complement those of existing workers, productivity increases.<sup>1</sup> In this scenario, migrants help fill the skills shortages that hold back economic growth overall. Tailored, skills-shortage-led migration which addresses the skills shortages outlined in chapter 2 could boost regional growth.

The literature on migrants' economic impact suggests that immigrants can contribute to economic growth and increased productivity. For example, a 2011 study in the US suggested that more than three-quarters of patents from America's top 10 patent-generating universities had a foreign-born inventor (New American Economy 2011). Another study suggests that, across the US as a whole in 2006, migrants lodged 24 per cent of patents while comprising 12 per cent of the population (Wadhwa et al 2007). Of course, migrants' contributions may crowd out those of native workers, so these statistics do not themselves demonstrate that migration *ipso facto* increases innovation. However, other studies have attested to evidence of positive spillover effects to the native population. A 2008 study suggested that a 1-percentage-point rise in the share of immigrant college graduates in the population increases patents-per-capita by about 15 per cent (Gautier-Loiselle and Hunt 2008).

In Britain, quantitative research looking at migrants' relationship to patents indicates other positive effects from migrant participation in the workforce. It suggests that a culturally diverse environment comprising migrants can stimulate innovation and bring benefits to other aspects of firm performance (Nathan 2011).

Migration can, therefore, bring both boons and impediments to a local economy, depending on how it is managed. Migration that fills key gaps in the labour market that other jobs or supply chains depend

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<sup>1</sup> For a fuller account see Rolfe et al (2013).

on can boost employment and growth, and migrants – particularly at the higher end of the skills spectrum – can have a multiplier effect. However, migration that duplicates skills or encourages too much labour competition (particularly among low skilled workers) can drive down wages and living standards. A strategic migration system would manage migration flows. Similarly, an overreliance on migrant labour – at any skill level – can disincentivize innovation. The policy environment must strike a tough balance between enabling businesses to recruit migrant labour to fill shortages and ensuring that a supply of readily-available and cheap foreign labour does not make innovation and investment – in assets or the existing workforce – unattractive to companies.

As such, it is vital for migrants' skills to be complementary to the domestic workforce. There is convincing evidence that if a migrant's skills plug gaps in the local economy, they do not drive down wages; indeed, when migration increases productivity it can enable wages to rise for existing workers (Borjas 1994, cited in Ruhs and Vargas-Silva 2015).

The North East is a refutation of the axiom that low migration flows guarantee higher wages: the provisional estimate for the 2016 average wage in the North East has fallen to £494 a week (down 0.7 per cent compared with the previous year). The UK average is £538 a week (2.2 per cent higher than a year ago), 9 per cent higher than the North East average (ONS 2016b).

The number of jobs in an economy is not fixed and can increase and decrease in line with demand in the economy. Adding migrants to a labour force does not automatically lead to a reduction in the number of jobs available to domestic workers by increasing competition for those jobs. This argument is known as the 'lump of labour' fallacy, which was deployed in the 1950s and '60s when many feared that the increases in automation would lead to fewer jobs for existing workers. While it is true that increased competition among those with the same skill set can increase competition for jobs, particularly at the lower-skilled end of the market, migration can still circumvent this: the addition of skilled migrants that can plug skills gaps can lead to the creation of more jobs in other sectors, which both migrants and domestic workers are needed to fill. For example, the addition of skilled engineers to a regional economy can create more low-skilled jobs in an engineering plant and the wider local economy, requiring more low-skilled migrants and local workers to fill them, even when before the arrival of the engineers there was low-skilled unemployment. The critical issue for economies like the North East is identifying the roles that will have job multiplier effects in the local economy and designing a system to attract the right workers.

Properly managed to plug skills gaps, offset demographic trends and foster growth, migration could boost the region's prosperity. By attracting migrants with the right skills to fill gaps in the labour market, the aggregate impact would be to create additional jobs in the region and drive down unemployment.

## COULD MIGRATION BOOST INTERNATIONAL TRADE?

In the light of the new trade agreements that will be formed following Brexit it is vital that the North East can compete with other areas and highlight the strengths of the region. When firms face fixed barriers to exporting, ‘the productivity gain, from migration, may help firms overcome these barriers and access foreign markets they might not otherwise serve’ (Ottaviano et al 2015).

There is significant evidence that the presence of migrants in a firm can boost international trade. Immigrants may reduce the costs of exporting or importing services to and from their home country by helping domestic firms overcome cultural and institutional barriers with the foreign market (Ottaviano et al 2016). Research by the OECD has shown that trade in exportable services is hampered by non-tariff barriers.<sup>2</sup> With their understanding of the regulatory and cultural context of markets into which companies seek to export their services, there is evidence that the presence of appropriately-skilled migrants in a workforce can obviate obstacles to international trade.

Given the North East has relatively *low* levels of graduations in modern languages, and there is some evidence that cross-cultural communication skills – a key asset migrants bring that can be harnessed to boost services trade – are at a premium in the region’s exporting industries and aspiring exporters (Round 2016).

The same research by the London School of Economics suggests that migrants can also reduce the need for offshoring or consultancy, as those migrants may replicate the skills that would need to be purchased overseas within the workforce. This boosts a company’s productivity and keeping jobs in the domestic market (Ottaviano et al 2016). If a company in the North East seeks to trade with India or China, then employing a Chinese or Indian immigrant from the local workforce with the right skills can help them negotiate and engage with their target expansion market. Without those immigrants in the local workforce the company would have to hire expertise in China and India. That may tip the balance and make it more cost-effective to outsource a whole department to the region. Having the right skills in the domestic economy can head this off and frequently migrants are well-placed to offer them.

The services sector comprises 82.2 per cent of the workforce jobs in the North East (). Of course, not all of these services will be exportable. But the high proportion of the services sector in the overall economy, the growing need to focus on international trade and the productivity boost that migrants can bring suggests that selective, strategic migrant recruitment could be a powerful component of the region’s future prosperity.

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<sup>2</sup> For more information, see the OECD’s Services Trade Restrictiveness Index, <http://www.oecd.org/tad/services-trade/services-trade-restrictiveness-index.htm>

## **COULD MIGRATION PROMOTE REGENERATION?**

As migrants are more likely to be of working age than the population in general and more likely to be paying tax than claiming unemployment benefit, research suggests that migrants have a modest positive impact on growth (Vargas-Silva 2015).

The arrival of migrants in a local economy can lead to diversification, as migrants contribute to the economy through increasing consumer spending and demand for goods and services in the local economy, generating more jobs and leading to increased wages. The arrival of new communities to an area can boost enterprise and business opportunities. For example, the arrival of migrants in the West End of Newcastle-upon-Tyne has led to an increase in world food shops as consumer demand has increased, generating business opportunities.

Of course, the benefits brought by the arrival of migrants – even highly-skilled migrants with complementary skills – are front-loaded. Migrants who arrive to fill skills gaps are younger, more economically flexible and less likely to depend on public services than the domestic population. Over time the migrant population ages. This means the gap between the original projection of changes in the population age structure and state dependency remains constant over time, unless new migrants are added to the population stock (Rowthorn 2015). Yet the contention of this report is not that the North East faces a binary choice between demographic and hence economic decline or moving to an economic model perpetually dependent on high migration. Rather it is that a strategic and regionally tailored approach to migration could allow the region to preserve and boost its economic assets, buy time to train the domestic workforce for the future, and ensure high-value jobs and economic prosperity in the future into which that workforce can graduate.

## **MIGRANTS AND THE NORTH EAST'S HIGHER EDUCATION SECTOR**

Higher education is a key sector in the North East's economy and offers a useful insight into how migration policy could be leveraged in a more targeted way to boost the region's overall economic prospects. There were 19,820 international students enrolled at universities in the North East in the 2014–2015 academic year, representing 0.7 per cent of the total population of the region (HESA 2016a).

These students have proven highly beneficial to the region. International revenue at the North East's institutions amounted to £244 million which, together with the estimated off-campus expenditure of international students (£213 million), represented a total of £457 million of export earnings. International students' off-campus expenditure (£213 million) generated £319 million of output and 2,703 full-time equivalent jobs throughout the UK (Universities UK 2014).

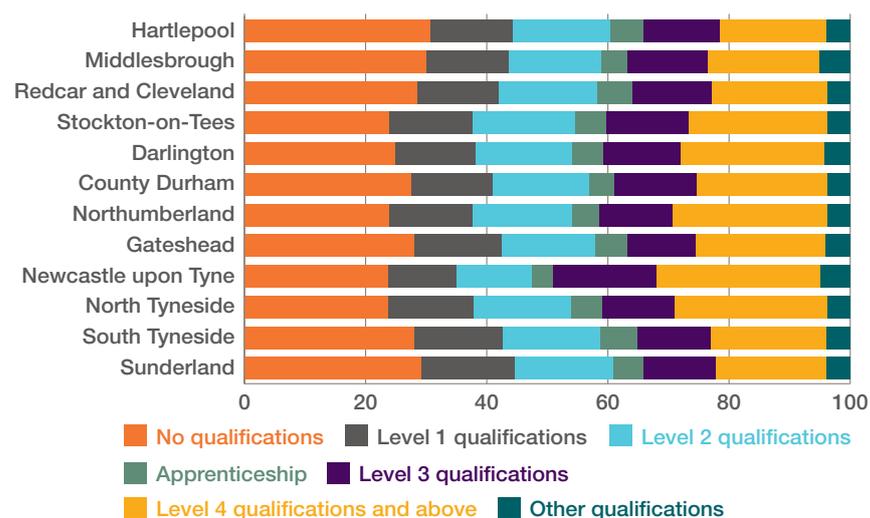
Universities in the North East are working hard to attract these international students, particularly from new markets. For example, Sunderland University has overseas offices and international representatives in 58 countries and Newcastle University has a prestigious Confucius Institute within the city in partnership with Xiamen University and the Office of Chinese Language Council International.

There are currently 3,360 EU students studying at the five North East universities, making up 17 per cent of the total number of international students enrolled (HESA 2016a). Following the EU referendum result, actors in the university sector have raised concerns that European funding to institutions will be cut and their attractiveness to foreign students may be undermined. All five universities in the North East have responded to the EU referendum result with a statement for EU students from the EU and many have reassured staff and students of their commitment to remaining a university that welcomes individuals from all over the world.

International students could also be a part of the solution to the North East’s productivity and skills shortage challenge. Figures suggest that qualification levels in the more peripheral parts of the North East continue to lag behind those in its major cities and their environs. The North East has a lower proportion of graduates in its post-16 population than other regions, at 12.5 per cent: this compares with 13.9 per cent in Yorkshire and the Humber and 14.5 in the North West (the figure for England as a whole is 17.4 per cent). However, it has the *highest* proportion of people with an apprenticeship qualification (8.4 per cent, compared with 6.3 per cent for England as a whole), and also of people who hold a vocational qualification at level 4 or 5 (4.9 per cent compared with 4.4 per cent for England as a whole). This is a structural weakness in the regional economy: for firms to create the jobs that will employ apprenticeship-holders at the right skill level, they will need the right degree-holders to support that employment.

**FIGURE 3.1**

**In all areas across the North East, substantial proportions of the workforce have either no or a low level of qualification**  
*Population aged 16 and over by highest level of qualification in local authorities in north east England, 2011*



Source: ONS, no date

This gap in graduates could be met by encouraging international students to remain in the region. However, as things stand, national government policy means international students are forced to leave at

the end of their course and cannot use their skills in the local economy. A recent IPPR report set out the negative impact of the Home Office’s student visa policy on the university sector (Morris et al 2016). It shows that both top-level policy and administrative enforcement place a heavy burden on institutions and create a hostile climate for students. This may have the effect of encouraging institutions to pull out of certain markets.

Other universities with a strong experience of attracting large numbers of international students, particularly in London, may be better placed to overcome these obstacles and navigate the system to adapt to the tough rules imposed by the Home Office. University College London and the University of the Arts London, for example, have a student body that is 33 per cent international. Teesside University, on the other hand, has only 5.6 per cent international students, and Northumbria University only 10 per cent (The Complete University Guide 2016). Institutions in the North East have seen a decline in international student numbers in some areas (in particular postgraduate EU nationals).

Table 3.1 shows the number of international students and the percentage change since the previous year. It is particularly noticeable that the percentage decreases for Sunderland are substantial across the board.

**TABLE 3.1**

**There have been significant and divergent fluctuations in international student numbers across the North East’s universities**

*International student numbers in the North East’s universities, 2014/15 and percentage change on previous year*

University	Undergraduate								Postgraduate			
	First degree				Other course				EU		Non-EU	
	EU		Non-EU		EU		Non-EU		No. of students	% change	No. of students	% change
	No. of students	% change										
Durham (17,595*)	495	+11.2	1,695	+4.4	0	0	0	0	465	-11.6	1,985	+9.8
Newcastle (23,110*)	530	-9.8	2,025	+13.9	15	0	730	+8.3	465	-5.3	2,845	+1.4
Northumbria (27,075*)	345	+4.9	1,580	-5.2	10	0	200	+46.7	145	-11.0	1,045	-8.9
Teesside (17,920*)	115	-10.1	460	-0.2	20	0	55	-19.7	90	-2.2	1,525	+1.6
Sunderland (13,695)	570	-6.4	1,985	-31.9	5	N/A	25	N/A	95	-13.5	315	-36.0

Source: HESA 2016b

\*Note: Total number of students in the university

Since the abolition of the post-study work visa, students have very few opportunities to stay and work in the UK after completing their studies. On completion of their course, students only have a few months to find a job in the UK – and that job must be with a Home Office-registered employer. The job must pay above £20,000 per year, well above the median North East salary. In the North East, the median salary in Tynemouth is the highest at £21,243. In Newcastle Central it is £16,421 and in Middlesbrough £16,291. By contrast, the median annual salaries in Richmond, Kingston and Wimbledon in Greater London, for example, are all over £35,000 (Guardian Datablog 2011). Clearly, a blanket UK-wide salary threshold for international students puts

the North East at a considerable disadvantage. There are clearly vast pay differentials across the UK's regions. For those such as London and the South East, the visa salary threshold is well within the range of skilled starting salaries. For the North East, it is far beyond the median salary. The one-size-fits-all model is poorly suited to regional variations in Britain's economy, to the detriment of the North East.

That is a shame, because the North East would benefit considerably from retaining international students who have completed their courses in the region. As set out above, the regional economy needs highly skilled migrants to fill skills gaps. Yet the international students compelled to leave by the Home Office's policies are highly-skilled, often in areas in which the North East has skills shortages.

The fact that international students will have spent around three years living and studying in the UK means that they will have engaged not just with their universities, but with the region's local public services, culture and administration. They will have passed an English language threshold to have studied in the UK and will have developed their English over the course of their studies. They will have made friends and developed networks in the local area. International students are therefore already on the road to integration.

Students would help address demographic imbalances, plug skills gaps, boost economic prosperity and are less likely to evoke public hostility to immigration due to their already high levels of integration. Continuing to attract international students to the North East, especially if numbers and funding from the EU decline as a result of Brexit, is critical to the local economy as well as to boosting the strength of the higher education institutions in the North East. There is much more that can be done to build on this important tool for economic growth – and to ensure its impact is fairly spread and does not disadvantage the local population.

Other areas in the UK have already acknowledged the opportunities that international students remaining in the region would bring. The Smith Commission on the Scottish devolution settlement following the independence referendum agreed to encourage international students to settle once they complete their degrees: 'The Smith Commission recommended that both governments work together to explore the possibility of introducing formal schemes to allow international higher education students graduating from Scottish further and higher education institutions to remain in Scotland and contribute to economic activity for a defined period of time' (Smith Commission 2015: 28). The Scottish Affairs Committee of the House of Commons and the Scottish Parliament Devolution Committee have called on the UK government to consider the case for introducing a Scottish component of the post-study work visa, to which the UK government has yet to respond.

In the next chapter, we set out what local actors can do to encourage more international students to come to the North East.

## 4.

# DELIVERING A NORTH EAST APPROACH TO MIGRATION

Three factors combine to offer new opportunities to think about migration policy in a more regionalised way: the devolution of powers (although not yet over migration) to regions as part of the ‘devolution deal’ with central government, recent reforms to how the immigration system is administered, and the stronger possibility of controls on immigration from Europe as the UK develops a replacement for free movement. A more strategic immigration policy for the areas where a devolution is in place may be possible.

There are already established precedents for systems of this kind internationally. Several regions in the US and Europe that face challenging demographic trends, economic stagnation and rising unemployment successfully use migration as part of broader strategies to regenerate cities and boost economic productivity. The policies of the local governments and regional bodies are central to ensuring that immigrants not only settle in the area but also integrate into the community and contribute to regional economic development. Box 4.1 outlines a successful example from Canada.

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### Box 4.1. Case study: regional migration in Canada

Under Canada’s constitution, responsibility for immigration is shared between the federal and provincial governments. They meet to plan and consult each other on immigration issues and set overall policy. In addition, the Department for Immigration, Refugees and Citizenship has agreements with provinces on how they share responsibility for immigration. Each of these agreements is negotiated separately to meet each province’s specific needs and goals: for example, occupations sought.

Canadian provinces that have signed Provincial Nominee agreements with the federal government run programmes that allow them to nominate migrants who wish to settle in their province. Under these programmes, each province has its own immigration policy that targets certain groups and its own specific criteria for nomination such as skills level, salary threshold or work experience in Canada. Prospective migrants interested in settling in a specific province have to obtain a nomination from that province before applying for a visa to the federal government. Their application is then tested against federal requirements, such as national security. The federal government can still issue Canada-wide visas.

Quebec has a separate accord, signed with federal government in 1991. This was agreed following Quebec’s first independence

referendum and a demand for greater autonomy (Sapeha 2014). The federal government delivered a significant amount of responsibility to the Quebecois government on immigration policy. It gives Quebec an exclusive power over selection of the migrants destined to the province (except in the case of family reunion and refugees). Quebec is also responsible for setting immigration levels, laws, standards and policies, including integration policy, which is supported by federal grant. It was this agreement that initiated the regionalisation of Canada's migration policy.

In 2014 almost 28 per cent of the permanent residents admitted in the economic stream were provincial nominees (CIC 2015). Overall, the regional migration programme has managed to provide more balanced distribution of migrants in Canada (Sapeha 2014). Naturally, the proportion of the provincial nominee programme differs – the provinces that benefit the most from the programme are Manitoba, Saskatchewan, Prince Edward Island and New Brunswick, which have traditionally attracted fewer migrants than other areas (ibid).

Interestingly, once the visa is granted, provincial nominees are granted permanent residence, which allows them to live and work in the entire Canadian territory. Even so, retention rates of provincial nominees are high, according to the scheme's evaluation: in 2008 more than three-quarters of provincial nominees who became residents between 2000 and 2008 had remained in the province that nominated them. Nevertheless, this result differed substantially dependent on province, with the lowest in Atlantic Provinces (56 per cent) and highest for Alberta and British Columbia (above 95 per cent) (CIC 2015).

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## DEVOLUTION DEALS

In the Tees Valley area a devolution deal is in place and a mayor will be elected in 2017. This provides an exciting opportunity for the region to increase its control over a range of areas, including migration. The specific demographic challenges facing this part of the region – currently *low* levels of migration and an ageing population – mean that there is the potential for these devolved powers to have a real and demonstrable impact.

In the 2017 deal for Tees Valley, the metro mayor will have powers over housing, planning, transport and post-16 skills, which means that their remit *also* has the potential for managing some of the social impacts of migration. And the Tees Valley deal includes an agreement to co-commission an independent evaluation of its economic benefits, as well as the social and economic impacts of investments under the investment fund. Thus there is a good opportunity to understand how this policy works in practice, and to demonstrate its effectiveness – which could lead to more areas negotiating for its inclusion in future devolution deals. Intelligence from the local LEP's work on skills and employment would be valuable in directing and shaping the implementation of devolved migration functions.

The proposed North East devolution deal included a similar range of mayoral powers, including some relating to health and social care,

and involvement in the assessment of skills needs and provision. Thus a similar range of opportunities could be available in this region were a similar deal to be offered to a three-local authority 'North of the Tyne' grouping, or in the event (which at present seems unlikely) that something approaching the original deal were reactivated. Again, evidence of positive impacts in the Tees Valley area could be a catalyst for stakeholders in the North East to seek devolution of migration functions.

### **POST-BREXIT EU MIGRATION**

The aftermath of Brexit means the UK is highly likely to develop a successor framework to EU free movement, which is likely to be more restrictive on migration, and low-skilled migration in particular. The risk of Brexit imposing more controls on firms' capacity to attract skilled workers should motivate local leaders to argue for greater powers to design a locally tailored migration policy. There are a number of options available and local leaders should push for as much local control as possible.

Other regions of the UK are pushing for a more regionally variegated approach to migration. This push has been catalysed by the Brexit vote in two regions that voted strongly Remain and already have a good degree of devolution: London and Scotland. The Scottish government has established a ministerial position to delineate a separate Scottish position on free movement, and there have been calls for a London visa (Waldron and Ali 2016). Particularities of the Northern Irish border with the Irish Republic mean there is increasing consideration of a bespoke Northern Irish immigration policy, to mitigate against the imposition of a so-called 'hard border' between the province and the republic.

### **A CASE FOR REGIONAL VISAS?**

Finally, there is scope for Britain's national immigration system to become more sophisticated, so it can benefit areas within the North East as well as other regions of the country by issuing visas on a regional level. The approach would allow the region to take control at a local level. Historically, the concern with creating regional visas has been the difficulty in enforcement. An immigrant may apply through a regional visa, but after entering the UK move to areas such as London and the South East where unemployment is lower and job opportunities more numerous. Rightly, the government has historically been keen to avoid creating 'back doors' into the immigration system.

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#### **Box 4.2. Case study: regional migration in Australia**

Regional migration schemes have been a longstanding part of the Australian immigration system, originally instituted to encourage a more balanced spread of migrants in response to different regional needs. The explicit objective is both to boost growth in less populated regions where migrants could spur economic growth, and to avoid excessive flows to the most popular destinations. Put differently, it is a tool of regional development policy through population management.

Economic immigration for permanent residence splits into three streams – employer-sponsored, skilled migration and business and investment. For the first two, there is a regional sub-category with looser restrictions, to attract migrants to less populated areas. Overall, in 2015/16, regional programmes accounted for 22 per cent of the total skilled worker stream (DIBP 2016).

Under the employer-sponsored scheme, employers in designated areas can nominate residents. These individuals must be willing to settle and work in a specific state for at least two years. Employer-sponsored visas are permanent but can be cancelled if a migrant does not make a genuine effort to begin work with the nominating employer or does not remain in the position for the full two years. In 2015/16 over a quarter of employer-sponsored visas were granted under a regional scheme (ibid). It is worth noting that regional visas offer a route to large parts of Australia, not just the least populated areas; Perth and Adelaide, for example, fall within the scheme.

For skilled migration, application is conditional upon a state's invitation. A visa applicant registers interest in a specific area during online registration. Then applicants in regional schemes have to receive a state invitation. After obtaining it, they can apply for a visa. Regional visas are part of the points-based system: between five and 10 points out of the 60 required are awarded by the nominating state/territory, making the threshold slightly easier to meet than under the nationwide scheme. The federal government is responsible for assuring that all applicants must meet the basic requirements specified for the visa stream, as well as general conditions relating to health and good character that do not differ between regional and national schemes. A regional visa brings the obligation to live and work or study in the specified region for at least two years of the four for which the visa is granted. If a migrant then wishes to apply for a permanent visa, they must prove they have been resident in their allocated province for two years. Regional visas in Australia have become effective means by which short term, skilled migrants can make the transition to permanent residence. The proportion of visas issued to migrants already in the country is significantly higher for regional visas (the 'skilled regional' category) than it is for other routes in the points-based system. Regional visas help Australia's territories and states attract skilled migrants who want to make a life in Australia.

The business and investment visas are only available to those who have been nominated by state authorities, unless they have made a particularly significant investment (e.g. A\$5 million). In that case, a migrant can seek either regional or national nomination. Regionally-tied visas make up the vast majority of all business skills visa grants (96 per cent in 2009/10) (Phillips and Spinks 2012).

Regional migration programmes have allowed Australia to develop a more balanced intake of skilled migrants and foreign investors – from 1996/7 to 2010/11, the proportion of economic migrants going to Australia's less populated states/territories increased from 6 per cent to almost 16 per cent (Sapeha 2014). Nevertheless, the proportion of

migrants settling in a region is smaller than the share of the migrant population in other regions (Regional Australia Institute 2016).

There is a lack of systematic evidence on the retention of migrants in regional areas (DIBP 2014). Available studies suggest that although the majority of migrants remain in designated areas after their visa requirements cease, a substantial number (around 35 per cent) move or plan to move (Wickramarachchi and Butt 2014).

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### **NEW OPPORTUNITIES FOR A REGIONAL APPROACH IN THE UK**

While immigration has traditionally been a national-level competence exercised across the UK by the Home Office, recent developments in how the immigration system is administered offer new opportunities for a regionally tailored approach.

The new **Biometric Residence Card** significantly reduces the risk involved in the creation of regional visas. Recently introduced for all non-EEA nationals on a long-term visa, the credit card-sized document contains key information including the type and duration of the visa allowing an immigrant to be in the UK. It specifies whether or not the holder is able to work (and for students the number of hours' work permitted) and whether or not they are entitled to recourse to public funds (that is, state benefits). This means that a migrant is not given free rein to access the UK labour market: any restrictions on their right to work are clearly stated on the card. It would be a relatively simple innovation to add an element to the card that states that a migrant is only eligible to work in the North East region.

Furthermore, the government has progressively outsourced the enforcement of immigration controls to wider society as part of its drive to reduce irregular immigration. The onus is now on landlords, employers and banks to verify the immigration status of migrants. This means that landlords, employers and bank clerks across the country will, in the normal course of their duties, now verify immigration status. In some ways, this policy is flawed: it has led to perverse consequences and there are grounds to fear that it may cause discrimination (see Murray 2016).

Nonetheless, this administrative development offers new opportunities that could be leveraged by those advocating a more regional approach to immigration. If the Biometric Residence Card shows that a migrant is only permitted to work in the North East, and employers and landlords are responsible for verifying this, then there is a clear opportunity to develop a more regionally-specific migration pathway. Furthermore, national insurance number records or council tax data could be used to check that people are remaining in the region, on a spot-check basis by immigration enforcement officials. If a migrant is found not to be working in the region, in breach of their immigration conditions, the Home Office would have the power to revoke the visa.

The devolution of immigration functions to a region would be in the trend of recent policy development more generally. Government policy is moving towards devolving powers to local regions to enable them to select the policies that will most benefit them. For example, the

North East devolution deal requested that central government devolves powers that could help the local economy: the devolution of skills funding for example, to deliver enhanced apprenticeships and to meet skills gaps in growing sectors (HM Treasury and NECA 2016). Immigration should be an aspect of these strategies.

For a regionalised approach to immigration to work, it will require the active participation of both national and local policymakers and actors. From our conversations with Australian immigration experts, there were concerns that some regions had followed a ‘set and forget’ attitude to regional visas, where planning and responsibility had fallen through institutional gaps. To avoid this dynamic replicating, we recommend that policymaking prerogative and visa issuance powers remain entirely within the Home Office, but that a greater component of regional specificity is incorporated into the regime, as set out below.

To ensure a regionalised system works in practice, there should be a phased introduction period, where migrants issued with North East regional visas are required to register with the local authority at the beginning and end of their visa period, and any renewal should be explicitly contingent on being able to show continued residence in the region. The Home Office already has an immigration compliance and enforcement team in the North East, based in Newcastle. This office should receive extra funding to appoint an official at Higher Executive Officer/Senior Executive Officer level, responsible for the introduction and monitoring of the North East visas. This officer should have responsibility for liaising with relevant stakeholders (such as the LEP, local authority and universities), the UK Border Force and the Home Office’s policy teams.

In the initial years, the Home Office may consider setting a cap on the number of North East visas issued. This would allow a tighter cohort for monitoring and evaluation. And it will ensure that the North East visa route does not become an unlimited, lower threshold entry route, but instead remains a small-scale, targeted scheme aimed at the specific economic and demographic issues in the region.

While parallels with Australia and Canada are useful and instructive, the reforms we propose here differ in one significant aspect. For immigration enforcement purposes, a migrant who had been issued with a North East visa would be in breach of the immigration rules if their place of residence or employment was outside the North East region. This would revoke their right to remain in the UK, make them eligible for removal and significantly impede any future applications for a UK visa.

## **RECOMMENDATIONS FOR A REGIONALISED APPROACH TO MIGRATION IN THE NORTH EAST**

A more targeted, regionalised approach to migration would benefit the North East, and is possible. We make the following recommendations for how this could be done.

**Recommendation 1: Create a North East post-study work visa**  
**We propose the introduction of a new visa to address the challenges facing the North East that migration could help tackle.** A North East post-study work visa would only be open to international students

graduating from North East universities to find work in areas where skilled domestic workers cannot be recruited. The introduction of a North East post-study work visa could clearly be administered through the Biometric Residence Permit to avoid creating a back door to the rest of the UK labour market. The card would clearly state the holder is only entitled to work in the North East. As with other immigration conditions, employers would be responsible for checking the visa status of their employees. The UK Border Force would be able to verify the visa was being correctly administered through intelligence leads and spot-checks on national insurance contributions. The visa would be eligible for two years after the completion of studies.

We propose that the local enterprise partnership be given the power to set which employment sectors the North East post-study work visa does and does not apply to. This power would fall within its remit of pushing the North East's regional economic strategy. The refreshing of the board's Strategic Economic Plan, currently underway, provides a good moment at which to convene stakeholders and explore employers' and stakeholders' appetites and concerns around exploring such a policy avenue.

Policies that facilitate the retention of international students have been applied in other countries – see Box 4.3 for examples.

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#### **Box 4.3. Example policies facilitating the retention of international students**

**Michigan, USA** – In Michigan the state has focused on retaining international students trained in Michigan universities to build the local skills base. The Global Talent Retention Initiative of Southeast Michigan was launched to target the 16,000 international students studying in that part of the state, many of them in science and technology fields.

**Germany** – A new law has increased the length of time for which international students can remain while they find work. In addition, Germany has made it easier for international students to obtain permanent residency in the country (especially if they speak German).

**Sweden** – Students are allowed to remain and work in Sweden following graduation and since 2014 doctoral students have been able to qualify for permanent residence in Sweden if they have held a study permit there for four out of the past seven years.

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#### **Recommendation 2: Create a North East shortage occupation list**

**We propose creating a regional shortage occupation list for the North East to reflect the specific needs of the region.** This would also allow the region to attract workers who have the skills needed for local businesses. An advisory sub-committee of the Home Office's Migration Advisory (MAC) should be established to provide the MAC with a North-East-specific version of the national shortage occupation list (given that this independent body currently sets the UK-wide shortage occupation list). The shortage occupation list currently sets job titles,

specifications and salary thresholds that are excluded from the tier 2 skilled worker visa cap.

The current shortage occupation list is operated on a national basis. Given its historic lack of attractiveness to migrants, the North East is poorly placed to leverage the national list and attract the key migrants it needs to fill skills gaps. This leaves the region unacceptably impotent in the fight to boost growth, as it needs a job to be in shortage nationally, not just in the region. If the regional LEPs could agree a list of key skills or roles that are needed and judged to be job-multipliers, then the region should be able to submit a bespoke list to the Home Office's Migration Advisory Committee, justifying its decisions in terms of regional economic need. A migrant could then be granted a tier 2 visa that permits them only to be employed or to rent a property in the North East.

Again, this initiative has been replicated in other areas. In **Scotland** there is a shortage occupation list separate from the list for the rest of the UK (although it has rarely varied much from the Home Office's UK-wide version) and in **Spain** the shortage occupation lists are compiled separately for each region. In the **US** doctors who agree to work in designated 'health professional shortage areas' are able to obtain a visa with fewer restrictions.

### **Recommendation 3: Devolve tier 1 (investor) visas to the North East Combined Authority**

Under current arrangements, investor visa applicants have to have £2 million to invest in the UK to qualify for a visa. This was raised from £1 million in 2014, following which there was a sharp decline in applications. In order to boost foreign investment in the region we recommend the government devolve the power to set monetary thresholds to the North East local enterprise partnership, so that the North East would be able to lower the threshold from £2m and encourage more foreign direct investment to the region.

We also recommend that the LEP should set the definition of 'investment' for the purposes of this visa. The LEP should be able to be more specific in defining what constitutes investment for this purpose, but should not make it more broad than the UK definition. This is to ensure that investment is properly targeted to support and complement the regional economic strategy, and also that it doesn't become a 'back door' to cheaper investor visas for the whole of the UK.

This would allow the North East to attract much needed investment to the region. Investor visas have been criticised for allowing millionaires to buy the right to remain in Britain through the acquisition of luxury properties in inner London. This would ensure investor visas worked for ordinary people in the North East. The local enterprise partnerships could set the terms for the investor visas, allowing local leaders to ensure they are in job-creating infrastructure investments.

Again, this is not a new idea and has been implemented in other countries. In Australia, investor visas are lower for those who apply through the regional route, and Australia-wide investor visas are only

available for those who make particularly significant investments (upwards of A\$5 million – see box 4.2). Box 4.4 describes some of the details from the US with regard to investment thresholds.

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#### **Box 4.4. Investor visa thresholds in the US**

In the US, those individuals who want an investor visa face a lower investment amount threshold if they are willing to invest in certain geographical areas. The immigration programme ‘Global Detroit’ has also promoted the federal EB-5 visa programme, which allows foreign investors with their dependents into the country as legal residents if they bring financial resources (from US\$500,000 to 1 million) and start a company that employs at least 10 people. These visas are tied to designated regional centres throughout the country, of which there are six in Michigan.

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## 5. HOW TO ADDRESS CONCERNS REGARDING INCREASING MIGRATION

Immigration is undoubtedly a sensitive political issue. The social change that comes with increasing migration flows can create social problems and increase tensions. This is particularly the case in high unemployment areas where migrants are perceived as reducing job opportunities for the existing population. The high 'leave' vote in the EU referendum by North East voters indicates some concerns over the impact of migration among the region's residents.

Previous IPPR research has indicated that areas with little history of migration are those that are most vulnerable to social tensions when migration levels pick up at speed (Griffith and Halej 2015). The North East is not a diverse region: 95.3 per cent of its residents described their ethnicity as 'white' in the last census (ONS 2011). Therefore, a change in the diversity in the area brought about by migration is likely to generate a reaction (either a visible reaction or not) from the community.

While a targeted approach to migration may bring economic demographic dividends to tackle the structural issues the region faces, policymakers should be fully aware of the risks to social cohesion. To leverage the potential of targeted, skilled migration, there is also a need for vigilance and responsiveness to the negative impacts on local labour market and community tensions. The impacts of migration, even in the small numbers that these suggested policy changes would bring, must be properly managed and its impacts dealt with strategically and sensitively by local actors, if social disruption is to be avoided.

Devolution deal supplement the tools local policymakers have to manage social tensions. It is therefore vital that policymakers take steps at the same time to foster community cohesion.

### **RECOMMENDATIONS FOR ACTIONS TO MANAGE SOCIAL TENSIONS**

#### **Recommendation 1: Improve employment prospects for the entire community**

It would be short-sighted and to the detriment of the employment prospects of the resident population to rely on migrant workers without upskilling the resident population. IPPR has previously recommended that larger companies employing non-EU economic migrants should offer a commensurate number of training places for UK citizens (IPPR 2014).

The government is introducing an immigration skills charge for employers relying on migrant labour, which will fund training and apprenticeships.

IPPR has previously recommended that local authorities should be the body with responsibility for collecting this and deciding how the funds should be allocated (Griffith and Halej 2015). As power is devolved to the local level, policymakers and politicians should work to ensure that proper training of the domestic labour force is put in place. Were she to have oversight of the economic and commercial strategy for the whole region, a metro mayor would be well placed to judge where the skills gaps can be plugged by the local labour force, given that the North East already has a high proportion of apprenticeship-holders.

However, there are more muscular steps that local leaders can consider taking. Their primary aim should be to ensure that the existing population is not crowded out of the jobs market by migration and migrants' skills. What migration is brought to the North East should complement, rather than duplicate, the pre-existing labour force.

In order to achieve this, local authorities, the LEP or a putative combined authority should consider setting up a programme of 'affirmative action' for local residents. That could include ensuring that any jobs that are on the North East shortage occupation list must be advertised among the area's colleges and public and civic spaces before employers can search internationally for applicants. Employers who recruit large numbers of migrants through the schemes outlined above (for example, companies in which the ratio of migrant workers to UK residents<sup>3</sup> is more than 1:3) should be asked to pay a migrant employer levy, which can be used to fund courses to upskill local workers who fall just below the criteria for jobs that eventually go to migrants. Local employers should, in partnership with the LEP, disseminate information on their workforce planning with local schools and colleges, so that local people have a deeper sense of the skills that will be required.

To anticipate and head-off the problems that migration can cause for local communities, local policymakers should set up consultative forums – local immigration councils – that go to areas that have seen increases in immigration to hear local people's perceptions of how migration is impacting their communities. These should be done on a rolling basis, and should be solutions-focused. When evidence of tensions or unfairness in the system is raised, the appointed officer should be tasked with designing a range of potential solutions that can be put to local people in a deliberative, consultative fashion.

### **Recommendation 2: Tackle exploitation**

Employers should not be allowed to use migrants as a source of cheap labour, as this can cause unfair competition for jobs, in turn stoking social tensions and creating longer-term imbalances in the economy. Employers in the North East should offer migrants the same wage as local job applicants and should not be able to use migrant labour to avoid paying the regional going rate for a job. In the Immigration Act 2016, the government increased the powers of the Gangmasters' Licensing Authority, which works to reduce labour market exploitation. As migration

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3 'UK resident' means someone with either UK citizenship; permanent leave to remain (settled in Britain from outside the EU); under pre-Brexit rules, permanent settlement (an EU citizen who has been in the UK for five years or more under free movement rules); or someone in a family relationship to someone meeting these conditions.

to the region increases, local authorities should liaise closely with the Gangmasters' Licensing Authority to ensure there is tough enforcement of the immigration rules and that employers and criminal gangs who exploit migrant labour illegally are brought to justice.

**Recommendation 3: Ensure appropriate service provision and accommodation for the entire community**

Although migrants do not use public services any more than the host population (George et al 2011), it is important that possible pressures on public services are monitored. Therefore, the recommendations in this report should be delivered in partnership with local authorities and regional bodies, who will assess the capacity of the area and the pressures on services that may or may not be felt by the local communities.

In areas that experience rapid population increase, there may be a period of adjustment during which some services may need to expand. Previously the government administered a Migrant Impact Fund, which was paid through visas fees and given to areas to reduce pressure on public services. The Coalition government scrapped this fund, and in 2015 the Conservative party manifesto promised the creation of a 'controlling migration fund' (Conservative party 2015: 31). This should be used to address pressures on frontline public services caused by migration, including the enforcement of housing and labour market rules, in part in order to reduce problems of overcrowding and wage undercutting.

The majority of migrants live in the private rented sector and an increased demand for rental accommodation can result in higher rents (Perry 2012). Data suggests there are available houses in the region to absorb an increased population: Home Office statistics show that in 2014 there were some 9,207 long-term vacant dwellings in the North East (ONS 2016c). Nonetheless, amending housing allocation procedures and regulations regarding private landlords should be explored in geographical areas that want migrants to settle. Future immigration, and the associated impacts on housing, should be considered by local authorities' planning departments. Their role will be to create a vehicle for the delivery of the National Planning Policy Framework according to the specific needs of communities in the North East.

It would be beneficial for a regional body (such as the North East Regional Migration Partnership) to produce a report covering the numbers of migrants coming to the region and their characteristics, and the impacts of immigration on the local economy, public services and communities. This would be shared with central government, local authorities, regional bodies and charities to assist with service planning. A shorter version could be made available to the public.

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