

# The internationalization of labour markets

Christiane Kuptsch (ed.)

<p>The social dimension of globalization</p>	<p>France / ILO Symposium Paris</p>
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## PREFACE

The financial crisis which started in Autumn 2008 has intensified concerns about the social impacts of globalization. In the context of high unemployment resulting from the crisis, job losses which may arise as a result of international competition are especially problematic – irrespective of the job gains associated with greater access to foreign markets. People also fear that foreign labour might drive out the local labour force, despite the role that a well-designed migration policy can play in terms of reducing skill shortages, promoting innovation and boosting economic growth. It is therefore essential to address the social concerns associated with globalization while at the same time avoiding inward-looking solutions.

The present volume provides a timely contribution to this debate. It contains papers that were presented at the *Fourth Dialogue between France and the ILO on the Social Dimension of Globalization*. The Dialogue had for theme *the internationalization of labour markets*. The event, which brought together some 50 experts from government, the social partners and academic institutions, discussed the factors advancing as well as impeding the internationalization of labour markets. The participants debated the economic impacts of labour mobility in both developed and developing countries, the links between global production and recent developments in labour markets and the links between occupational and geographical mobility.

The Dialogue helped identify examples of migration policies that support growth and development in both countries of origin and host countries. Importantly, participants agreed that migration policy can best work as part of a coherent labour market strategy. In general, the human dimensions should be at the core of the strategy. Special policy attention should be devoted to ensuring respect for the human and social rights of migrant workers, which are innocent victims of the financial crisis. As Gilles de Robien underlined in his closing speech, France and the ILO are convinced that it is imperative to put in place regulation mechanisms that will permit to limit phenomena of exclusion and maximize the benefits of globalization.

The papers in this volume constitute an excerpt of the Fourth Dialogue's rich debates. The opinions expressed do not necessarily reflect the views of

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the ILO or the French Government but rather those of the authors who also participated in the Dialogue in their individual capacity.

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## INTRODUCTION

*CHRISTIANE KUPTSCH*

The “internationalization of labour markets” can denote diverse concepts. Under a narrow definition it means that the demand for and supply of labour becomes more international. Or in other words, an employer, instead of having to rely on a national worker, now reaches over borders for a foreign worker, and a worker instead of only being able to look for employment on the national labour market, can go abroad. This interpretation focuses on the movement of people across borders and therefore becomes a synonym for international labour migration. But the “internationalization of labour markets” can also designate the labour market consequences of the cross-border movement of goods, services and capital and an internationalization of production. The perspectives are different but not mutually exclusive because the different types of movements are often linked, albeit not always.

The contributions in this book use both perspectives. In the first part, the focus is largely on the movement of people. Consequences of the movement of workers across borders for receiving economies are examined as well as the question under what circumstances these movements can bring development to the migrants’ countries of origin. This part also includes an investigation of the consequences for the migrants themselves, both while being in the host country and upon return, in terms of their labour market outcomes (salaries, job opportunities, prospects of being unemployed, etc.). Unlike what might be done in a book on migration, the consequences of their migration experience in terms of the migrants’ social protection (portability of pensions, unemployment insurance coverage, etc.) or other social issues (identity formation, changing gender relations, etc.) are not dealt with.

The global economy is in transformation. Today, capital and especially ideas move very fast, actually instantly; goods move rapidly too; why is it that there is not more movement of people? Just before World War I the percentage of migrants in the global population was some 10% whereas today this figure has come down to only 3%. Developing a deeper understanding of the current barriers to mobility is one objective of this book. For example, what is the role of the international regulatory framework, national regulations, policy objectives in other issues areas; and what about barriers to mobility inherent in the potential migrants, above all inertia, i.e. the wish to stay at home with family and friends, not having to make cultural and linguistic adaptations? Another

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objective is to understand the factors that contribute to more worker mobility across borders, such as income differentials, demographic differences, changes in global production structures, interests of various agents. And finally the question is raised of what a growing trade in services, which were for a long time regarded as non-tradable, might imply for local labour markets as well as the internationalization of labour markets.

The chapters of this book shed light on all of these questions, but given the vast subject matter, there is no claim to comprehensiveness. The following sections of this introduction summarize some of the book's main findings.

### *Chances and challenges for migrant receiving and sending countries*

*Arthur Sweetman* examines the economic effects of immigration as experienced in North America. He first presents institutional structures and trends in Canada and the United States, observing that immigration is part of the founding vision of both these nations and that both have moved away from giving special status to immigrants from particular source countries in the 1960s. However, there are also important differences in policies and patterns of immigration. Canada has consistently pursued a high skills route to immigration, compared to more of a focus on family reunification in the US, and Canada's immigration rate has been much higher than that of the US (although the total number of immigrants to the US has ranged from 2.5 to 4 times that of its northern neighbour). Source countries differ, with more Latin American and especially Mexican migrants in the US and proportionally more Asians and Eastern and Southern Europeans in Canada; and in the US the third generation visible minority group is much larger.

Sweetman recalls that the nature of immigrant economic integration is a function of national economic institutions so that there is a need for context-specific interpretation of empirical findings. For example, in Canada with the emphasis on skilled immigration, immigrants and the Canadian born have quite different characteristics with many immigrants in Canada having those associated with higher earnings, a fact that must not be ignored in comparing earnings of both groups. Besides entry earnings, Sweetman also discusses issues such as economic return to pre-immigration education and the evolution of average earnings over time, including for different generations of migrants. He finds that both the US and Canada have seen a very similar decline in the labour market outcomes of successive cohorts of new immigrants. Earnings at entry have declined substantially, with many migrants earning less than their host-country born counterparts for most if not all of their working lives. In both countries, the second generation does better, though.

Determining the economic impact of new immigration on the receiving country's economy, or on the economic status of the pre-existing population, is a difficult task because it begs the question what the economy, or a subset of the population, might have looked like in the absence of immigration or with more immigration. Sweetman shows the complexity of the analysis,

immigration being interlinked with issues including domestic demand, taxation, trade, capital stock, consumer prices, entrepreneurial skill accumulation, and the provision of government services. Outcomes also depend on the way in which new immigrants alter the production possibilities frontier of the economy and on whether new immigrants complement or substitute for the pre-existing labour force. In addition, time horizons matter, short and long run effects might differ substantially. Sweetman explains that most of the research is quite controversial as to methodology and normally requires some type of strong assumption to define the counterfactual to be compared to the actual outcomes observed in order to identify the causal impact of immigration (a fact also underscored by Domingues Dos Santos in chapter 2). In Canada there seems to be consensus that the overall economic impact of immigration is small, though opinions are mixed regarding whether the impact is positive, negative or zero. Similarly, in the US, in practice the economic issue is whether the impact of immigration has a small negative, small positive or zero effect on the pre-existing population. The impact on labour earnings for groups with similar characteristics to new immigrants is probably negative, meaning for Canada that the highly skilled part of the pre-existing population will be more affected and for the US lower wages for people with lesser skill levels.

One aspect not treated by Sweetman is picked up in the next chapter. *Manon Domingues Dos Santos* examines another challenge for migrant receiving countries, that of immigration and unemployment. She focuses on the countries of the European Union.

Domingues Dos Santos finds that the immigrant community has a significantly higher propensity to unemployment than the native community in almost all the EU Member States, meaning that immigration contributes to increasing the average unemployment rate via a composition effect. This phenomenon cannot be explained by the apparently lower skills levels of the migrants alone, yet, given the lack of data that would permit assessing the immigrants' actual skills, it is impossible to fully attribute it to discrimination either or single out which part might be caused by discriminatory practices.

Usually, wages and prices take a certain time to adapt to changes in the economic environment and workers need time to find a job for which their skills are suited. Immigration then is likely to increase the unemployment rate temporarily, with labour market rigidities and matching processes determining the time needed for the adjustment.

Yet, economic theory suggests that immigration has a negligible effect on long-term unemployment rates for individual categories of workers. Theoretical studies also invalidate the replacement postulate according to which immigrants occupy the jobs of native workers. An economy tends to create jobs in proportion to the number of its residents and consumers, and immigrants eventually help to create a number of jobs in proportion to the size of their community.

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It is worth noting that the empirical relevance of this statement keeps being contested. While empirical studies based on the spatial correlations method or the use of natural experiences show that immigration has a relatively moderate impact on the employment conditions of native workers, other studies based on aggregate time series observe more harmful effects. Domingues Dos Santos presents the criticisms addressed to all of this research in terms of methodology adopted and assumptions made.

While the studies presented by Sweetman refer to new immigrants vs. the pre-existing population, in the works discussed by Domingues Dos Santos, three groups appear: “natives”, earlier immigrants and new immigrants. Most of the studies conducted in Europe show that immigration has only an insignificant or slightly negative impact on the employment opportunities of native workers, since the new arrivals tend to compete with immigrants from earlier waves. Domingues Dos Santos also finds that the impact of immigration on the employment of native workers seems more substantial in the European economies with the least flexible labour markets.

Interestingly, both authors, Sweetman and Domingues Dos Santos, underline the small size of the observed effects and share the opinion that these results are likely to remain controversial in the academic arena by virtue of the methods employed and the complexity of the issues. Needless to say that social, cultural and political issues not discussed in these first two chapters add further to the complexity.

Another extremely complex issue area, where definite answers are hard to come by, is the question of the economic effects of migration on the migrants' countries of origin. Chapters 3 and 4 of this book turn to these countries and offer first some general insights into possible positive and negative effects and then a case study of China and its challenges as a large sending country.

In examining the internationalization of labour markets and the development effects in migrant sending countries, *Robert E. B. Lucas* points out that the consequences of global labour flows for low income countries are mixed because of the geographic selection of migrants. Where emigration is high, the effects can be profound; elsewhere, international migration may be largely irrelevant to development. Yet, even among high emigration countries or regions within countries, not all consequences are necessarily positive. The potential for gain (certainly for the migrants themselves) may be larger where a majority of people moves to high income countries rather than to low-income, neighbouring countries. Moreover, the skill mix of the migrants assumes a critical role in these effects.

Lucas lays out some of the complex arguments with respect to a brain-drain or brain-gain and finds that it remains quite unclear whether the emigration of highly-skilled persons leads to a net loss or a net gain for those remaining at home. As for inequality within the country of origin, effects are poorly documented. It appears that much depends upon whether the presence of highly educated personnel render those with lower skill levels more or less productive; and the effect of departure upon profit incomes also needs to be considered.

In investigating the patterns of movement of migrants with lower educational attainment, Lucas notes that lower-skilled migrants in the OECD countries are drawn very largely from neighbouring countries and that much of the international migration of lower skill workers from low income countries is a South-South movement. The latter movements offer a key vehicle for poverty alleviation in the places of origin, essentially via the transfers of remittances. At the macro level, these remittances are an injection of foreign exchange and of income into the economy. Micro evidence shows that remittances enable consumption smoothing during times of exogenous stress as well as business start-ups, that they enhance education and lead to better housing. Lucas observes that “each of these components of spending may well be deemed forms of development in their own right, whether or not they result in faster economic growth”. Domestic gain can also arise from the return of migrants with newly acquired skills. However, so far research is inconclusive as to whether this new knowledge actually provides benefits beyond those to the returning migrants themselves, by enhancing profits for employers or through skill transmission to others, for example.

In concluding, Lucas points to the fact that a small number of developing countries have become heavily dependent upon emigration to solve the lack of employment at home and that this proves a risky strategy because it places the migrants’ country of origin at the whims of host country reversals. Lucas sees the issues of policy coherence and integration of migration into economic planning for development in their infancy and encourages both researchers and policy makers to take a broad perspective as trade, aid and exchange rate policies all impact migration and remittances.

Education policies matter as well; education abroad can lead to the internationalization of labour markets as explained by Kuptsch and Martin in chapter 6. For countries that have opted to promote the education of their youths abroad, e.g. in order to obtain transfers of technology and knowledge, the challenge is to re-attract their nationals and in particular those who can make valuable contributions to development.

Chapter 4 by *David Zweig* and *Donglin Han* looks at China that instituted a “study abroad programme” since 1978 because Chinese authorities believed that returnees from overseas would upgrade China’s educational system and provide the country with advanced technology to meet its objective of modernization.

Zweig and Han examine the question whether those who return find productive employment easily or whether they join the ranks of the unemployed and do not actually contribute to China’s development. They use three data sets in their research and discuss their respective validity before presenting findings: one 2006 survey focussing on returnees from Japan, one 2007 survey of returnees from Canada, both carried out by the Chinese government agency in charge of overseas degree certification, and a third dataset from Guangzhou, near Hong Kong, which hosts a significant number of returnees.

China’s job market for graduates has been changing drastically in recent years with returnees and domestic college graduates facing the same dilemma,

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namely competition by peers due to the expansion of university enrolments since 1999. Zweig and Han report an exponential growth in the number of university graduates which causes a serious social problem as nearly a quarter of college leavers from 2007 had failed to secure a job. For returnees from overseas it does no longer suffice to simply show a foreign diploma to find a job. Increasingly, employers also request work experience abroad and/or returnees have to lower their salary expectations. In part this is due to the fact that recent waves of Chinese students have not necessarily attended reputable schools abroad but have gone to mediocre institutions believing that any overseas education would improve their job search back in China.

Zweig and Han adopt both subjective and objective measures to evaluate the extent to which returnees face difficulties in their job search. It turns out that both these measures are fairly consistent with each other and that overall, the findings do not support the idea that returnees face major unemployment problems as is occasionally portrayed in the Chinese media. In fact, most returnees can find a job within three months of returning and over 93% of the individuals studied by the authors found a job after six months.

Overseas education also has a positive effect on salaries relative to those who did not go abroad although female returnees are disadvantaged in terms of their income in their first job. While age does not appear significant for higher salaries, work experience abroad is, as is working for a foreign company. Zweig and Han come to the conclusion that the higher salaries earned by returnees demonstrate that they are adding value to Chinese society and that it therefore makes sense for China to pursue its policy of attracting back their nationals who have studied overseas.

### *Emerging global labour markets*

From this review of some of the chances and challenges that increasingly internationalized labour markets mean for migrant sending and receiving countries, the book moves to explore the question of emerging global labour markets (Part II): What regulations exist internationally; what drives the internationalization of labour markets; and where does Europe stand on the path of becoming a single labour market?

In chapter 5, *Ibrahim Awad* explains the international regulatory framework for international labour migration. He shows how historic events and developments in the international system have shaped the instruments adopted by the States members of the International Labour Organization. For example, ILO Convention No. 97, adopted in 1949, in a context of (anticipated) migration flows in the aftermath of World War II is about migration management while protecting workers crossing borders. It aims to ensure equal treatment for them by encouraging countries to sign bilateral agreements. Convention No. 143 (1975) was enacted after oil-price hikes led to recessions in European countries that had been importing large numbers of guest workers and stopped recruitment as a response to the economic downturn. C143 deals with clan-

destine migration (to be expected with legal channels being closed) on the one hand (Part I) and with equality of opportunity and treatment and the integration of settled migrants on the other (Part II).

The international system went from being a “club” dominated by few industrialized countries to one encompassing close to 200 nations, and the interests of the parties became increasingly divergent. With these changes flexibility had to increase – Awad shows that this was indeed the case – and it became more and more difficult to adopt rules binding upon everyone. Not surprisingly then, the ILO Multilateral Framework on Labour Migration adopted following the 2004 International Labour Conference is non-binding. There seems to be a trade-off between legally constraining instruments that can only cover a relatively small number of issues and non-binding rules that can offer guidance on a much broader scale. Awad is of the opinion that the juxtaposition of binding and optional provisions should be seen as a positive development, in the interest of migrant workers, countries of origin and destination. It expands the options afforded to members of an international organization.

*Christiane Kuptsch* and *Philip Martin* examine the actors and the factors that drive the internationalization of labour markets. The actors involved in rising labour migration include migrants, employers, and intermediary agents, and the factors motivating migration include demographic and economic differences between countries, economic and social networks that link workers and jobs over borders, and trade, labour, and migration policies. Kuptsch and Martin describe the motivations of the different actors and conclude that they are relatively easy to understand. There is abundant knowledge of differences that encourage and networks that enable workers to cross borders, and the authors summarize some of this knowledge.

Government policies that deal with actors and factors are more difficult to grasp and often contradictory, as when they limit trade in farm commodities but permit the entry of foreign farm workers. Essentially, one can distinguish between three broad types of policies to regulate economically motivated migration: supply approaches where point systems are used to choose among those who want to enter; demand side policies where immigrants are selected on the basis of employer requests; and mixed policies that can be illustrated by the EU’s Blue Card programme which allows non-EU professionals to enter the EU with their families if they are offered jobs regarded as highly qualified employment — where the latter is defined by education and/or salary.

Kuptsch and Martin also consider global production and the global division of labour as a driver for the internationalization of labour markets. They point to global production networks that, at their low end, often cannot offer any job stability and employ the most flexible people, i.e. migrant workers; to a growing global integration of health care markets as well as global care chains created by structural changes both in affluent and poor countries.

The authors find that labour markets are becoming internationalized or linked across borders in a very uneven fashion. Migrants from developing to industrial countries are concentrated at the extremes of the job ladder, reflecting

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policies that seek to “welcome the skilled and rotate the unskilled”. At the low end of the labour market, policies that promote economic development in sending countries (which reduces the differences that prompt migration), and policies that encourage changes in the demand for labour in receiving countries will influence future migration flows. At the top end of the labour market, decisions about standardizing curricula, admitting foreign students and allowing them to stay upon graduation, and giving employers easy access to foreign professionals and recognizing their credentials will affect entries and stays. There is some expectation that network factors will enlarge labour migration over time. However, the roles that intermediary agents such as recruiters, travel agents, universities, credential-issuing bodies and others in the evolving migration infrastructure might play in future, and might be allowed to play, are not yet well understood.

The following chapter by *Hubert Krieger* discusses the “emerging European labour market” or in other words whether one can see the development of a pan-European labour market alongside national labour markets.

In 2005 the European Labour Force Survey (LFS) found that the EU-25 had a stock of 9 per cent of foreign nationals as part of its active working age population. Figures for the EU-15 were slightly higher with 10.4 per cent or 19 million. Of those 19 million, less than 20 per cent came from other EU Member States (3.3 million) and more than 80 per cent were migrants born in third countries. Out of the 3.3 million internal EU migrants 0.6 million originated in one of the EU-10 countries and 2.7 million came from EU-15 countries. However, there are important differences among the 27 EU countries, e.g. in the share of active working age foreign nationals relative to the total working age population. In 2006 this share reached almost 46 per cent in Luxembourg and 19 per cent in Cyprus while countries such as Poland and the Czech Republic had shares of only between 0.5 and 2 per cent. Those figures (and others presented by Krieger) suggest that a European labour market is slowly emerging. Yet, there is a much higher internationalization of the European labour market through the influx and availability of labour from third country migrants. According to Krieger, it has to be discussed to what extent higher degrees of international labour mobility substitute for sub-optimal levels of internal EU mobility, and policy makers should not lose sight of the fact that the level of ‘Europeanization’ of national labour markets varies substantially between EU Member States.

Krieger notes that certain groups of workers have a significantly lower level of mobility than the average, e.g. people with lower educational attainment and older employees. In addition, people are reluctant to move when they are unemployed because social networks become all the more important for support in times of unemployment. This illustrates trade offs between economic and social aspects of geographical mobility. Economic opportunities and desired life style changes are counterbalanced by the fear to lose support from family and friends, and the challenges to learn a new language and find suitable housing.

Labour mobility is clearly an important issue in the European Employment Strategy as illustrated by the fact that 2006 was designated as the “European Year of Workers’ Mobility” and the policy objective seems to be to have more mobility. Nonetheless, each time there is a new round of EU accessions, the “more mobility” objective seems to be forgotten and too much mobility is feared. Clear challenges for labour mobility policies at the EU level also come from regional/structural development policies and programmes. Such programmes seek an improvement of economic and social conditions in under-developed regions and countries and support the retention of human resources in these areas. Permanent large scale migration of the better educated and younger parts of the workforce would undermine such policies and research consistently shows that especially students, the highly educated and highly qualified workers are more likely to cross borders within Europe.

Krieger concludes in giving some policy directions. For him, the issue is not to maximize mobility but to *optimize* mobility between EU countries, with social, cultural, educational and infrastructure barriers to mobility likely to remain obstacles in years to come.

### *The services sector*

Part III of the book focuses on the services sector as this dynamic sector is growing worldwide and will increasingly characterize the world of work. Services were traditionally regarded as non-tradable but are now being traded internationally and the production of these services is also being outsourced abroad, with implications for local labour markets as well as the cross-border movement of service providers.

*El Mouhoub Mouhoub* offers a survey of the current extent of the offshoring of service activities to low-wage countries, going beyond simplistic approaches that predict massive information and communication technology (ICT)-enabled offshoring of intangible activities. He gives an account of recent studies, e.g. by Krugman and Jensen and Kletzer, finding that service activities can broadly be categorized into non-tradable activities, moderately tradable activities and highly concentrated and thus tradable or offshorable activities. Almost 30% of the services jobs are potentially outsourceable, but most of these jobs are skilled and command relatively high incomes, which reduces the offshoring probability.

Empirical work on vertical offshoring operations shows that the share of potentially offshorable jobs has not exceeded 20% of services jobs over the last 10 years, and the trend is downward. More detailed analysis of individual and survey data reveal a marked heterogeneity of practices in the same activities: some enterprises offshore activities, others keep production in the countries of origin despite higher wage costs, and others repatriate their activities after unsuccessful offshoring operations. It is the nature of the services provided and the quality of the provider-client relationship that count in deciding whether or not to offshore. This fact leads Mouhoub to propose an endogenous typology

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of services, using activity location factors, as a basis for forecasting trends in the internationalization of services.

The growing internationalization of service activities is driven by negotiations under the World Trade Organization (WTO)'s General Agreement on Trade in Services (GATS) which distinguishes four principle modes of liberalization: Cross-border supply (Mode 1); consumption abroad (Mode 2); commercial presence or foreign direct investment, FDI (Mode 3); and temporary movement of natural persons (Mode 4). While it is difficult to provide accurate statistics according to those four supply modes, it is clear that Mode 3 is predominant in the internationalization process while the temporary movement of natural persons (under Mode 4 especially of skilled staff) remains a supply mode of minor significance.

In the last chapter of the book, *Philip Martin* looks more closely at what the liberalization of trade in services under GATS Mode 4 might imply for the internationalization of labour markets. The liberalization of trade in services is governed by the "most favoured nation (MFN) principle" which stipulates that if a country allows foreign firms to enter a given sector, firms from all other WTO member states should have the same access rights as well as that of "national treatment", i.e. equal treatment for foreigners (or foreign firms) and nationals (or national firms). Martin notes that the distinction between producing goods and services becomes increasingly difficult, especially since more and more factories employ workers supplied by temporary help and employee leasing firms.

Developing countries led by India advocate liberalization of Mode 4 in demanding the elimination of labour market tests; expediting visa and work permit issuance; easing credentials recognition; and exempting foreign service providers from participating in work-related taxes and benefit programmes. Martin observes that especially the latter request may violate the WTO norm of "national treatment" as well as international labour standards calling for equality between migrant and local workers. The usual argument for the liberalization of Mode 4 is that the temporary move of service providers can help realize economic gains while avoiding social and political costs because service providers, unlike migrant workers, will return (meaning no integration costs for host countries and no brain drain for origin countries). The estimates of substantial gains usually depend on assumptions such as full employment (so that wages are determined by marginal productivity); a ratio of wages to profits of one in both rich and poor countries before migration barriers are lifted; and the assumption that capital does not move. Most analysts estimating the gains draw exact parallels to trade in goods. However, people are different from goods. They are multi-dimensional, being workers, residents and consumers at the same time; and they can change their intentions and status, e.g. when temporary residents decide to settle.

In discussing regional migration vs. global trade, Martin points to the fact that countries are in general more inclined to permit freer migration from neighbours with whom they have special relationships and similar credential and

licensing systems rather than with 148 diverse WTO members. Some analysts therefore fear that liberalizing the global movement of service providers under GATS could slow expansion of more comprehensive regional free mobility regimes. Martin also examines alternatives to Mode 4 liberalization, such as attracting customers to low-cost areas (Mode 2) or moving employees within multinational firms (Mode 3). He concludes that these ways of providing services could prove to be a safer way to further development because, unlike Mode 4, they would essentially require legislative changes not touching labour markets and without challenging equal treatment principles.

PART



THE GLOBAL ECONOMY IN TRANSFORMATION:  
CHANCES AND CHALLENGES FOR MIGRANT  
RECEIVING AND SENDING COUNTRIES

# SPOTLIGHT ON THE ECONOMIC EFFECTS OF IMMIGRATION – A NORTH AMERICAN PERSPECTIVE

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Immigration's economic impacts on the domestic economy are difficult to estimate and controversial. However, most academic researchers in the area appear to believe that they are modest and near zero in the aggregate, although they might be larger for some subsets of the population. To understand the effect of immigration in North America, first a brief discussion of the institutional structures and trends in Canada and the United States (US) is presented, then the evolution of the economic integration of new immigrants is explored, and finally, the economic impact of immigration for the pre-existing population is addressed. It is also valuable to say at the outset that this chapter addresses only economic issues, and given how North America's two large national immigration systems and societies operate, the interrelated social and cultural issues associated with immigration are equally important.

## 1. BRIEF INTRODUCTION TO US AND CANADIAN IMMIGRATION

Immigration to Canada and the United States has many elements that are broadly similar, but also substantial and very distinct differences. Unlike European states, immigration is part of the founding vision of both North American countries and is tightly tied up with the concept of nation building. Both experienced the "great migration" of the late 1800s and early 1900s, and the very limited immigration rates of the 1930s, and both reopened to immigration after World War II. Importantly for the current discussion, both moved away from policies that gave special status to immigrants from particular source countries in the 1960s. In January 1962, Canada revoked the regulations giving special status to individuals from selected (mostly Northwestern European) countries and restricting immigration from Asian countries. In their place were policy goals regarding desirable skills, family reunification, and humanitarian responsibilities. The skills aspect of economic immigration was formalized in 1967 with the introduction of the points system for skilled workers, which continues to this day although it has been modified several times. In the United States, the Immigration and Nationality Act Amendments of 1965 (the Hart-Cellar Act) abolished quotas based on national origin, but unlike Canada relatively little emphasis was placed on skilled migration. Rather, family

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reunification dominated. Smith and Edmonston (1997, chap. 2) provide a brief overview of US immigration history, as do Green and Green (2004) for Canada. See the references in each for other studies.

Two other important differences between Canadian and US immigration policies can be seen in Figure 1, which shows the time series of legal immigration for each since 1940. While the total number of immigrants to the US has ranged between 2.5 to 4 times that of Canada, the immigration rate to the US is always much lower on a percentage basis. Although the US has much larger illegal/undocumented immigration, and there was one regularization of undocumented residents starting in 1989, even if relatively large estimates of the undocumented are included, the overall US rate remains well below the Canadian one. Secondly, it is also clear that the Canadian rate, prior to 1990, fluctuated with the business cycle, whereas the US rate is relatively stable across time. The Canadian rate increased in booms and decreased in recessions, and also the composition varied with the business cycle with economic class immigration being more substantial in booms and family class dominating in recessions; this tendency probably aided in the labour market integration of new immigrants. (However, a few spikes in the Canadian rate, especially the one associated with the 1956-7 Hungarian refugee movement, are not coincident with peaks in the business cycle.) In 1990, among many other changes, a major reform in policy in Canada raised the long-term average immigration rate, made it acyclical and caused, possibly for the first time, Canadian immigration to increase during a recession.

The US has favoured family reunification as the main immigration stream, although it substantially increased the number of visas allocated based on occupational skills in 1990. Table 1 presents a breakdown of the immigration count and distribution for the US in 2006. As can be seen immediate relatives is the largest group, followed by family-sponsored preferences. Employment-based preferences is third in magnitude (although if refugees and asylum seekers are added together they form a larger category). By contrast, Canada has a much more highly managed immigration system. While it maintained a family class, and it seeks to fulfill its humanitarian and other related duties, it also has a parallel “economic” immigration class and has operated an administratively complex immigration policy that sought to maximize its domestic national (primarily economic) interests. Hence, although the subcategories altered over time, Canada has three main immigration classes that have endured: economic, family, and humanitarian. As seen in table 2, in 2006 the economic class comprised 54.9% of all immigrants, including refugees. At this point in time economic class immigration was at an historical high; prior to the last decade, more typically the economic class comprised 30 to 40 percent of the flow. Although, Canada is well known for its points system, principal applicant skilled workers who are the only immigrants assessed under the points system, and who are most commonly the male of each family, still only accounted for 17.5% of the entire flow even with historically high economic class immigration.

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Also, settlement and related policies differ very substantially across the two countries, as do the nations' self-perceptions. Tellingly, in 1971 Canada became the first country to adopt an official "multiculturalism policy", and in 1982 the nation's multicultural heritage was recognized in the then new Canadian Charter of Rights and Freedoms, which forms part of the Constitution. This is a symbol of an approach that contrasts with that in the US and is associated with much greater per capita government spending on settlement and cultural issues, including educational and economic integration for new immigrants and cultural events for multiple generations. However, the exact nature of the impact is ambiguous and complex. For example, active multiculturalism policies could imply increased retention of ethnic norms, including, for example, maintaining differences in educational attainment. Or, it could imply greater effort at social and economic inclusion leading to faster integration. Of course, alternative elements of the diverse range of settlement policies and services, and national attitudes, could have impacts in different directions.

Table 3 illustrates some of the similarities and differences between Canada and the US for the population aged 25 to 65.<sup>1</sup> The upper panel presents the share of each country's population that are immigrants (with this group divided into those who arrived as children younger than age 12 versus older immigrants), second generation (i.e., either or both parents are immigrants), and the third generation (i.e., both parents born in the country). The third generation is subdivided into, first, those who do not self-report being members of a visible minority group (including those with Hispanic origins), and, second, those who report being a member of a visible minority group, or being aboriginal, as well as those who report being born outside of the country despite both parents being domestically born. Clearly, the US has about one-third fewer immigrants, and those immigrants are somewhat more likely to arrive as adults. That the US immigration rate has been lower for an extended period, although it has risen somewhat in relative terms as also seen in figure 1, is even more evident for the second generation where Canada's rate is more than double the US one. However, the third generation visible minority group is much larger in the US than Canada, with much of the difference reflecting its much larger African-American population.

Following the late 1960s, immigration from Europe declined in relative importance for both countries and great differences in source countries between the two arose in large part because of geography. The US has a substantial fraction of its immigrant stream arriving from Central and South America, Cuba, and especially Mexico. For Canada, the increase in the immigration rate from Asia was more pronounced than in the US, and the decline in European immigration was proportionately smaller and regionally more concentrated.

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<sup>1</sup> The underlying data for tables 1, 2 and 5 are the same as that in Aydemir and Sweetman (2008) and further details about its construction are discussed there; the results presented here are derived from those in that paper. Note that the US data are from the CPS, which many observers believe include the vast majority of undocumented immigrants.

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While the immigration rate to Canada from North-West Europe dropped very substantially, that from Eastern and Southern Europe, though fluctuating across periods, reduced much more modestly than for the US. The end result can be seen in table 4, which shows the dramatic difference in Mexican immigration, as well as substantial differences in flows from Europe and Asia.

Immigrants in Canada are more highly educated than those in the US as seen in table 5, and male immigrants (who are much more likely to have been screened by the points system given that in practice many females are accompanying spouses) are more highly educated on average than the third generation Canadian born. Further, though not shown in table 5, earlier cohorts of immigrants to Canada had much lower educational attainment than more recent ones as the result of a very explicit move to a high skills policy by the government. Also, for both countries, immigrants have a polarized educational distribution with relatively large percentages in each tail. Importantly, members of the second generation in both countries have extremely high educational attainment, as do those who land young in Canada. Of course, there are differences in demographics among these groups, but Aydemir and Sweetman (2008) control for observable heterogeneity in a regression format and predict using intergenerational correlations that the educational attainment of the second generation in Canada will increase, while that of the US will decline. Canada's high skills immigration policy is predicted to propagate into the second generation.

## 2. THE ECONOMIC INTEGRATION OF NEW IMMIGRANTS

In making international comparisons it is important to remember Antecol, Kuhn and Trejo's (2006) empirical validation of the hypothesis that the nature of immigrant economic integration is a function of national economic institutions. They compare Australia, Canada, and the US and find that the relatively rigid wage structure in Australia combined with its relatively generous social insurance programmes cause economic integration to occur almost exclusively along the quantity or employment dimension. In contrast, in the US, which has flexible wages and less generous social programmes, immigrants are at full employment almost immediately and economic integration is a phenomenon that affects earnings. Canada takes an intermediate position between these two. This shows a need for context-specific interpretations of empirical findings and policy proposals.

In both Canada and the US the economic integration (sometimes called economic assimilation) of new cohorts of immigrants is an important policy issue. The research literature builds on the classic work by Chiswick (1978), which first documented that the average earnings of new immigrants "catch up" to those of the native born with time in the country. That is, on average new immigrants' earnings are initially (at entry) below those of the native born, but the average rate of increase over time is faster than that of the native born. However, Chiswick used cross-sectional US census data, and the now well

known decline in labour market outcomes across successive new cohorts of immigrants relative to the outcomes for the native born was first documented by Borjas (1985) who used multiple US censuses to create a time-series of cross-sections. Subsequent work using American data by, among a large number of others, Borjas (1995), Duleep and Regets (1997), and Dowhan and Duleep (2002) confirmed the observation of a marked decline in labour market outcomes for new cohorts starting in the 1970s, but also suggested an increasing rate of economic integration. Extensive surveys are by Smith and Edmonston (1997), and Borjas (1999).

Recent work by Lubotsky (2007a) using longitudinal US data for males that match a set of surveys with US social security records suggests that there are a number of problems with analyses using a time-series of cross-sections including the following. First, return and “back and forth” migration implies that the cohorts followed over time are not drawn from a stable population, with low-skilled workers being more likely to migrate away from the US. Second, the wording of the US census and other US survey instruments makes identifying the arrival year for individual immigrants difficult. Many appear to report not the year they first arrived or worked in the US, but the year of the most recent and/or permanent entry. Hence many immigrants appear to have shorter “years since migration” than is desirable for this type of analysis. Third, there are issues concerning immigrants’ legal year of entry, the reporting of earnings, and the US “regularization” following the Immigration Reform and Control Act (IRCA) of 1986. Finally, more recent censuses appear to be more efficient at enumerating groups, such as new immigrants in poverty, than were earlier ones; thus some changes may be artefacts of census methodology.

An empirically important issue in the US is that since low ability immigrants are more likely to be missing in later censuses, the rate of economic immigration of cohorts appears, because of changes in composition, to be greater than is the average earnings growth of individuals. “True” earnings growth appears to occur mostly for the first 15 years or so and then stall, whereas earlier work had thought it continued. However, the decline in entry earnings for more recent cohorts also appears to be overstated. Overall, for the US, the census time-series of cross-sections with all the flaws just mentioned shows the 25 to 30% initial (or entry) earnings gap in the 1960s growing into well over 50% by 1990; whereas, the longitudinal data show a 20 to 25% gap increasing to one that is close to 40%. In terms of the rate of growth of earnings, it is reduced from about 26 percentage points in the time-series of cross-section data to something in the range of 10-15% in the longitudinal administrative data.

Another issue that is relevant to the US, and discussed by Lubotsky (2007b), is that, as is well known, the dispersion of the US income distribution has increased in the same time period as new immigrant entry earnings have declined. Since the majority of new immigrants to the US has low skills and is in the lower portion of the distribution, this implies that even if new immigrants’ location in the earnings distribution were constant, the gap

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between their mean earnings and those of the native born would increase simply by virtue of the changes in the wage structure. He estimates a 10 to 15 percentage point decline in immigrant entry earnings resulting from the change in the structure of wages. This affects the manner in which the declining labour market outcomes of recent immigrants to the US are interpreted. An appreciable portion of the observed decline is not the result of changing immigrant characteristics, but of the market-wide rate of return to these characteristics — though that rate of return may be, in part, affected by immigration. This calls into question the “immigrant quality” language that is often used in describing the decline. Rather, what is observed are regression coefficients for a set of indicator (or dummy) variables that (conditional on the variables in the regression) represent influences from multiple factors affecting labour market outcomes.

In Canada, a similar literature to that in the US has evolved over the past two decades. Early contributions are by Maxim and Wright (1993), Baker and Benjamin (1994), and Bloom, Grenier and Gunderson (1995). Despite a much more highly skilled immigrant flow, but with a proportionately larger intake, the fall in entry earnings was at least as great as that in the US. The changes over time are depicted for full-time full-year workers in Figures 2 and 3. These plots are by Frenette and Morissette (2003) and are based on the 1981 through 2001 censuses (not longitudinal data), which are taken every five years in Canada. They follow successive entry cohorts over time and display the earnings ratio of each cohort relative to the Canadian born. The results in figure 2 do not control for any individual characteristics, and panel A clearly shows relative wage growth with years since migration with the 1975-79 cohort of both sexes catching up with the Canadian born after 11-15 years, and surpassing after about 20 years. However, the decline in entry earnings across subsequent entry cohorts is also obvious, although there is a bounce back for the 1995-99 cohort as a result of both a policy change that increased the average skill level of the flow, especially in terms of education, and improving labour market conditions after the recession of the early 1990s.

Looking at the unadjusted ratio in panel A is relevant for many policy questions, such as concerns about standards of living, where the characteristics of the individuals are not relevant. However, immigrants and the Canadian born have quite different characteristics with many immigrants in Canada having those associated with higher expected earnings. Especially, on average, immigrants are older, more educated, and live in urban locations that have wage premia associated with them. As a simple first control, Frenette and Morissette restrict the sample to only those with exactly a university education.<sup>2</sup> Even this simple change to make the comparison closer to one

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<sup>2</sup> Of course, nominally similar educational credentials (e.g., a BA) need not imply similar content. Sweetman (2004) shows that differences in source country school outcomes as measured by test scores are reflected in the rate of return to education across immigrant source countries in the Canadian labour market.

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between individuals with observationally similar characteristics has a substantial impact. The plots for both sexes shift down, and the rate of increase is reduced. Also, the bounce back for the 1995-99 cohort is dramatically reduced. Clearly, figure 2 shows that the latter cohort is doing better than the immediately preceding one, but that is because of the changing composition; much less improvement is observed for individuals with the same educational credentials. Panel A of figure 3 goes further and controls for the full set of characteristics available in the census, and panel B uses the same set of controls, but for the sample of those with exactly a university degree. The result is broadly similar in both: conditional on characteristics, the decline in immigrant outcomes is more severe, and the rate of economic integration less optimistic.

Picot and Hou (2003) have also looked at immigrant economic outcomes in terms of poverty and find that poverty rates for immigrants have increased between 1980 and 2000, whereas those for the Canadian born declined. In fact, despite comprising just under 20% of the population, the increase in immigrant poverty was sufficient to bring up the national average slightly.

### *Proximate correlates of the decline in immigrant entry earnings*

Although they are sometimes categorized somewhat differently, three broad proximate correlates with the decline in entry earnings have commonly been observed in Canada by Green and Worswick (2004), Aydemir and Skuterud (2005), Picot, Hou and Coulombe (2007) and Picot (2008) among others. More recently, a fourth issue has been raised that deals with the post-2000 period. Some of these appear to have operated, or caused changes, mostly in particular time periods.

First, roughly 30 or 40% of the decline — probably slightly greater for males than females — is associated with changes in region of origin and associated characteristics such as language ability. Undoubtedly there are elements of ethnic discrimination and/or cultural issues in this portion of the decline since source region incorporates (implicitly or explicitly depending upon the study in question) changes in the ethnic composition of new immigrants over time. Unfortunately, the bundle of interrelated characteristics is sufficiently highly correlated that it is not straightforward to “unbundle” their effects. Most of this effect might be expected to be observed earlier in the period in question since the more dramatic changes in source countries occurred then.

Second, about one-third of the decline follows from a massive reduction in the economic return to pre-Canadian potential labour market experience. Recent immigrant cohorts appear to receive close to zero, and in some models even negative, economic rates of return to their pre-Canadian labour market experience. This effect is slightly smaller for males from “traditional” source countries, but can be observed for both males and females from both traditional and non-traditional source countries. Most of this reduction in the value of pre-Canadian labour market experience, therefore, does not follow from

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broad compositional shifts. Rather, the reduction is occurring primarily within source regions. Goldmann, Sweetman and Warman (2008) show that, surprisingly, having the same pre-Canadian and Canadian occupation does not affect the rate of return to pre-Canadian experience. Hence, the decline is not due to increasingly poor occupational matches.

Note that although this effect is framed in much of the literature as a decline in the rate of return to pre-immigration labour market experience, the corollary is that immigrants arriving at older ages (holding education constant) are doing increasingly poorly. Schaafsma and Sweetman (2001) find very sharp declines in labour market outcomes for immigrants who arrive at older ages, with those entering older than age 35 doing particularly poorly on average. In contrast, immigrants who arrive as children (and are educated in the Canadian school system) do extremely well in terms of both educational and labour market outcomes – except for those who arrive near the end of secondary school in which case both secondary completion and the transition to post-secondary is very difficult. Picot (2008) suggests that this effect will likely not cause any further decline in outcomes in Canada since the rate of return to pre-immigration experience is zero or close to it for many groups. This implies the possibility of further decline in the US since the decline in the rate of return to pre-immigration experience appears to be somewhat less severe there. However, it is not clear that zero is a natural boundary, especially if the decline is viewed as an age-at-immigration effect. In fact, Goldmann, Sweetman and Warman (2008) find that new immigrants have statistically significant negative rates of return to pre-immigration labour market experience.

Another substantial portion of the decline is associated with “entry conditions”. There are three issues here: first, immigrants who arrive in recessions appear to have “economic scars” that endure; second (and of greater empirical importance), new Canadian labour market entrants, especially males, experienced declining labour market outcomes especially in the early 1980s, but enduring to at least 2000; and third, immigrants are competing with increasingly well educated native new labour market entrants. Speculatively, this latter factor may be increasingly relevant given the increasing importance of the service sector and information technology, but there is no hard evidence on this.

The first entry condition issue is of particular importance for Canada since immigration policy was changed around 1990, immediately before the beginning of the 1991 recession. As mentioned, it was the first occasion in Canadian history when the immigration rate increased during a recession. Individuals arriving in that period had particularly poor outcomes that endured. Aydemir (2003) demonstrates the importance of business cycle conditions at the time of entry on immigrant employment outcomes (see also Aydemir and Skuterud, 2005). The second new entrant effect follows from a general labour market trend for new labour market entrants, and from the labour market’s apparent tendency to treat new immigrants, regardless of their age at immigration, as new entrants. Both Canadian and US born new labour market entrants,

domestic and immigrant, face the same challenge of declining real earnings at entry, although the interaction with education appears to differ across the countries with the effect apparently being seen across a broader set of educational outcomes in Canada. The third new entrant effect is more relevant for Canada where the quality and quantity of educational outcomes among native born young people has, relatively speaking, increased appreciably. The educational outcomes of immigrants to Canada have increased substantially over the past decades, but Reitz (2001) argues that the relative advantage of immigrants in terms of education has declined despite the nominal increase in outcomes at landing (though his data ends in the mid-1990s).

In the post-2000 era Picot, Hou and Coulombe (2007) point to a new issue that likely affects the US, but appears to have been substantially larger in Canada as a result of government action. In both countries the subset of immigrants who are high skilled is disproportionately employed in jobs involving high technology / information technology (IT). Thus, when the IT bubble burst after 2000, these high earning immigrants were, as a group, especially affected. In Canada the effect was especially pronounced because the government had started a “high skills pilot project” that increased the percentage of immigrants in this field of work massively. Further, it turned out that government action to reduce the flow, once started, was difficult.

Like that in the US, almost all research on the decline in labour market outcomes for immigrants in Canada has relied on a time-series of cross-sections. However, Aydemir and Robinson (2008) have recently had access to data that has allowed them to study the out-migration of immigrants. They find that approximately 35% of immigrant men who landed in the early 1980s between the ages of 25 and 35 departed Canada within 20 years. Across entry cohorts from 1980 to 1996, between 15 and 23% depart within five years. The probability of departing is clearly associated with the state of the business cycle in the year in which the person enters, with those who arrive in recessions being more likely to exit. It is also a function of other factors such as immigration class.

Interestingly, despite popular perceptions, a reduction in the economic rate of return to pre-immigration education does not seem to be the primary driver of the decline in labour market outcomes for new immigrants. Immigrants do have a somewhat lower rate of return to education, but that rate has not obviously altered appreciably since 1980. See Picot and Sweetman (2005) for a survey of this and related issues. Moreover, Ferrer, Green and Riddell (2006) show that effectively all of the difference in the rate of return to education between immigrants and the Canadian born can be attributed to differences in literacy skills. Using the International Adult Literacy Survey, and a Canadian complement to the same for immigrants, they show that immigrants have lower average literacy skills than the Canadian born. Once literacy skills are statistically controlled for the difference in the rate of return to education is eliminated. Further, Ferrer and Riddell (2008) show that the rate of return to education for immigrants can be quite complex with immigrants having a

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higher rate of return to complete certificates and degrees than the Canadian born, but a much lower rate of return to years of schooling, and especially incomplete degrees. The total rate of return to education is lower for immigrants.

It is also worth noting that Schaafsma and Sweetman (2001) find substantial heterogeneity in the rate of return to education with age at immigration. Those who arrive younger than age 12 have a rate of return that is, on average, 10 to 15% higher than the Canadian born. In contrast, it is about 30% lower for those who arrive in their twenties, and 50% lower for those who arrive beyond age 35.

Looking at longer time horizons, Card, DiNardo and Estes (2000), and Aydemir and Sweetman (2008), show second generation immigrants in both countries have better educational and labour market outcomes than their parents' generation. Dicks and Sweetman (1999) also show convergence to the national average at the ethnic group level in terms of education levels, rates of return to education (the latter vary across ethnic groups), and earnings. However, the high skills route of the Canadian immigration system appears to have intergenerational effects and to be associated with particularly good educational outcomes for the second generation. Interestingly, Aydemir and Sweetman (2008) show that in the US the second generation's annual earnings appear to be extremely similar to those of the third generation (non-visible minority group as defined in table 3 of this paper) both when comparisons are made holding only age constant and when a fuller set of demographic controls are used in making the comparison. However, in Canada second generation immigrants have annual earnings that are statistically and appreciably greater than those of the third generation (non-visible minority group) when there are no econometric controls except for age. Those with one immigrant parent have about 10 percent higher earnings, while earnings are about 20 to 30 percent greater for those who have two immigrant parents. But, once a larger set of controls are added, the gap is eliminated and even becomes negative by as much as about 10 percent. Education and geographic location appear to be particularly important in driving the change. Second generation immigrants in Canada have characteristics that are associated with high earnings, and they do have high earnings, but not quite as high as would be expected given those characteristics.

### 3. THE IMPACT OF IMMIGRATION ON THE DOMESTIC ECONOMY

There are at least three distinct populations about whom policy makers might be concerned regarding the economic impact of immigration: first, the immigrants themselves, second, those remaining in the source countries, and finally, the pre-existing domestic population, that is, the native born and previous cohorts of immigrants in the immigrant receiving country. It appears that not all immigrants benefit from migration as seen by appreciable return migration, and some migration is of course involuntary. Many analysts see immigration that follows from individual choice to imply (assuming sufficient information)

that migrants at least expect economic or social returns to justify the investment. Involuntary migration, especially by refugees, does not normally have primarily economic motivations. Neither of these is explored in this chapter. In terms of the population remaining in immigrant source countries, most researchers suggest that migration increases global productivity as factors of production move to their most productive locations. However, the benefits and costs to source countries is a matter of debate and the issue will also not be addressed in the current chapter.<sup>3</sup> Finally, the issue that will be taken up is the economic impact of immigration on the receiving country and its existing population.<sup>4</sup>

Determining the economic impact of new immigration on the receiving country's economy, or on the economic status of the pre-existing population, is extremely difficult. It requires the formulation of a counterfactual: what would the economy, or a subset of the population, have looked like in the absence of immigration? Or, what would their economic outcomes be in the presence of increased immigration? Recently, this has attracted very active academic, political and popular attention in the US as evidenced by Lowenstein's (2006) article in *The New York Times Magazine*, which featured starkly contrasting views in a debate of sorts between the well-known economists David Card and George Borjas. The academic side of this US debate is summarized below, but first the "traditional" Canadian interpretation of the evidence (which largely comes to the same conclusion), and a discussion of some of the conceptual issues, are presented.

Ignoring the very substantial range of public policy proposals in the US, I interpret most academic observers to hold that in practice the economic issue is whether the impact of immigration has a small negative, small positive or zero effect on the pre-existing population.<sup>5</sup> Perhaps unsurprisingly, there is very little recent empirical research on this topic in Canada, and regardless of the "facts" (that is, my interpretation of the academic opinion and what evidence that there is), the majority popular and political perception appears to be that immigration has a substantial positive impact on the Canadian economy.

Despite popular perceptions Canadian economic research long ago came to the conclusion, which appears to still be broadly held, that any economic impact is small, though opinions are mixed regarding whether the impact is positive, negative or zero. The research report for the Royal Commission on the Economic Union and Development Prospects for Canada (the MacDonald Commission), after surveying the research to date, concluded:

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<sup>3</sup> Editor's note: See the contribution by Lucas in this volume.

<sup>4</sup> A recent UK House of Lords (2008) report addresses the issue and argues that for UK policy decision making, the benefits and/or costs to the domestic society is the relevant metric.

<sup>5</sup> Davis and Weinstein (2002) is one of the few papers arguing that the long-term loss to the domestic economy from immigration is very substantial. They take an international trade perspective.

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*The broad consensus is that high levels of immigration will increase aggregate variables such as labour force, investment and real gross expenditure, but cause ... real income per capita and real wages to decline. (Marr and Percy, 1985, p. 77)*

The federal government's Economic Council of Canada focused more on the impact of economies of scale and argued that:

*In contrast to previous investigators in Canada and Australia, we do find that immigration enhances economic efficiency within the host community. The effect flows almost exclusively from the greater size of the population that immigration brings. Scale economies result, and these benefit everyone – hosts and immigrants alike. No other efficiency effects of immigration appear to be important.*

*...Our view is that ... the gross efficiency gains are positive but very small. (Swan et al., 1991, p. 36)*

However, more recent interpretations see economies of scale somewhat differently given the advent of globalization, and especially the North American Free Trade Agreement. Green and Green (1999) argued that developed national economies are best thought of as constant, not increasing, returns to scale and posited that immigration is not the right policy lever for most economic policy issues.<sup>6</sup> Rather, it is primarily a social and/or cultural policy that can have important economic implications depending upon how it is managed. In the US, Borjas (1999), and Smith and Edmonston (1997), come to broadly similar conclusions, while also pointing out a number of related issues regarding the way immigration is managed and how, in Smith and Edmonston's case, it interacts with the operation of the federation in terms of the distribution of costs and benefits. Note that these conclusions for both countries are at the aggregate national level and there may be substantial heterogeneity at individual and firm levels.

### *Conceptual clarifications*

Before proceeding, it is worth making a few conceptual clarifications. First, the distribution of benefits and costs related to immigration vary quite substantially across the population. For example, the owners of capital might have a very different "rate of return to additional immigration" than do unskilled workers. Therefore, different economic actors may make remarkably different claims about the benefits, and costs, of immigration. Each could be correct in her/his own context, but none might have the net national perspective.

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<sup>6</sup> Antweiler and Trefler (2002), and Trefler (1998), are relevant to this issue, but address questions that differ more than might be evident at a glance.

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Second, there is sometimes confusion between the effects of immigration on national aggregates as opposed to individual measures such as standards of living. This is exemplified in the difference between GDP and GDP per capita.<sup>7</sup> Immigration clearly increases the size of the economy (as measured by GDP), but, the relevant issue for most policy purposes is its per capita effect, and the individual-level benefit of immigration to the pre-existing population, which is an entirely different matter.

Distinguishing between the aggregate size of the economy and individual standards of living matters, for example, in interpreting an often cited report by Statistics Canada (2003). It found that during the 1990s immigration represented almost 70 per cent of labour force “growth”, and that it could account for almost all such growth by 2011. This was taken by many interpreters to imply that immigration is essential for maintaining individual standards of living, but it is not at all clear that population (or labour force) growth and per capita economic growth are strongly positively related.

From an economic perspective, the degree to which new immigration affects per capita economic growth depends upon issues such as economies of scale in production, and the way in which new immigrants alter the production possibilities frontier of the economy. Economies of scale can have increasing, decreasing, or constant returns in production, and is an extreme and “pure” concept, but one that is useful. It considers the impact on productive efficiency if the size of the economy is changed, but its structure is held constant. Thus, the number of people increases (or decreases), but the skill, geographic distribution, and the like are maintained. If there are economies of scale in production, then maintaining a growing (homogeneous) labour force is of benefit in its own right. Conversely, diseconomies of scale imply that pure labour force growth reduces average incomes. Most commentators (see, e.g., Green and Green, 1999) interpret the evidence to imply that developed nations currently have approximately constant returns to scale in production, though Antweiler and Trefler (2002) suggest that some firms/industries may be increasing returns to scale. That is, increasing the size of the total labour force, while holding its composition constant, has no per capita economic effect. This contrasts to previous centuries in North America when there were substantial economies of scale given the continent’s low population density and the then high costs of transportation and information flows.

Contrasting to the idea of economies of scale are potential economic efficiencies from altering the structure of the labour force so as to change, for example, the age and/or skill distribution of the population. Increased productivity could arise from such things as “filling gaps” or “removing

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<sup>7</sup> While a measure such as GDP is not ideal for the purpose at hand, which is to measure standards of living, it is the most commonly used one and is available internationally. However, interpreters need to be aware that GDP may increase or decrease for reasons unrelated to changes in the average standard of living of the population. Also, note that GDP is for the entire economy, including new immigrants, whereas the issue at hand is the pre-existing population.

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bottlenecks”, or other sources of complementarities in production could occur. Hence, when new immigrants change the structure of the economy – as is normal — at issue is whether they complement or substitute for the pre-existing labour force in production. This is discussed by Borjas (1999), Simon (1999) and Smith and Edmonston (1997) among others. Economic growth is maximized when new immigrants are complements to the pre-existing population. If, alternatively, new immigrants are disproportionately close substitutes in production to some group, then, not only will there be lower productivity, but those with skills most similar to the new immigrants will have their price bid down (or their employment rate reduced) as the supply increases. This is sometimes called a displacement effect. Of course, those with complementary skills may, perhaps simultaneously, see their wages rise, as might the owners of complementary capital.

Related to the above, and also relevant to other issues, is that the time horizon matters. Any short and long run effects might differ appreciably. In particular, attempts to address immediate labour market needs likely only have short term effects as immigrants integrate into the domestic society and become more similar in skills and abilities. There are also related issues about how immigration affects the domestic economy’s/population’s response to the short-run shortages/needs that new immigrants fill.

Moreover, immigrants, once arrived, stimulate domestic demand, and this also affects domestic productivity. Further, there are a large number of questions regarding the impacts of immigration addressing a range of issues including taxation, trade, capital stock, consumer prices, entrepreneurial skill accumulation, the provision of government services and the like. In sum, there are many potential effects of various magnitudes in many directions, and the overall sum of these is an empirical issue. Unfortunately, most of the research is quite controversial as to methodology and focuses on the impact of immigration of labour market earnings. Such research normally requires some type of strong assumption to define the counterfactual to be compared to the actual outcomes observed in order to identify the causal impact of immigration.

In extremely well known US research, Card (1990) looked at the impact of the boatlift of refugees fleeing Mariel, Cuba to (primarily) Miami, Florida that caused a very rapid and substantial increase in the size of the local labour market, especially increasing the number of low skilled workers. Comparing changes in employment and earnings to an average of four comparable cities, he found a zero or at most very modest and short term impact. The local labour market appeared to very flexibly accept the new immigrants. (A few other papers found broadly similar effects using other similar “natural” or “quasi”-experiments.)<sup>8</sup> Some debate ensued about whether the arrival of the new immigrants had “ripple” effects causing locals to move and/or other Americans not to relocate to Miami. If this is the case than adjustments to

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<sup>8</sup> Editor’s note: On natural experiences, see also Domingues Dos Santos in this volume.

immigration might dissipate fairly quickly across an entire nation and not be primarily local effects.

In subsequent research Card (1990, 2001, 2005) argues that the impact of new immigration is remarkably low, though it might be slightly more appreciable for some segments of the population, especially very low skilled workers, who are most likely to compete with incoming low skilled immigrants given that country's context. Using differences in immigration rates across cities, Card (2001) suggests that in gateway cities with large immigration flows, such as Miami or Los Angeles, the new immigration of the 1980s may have depressed wages and employment rates by at most about 1 to 3% in 1990. A key finding of this work is that new immigration does not appear to cause a large response in terms of intra-national migration (or aborted migration) by the pre-existing population. But, a city's industrial/occupational structure may alter in response to the skill level of the new immigrants.

On the other side of the question, Borjas (2003) argues that a 10 percentage point increase in supply decreases wages by 3 to 4 percent. In my mind, and despite the rhetoric, these two perspectives are not that far apart, although their methodology is quite different. In work building on Borjas (2003), Aydemir and Borjas (2006a) compare Canada, the US and Mexico with a focus on how heterogeneous effects might be across skill levels defined by years of labour market experience and education. They find a consistent economic effect of immigration in all three countries: a 10 percent shift in the supply of workers is associated with a 3 to 4 percent impact of wages going in the opposite direction. But, the nature of immigration differs appreciably across the countries so the outcomes also differ. With its high skills policy, Canada experienced a greater counterfactual drop in the earnings of the high skilled pre-existing workforce than that for the low skilled one. In contrast, with a much larger share of the flow in the US being low skilled, it was that group that experienced the greater decrease in their earnings – just under 9%. Mexico, in contrast, lost workers and experienced a wage increase. This has implications for income inequality – increasing it in the US, but decreasing it in Canada and Mexico. However, these impacts are not enormous. Of course, Borjas's methodology assumes only modest substitutability across experience-age skill groups for identification.

Another rationale for a beneficial change in productivity following from immigration has to do with demographics. Both Canada and the US have "baby boom" demographic structures with the leading edge of the baby boom just entering their early 60s. There is concern in some corners about the impending increase in the old age dependency ratio. Immigration is seen as a possible tool to flatten the demographic profile. However, work in Canada where the points system gives more leeway for controlling age-at-immigration, by Beaujot (2003), and Denton, Feaver and Spenser (2001), show the effect to be modest. An immigration rate comparable to the current one, for their work 225,000 per year (which is high for a sustained rate by historical standards) for 50 years produces a median age of 46.5 in 2051. However, a 50% increase in the rate

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for the same period only reduces the median to 45.1, and the very large doubling of the rate only brings the average age to 44.2. Even given long periods, sustained extremely high immigration rates have only a modest impact on the age distribution for the population and the labour force. Of course, that could change if drastic immigration policies were adopted with respect to screening for age, but this is not realistic. As seen in Sweetman and Warman (2008), one key issue is that the age distribution of new immigrants in Canada is quite wide and its mode is not much younger than the peak of the baby boom. The full immigrant population is older, not younger, than the Canadian population.

There is very little work looking at the many other factors that adjust to new immigration never mind summing the net effects. One example of an isolated piece of work in this broad area follows from increasing international trade flows sometimes being mentioned as a benefit of immigration. Head and Ries (1998) use Canadian data and find that a 10 percent increase in recent immigration from a particular source country is associated with a 1.5 percent increase in imports, and a 3.8 percent increase in exports. Despite isolated work such as this, in short, we know very little. We do not know how domestic consumer prices adjust, and product markets are affected, by new immigration. There is, however, no serious evidence that I am aware of indicating that it is having a seriously deleterious effect on the economy.

## 4. CONCLUSION

The US and Canada have had quite different immigration experiences since the mid 1960s when each removed legislation giving preference to immigrants from selected countries. Canada's immigration rate has been much higher than that in the US, and it has pursued a high skills route. However, both nations have seen a very similar decline in the labour market outcomes of successive cohorts of new immigrants. Earnings at entry have declined appreciably, and many workers will have earnings below that of their host-country born counterparts for most if not all of their working lives. By contrast, the second generation does quite well.

In terms of the total economic impact of immigration, it appears that while it has many social and cultural benefits, its current economic benefits are probably small and probably positive, although perhaps negative for some sub-groups of the pre-existing population. It remains unclear if the total labour market impact of immigration is positive or negative, although its impact on labour earnings for groups that are similar (and hence substitutes in production) to new immigrants is probably negative. In the US, most immigrants are low skilled, and that appears to be the group more negatively affected, whereas in Canada a proportionately much greater portion of a larger flow is high skilled and it is that part of the pre-existing population that has wages more affected. However, these results will undoubtedly be debated for many years and they remain controversial in the academic arena by virtue of the methods employed, which follow from the intrinsic difficulty of the question.

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Figure 1: Immigration Rates, United States and Canada (1940-2006)

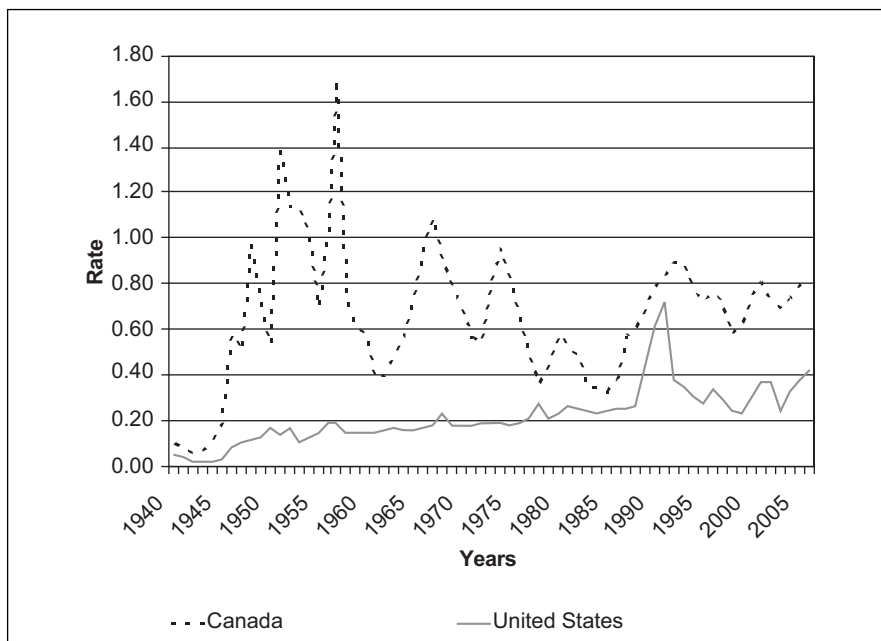
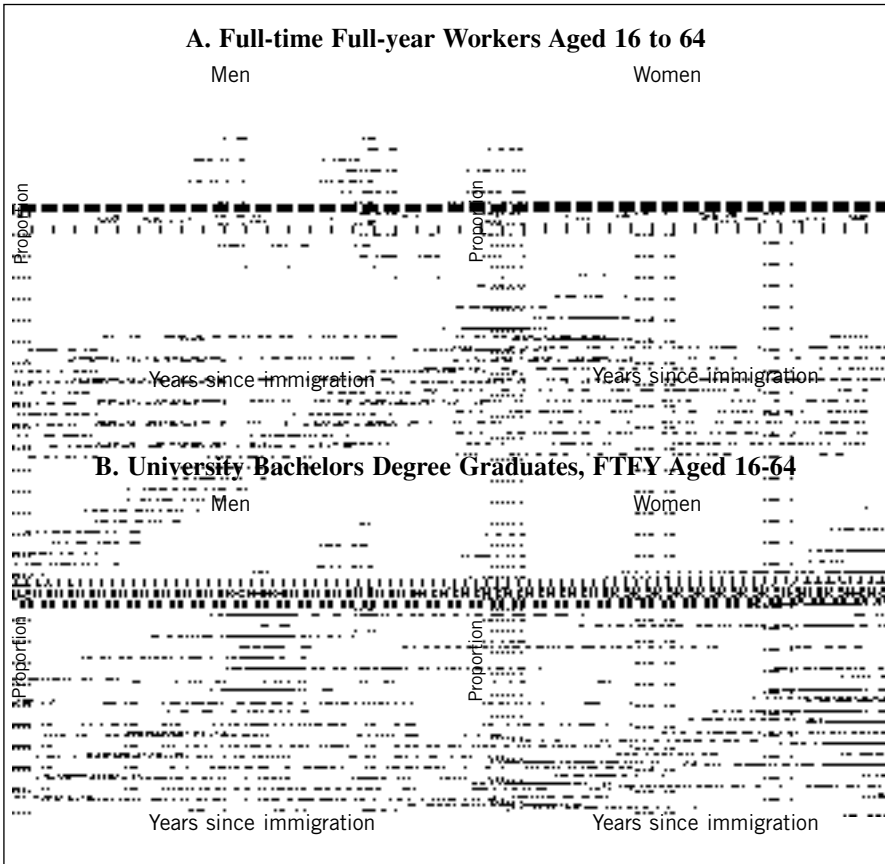


Figure 2: Earnings of Immigrants as a Proportion of Those of Canadian-Born - no controls for differences between the two populations



Source: Frenette and Morissette, 2003



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Table 1 – United States: Persons Obtaining Legal Permanent Resident Status By Type and Major Class of Admission -- 2006

IMMIGRATION CLASS	Count	% of Perm. Residents	% of Class
First: Unmarried sons / daughters of US citizens and their children	25,432	2.0	11.4
Second: Spouses, children, and unmarried sons/daughters of alien residents	112,051	8.8	50.4
Third: Married sons / daughters of US citizens and their spouses and children	21,491	1.7	9.7
Fourth: Brothers / sisters of US citizens and their spouses and children	63,255	5.0	28.5
<b>Family-Sponsored Preferences</b>	<b>222,229</b>	<b>17.5</b>	<b>100.0</b>
First: Priority workers	36,960	2.9	23.2
Second: Professionals with advanced degrees or aliens of exceptional ability	21,911	1.7	13.8
Third: Select workers, professionals, and unskilled workers	89,922	7.1	56.5
Fourth: Special immigrants	9,539	0.8	6.0
Fifth: Employment creation (investors)	749	0.1	0.5
<b>Employment-Based Preferences</b>	<b>159,081</b>	<b>12.6</b>	<b>100.0</b>
Spouses	339,843	26.8	58.5
Children	120,199	9.5	20.7
Parents	120,441	9.5	20.7
<b>Immediate Relatives of US Citizens</b>	<b>580,483</b>	<b>45.8</b>	<b>100.0</b>
<b>Refugees</b>	<b>99,609</b>	<b>7.9</b>	
<b>Asylees</b>	<b>116,845</b>	<b>9.2</b>	
<b>Diversity</b>	<b>44,471</b>	<b>3.5</b>	
<b>Cancellation of Removal</b>	<b>29,516</b>	<b>2.3</b>	
<b>Parolees</b>	<b>4,569</b>	<b>0.4</b>	
<b>Nicaraguan Adjustment and Central American Relief Act</b>	<b>661</b>	<b>0.1</b>	
<b>Haitian Refugee Immigration Fairness Act</b>	<b>3,375</b>	<b>0.3</b>	
<b>Other</b>	<b>5,425</b>	<b>0.4</b>	
<b>Total</b>	<b>1,266,264</b>	<b>100</b>	

Source: US Office of Immigration Statistics, 2007

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Table 2 - Permanent Residents Landing in 2006 by Immigration Class - Canada

IMMIGRATION CLASS	Count	Percentage of Perm- Residents	Percentage
Spouses and partners	45,278	18.0	64.2
Fiancé(e)s	15	0.0	0.0
Sons and daughters	3,191	1.3	4.5
Parents and grandparents	20,006	7.9	28.4
Others	2,016	0.8	2.9
<b>Family class</b>	<b>70,506</b>	<b>28.0</b>	<b>100.0</b>
Skilled workers - principal applicants	44,163	17.5	31.9
Skilled workers - spouses and dependants	61,786	24.6	44.7
Entrepreneurs - principal applicants	821	0.3	0.6
Entrepreneurs - spouses and dependants	2,277	0.9	1.6
Self-employed - principal applicants	320	0.1	0.2
Self-employed - spouses and dependants	632	0.3	0.5
Investors - principal applicants	2201	0.9	1.6
Investors - spouses and dependants	5,826	2.3	4.2
Provincial/territorial nominees - principal applicants	4,672	1.9	3.4
Provincial/territorial nominees - spouses and dependants	8,664	3.4	6.3
Live-in caregivers - principal applicants	3,547	1.4	2.6
Live-in caregivers - spouses and dependants	3,348	1.3	2.4
<b>Economic immigrants</b>	<b>138,257</b>	<b>54.9</b>	<b>100.0</b>
Government-assisted refugees	7,316	2.9	22.5
Privately sponsored refugees	3,337	1.3	10.3
Refugees landed in Canada	15,892	6.3	48.9
Refugee dependants	5,947	2.4	18.3
<b>Refugees</b>	<b>32,492</b>	<b>12.9</b>	<b>100.0</b>
Retirees - principal applicants	0	0.0	0.0
Retirees - spouses and dependants	0	0.0	0.0
DROC and PDRCC* - principal applicants	11	0.0	0.1
DROC and PDRCC* - spouses and dependants	12	0.0	0.1
Temporary resident permit holders	136	0.1	1.3
H and C** cases outside the family class	4,309	1.7	41.5
Public policy	5914	2.4	57.0
<b>Other immigrants</b>	<b>10,382</b>	<b>4.1</b>	<b>100.0</b>
Category not stated	12	0.0	
<b>Total</b>	<b>251,649</b>	<b>100.0</b>	

\* Deferred removal orders and post-determination refugee claimants

\*\* Humanitarian and Compassionate

Source: Citizenship and Immigration Canada, Facts and Figures 2007, page 11 ([www.cic.gc.ca](http://www.cic.gc.ca))

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Table 3 - Population Shares (%)

	Immigrants (Landed age 12 or older)	Immigrants (Landed age 11 or younger)	All Immigrants	Second Generation	Third Generation (not visible minority or Aboriginal)	Third Generation (visible minority and Aboriginal)
US	12.8	1.9	14.6	6.0	63.7	15.7
Canada	19.1	3.4	22.6	14.3	60.1	3.0

Source: US: 1998-2004 CPS (N=304165); Canada: 2001 Census (N=814054).

Note: The third generation is divided into two groups for comparison purposes.

One includes those who report being a member of a visible minority (this group does not include those who report Hispanic origins), or Aboriginal origins, or being born outside the country despite both parents being domestically born. The other group is the complement.

Table 4 - Geographic Origins of Immigrants (%)

	US	Canada
Mexico	27.5	0.7
Non-UK, English, Dev.	2.4	4.5
E Europe	4.7	10.2
NW Europe	5.3	18.9
S Europe	2.6	10.3
South America	6.4	4.1
Central America & Cuba	9.8	1.7
Caribbean	7.1	5.7
Asia	20.5	29.7
Middle East	2.0	3.2
Africa	2.6	5.5
Oceania & Japan	6.3	5.6
Other	2.8	0.2

Source: US: 1998-2004 CPS; Canada: 2001 Census.

Table 5 - Years of Schooling by Host Country and Gender

	Immigrants (Landed age 12 or older)	Immigrants (Landed age 11 or younger)	All Immigrants	Second Generation	Third Generation (not visible minority or Aboriginal)	Third Generation (visible minority and Aboriginal)
<b>Males</b>						
US	12.0	13.1	13.0	14.0	13.7	12.7
Canada	14.0	14.4	14.1	14.2	13.1	11.7
<b>Females</b>						
US	11.8	13.2	12.0	13.7	13.7	12.9
Canada	13.2	14.1	13.3	14.4	13.2	12.0

Source: US: 1998-2004 CPS (N=304165); Canada: 2001 Census (N=814054).

# IMMIGRATION AND UNEMPLOYMENT: A EUROPEAN PERSPECTIVE

*MANON DOMINGUES DOS SANTO*

## 1. INTRODUCTION

Does Europe's economy need immigrant workers? It has to be said that with the spectre of demographic ageing and the ongoing recruitment problems in certain sectors where growth is dependent on a plentiful supply of skilled workers, the issue of migration is once again back at the very heart of public debate. As the European Commission says, immigration is both a challenge and an opportunity for the European Union. In a context of Europe's ageing societies and growing market needs, the demand for immigrants is set to increase. Europe will probably have to rely more on immigration to balance supply and demand on the labour markets and, more broadly, to support its economic growth. Identifying the labour needed and selecting the immigrants to meet those needs is the strategy currently governing Europe's immigration policy.

Yet with an unemployment rate of almost 8% among its resident population in 2005, and unemployment among non-EU nationals almost twice as high, we have to question whether there really is a demand for labour in Europe that immigrants might fill. Are immigrants capable of meeting the manpower needs of Europe's economies? Does immigration influence the employment conditions of native workers, and if so, to what extent? This chapter aims to help to answer these questions.

More specifically, our contribution provides a summary of the literature analysing the impact of immigration on job opportunities and unemployment in the EU Member States. One possible approach here is to explain the factors which determine unemployment rates and then to evaluate to what extent immigration affects them quantitatively and qualitatively. In substance, since the unemployment rate in an economy is the weighted average of the unemployment rates in the various categories of workers involved, immigration can affect it in two ways. First, if immigrants have a propensity to unemployment which is different from that of native workers, immigration has a composition effect which alters the average unemployment rate. Secondly, immigration can also affect unemployment rates in individual categories, and more particularly the propensity to employment of workers with productive characteristics similar to those of immigrants. The impact of immigration can therefore be identified in two stages.

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In the first phase (Section 1) we study the relative situation of immigrant workers in Europe in order to assess whether there is a composition effect and what causes it. The aim is to evaluate whether immigrants have on average a different propensity to unemployment from that of native workers, and to explain the reasons for these disparities.

In the second phase (Section 2), we analyse the effect of immigration on unemployment rates in individual categories of workers and particularly on the propensity to unemployment of native workers with productive characteristics similar to those of immigrants. This phase requires us to analyse the time factors which determine unemployment rates in individual categories of workers and to evaluate how immigration influences them.

## 2. THE SITUATION OF IMMIGRANTS ON THE EUROPEAN LABOUR MARKET

Do immigrants have a different propensity to unemployment from that of native workers in Europe, and if so, why? It is vital to answer this question because, as mentioned earlier, if immigrants were different from native workers in their propensity to unemployment, immigration would influence the unemployment rate in the economy in question through a composition or structural effect.

### 2.1. Established disparities

In the EU Member States the differences between the employment rates of native and foreign workers are neither on the same scale nor concurrent (Table 1 and Fig. 1). In the southern countries (Portugal, Spain, Italy, Greece), the employment rate in the immigrant population is noticeably higher than that of the native population, in the Scandinavian countries and Poland the employment rate among immigrants is very significantly higher than that of native workers.

The differences in employment rates between communities may be explained by differences between the participation rates and the average unemployment rates of their members.

The differences in participation rates between native and immigrant workers are generally less marked than the differences in employment rates, although their profile in each country is very similar. Thus the differentials between the relative participation rates and the relative employment rates between native and immigrant workers are always negative, except in certain eastern European countries (Hungary, Poland and the Czech Republic) where they are still very slightly positive.

As regards the propensity to unemployment, however, the differences between communities are more or less unequivocal: in all the Member States, except for Poland and Hungary, the unemployment rate among immigrant workers is always considerably higher than among their native counterparts. On average, the immigrant unemployment rate is 70% higher than among

native workers, with immigrants having more than double the propensity to unemployment of that of native workers in all the Scandinavian countries, Belgium, the Netherlands, Austria and Germany.

The immigrant propensity to unemployment is thus considerably higher than among native workers in most European countries. The composition effect associated with this structural difference between the native and immigrant populations then helps to increase the average unemployment rate of Europe's economies.

### 2.2. Suggested explanations

There may be two reasons for the differences in employment conditions between native and foreign workers. Firstly, the workers in these two communities may differ in terms of certain productive characteristics influencing productivity and employability. Some foreign workers could also be the victims of discrimination in recruitment: though productively identical, they could actually have less chance of employment. Determining which of these two possibilities applies means that individual productivity must first be estimated, and this raises a number of statistical problems, some of them specific to the study of immigrant populations. First of all, when estimating individual productivity, reference is usually made to certain observable characteristics such as level of qualification and experience. However, the statistics used to assess qualifications and experience are not generally relevant for studying immigrant workers. Firstly, we need to look at how immigrant workers who have received some or all of their education abroad answer questions about their level of qualification. Do they use their own conversion scale between the qualifications issued in their native country and their host country? Do they give their own assessment of the qualification they might have obtained given the skills they claim to have? Secondly, the skills and experience acquired in the countries of origin do not necessarily have identical equivalents in the host country. Thus, for instance, assuming that the same level of education gives a native worker and a foreign worker who has studied in a country with a poorer education system the same level of skills leads us to overestimate the productivity of the immigrant worker and, ultimately, to overestimate the potential scale of discrimination in recruitment.

Bearing these reservations in mind, we can measure the relative distribution of the native and immigrant populations by declared level of qualification (Table 2 and Fig. 2). Out of an average calculated for each country, immigrant workers have the same propensity as native workers to have acquired only the most basic level of education. However, there are considerable differences between countries. The proportion of immigrants with the most basic level of education is considerably smaller than for native workers in the southern European countries (Spain, Portugal, Italy, Greece), Hungary, the Czech Republic, the UK and Ireland. On the other hand, the EU Member States are more homogeneous when it comes to the relative share between communities of individuals with a tertiary level of education, immigrants having a 20%

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higher propensity than native workers, on average. The exception here, however, is Germany, where the proportion of individuals with a tertiary level of education is almost a third higher among native workers. The selectivity of immigration with regard to qualification depends both on the demand for immigrants from the host countries and on the supply of immigrants from the countries of departure. In the host countries some of the factors involved are specific to the countries in question, linked to their colonial past or an immigration policy which may select potential immigrants on the basis of their qualifications. By contrast, when it comes to the supply of immigrants, the results of most empirical studies are unequivocal: the emigration rate among skilled workers is always much higher than among the total population, particularly in the least developed countries. Migration entails financial costs associated with transport and finding accommodation and a job, costs which people must be able to afford to pay. It also entails psychological costs in being far from family and friends and inherent adaptation and integration problems. These financial and psychological costs decrease with the level of qualification. Skilled workers have, on average, a larger income, making it easier to fund migration, and a denser network of acquaintances, making it easier to find accommodation and employment; they also more often speak a foreign language, making it easier for them to adapt to a new environment.

If we look at unemployment rates by level of qualification among the native and immigrant populations, we can see two things (Table 2 and Fig. 3). First, for both communities the propensity to unemployment generally decreases with the level of qualification, though this link is more marked for native workers. Secondly, for any given level of qualification, the unemployment rate among foreigners is always substantially higher than among native workers. We may thus deduce that if the distribution by qualification in the immigrant population was the same as in the native population, the differences in unemployment rates between immigrants and native workers would be only slightly affected in almost all European countries, while these differences would become negligible if the unemployment rates by level of qualification among immigrants were the same as among native workers.

While there is no denying that discriminatory practices exist, it should be noted that certain characteristics, usually not observed, affecting workers' employability and productivity could help to explain some of the remaining differences. Native and immigrant communities may differ in their ability to speak the language of the host country, the sectors in which their job-seeking is focused, or the density of their mutual support networks, all factors which may influence their job opportunities and the effectiveness of the job-seeking process (Domingues Dos Santos, 2004).

To sum up, the immigrant community has a significantly higher propensity to unemployment than the native community in almost all the EU Member States: immigration therefore contributes, through a composition effect, to increasing the average unemployment rate. However, our analysis of the reasons for these disparities leads us to emphasise one point: part of the greater vul-

nerability to unemployment of foreigners can be explained by a lower level of apparent skills, though a lot of the unemployment differentials cannot be explained by the usual characteristics. Given the lack of data enabling us to assess immigrants' actual skills, we cannot objectively evaluate to what extent these differences might be attributed to discriminatory practices.

### 3. THE EFFECT OF IMMIGRATION ON JOB OPPORTUNITIES FOR NATIVE WORKERS

Does immigration harm the job opportunities of native workers? Some people think that immigrant workers are taking the place of native workers, so that immigration is helping to worsen employment conditions for natives. Other people, however, think that immigrants occupy jobs that native workers do not want, or that they ultimately generate a labour demand equivalent to the number of jobs they occupy. If we want to assess how accurate these two assumptions are, we must first understand the underlying economic mechanisms in order to interpret the main results of the empirical studies.

#### 3.1. Mechanisms at work

What we are seeking to do here is to analyse the impact of immigration on native workers' propensity to unemployment. No matter how labour markets might be regulated, wages always take a certain time to react to changes in the economic environment. Likewise, businesses will wait a while before adapting their production line or mix. Thus rigidity in behavioural timing determines the consequences of migration within the given timescale. We will therefore first explain the mechanisms operating in the short term, and then go on to analyse the long-term relationship between immigration and unemployment rates for different categories of workers.

##### 3.1.1. Mechanisms operating in the short term

The first study analysing the effect of migration on unemployment was undoubtedly the one by Harris and Todaro (1970). This looks at a dual economy where the host region is characterized by having a fixed minimum wage. In substance, because companies determine their labour demand in such a way as to make marginal productivity equal to labour costs, the level of employment there is wholly determined by technology and the level of the minimum wage. Given that unemployment is the result of the difference between labour supply and demand, and since all immigration increases the supply of labour without increasing demand, the end result is an increase in the level and rate of unemployment. The paper by Harris and Todaro is, however, based on a static model where prices and wages in the host region are mainly exogenous and are therefore totally rigid in both the short and long terms.

Neo-Keynesian models showing the short-term macro-economic operation of an economy also assume that prices, wages and productive capital are rigid, but only in the short term. In the short term it is essentially the demand

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for goods from households, businesses and the State which determines production and employment. Unemployment is then the result of the difference between the labour demand needed to satisfy the demand for goods taking account of technology, and the labour supply, which is mainly determined outside the model. In the longer term, changes in the unemployment rate tend to cause wages and prices to adjust: the unemployment rate influences wage demands and wage trends affect prices. Inflation then retroacts on the demand for goods. In these neo-Keynesian models immigration may be classified as an exogenous increase in the labour supply. It instantly increases the number of workers without affecting the level of employment, since prices and wages are fixed. The influx of workers is thus reflected in an increase in unemployment, since the same number of jobs has to be divided between a larger number of workers. However, this increase is merely temporary. The increase in the unemployment rate curbs wage demands: wages drop, followed by prices. This then stimulates demand for goods and therefore for labour, which in turn helps to bring the unemployment rate down again. Eventually the reduction in prices is such that the initial effect on the unemployment rate is completely nullified. Immigration thus has only a temporary effect on the unemployment rate, and this effect diminishes as prices and wages quickly adjust. To illustrate this, if we take the case of France and look at the estimates for the Phillips curve for 1970-1998 produced by Cahuc and Zylberberg (2001), we can work out that if immigration increases the growth rate in the active population by 1%, it will increase the unemployment rate by 0.625 percentage points in the short term. However, the estimate that it takes an average of less than six months for wages to adjust to prices suggests that this effect does not last long.

If prices and wages can take a certain time to adjust, it also takes a certain time for a worker to find a job for which his/her skills are suited, and for a company to find a worker suited to the position it wishes to fill. As we can see from the matching models<sup>1</sup>, these adjustment periods mean that there are, at any given time on the labour market, unemployed job-seekers and job vacancies. In this context, if we take an influx of immigrants, the new arrivals may take a certain time to find a job that meets their expectations. Immigration is thus instantly reflected in an equivalent increase in the number of unemployed, boosting the unemployment rate. However, this increase in the recruitment pool also increases the probability that a company will quickly fill a vacancy, thereby reducing the cost. So by increasing the profit associated with creating a job, immigration encourages this to happen. This process remains in operation for as long as the profit associated with advertising a vacancy remains positive, in other words until the unemployment rate returns to its initial level.

To sum up, where wages and prices take a certain time to adapt to changes in the economic environment and workers take a certain time to find a job for

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<sup>1</sup> See Pissarides (2000).

which their skills are suited, immigration is likely to increase the unemployment rate temporarily.

### 3.1.2. Mechanisms operating in the long term

As we said, immigration increases the size of the active population with productive characteristics similar to those of the immigrants. That being so, evaluating whether migration flows influence the unemployment rate in the category of workers to which the immigrants belong effectively means examining the links that exist in the long term between the unemployment rate and the size of the active population.

Recent literature in labour economics sheds light on the sources of long-term unemployment for particular categories of workers. Endogenous wage determination mechanisms are widely cited: the wage negotiations or pay policies adopted by companies facing labour turnover costs or asymmetric information on the characteristics of their workers and how hard they are working<sup>2</sup> can cause rigidity in wage reductions leading to unemployment. Generally speaking, explaining wage determinants helps to limit the effect of migration on the long-term unemployment rates for particular categories of workers<sup>3</sup>. In equilibrium unemployment models, the equilibrium unemployment rates for particular categories of workers are independent of the size of the active population in question. The conclusion therefore has to be that the immigration of a certain type of workers increases the number of active persons of that type, but this increase has no effect on the long-term unemployment rate in the category of worker concerned. Thus the immigration of unskilled workers increases the number of unskilled workers, but this increase does not in the end have any effect on the unemployment rate among unskilled workers.

The lessons learned from theoretical studies suggest that immigration has a negligible effect on long-term unemployment rates for individual categories of workers, but could increase them temporarily, though less persistently if the nominal rigidities are weak and the labour market matching process is effective.

### 3.2. Empirical results

Most of the studies seeking to estimate the impact of immigration on the employment conditions of native workers cover Anglo-Saxon countries and focus mainly on the effect of migration on natives' wages. For Europe, the body of empirical literature, although growing, is much less plentiful; most of the studies seek to assess the impact of migration on employment among native workers, and cover Germany or the UK.

Various econometric methods are used to assess the effect of immigration on the employment conditions of native workers. The most common are

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<sup>2</sup> For a review of this literature, see Cahuc and Zylberberg (2001).

<sup>3</sup> See also Stiglitz (1974), Calvo (1978), Schmidt et al. (1984), Bulow and Summers (1986), Domingues Dos Santos (1999).

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approaches involving spatial correlations, factor proportions and the exploitation of natural experiences.

### 3.2.1. Spatial correlations

This method involves evaluating the correlations that exist between native workers' conditions of employment and the presence of immigrant workers on different local labour markets at a given time. Basically, if it turns out that the regions where native workers' pay and job opportunities are the most unfavourable are also those where there are the greatest numbers of immigrant workers, this method interprets this correlation as a causal link. However, although many studies use the spatial correlations method, the methodologies, data, incidence variables and control variables used vary enormously, making it difficult to compare the outcomes in any way rigorously.

The first studies<sup>4</sup>, which looked at immigrant workers as a homogeneous group and distinguished between different native groups according to their level of qualification, concluded that immigration had a slightly negative or insignificant impact on native workers' conditions of employment. They concluded on average that a 10% increase in immigration reduced native workers' wages by 1-3%.

However, these first studies are open to three main criticisms that could limit the scope of some of the results put forward.

The first limitation of the studies is that they look at immigrant workers as a homogeneous group. As Butcher and DiNardo (1998) emphasize, the immigrant population is very heterogeneous, particularly as regards the level of qualification of its members. Viewing it as a homogeneous group, makes it impossible to identify the effective competition between certain types of native and immigrant workers. To compensate for this, later studies stratify the total population by qualification or type of activity, regarding immigrants and native workers as perfect substitutes within each stratum. This breakdown generally results in the impact of immigration on the native employment rate being revised upwards, particularly among unskilled workers or those in unskilled jobs, though the effects on wages remain limited (Card, 2001; Card 2004).

Secondly, local demand shocks could bias the causal interpretation of these correlations. First of all, if immigrants have tended to settle in economically declining regions, there will be a tendency to overestimate the negative impact of immigration. To offset this bias, some authors include sectoral and trend variables in their regressions (De New and Zimmermann, 1994). Similarly, an improvement in the employment conditions in some regions would mean that the unfavourable impact of immigration would be underestimated. If migrants are attracted to regions where the job opportunities are good, the observation of a positive correlation between the immigration rate and job opportunities may simply reflect the causes of the migrants' choices rather than their consequences. Using instrumental variables partly helps to overcome this

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<sup>4</sup> For a summary of these studies, see Borjas (1994) and Friedberg and Hunt (1995).

limitation. This involves identifying certain variables which influence immigrants' choice of location regardless of conditions on the local labour market. The stock of earlier immigrants is also used to conduct the analysis<sup>5</sup>, since the existence of community networks encourages new migrants to settle in regions where some of their compatriots are already living (Bartel, 1989). The studies which introduce this type of instrumental variable generally conclude that immigration has a more detrimental effect on the employment conditions of native workers (Altonji and Card, 1991).

Lastly, this approach tends to mask the effect that immigration may have on the mobility of the native population. To spell it out, if immigration forces native workers to emigrate, this ultimately helps to limit the effect of immigration on employment conditions. However, Card (2001) for the USA and Pischke and Velling (1997) for Germany consider that this phenomenon is not consistent. Dustmann, Fabbri and Preston (2005) analyse the impact of immigration in the UK by breaking down the populations by qualification and by using instrumental variables to control overlap bias and residents' potential mobility. They do not show that immigration has any significant overall impact on employment among native workers, except, to a very small extent, for workers with an intermediate level of qualification.<sup>6</sup>

Evaluations using the spatial correlations method thus usually show that migration has a relatively moderate impact on the job opportunities of unskilled native workers. In their meta-analysis combining 165 estimates from 9 recent studies of the OECD countries, Longhi, Nijkamp and Poot (2006) calculate that on average a 1% increase in the number of immigrants reduces employment among native workers by at most 0.024%. However, they conclude that the impact is probably higher in Europe, where labour markets are more rigid and workers less mobile.

### 3.2.2. Natural experiences

Some studies base their estimates on 'natural' experiences, looking in particular at the consequences of political measures that have generated intense and specific migratory flows in certain regions.

Card (1990), for instance, evaluates the effects of the "*Mariel exodus*". In 1980, following a dispute between the Cuban and Peruvian governments, Fidel Castro announced that the port of Mariel was now open and any Cuban-American wishing to do so was free to leave Cuba. This declaration caused a wave of over 125 000 Cubans to head to the USA between April and September 1980, half of whom settled in Miami, where the active population grew by almost 7%. In order to assess the consequences of this massive immigration, Card compares the development in the unemployment and wage rates in Miami

<sup>5</sup> It should be noted that Borjas (2001) questions the relevance of this type of instrumental variable.

<sup>6</sup> Blanchflower, Saleheen and Shadforth (2007) analyse the impact of the mass arrival of workers from eastern European countries in the UK. They conclude that the impact on the natural unemployment rate could even be negative. However, their analysis is qualitative rather than based on rigorous empirical methods.

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with the trends observed between 1979 and 1985 in other cities with similar characteristics such as Los Angeles, Houston, Atlanta and Tampa-Saint Petersburg. These cities experienced similar employment trends to Miami during the 1970s and also have a large black and Hispanic community. The similarity between the labour markets in Miami, classified as the test city, and the other cities, classified as controls, means that any differences observed in labour market performance can be attributed to the Cuban immigration. Card concludes that the developments in the unemployment and wage rates in Miami were very similar to those observed in the other cities. In the end, therefore, the impact of this massive immigration on unemployment and wages was actually negligible.

Another study conducted by Hunt (1992) looks at the effects of the influx of French repatriates from Algeria to France in 1962. Following the signing of the Evian agreements giving Algeria its independence, 900 000 repatriates landed in mainland France in 1962, mainly in the south of the country. In order to assess the impact of this wave of immigrants on the job opportunities of native workers, Hunt compares the development in the unemployment and wage rates in the 90 mainland *départements*, monitoring a set of external variables that could also have influenced the variables studied. She estimates that a 1% increase in the active population resulting from this immigration increased the unemployment rate among non-repatriates by 0.2%. Their average wage in 1967 was also up to 1.3% lower than it would otherwise have been. A comparison of Card's and Hunt's results suggests that the American labour market has a greater absorption capacity than the French. The rigidity of the European labour market with its stronger employment protection and higher replacement rates may explain why immigration has a more marked effect on unemployment rates.

Indeed, studies by Angrist and Kugler (2003) appear to confirm the effect of labour market rigidity on the capacity of a given region to absorb an influx of immigrant labour. These authors assess the impact of the exoduses following the wars in Bosnia and Kosovo on each of the host countries, using a database covering the period 1983-1999. Their results suggest that a 10% increase in the proportion of immigrants reduces the employment rate among native workers by between 0.2 and 0.7%. The authors also show that this reduction is particularly severe in countries with a rigid labour market.

If we examine the studies based on natural experiences, we can see that immigration has only a moderate impact on the employment conditions of native workers<sup>7</sup>. However, the host economies' apparent capacity to absorb

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<sup>7</sup> See also Carrington and De Lima (1996) and Hercowitz and Yashiv (2002). Carrington and Di Lima (1996) study the impact of the mass arrival of almost 600 000 retornados in Portugal following the independence wars in Angola and Mozambique between 1974 and 1976. Taking Spain and France as the control group, they conclude that the 5% immigration rate resulting from these migrations increased the short-term unemployment rate by almost 1.5 percentage points. However, since all three countries underwent a number of structural changes during the period in question (revolution, first oil crisis, etc.) the authors admit that it is difficult to isolate the specific impact of the immigration of the retornados.

newcomers appears weaker where there are institutions which limit labour market flexibility, a finding which helps to validate the theory on this subject.

Overall, therefore, the estimates based on spatial correlations or natural experiences conclude that immigration has an impact on the job opportunities of native workers which, although often statistically significant, is nevertheless limited. It has to be said, however, that studies based on what is known as the “factor proportions” approach do not reach the same conclusions.

### 3.2.3. The aggregate factor proportions approach

In view of the reservations expressed about the studies based on spatial correlations, some authors argue that only estimates based on aggregate time series are relevant for analysing the impact of immigration on the employment conditions of native workers.

Some studies adopt a two-stage counterfactual approach using national time series. First, the method compares the actual supply of workers at various qualification levels with the supply that would have been observed in the absence of migration. Next, based on the value of the substitution elasticities between factors usually used in the literature, and working on the assumption that native and immigrant workers with the same level of qualification are perfect substitutes, the authors simulate what the wages would have been in the absence of migration. Thus, having assessed to what extent immigration in the USA between 1980 and 1995 had increased the proportion of unskilled workers, Borjas, Freeman and Katz (1997) calculate that these migratory flows could account for between 44% and 58% of the reduction in the relative pay of workers who have completed less than 12 years of education.

Because of its counterfactual nature, the factor proportions approach is, however, open to three main criticisms. First, because the results are simulated, they are highly sensitive to the values of the substitution elasticities used. Second, if, at a given qualification level, the immigrants are less well paid on average than their native counterparts, immigration causes a composition effect which reduces the average wage of each category of workers without necessarily reducing the wages of natives. Thus, because unskilled immigrants are generally paid less than unskilled natives, their immigration automatically reduces the average wage of unskilled workers. Third, other phenomena concomitant with migration, such as technology bias or the intensification of international trade, may also influence the employment conditions of various types of workers: it is therefore difficult to assess accurately what pay levels would have been without migration alone. To put it plainly, if we cannot accurately evaluate what the labour demand for each category of worker would have been in the absence of migration, the use of aggregate data is not informative.

A recent study by Borjas (2003) tends to support the theory that immigration has a substantial impact on the employment conditions of native workers with productive characteristics similar to those of the immigrants, and at the same time it counters the first two criticisms above. Borjas defines fairly narrow

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classes of skills by combining different levels of qualification and experience. Then, based on time series for the USA, he estimates the income of native workers on the basis of typical characteristics for the level of education and level of experience of their skills class, the year of observation and the proportion of workers who immigrated to their class during the period in question. The author concludes that immigration which increases the size of a skills class by 1% reduces the wage of native workers in a proportion between 0.11 and 0.38. By way of example, immigration which doubles the number of workers without a secondary school certificate and with 10-20 years' experience reduces the wages of their native counterparts by 20-30%. According to Borjas, immigration thus significantly impairs the employment conditions of native workers in the same skills class.

D'Amuri, Ottaviano and Peri (2008) apply this method to Germany, using a stratification by level of qualification and experience. They conclude that the arrival of substantial numbers of immigrants in Germany in the 1990s did not have a significant impact on the employment of native workers. However, the flows did significantly impair the employment opportunities of earlier immigrants. Native and immigrant workers are therefore not perfect substitutes, while new and earlier immigrants are.

The conclusion to be drawn at the end of this section is that while the empirical studies based on the spatial correlations method or the use of natural experiences show that immigration has a relatively moderate impact on the employment conditions of native workers, other studies based on aggregate time series provide evidence that it has a much more harmful effect.

## 4. CONCLUSION

There are two main findings at the end of this contribution.

First, in most European countries immigrants have a higher propensity to unemployment than native workers. This is clearly the case even once the populations have been stratified by declared level of qualification. Some of this difference might be accounted for by a lower actual level of qualification in the context of their host economy. However, the only way to conduct a rigorous assessment of the reasons why immigrants are more vulnerable to unemployment is by having individual statistics over a number of periods providing information on the situation of immigrants on the labour market over and above their migration pattern and the duration, location and quality of their education.

Second, theoretical studies invalidate the replacement postulate according to which immigrants occupy the jobs of native workers. It appears that although immigration can increase the unemployment rate in the short term, the effects are only temporary. In substance, an economy tends to create jobs in proportion to the number of its residents and consumers, and immigrants eventually help to create a number of jobs in proportion to the size of their community. It has to be said, however, that the empirical relevance of this

statement is still hotly debated today. Most of the studies conducted in Europe show, however, that immigration has only an insignificant or slightly negative impact on the employment opportunities of native workers, since the new arrivals tend to take the place of immigrants from earlier waves. The impact of immigration on the employment of native workers seems more substantial in the European economies with the least flexible labour markets.

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Table 1 Status of natives and immigrants on the labour market in Europe

COUNTRY	Activity rate <sup>1</sup>		Employment rate <sup>2</sup>		Unemployment rate <sup>3</sup>	
	Natives	Immigrants	Natives	Immigrants	Natives	Immigrants
<b>Austria</b>	73.2	74.2	69.1	65.9	5.6	11.2
<b>Belgium</b>	66.8	56.2	60.4	44.6	9.5	20.6
<b>Czech Republic</b>	74.2	69.8	67.5	60.1	9.0	13.9
<b>Germany</b>	72.9	72.9	67.3	60.5	7.7	17.1
<b>Denmark</b>	82.6	59.3	79.7	54.4	3.5	8.2
<b>Spain</b>	62.1	69.3	53.5	57.7	13.9	16.7
<b>Finland</b>	73.9	62.7	64.8	46.0	12.1	26.6
<b>France</b>	69.2	69.5	61.0	56.0	11.9	19.5
<b>UK</b>	74.3	66.7	70.2	61.2	5.5	8.3
<b>Greece</b>	60.8	70.0	54.1	62.5	11.1	10.7
<b>Hungary</b>	59.0	58.6	53.0	54.6	10.2	6.9
<b>Ireland</b>	67.4	71.1	61.7	63.0	8.5	11.3
<b>Italy</b>	61.8	66.7	54.7	58.0	11.5	13.1
<b>Luxembourg</b>	61.5	70.2	60.0	67.5	2.4	3.9
<b>Netherlands</b>	76.7	64.2	74.7	59.9	2.6	6.7
<b>Norway</b>	74.6	60.8	72.2	55.6	3.1	8.7
<b>Poland</b>	64.8	41.6	51.0	35.8	21.3	14.0
<b>Portugal</b>	70.6	78.3	65.9	72.4	6.7	7.6
<b>Slovak Republic</b>	68.9	66.4	54.0	53.1	21.7	20.0
<b>Sweden</b>	75.8	56.9	73.6	52.4	2.9	7.8

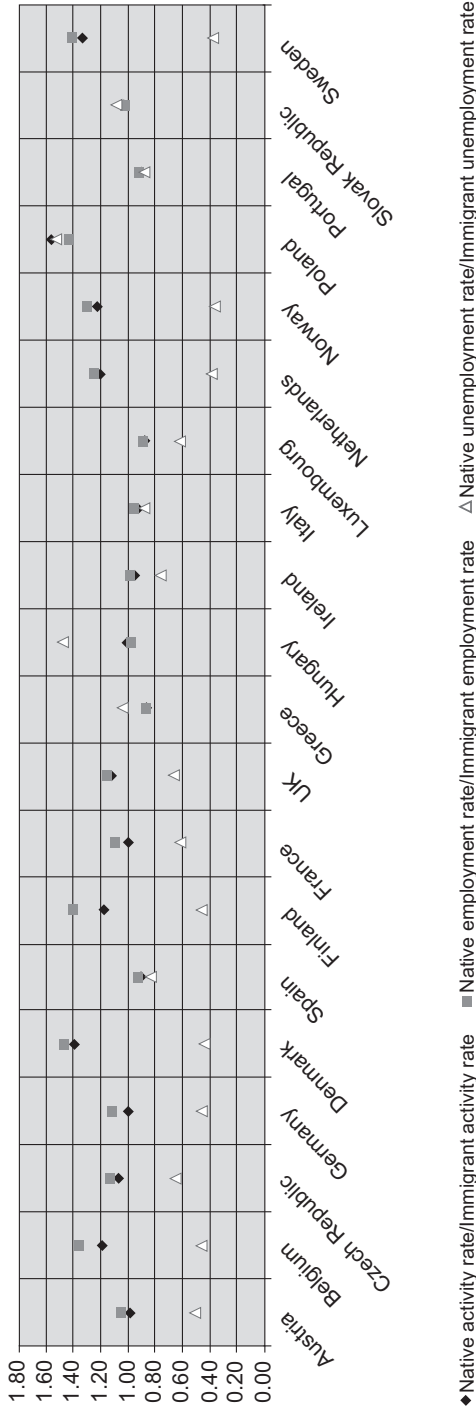
<sup>1</sup> As a percentage of the population aged 15-64.

<sup>2</sup> As a percentage of the population aged 15-64.

<sup>3</sup> As a percentage of the active population aged over 15.

Source: OECD (2006).

Figure 1: Relative situation of natives and immigrants on the labour market



## The internationalization of labour markets

Table 2 Qualifications and unemployment rates of natives and immigrants in Europe

	Primary education		Secondary education		Tertiary education	
	Proportion	Unemployment rate	Proportion	Unemployment rate	Proportion	Unemployment rate
Austria						
<i>Natives</i>	33.4	9.9	55.7	5.1	10.9	2.2
<i>Immigrants</i>	49.4	14.0	33.9	9.4	11.3	6.7
Belgium						
<i>Natives</i>	46.5	14.1	30.1	9.8	23.3	4.5
<i>Immigrants</i>	53.3	26.5	23.8	20.8	23.0	12.2
Czech Rep.						
<i>Natives</i>	22.6	24.6	67.0	8.1	10.2	2.5
<i>Immigrants</i>	38.6	31.1	48.7	9.8	12.8	4.2
Germany						
<i>Natives</i>	24.2	11.9	56.5	8.2	19.3	3.9
<i>Immigrants</i>	45.8	21.6	39.3	15.0	14.9	12.7
Denmark						
<i>Natives</i>	37.6	5.1	42.6	3.3	19.9	2.2
<i>Immigrants</i>	36.9	10.7	39.2	7.8	23.9	6.0
Spain						
<i>Natives</i>	66.4	16.2	15.6	12.5	18.0	9.6
<i>Immigrants</i>	56.3	17.8	22.6	17.1	21.1	13.4
Finland						
<i>Natives</i>	40.3	18.7	36.3	13.0	23.4	5.7
<i>Immigrants</i>	52.6	27.4	28.5	27.5	18.9	23.9
France						
<i>Natives</i>	45.8	17.1	37.4	11.5	16.9	6.5
<i>Immigrants</i>	54.8	24.1	27.2	18.8	18.1	11.9
UK						
<i>Natives</i>	51.2	7.3	28.7	5.1	20.1	2.9
<i>Immigrants</i>	40.6	11.3	24.5	8.8	34.8	5.6
Greece						
<i>Natives</i>	52.5	10.7	33.5	13.2	14.0	7.8
<i>Immigrants</i>	42.7	10.8	41.4	10.9	15.9	10.0
Hungary						
<i>Natives</i>	45.1	19.2	44.2	9.0	10.7	2.2
<i>Immigrants</i>	41.1	11.1	39.1	7.8	19.8	2.9
Ireland						
<i>Natives</i>	47.8	14.6	29.5	6.0	22.7	3.5
<i>Immigrants</i>	29.6	18.1	29.3	11.1	41.1	7.5

## Immigration and unemployment: A European perspective

	Primary education		Secondary education		Tertiary education	
	Proportion	Unemployment rate	Proportion	Unemployment rate	Proportion	Unemployment rate
<b>Italy</b>						
<i>Natives</i>	63.6	13.6	28.3	10.6	8.1	6.4
<i>Immigrants</i>	54.3	14.4	33.5	12.6	12.2	9.5
<b>Luxembourg</b>						
<i>Natives</i>	28.7	5.5	58.6	2.2	12.8	0.7
<i>Immigrants</i>	36.7	4.0	41.6	4.4	21.7	2.7
<b>Netherlands</b>						
<i>Natives</i>	40.5	4.3	40.6	2.1	18.8	1.5
<i>Immigrants</i>	49.2	9.7	31.6	5.0	19.2	4.3
<b>Norway</b>						
<i>Natives</i>	20.3	4.2	56.7	3.6	23.0	1.8
<i>Immigrants</i>	18.3	10.2	51.2	9.7	30.5	4.7
<b>Poland</b>						
<i>Natives</i>	31.2	29.6	58.4	22.7	10.4	6.9
<i>Immigrants</i>	47.9	15.0	40.3	17.8	11.9	6.6
<b>Portugal</b>						
<i>Natives</i>	80.0	7.2	12.2	6.9	7.7	3.2
<i>Immigrants</i>	54.7	8.8	25.9	8.1	19.3	4.4
<b>Slovak Republic</b>						
<i>Natives</i>	28.0	49.7	61.4	20.3	10.6	5.3
<i>Immigrants</i>	29.3	44.4	55.0	18.3	15.7	5.4
<b>Sweden</b>						
<i>Natives</i>	25.0	4.1	52.2	3.2	22.8	1.7
<i>Immigrants</i>	29.5	10.3	46.2	7.9	24.3	6.4

The internationalization of labour markets

Figure 2: Relative distribution of natives and immigrants by level of qualification

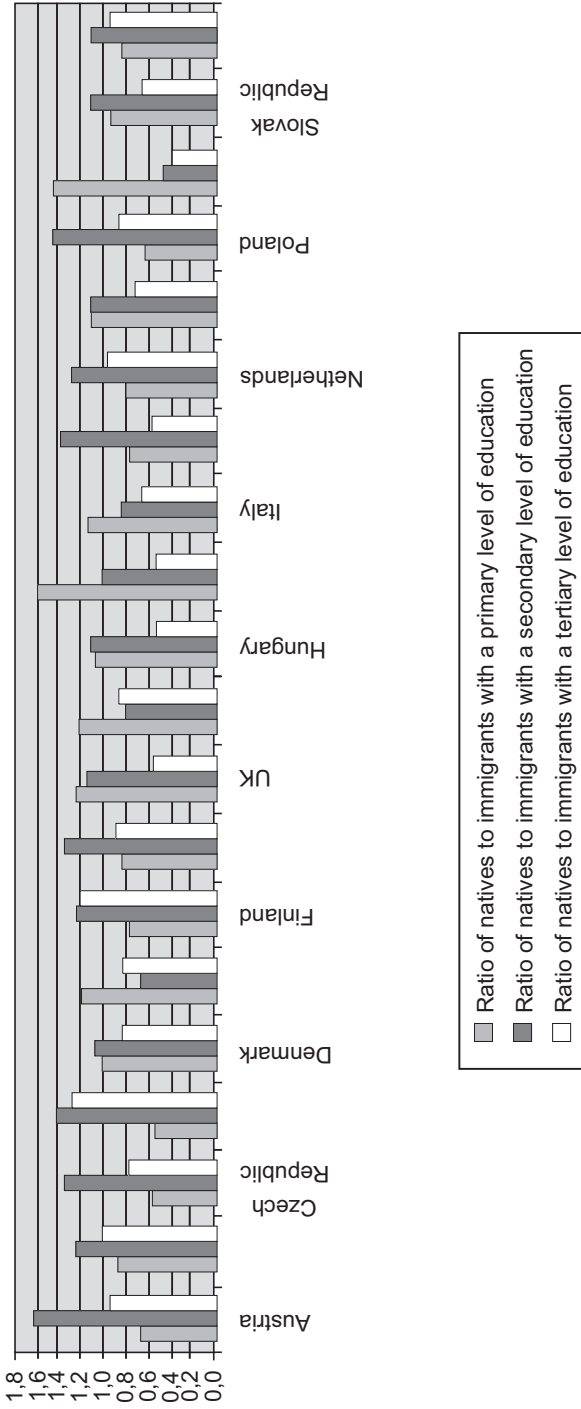
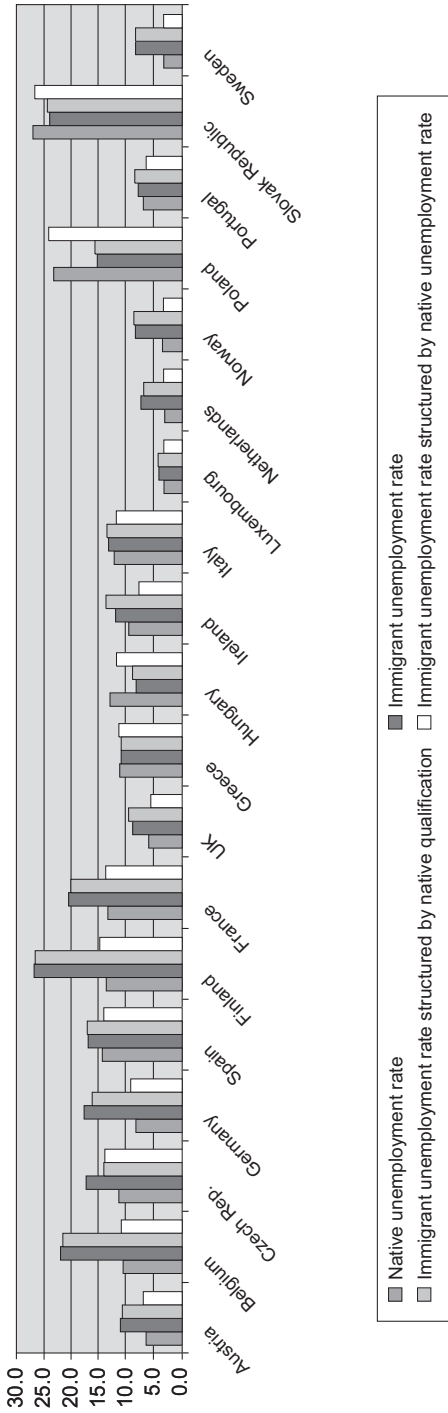


Figure 3: Unemployment rates among natives and immigrants in Europe



## MIGRANT SENDING COUNTRIES, THE INTERNATIONALIZATION OF LABOUR MARKETS AND DEVELOPMENT

*ROBERT E.B. LUCAS*

Simulations indicate large gains in overall, global production levels and incomes from incremental expansion in the international movements of migrants.<sup>1</sup> In the adjustments to any such expansion, large distributional effects are also predicted. Some gain, while others lose. The migrants themselves emerge as the big winners. The gaps in incomes and earning opportunities between countries are huge, and in many cases these gaps are widening. As a result, the opportunity to migrate offers a major change in living standards for the migrant. The process of migration is increasingly becoming commercialized. Recruiting agents, smugglers and remittance intermediaries take a significant slice out of the migrants' rewards. Nonetheless, migrants typically are major net beneficiaries (though certainly there are exceptions). Where the migrants originate from low income countries, these gains to migrants are gains to nationals of developing countries: this represents a form of development in its own right. However, the focus of the present paper is on the incomes of those remaining in the low income countries. The potential effects can be large, but they are also mixed.

One reason that the consequences of global labour movements are mixed, for the low income countries, derives from the geographic selection of migrants. Despite massive income gaps between countries, international migration remains quite small. Slightly less than three percent of the world's population were living in countries other than their country of birth in 2005, according to UN estimates.<sup>2</sup> Only a few countries exhibit high rates of emigration. This is brought out with respect to the flow and stock of migrants respectively, in Maps 1 and 2.

Map 1 shows the annual net migration per one thousand population during 2000-2005. Net migration is a measure of the number of migrants arriving (for more than one year) minus the number of emigrants departing. It should be emphasized that countries cannot be categorized simply into emigration or immigration states: all states exhibit both directions of movement. Very few countries maintain data on rates of gross emigration, but Map 1 offers at least

<sup>1</sup> See Walmsley and Winters (2005) and World Bank (2005).

<sup>2</sup> United Nations (2006).

## The internationalization of labour markets

a picture with respect to net migrant departure, with negative numbers indicating a net outflow. Of the 228 countries represented on Map 1, only 27 are reported to have net, annual out-migration rates in excess of five per thousand.

Map 2 draws upon a newly available data set estimating, from census data in each country, the stock of migrants born in a country and now living in another country (Winters *et al.*, 2007). Map 2 shows the magnitude of this stock of diaspora as a percent of home population in 2000. Of the 223 countries where data are thus available, the diaspora amounts to more than 15 percent of the home population in 58 countries.

Geography is a key factor in shaping these differences across countries in emigration rates and the size of diaspora. Most of the high emigration countries are small. When international boundaries are close by, even short movements cross these borders. Of the 58 countries whose diaspora exceeds 15 percent of their home population, for example, the total home population amounts to less than 103 million. Thirty five are island states. Indeed, of the countries with population over five million, only five have a diaspora larger than 15 percent of their population (Azerbaijan, Belarus, Kazakhstan, Portugal, Serbia and Montenegro). Another ten have a diaspora in excess of ten percent of their population.<sup>3</sup>

Geography also matters in shaping the destination of migrants. Proximity is a strong positive correlate of the extent of migration flows, though it is not entirely clear why.<sup>4</sup> Travel costs appear to be only a minor factor. It seems that information and familiarity may be much more important determining factors. Thus bilateral migration is significantly greater between countries with former colonial ties and those speaking a common language.<sup>5</sup> Whatever the root cause, the deterrent effect of distance turns out to have important consequences for the development implications of international migration. Many of the low income countries of Sub-Saharan Africa and South Asia are relatively remote from the high income countries. Less than seventeen percent of the diaspora in the high income countries are from the low income countries, despite the fact that the low income countries comprise over a third of world population. (See Figure 1).

Geography is very important in initiating migration patterns, but once initiated the role of social networks builds on this. Having kith, kin or at least fellow country-men at destination can make entry and adjustment to the new environment easier. This may operate through a number of channels: access to employment, ease of obtaining visas, provision of accommodation on arrival, or simply a community offering support and familiarity. Early research pointed to a correlation between prior and current migration streams; more re-

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<sup>3</sup> Bulgaria, Burkina Faso, Dominican Republic, El Salvador, Israel, Jordan, Kyrgyzstan, Mali, Tajikistan and Ukraine.

<sup>4</sup> Lucas (2001).

<sup>5</sup> Katseli *et al.* (2006).

cent work has established the role of networks as a causal factor in building on initial migrations.<sup>6</sup> In places with little initial out migration, a cumulative inertia sets in, and such places are increasingly isolated from the migration process.<sup>7</sup> Indeed, this cumulative effect applies not only to countries but to locations (regions or even specific villages) within countries of origin.

Overall, these effects of geography mean that the development effects of international migration differ very widely. For high emigration countries, and especially for high emigration communities within these countries, the effects can be profound. Elsewhere, international migration may be largely irrelevant to development. Moreover, even among high emigration settings, the effects may in turn be mixed: not all of the consequences are positive. The potential for gain (certainly for the migrants themselves) may be larger where migration to the high income countries dominates, rather than migration to low-income, neighbouring countries. Yet such factors as the skill mix of the migrants assume a critical role in these effects also.

## 1. MIGRATION OF THE HIGHLY SKILLED

The migration of highly skilled workers from developing to high income countries has long been the target of much criticism. On average the number of tertiary educated citizens abroad in the OECD countries, relative to the total population of tertiary educated persons at home, rises the lower is the per capita income in the country of origin. In part this reflects a smaller base of the highly educated population in the lower income countries. However, by 2000, estimates suggest that more than forty-five percent of the adult, expatriate population in the OECD countries, from the low income countries, had a college education. This fraction was higher than from either the middle income or high income countries. Moreover from 1990 to 2000 the number of college-educated adults from the low income countries far more than doubled in the OECD countries. In contrast, highly educated adults from high income countries expanded by only about a third. (See Figure 2.)

The brain drain from the developing countries is thus large and growing. Traditionally, much of this movement has been to North America. Thus, as Figure 3 shows, the adult expatriates in the OECD countries of North America predominantly possess a higher education. In contrast, in the OECD states of Europe, the plurality of expatriates possess only a primary education (though very few of these are from the low income countries). To some extent this pattern is changing however. From 1990 to 2000, the expatriate population with a tertiary education expanded from about 12.5 to 20.4 million in the OECD as a whole. While the portion of expatriates in North America with tertiary education grew by seven percent during the 1990s, the same portion in the

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<sup>6</sup> Munshi (2003), McKenzie and Rapoport (2004).

<sup>7</sup> Molho (1995).

## The internationalization of labour markets

EU15 increased by some forty-five percent as the stock of college-educated expatriates in the EU15 countries almost doubled during the decade. (See Figure 4).

A key mechanism for attracting highly skilled migrants is through overseas study. International migration of students has increased substantially, though relatively little is known about the stay-rate upon completion. One of the few reliable data sources tracks foreign students completing science and engineering doctorates at US universities.<sup>8</sup> These data show low departure rates from the US among students from some of the lower income countries, such as China and India, though there is considerable inter-country variation. Return rates to Indonesia are, for example, notably high. Again the patterns of overseas education are shifting. Traditionally the US universities have been the main destination. However, during the 1990s the enrolment of non-OECD students in EU universities increased by about 55 percent, and less traditional destinations, such as Japan, have begun to attract substantial numbers of overseas students.

All of the OECD countries have in place mechanisms to facilitate the immigration of highly skilled persons, as students or otherwise. Three distinct, potential components of the costs this brain drain can impose on the developing countries may be identified.

The first component is the loss, incurred by the sending countries, as a result of departure of personnel from key occupations, notably healthcare workers and teachers. For example, the departure of doctors and nurses from Sub-Saharan Africa has received a good deal of attention in recent years. The evidence on whether this has served to worsen healthcare delivery, raise infant mortality and reduce life-expectancy remains mixed and controversial.<sup>9</sup> There are at least two key issues: how effectively deployed are the healthcare workers at home and the potential for replacement. If, for example, nurses are not working as nurses at home<sup>10</sup>, or if emigration of doctors has no effect on the number of doctors available in rural areas, then the impacts of healthcare worker emigration on health outcomes may be minimal. Similarly if training of domestic personnel occurs to replace those departing, or if they are replaced by immigrants from third countries, then again the impact may be small.

A second component of common complaint with respect to the brain drain is that the presence of highly skilled persons may contribute to society and to economic performance in ways for which these highly educated persons are not fully compensated. Economists like to call these external benefits. Although this line of argument is commonly invoked, any evidence is virtually nonexistent. A more highly educated population is certainly, positively correlated with a good many desirable social outcomes, such as better governance, lower

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<sup>8</sup> Finn (2001).

<sup>9</sup> See, for example, Clemens (2007).

<sup>10</sup> OECD (2003).

crime rates and slower population growth.<sup>11</sup> Whether these represent causal connections remains unproven and largely unexplored. It is also commonly asserted that the presence of more highly educated workers raises the productivity of other, similarly well-educated workers. This is the basis of much of the ‘new economic growth theory’ literature. Yet empirical support in favour of this phenomenon remains mixed, at best.<sup>12</sup> The evidence does point to the contributions of scientists and engineers in accelerating technical progress. Quite who reaps the benefits of these gains is less apparent; it is plausible the contributing researchers are the main beneficiaries conferring little by way of external benefits. Moreover most of the extant evidence pertains to the high income countries; it is far less apparent that more scientists in the least developed countries would similarly contribute to productivity improvements there.

The final source of common complaint about the brain drain is the loss of public funds invested in educating the migrants. This argument is, however, largely misplaced. In the absence of external benefits from the presence of highly skilled persons, the main beneficiaries from expanded education are the highly skilled themselves. Whether these rewards are reaped at home or overseas is of secondary importance, except for the loss of taxes that might have been recouped at home (offset by additional spending on the welfare of the highly skilled and their families).

The magnitude, and even the existence of costs imposed by the emigration of highly skilled persons from developing countries is thus far from clear. Indeed, the picture has been muddled further by discussion of potential “brain gain”, meaning ways in which the home population may actually benefit from a highly skilled diaspora overseas. At least five channels of potential gain may be identified.

The most obvious is the flow of remittances from the diaspora. How much money is remitted by the highly educated portion of this diaspora is, however, less clear. Two conflicting effects are at work: first, highly skilled emigrants tend to earn more and hence can afford larger transfers. On the other hand, well-educated migrants are more likely to be accompanied by their families and hence have less incentive to remit. The evidence on the balance of these two effects remains unclear.

There is, however, mounting evidence of the potential for a highly educated diaspora to act as a stimulus to trade between their host and home countries.<sup>13</sup> The influence of emigrants’ nostalgia, and hence demand for familiar goods from home, only play a minor part in this. Rather, it seems the dominant effects are twofold: the influence of emigrants’ information about marketing opportunities in the home country, and the ability of emigrants to enforce contractual arrangements with their friends and family at home. Both of these dimensions may assume particular importance in contexts where written contractual arrangements are less commonplace, as is typical in many developing countries.<sup>14</sup>

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<sup>11</sup> McMahan (1999).

<sup>12</sup> See, for example, Acemoglu and Angrist (2001).

<sup>13</sup> Head and Reis (1999), Rauch (2001), Rauch and Trindade (2002).

<sup>14</sup> Indian engineers abroad, particularly in the US, appear to have played a key role in the initial exports of software from India, for example.

## The internationalization of labour markets

Highly educated emigrants, perhaps particularly scientists and engineers, may become the source of technology transfer to their home country even while they remain abroad. Joint-authorship of research papers between the intelligentsia within the diaspora and at home is a common sign of such transfer, for example.<sup>15</sup> To what extent this actually leads to more rapid economic growth through technical progress in the home country appears not to have been investigated, however.

The return of highly skilled migrants, to settle in their home country, may also offer the potential for productivity improvements at home. This may be true both of returning graduates after study abroad, and of migrants with work experience overseas. At least two caveats must be expressed with respect to this: experience and study in the rarified strata of technology in some of the high income countries may not be of immediate relevance, particularly in the least developed countries; second, it is not clear that the returning migrants do not reap the lion's share of their economic contributions, especially when premium salaries are offered to attract their return. In some country contexts highly-skilled migrants have also been instrumental in starting up new business ventures upon return home.<sup>16</sup> Where such ventures prove successful, survive and generate employment for others, there are indeed benefits to others from this return process.

The fifth element of purported brain gain derives from the incentive to acquire a higher education in order to emigrate. If only a portion of those so induced prove able to emigrate the stock of highly educated workers at home may expand.<sup>17</sup> Although this theoretical possibility has received considerable attention in the literature in recent years, there is little evidence to support its validity. Where higher education enhances the potential for emigration, potential emigrants may indeed pursue more education. This certainly appears to have been the case in the Philippines, for instance.<sup>18</sup> Yet the available evidence fails to indicate a gain, as a result, for those remaining at home.<sup>19</sup>

The arguments with respect to a brain-drain or brain-gain are manifold and complex. In the end, whether emigration of highly-skilled persons imposes a net loss or results in a net gain for those remaining at home remains quite unclear. Similarly, the effects of a brain drain upon inequality within the country of origin are poorly documented; much depends upon whether the presence of highly educated personnel render those with lower skill levels more or less productive, as well as the effect of departure upon profit incomes.<sup>20</sup> The nature of substitution or complementarity among skilled labour, unskilled labour and capital thus matters and there is little reliable evidence on this for most developing countries.

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<sup>15</sup> See, for instance, the US National Science Foundation, *Science and Engineering Indicators 2000*, Appendix Table 6.1 at <http://www.nsf.gov/statistics/seind00/>.

<sup>16</sup> Returned migrants have played a key part in the evolution of high-tech industries in Taiwan province of China; some of the software startups in India have returned migrants as chief executives; and more recently, returned migrants have initiated new companies in Shanghai. Saxenian (1999, 2000), Nanda and Khanna (2007).

<sup>17</sup> Mountford (1997), Stark and Wang (2002).

<sup>18</sup> Lucas (2005).

<sup>19</sup> Schiff (2006).

<sup>20</sup> Davies and Wooton (1992).

If the net costs from departure of the highly skilled prove real, what are the policy options to address this? A number of options have been suggested for adoption by the host countries. To date, none of these has been seriously implemented. Restraint in hiring has been advocated, particularly in state-run health services' recruitment of healthcare workers from Africa. Nominal restraint appears to have simply been replaced by recruitment through intermediaries. The competition among the industrialized nations to attract the best and brightest is not only unabated but intensifying: witness the expansion in the stock of tertiary educated migrants in the OECD countries during the 1990s. A strategy of attracting the best and the brightest from overseas is a part of national policy for many of the high income countries.<sup>21</sup> Various compensation mechanisms, from host to home countries have been discussed. Among these is the possibility of financing replacement training in the countries of origin. Again there is little progress in this regard, and there is a distinct danger that such expanded training may simply lead to an even faster brain drain.

From the perspective of the countries of origin, very few policy instruments exist to limit the purported costs of brain drain. Restricting emigration would violate a basic human right. One viable option is to train, say, healthcare workers in techniques that would be useful at home (perhaps especially among the poor) but less useful as training for overseas employment: paramedics working in rural areas of low income countries could probably do a good deal to reduce morbidity and mortality. Yet this option is criticized as offering second-rate healthcare to the poor, and is an option often resisted by the medical community. To the extent that the concern is the 'loss' of public funds invested in the departing migrants' education, an obvious reaction would be to shift more toward a system of student loans rather than outright grants. Yet in some developing countries this would actually require a constitutional reform. Moreover, the collection of debts from emigrants can prove challenging.

The departure of highly-skilled workers may or may not harm the living standards of those who remain at home: the arguments and evidence are mixed. Nonetheless, few would claim that poverty alleviation in the countries of origin is aided by a brain drain. In contrast, international migration opportunities for the less highly skilled can be quite instrumental in poverty reduction and to this the next section turns.

## 2. MIGRATION OF WORKERS WITH LOWER EDUCATIONAL ATTAINMENT: PATTERNS OF MOVEMENT

With respect to migration of workers with lower educational attainment, a distinction may be made between countries from which lower-skill migrants

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<sup>21</sup> See, for instance, the report on the US context in National Academies (2005).

## The internationalization of labour markets

move to the OECD countries and those countries from which lower-skill workers migrate within the developing regions.

### 2.1. Migration to the OECD countries

Lower-skilled migrants in the OECD countries are drawn very largely from neighbouring countries. The upper portion of Map 3 shows countries by the number of their expatriate adults, with lower educational attainment<sup>22</sup>, who were present in the OECD countries in 2000. A first feature of this picture to note is that most of the OECD countries are themselves major sources of lower educational attainment migrants in other OECD countries. Certainly Mexico and Turkey are thus major sources of lower skill migrants, but so too are many of the EU countries, Canada, the US and Korea. The Caribbean countries, the Maghreb and East Europe are also important sources of lower educational attainment migrants to the OECD, and all are located close to OECD countries.

Of the developing countries that are further afield, only a few send large numbers of low skill workers to the OECD members. Moreover, as the lower panel of Map 3 illustrates, for such countries as China, India and Pakistan the significant number of low skill migrants is simply a reflection of their population size. Only a few countries in Sub-Saharan Africa, South America and Asia had more than one percent of their lower educational attainment, adult population in the OECD in 2000. The only such countries of Sub-Saharan Africa with a working age population over one million were Angola, the Republic of Congo, Eritrea, Senegal, Sierra Leone and Somalia. This suggests the importance of refugee movement in this process, which is supported by the comparable list from Asia which includes Cambodia, Laos and Vietnam, Iraq, Lebanon and Jordan.

Most lower skilled migrants enter the OECD countries either as refugees and asylum seekers, on temporary work programmes, or as irregular migrants. There has been a proliferation of bilateral arrangements between various European countries and lower income, nearby countries, permitting temporary entry to work in occupations demanding lower educational qualifications. Such programmes are particularly prevalent in agriculture and some of the seasonal service industries, such as tourism. Prospects for a renewed temporary work programme in the US seem less clear at the time of writing. Such schemes present at least three, inter-related dilemmas:

First, recruitment programmes for temporary workers may or may not diminish the extent of irregular migration. By satisfying employer demands with documented workers, the incentive to migrate on an irregular basis tends to be diminished. On the other hand, as employers in the host country and migrants in the origin countries both become accustomed to such programmes, any attempt to abandon the programme may result in continuation in irregular form.<sup>23</sup>

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<sup>22</sup> Twelve years of education or less.

<sup>23</sup> See Martin and Teitelbaum (2001).

## Migrant sending countries, the internationalization of labour markets and development

Second, a common criticism of temporary programmes is that they lead to permanence. It is important, however, to distinguish between permanence of the programme and permanent settlement of the individual migrants. Cancelling a profitable programme is certainly difficult. Obviously a fraction of the 'temporary' migrants manage to settle, though it should be noted that many also circulate back to their own countries. Indeed, it is not apparent that irregular migrants are any less permanent: given the difficulties and dangers of undocumented crossing of borders there is a clear incentive to remain once entry is achieved.

Third, improving the rights of migrant workers in the host countries is likely to lead to greater permanence. This may be particularly true with respect to the right of family accompaniment.

These dilemmas also pose important issues for the sending countries. If organized temporary worker schemes actually replace irregular migration, rendering circular movement easier, this surely represents an improvement for nationals of the sending country (at least provided the overall scale of movement is not thereby severely restricted). Encouraging return migration may also be very important to enhance the flow of remittances to the home country, benefiting those who remain at home. Yet this concern to stimulate return, perhaps shared by both host and home countries, may well be at odds with the rights of the migrants themselves; the better integrated are the migrants in their new home, the less likely are they to return.

### 2.2. South-South migration

Apart from refugees, low-skilled migrants do not manage to migrate to the OECD countries, if they are from low income countries that do not neighbour upon the high income countries. Instead, much of the international migration of lower skill workers from low income countries is a South-South movement.<sup>24</sup> Overall, some forty five percent of the diaspora of low income countries are in low income countries. No systematic data exist on the educational profile of these South-South migrants. However, it seems likely the vast majority possess relatively low levels of education and Table 1 provides a profile of the destinations from the major low income regions.

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<sup>24</sup> Ratha and Shaw (2007).

## The internationalization of labour markets

Table 1. Percent Distribution of Diaspora from Low Income Regions  
By Host Region: 2000

Host Region	Region of Origin			
	Sub-Saharan Africa	South America	South Asia	East and Southeast Asia
<b>High Income Countries</b>				
North America	5.4	31.0	8.4	32.2
Europe	15.8	22.9	8.3	9.7
Pacific Rim	1.1	4.2	1.9	27.9
GCC States	2.5	0.7	21.3	5.3
<b>Middle and Low Income Countries</b>				
Sub-Saharan Africa	70.1	0.9	1.1	0.8
South America	0.1	33.3	0.0	0.2
South Asia	1.4	1.4	42.9	2.3
East and Southeast Asia	0.3	1.5	1.7	18.5
Other	3.2	4.1	14.3	3.0
<b>Total</b>	100	100	100	100

Data Source: Winters *et al.* (2007).

From East and Southeast Asia there are significant numbers of migrants in North America and in the high income countries of the Pacific Rim. South America also has a substantial diaspora in the US and in some of the European countries (especially in Spain, Germany, the Netherlands and Italy). On the other hand, relatively small proportions of the diaspora from South Asia and from Sub-Saharan Africa are in either North America or Europe. South Asians are divided between intra-regional movement to other countries in South Asia and the mass migration to the Gulf Cooperation Council countries. Seventy percent of Sub-Saharan Africa's diaspora remain within the region.

Table 2 shows some of the largest of the country-to-country corridors within these South-South movements. It should be emphasized that the numbers refer to the stocks of migrants, some of whom may have moved at much earlier dates.

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Table 2. Major South-South Migration Corridors:  
Stocks of Expatriates in 2000

Origin	Host	1000s
Burkina Faso	Côte d'Ivoire	977
Eritrea	Ethiopia	350
Ghana	Côte d'Ivoire	306
Mali	Côte d'Ivoire	487
Mali	Burkina Faso	438
Colombia	Venezuela	608
Paraguay	Argentina	325
Bangladesh	India	3,806
Bangladesh	Pakistan	1,508
India	Sri Lanka	393
India	Bangladesh	958
India	Pakistan	606
Nepal	India	652
Pakistan	India	1,328
China	Malaysia	269
Indonesia	Malaysia	744
Philippines	Malaysia	308
Tajikistan	Uzbekistan	265

Data Source: Winters *et al.* (2007).

For instance, the huge numbers of migrants having moved in both directions between some of the South Asian states no doubt reflects the lingering effects of partition and the establishment of Bangladesh. Forced migration certainly plays an important role in South-South movements. The stock of convention refugees in Sub-Saharan Africa, recognized by the UNHCR, amounted to about a quarter of the intra-regional diaspora. On the other hand, migrants from China, Indonesia and the Philippines to Malaysia have certainly moved to higher income settings, as have those from Burkina Faso and Mali to Côte d'Ivoire.

The motives for moving from one developing country to another are understandably mixed. As a result, not all movements are from lower to higher income countries. Thus, Map 4 shows the international migrant stock within Sub-Saharan Africa are well-spread. Indeed, there is no obvious pattern in which the stock of intra-regional migrants, per capita of the host country population, either rises or falls with income levels across the host states. In fact this remains true even for the non-refugee stocks of migrants. Yet this does not rule out economic gain as an important motive. Given the relatively porous

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borders within Africa and the arbitrary drawing of these borders by former colonial powers, motives for international migration are not terribly different from those for internal migration. Certainly the evidence on internal migration in Africa overwhelmingly points to earnings differentials as a significant factor in shaping relocation decisions.<sup>25</sup>

The South-South movements of low-skilled workers to higher earning settings offers a key vehicle for poverty alleviation in the places of origin. A major part of this alleviation operates through the transfers of remittances and to this and other links between migration and poverty reduction the next section turns.

### 3. POVERTY ALLEVIATION IN THE COUNTRIES OF ORIGIN

Official estimates of remittance flows to the developing countries indicate very rapid expansion in the amounts transferred. It is not clear how much of this expansion reflects diversion from informal transfer channels to more formal mechanisms, how much reflects more diligent reporting, and how much reflects real growth in total remittances. Nonetheless, remittances to the developing regions are certainly attracting a good deal of attention and they are now recognized as a major source of financing to a number of the developing countries.

Are these remittances sent to the poor within the developing regions? We have already seen that low skill migrants from the poorest countries rarely migrate to the OECD countries. Moreover, within most countries the poorest tend to migrate internally more than internationally. Studies of how much remitting occurs to poor families is also complicated by the fact that families may appear less poor because they have already been receiving remittances. Of course there are instances in which the bread-winner from a poor family migrates then fails to remit to support the family at home. This can result in poverty deepening. Nonetheless the evidence does show that a significant portion of international remittances indeed flows to families below the poverty line.<sup>26</sup>

A number of critics argue that too little of the money remitted is invested and hence that remittances fail to promote development.<sup>27</sup> Since remittances are private transfers, how the recipients choose to spend their receipts would seem a private choice. In fact, the micro evidence points to remittance income enabling consumption smoothing during times of exogenous stress, resulting in lower incidence of child labour while enhancing education among the recipient's children, and possibly permitting reduced labour effort or earlier retirement among those at home.<sup>28</sup> A few studies also point to business start-

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<sup>25</sup> Lucas (2006).

<sup>26</sup> Among recent contributions, see Adams (2006). Lucas (2005), chapter 5 summarizes some of the prior evidence.

<sup>27</sup> See, for instance, Kapur (2005).

<sup>28</sup> Azam and Gubert. (2005), Edwards and Ureta (2003), Yang (2004).

ups out of remittance incomes. More commonly, remittances are invested in better housing for the family at home or for the migrant's use on return. Each of these components of spending may well be deemed forms of development in their own right, whether or not they result in faster economic growth.

At a more macro level, remittances provide an injection of foreign exchange and of income into the economy. Given the specific routes through which remittances are injected, and especially the particular set of households through which they arrive, the stimulus may differ from capital inflows and other forms of additional spending. A concern arises as to whether remittance transfers result in appreciation of the exchange rate, making export of local products more difficult. Although this is no doubt a legitimate concern in some contexts, more often the arrival of additional foreign exchange can diminish constraints on ability to import materials and machinery, permitting output expansion. Moreover, the aggregate effects of spending out of remittances can result in a multiple expansion in output as jobs and income are generated out of the initial spending. Thus, in the Philippines, Yang and Martinez (2006) find that remittances reduce poverty among neighbours even if they are not themselves recipients of transfers.

Remittances usually offer the dominant route through which those at home gain economically from emigration. There are, however, other mechanisms at work. One such effect comes through the reduced competition in the domestic labour market. The nature of the gain to those remaining at home depends very much upon the state of the labour market, but departure may either serve to raise wages or to reduce under employment among those at home. This is an area that remains under-researched. Nonetheless in some contexts there are signs of tightening in home labour markets, even for relatively low skilled workers, as emigration proceeds.<sup>29</sup>

Emigrants tend to originate from particular locations within the home country, as noted in the introduction to this paper. This can result in rising wages or diminished underemployment within these localized labour markets with little impact beyond the specific places of origin. On the other hand, in societies where internal migration is prevalent, the effects of localized emigration can be felt over a much wider geographic area as internal migrants are drawn in to replace the departing emigrants.

An additional component of domestic gain can arise from the return of migrants with newly acquired skills. Mention has already been made of this in the context of migration of the highly skilled. Yet productivity gains from an emigration experience are not necessarily confined to the highly skilled. Indeed, some evidence is emerging to indicate that simply the experience of having been abroad really does raise workers' productivity, which does not merely reflect selection of the more enterprising workers for emigration in the

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<sup>29</sup> See the review of evidence in Lucas (2005), chapter 3.

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first place.<sup>30</sup> To what extent these acquired skills provide benefits beyond those to the returning migrants themselves, by enhancing profits for employers or through skill transmission to others, for example, remains to be investigated.

### 4. DEVELOPMENT, POVERTY AND MIGRATION: TOWARDS COHERENT COOPERATION

Whether the global migration-remittance nexus is contributing substantially to poverty reduction and economic development in the countries of origin is a mixed bag. The emigration of the highly skilled may well be harmful, though the balance of evidence is very unclear; much depends upon how effectively the highly skilled would be deployed if they remain at home. Family accompaniment is more common among the highly skilled emigrants, tending to diminish remittances and ties with the home country and the probability of return. Low-skill circular migration almost certainly does far more in terms of poverty alleviation, largely through remittances to relatively poor families and neighbourhoods. Although the migrations to the GCC states are commonly criticized for lack of migrant protection, this mass circular movement of relatively low skill workers has probably contributed a great deal to poverty reduction in the migrant-supplying areas of South and Southeast Asia.

Return migration is generally in the interest of both host countries and those who remain at home in the countries of origin. Whether it is in the interest of the migrants themselves depends upon the purpose in migrating; return may have been planned from the start in the context of target saving, for instance. Where migrants have less incentive to return, circular migration schemes are notoriously difficult to manage and generally require some degree of co-operation between sending and receiving countries.

Such cooperation needs, however, to take a broader perspective than merely enforcing migration procedures. Trade, aid and exchange rate policies all intimately impact migration and remittances. The massive subsidies to agriculture in most of the industrialized countries, for example, often protect sectors that become major employers of irregular migrants. Whether these subsidies also lower living standards by harming agriculture in the developing countries is less clear, depending upon the specific products subsidized and whether the developing country is a food net exporter or importer. There are no simple generalizations as to whether trade and migration are substitutes, in the sense that opening to more trade diminishes migration incentives.<sup>31</sup> However, the nature of north-south trade is probably such that trade and migration indeed substitute for one another. Nonetheless, the issues of policy coherence and

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<sup>30</sup> The more careful, recent contributions to this literature have attempted to distinguish between the selection of more productive workers to emigrate in the first place as opposed to a causal effect from their experience overseas. Co et al. (2000); Iara (2010).

<sup>31</sup> Ethier (1996), Venables (1999).

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integration of migration into economic planning for development, both in national planning documents and in those of the international agencies, remain in their infancy.<sup>32</sup>

From 1960 to 2000 the volume of global exports grew at about 6.3 percent per year while the stock of international migrants grew by only 2.1 percent annually, barely keeping pace with population growth. Globalization has witnessed substantial, international integration of markets for capital, goods and services, but far less integration in labour markets. To the extent that labour markets have opened up between the low income and OECD countries, this has meant an expanded flow of highly educated persons. To a large extent, low income people from low income countries have benefited from globalization of labour markets only through south-south migration and through migration to the non-OECD high income countries.

Economic development, to the extent that it is accompanied by job creation and rising wages, diminishes emigration pressures. Whether emigration and ensuing remittances help or hurt development for those left at home is more mixed. Yet despite this ambiguity, the option to emigrate offers a critical safety valve where the home state fails to offer decent employment opportunities or to offer personal security from violence. Nonetheless the migration option should not be seen as an alternative to efforts to promote development at origin. There is a strong preference amongst most of the world's population to remain at home if they can sustain a decent livelihood, in safety, there. Otherwise, given the huge gaps in incomes between nations today, migration would be far larger than it is. A small number of developing countries have become heavily dependent upon emigration to solve the lack of employment at home. This can breed long-term dependence on this strategy by temporarily alleviating political pressure to address the need for development, and employment creation in particular, at home. It can also prove a very risky strategy, placing the home nation at the whims of host country reversals. A case can be made that for some of the very tiny, island states, emigration may represent the best, long-run, development option.<sup>33</sup> For most countries, this is not the case.

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<sup>32</sup> Lucas (2008).

<sup>33</sup> Pritchett (2004).

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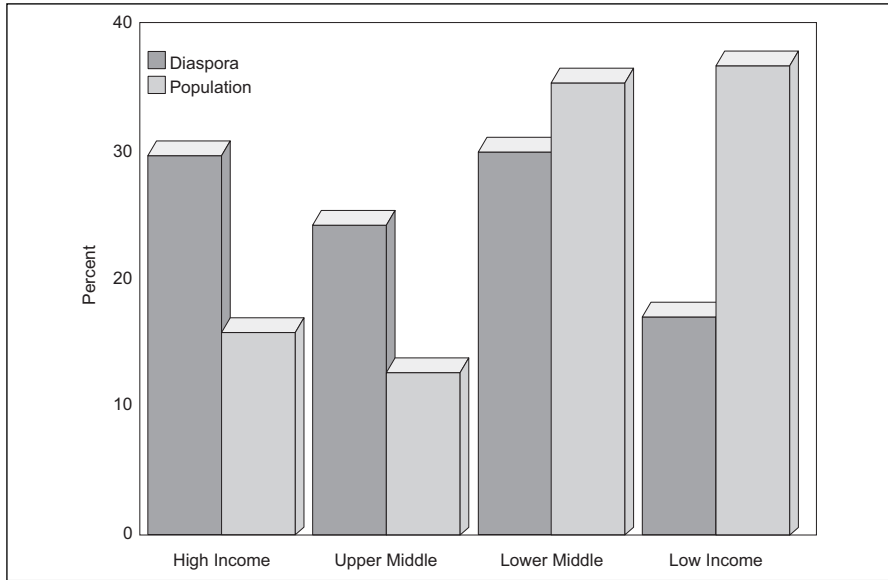
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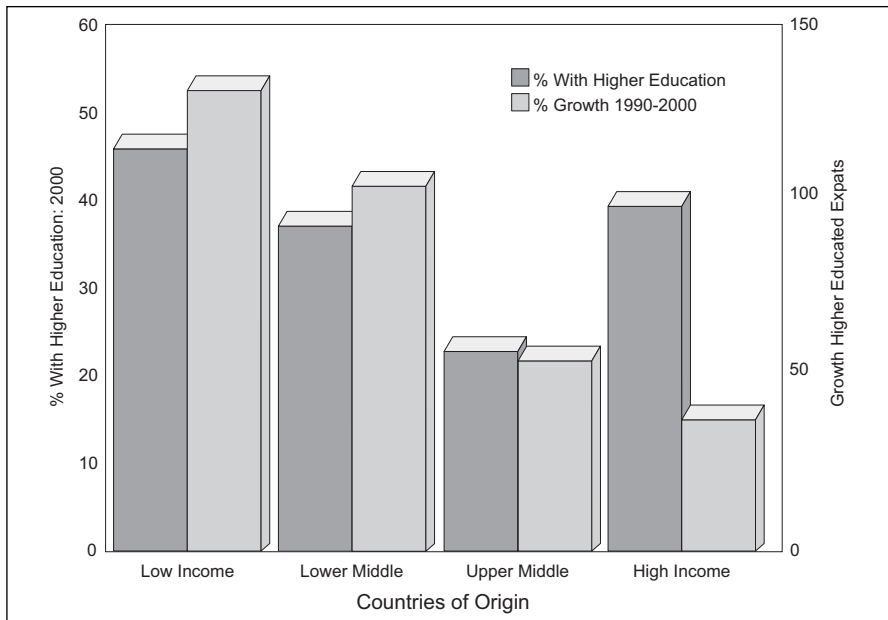
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Figure 1: Diaspora in the High Income Countries and Home Country Population



Data source: Winters et al. (2007)

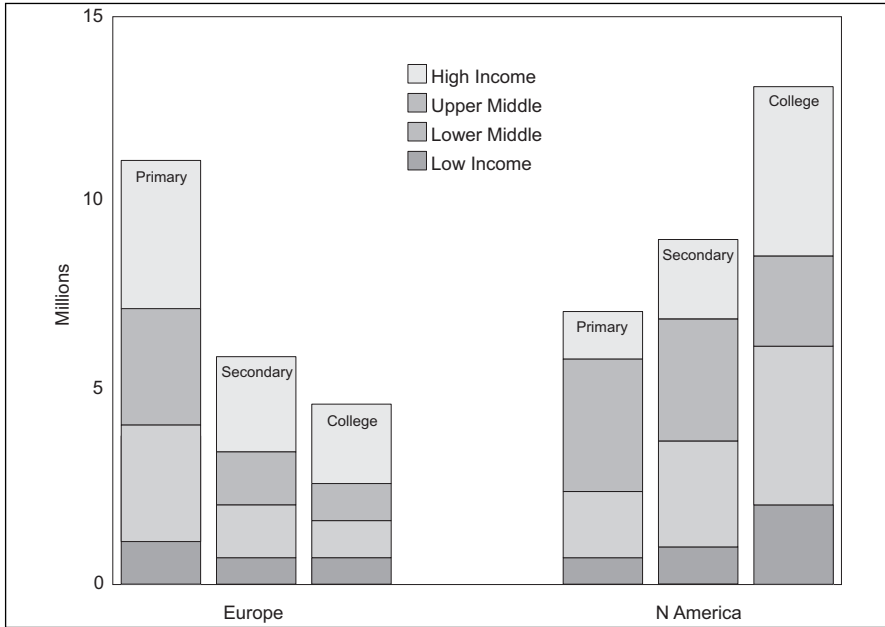
Figure 2: Highly Educated Adult, Expatriate Population in OCDE Countries



Data source: Docquier and Marfouk (2006)

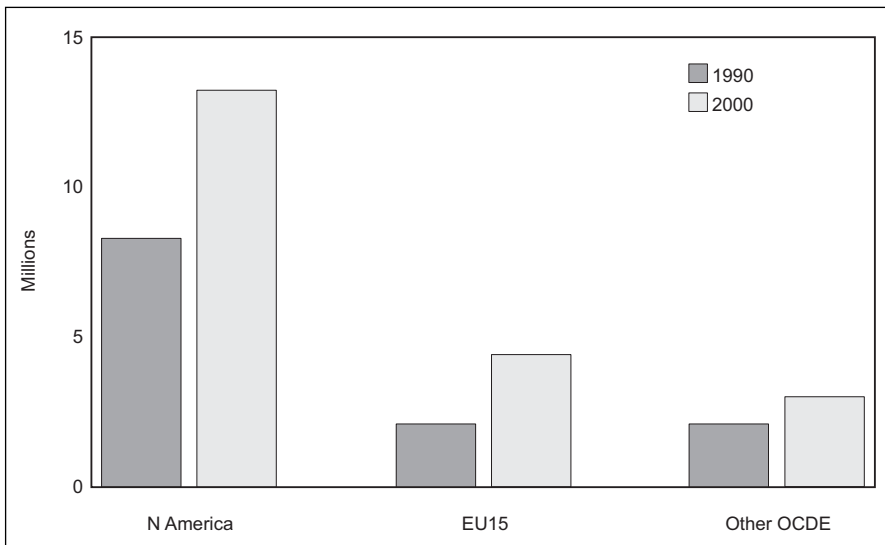
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Figure 3: Adult Expatriates in OCDE Europe and North America  
By Education Level and Income Group of Origin Country: 2000



Data source: Docquier and Marfouk (2006)

Figure 4: Tertiary Educated Expatriates in OCDE Countries: 1990 and 2000



Data source: Docquier and Marfouk (2006)

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MAP 1 Net Annual Migration Rate  
Per Thousand Population: 2000-2005



Data source: UN (2006)

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MAP 2 Diaspora Relative to Home Population  
Percent: 2000



Data sources: Winters et al. (2007) and UN (2006)

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MAP 3 Lower Educational Attainment Expatriates in OCDE  
By Country of Birth: 2000

Thousands of Adults



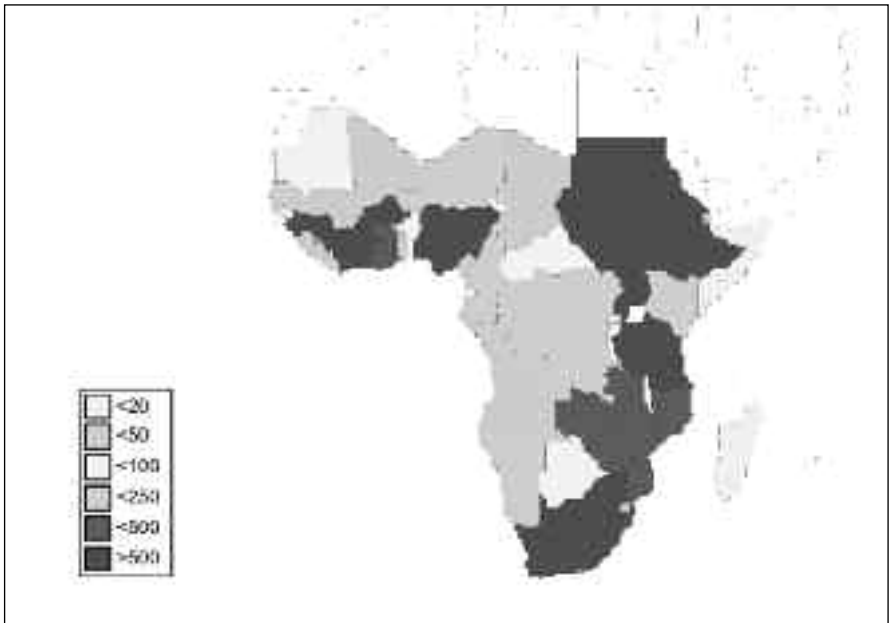
Percent of Lower Educational Attainment Home Population



Data source: Docquier and Marfouk (2006).

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MAP 4 Intra-Regional Stock of Migrants Sub-Saharan Africa 2000  
(1000 Migrants)



Data sources: Winters et al. (2007)

# “SEA TURTLES” OR “SEAWEED?” THE EMPLOYMENT OF OVERSEAS RETURNEES IN CHINA

DAVID ZWEIG AND DONGLIN HAN

## 1. INTRODUCTION<sup>1</sup>

Massive numbers of Chinese students have gone overseas to study since China opened up in 1978. Chinese authorities believed that returnees from overseas would upgrade China’s educational system and provide the nation with advanced technology to meet the goal of modernization. According to China’s Ministry of Education, more than one million students went abroad between 1978 and 2007, of which 70 percent went overseas after 2000. Among these students, 300,000 (30 percent) returned home.<sup>2</sup> Historically, overseas returnees in China had considerable political, economic and social impact,<sup>3</sup> and the current batch of returnees may also be influential.

The current wave of overseas students is the largest one in Chinese history, with the number of students flowing both in and out peaking in the past five years. However, with the massive number of returnees from overseas, and the rapid expansion of college graduates within China, the new generation of returnees faces the challenge of employment.<sup>4</sup> In Chinese, returnees from overseas with advanced education are often called “*hai gui*,” which means “returnees from overseas.” But a homonym sounds exactly “sea turtles.” However, due to the problems they now face finding jobs, returnees become “*hai dai*,” or “returnees waiting for employment.” But “*hai dai*” also

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<sup>2</sup> “*Gaige kaifang yilai woguo chuguo liuxue renshu chaoguo1 baiwan ren*” [More than 1 million Chinese went overseas during the reform era], *Xinhua News net*, 27 February 2007, [http://news.xinhuanet.com/edu/2007-02/26/content\\_5775966.htm](http://news.xinhuanet.com/edu/2007-02/26/content_5775966.htm)

<sup>3</sup> Thomas E. LaFargue, *China’s First Hundred: Educational Mission Students in the United States, 1872-1881* (Pullman: Washington State University Press, 1987), and Hui Huang, “Overseas Studies and the Rise of Foreign Capital in China,” *International Sociology*, Vol. 17, No. 1 (March 2002): 35-55.

<sup>4</sup> “*Chuguo liuxue re yingfa haigui jiuye nanti*” [Overseas study fever leads to unemployment problem among overseas returnees], *People’s Daily* (Overseas Edition), (15 Dec. 2007), p. 5.

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means “seaweed,” which reflects the difficulties returnees apparently now face in their job search. In other words (or “other sounds”), “sea turtles” are becoming “seaweed.”

Still, this paper argues that the phenomenon is much overstated. In part, the quality of people going overseas has dropped. Previously, most returnees came back with Ph.D.s, set up their own company, or possessed an MA or MBA from a reputable university. But today, many returnees studied at poor quality overseas colleges and have limited or no work experience. So, given the sharp increase in the number of domestic college graduates, it is not surprising that for some returnees, good jobs are hard to come by.

Students go overseas in two ways: government or private sponsorship. Government sponsored students and scholars go abroad for research collaboration or to get a degree, and their primary focus is on the state’s needs. But students have been going overseas at their own expense since the mid-1980s, and compared with government sponsored students, the number and the fields of privately funded students are much greater.

## 2. FROM SHORTAGE TO SURPLUS

Reports began to appear in 2003-04 about a new problem; it was now taking returnees longer to find work and they were being forced to accept salaries well below their expectations.<sup>5</sup> The valued “sea turtles” were turning into “seaweed!” *China Daily* explained this shift from shortage to surplus.<sup>6</sup> “A new wave of students who basically gilded their resumes by attending less-than-reputable overseas schools or easy-to-get certificate programmes . . . have been blamed for the sudden drop of quality of sea turtles.”

Also, the numbers of college graduates in China from competitive programmes, such as business schools in high quality mainland universities, has increased dramatically. According to Bai Chunli, deputy director of China Association of Alumnae from Europe and America,

“As China’s education catches up with the West, sea turtle replacements have been growing at a rapid rate. Domestic employers are taking a more rational attitude towards sea turtles. They’re not blindly chasing foreign diplomas any more. They want real, solid experience.”

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<sup>5</sup> Youths awaiting employment are called “*dai ye qing nian*,” where “*dai*” means to wait. So returnees from overseas (overseas is described as “*hai wai*”) are said to have become “returnees from overseas waiting for employment,” or “*hai wai dai ye*.” This is often shortened to “*hai dai*.” But “*hai dai*” in Chinese also means “seaweed.”

<sup>6</sup> Raymond Zhou, “How ‘sea turtles’ turned out to be ‘seaweeds’?” *China Daily*, 10 Feb. 2004.

Finding employment for returnees has become more difficult, as many returnees have earned only a one- or two-year MA from very poor schools in England. As of 2006, among mainlanders studying in graduate programmes, over 53 percent were studying in England,<sup>7</sup> where for many years students were forbidden to work at all upon graduations. But employers in China demand that returnees have some overseas experience, making British policy extremely detrimental to Chinese students’ employment opportunities back home. Chinese education officials expressed their annoyance indirectly: in one instance, the author was asked to criticize British policy in a speech he was making in Beijing about returnees, as the Chinese government did not want to do so directly. In 2007, the Chinese Minister of Education, Zhou Ji, and his British counterpart, John Denham, the UK Secretary of State for Innovations Universities and Skills, negotiated a deal allowing mainland students graduating from British universities to stay on for 18 months if they could find a job.<sup>8</sup> The number of mainland students going to England in 2006 had suddenly doubled over 2005, from 10,000 to 19,000, but fell well short of the peak year of 2003, when 35,000 students went to England.<sup>9</sup> As one Chinese official commented, “Employability is about more than educating individuals and giving them the skills to meet business needs. The UK and China will cooperate to give our graduates the practical work experience our job markets require.”

These words aside, Western academic institutions, particularly in England and Australia, have turned education into a valuable commodity to sell to the children of China’s new middle classes. In the past, Western universities sought talented graduate students from China for their research skills; today, many Chinese high school or college graduates go to mediocre schools overseas,<sup>10</sup> believing that any overseas education will improve their job search back in China.

Chinese government officials who are engaged in overseas education, particularly at the local level, feel great pressure to help returnees find jobs. Chinese citizens invest large amounts of their family’s savings—perhaps funds planned for the parents’ retirement—to support their child’s overseas education. Suddenly they discover that good jobs at high salaries are hard to come by. Having spent a minimum of *RMB* 150,000 for a one-year MA in England, the parents criticize local officials who helped their child go abroad. If local officials in other departments face similar problems, local educational officials must respond. Thus the Guangzhou Personnel Bureau established a

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<sup>7</sup> “*Neidi sheng pu ying liuxue ji zeng 20%*” (The number of Mainland students going overseas to England to study increases by 20%), *Wen Wei Po*, 5 February 2007: A22.

<sup>8</sup> Xinhua, “UK gets 2nd highest number of Chinese students,” [www.chinaview.cn](http://news.xinhuanet.com/english/2007-10/30/content_6974022.htm) 2007-10-30, [http://news.xinhuanet.com/english/2007-10/30/content\\_6974022.htm](http://news.xinhuanet.com/english/2007-10/30/content_6974022.htm).

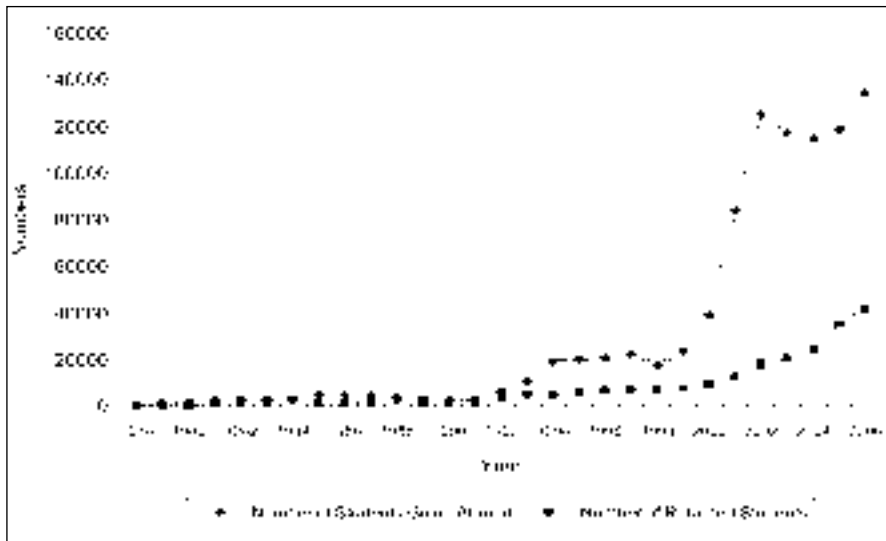
<sup>9</sup> “The number of Mainland students going overseas to England to study increases by 20%.”

<sup>10</sup> Brendan O’Malley, “British universities ‘poor value for money,’” *South China Morning Post*, 29 September 2007, E2.

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department to help returnees seek jobs. They regularly hold meetings to introduce local business leaders to the returnees who are seeking jobs. Interestingly, central officials responsible for educational exchanges and returnees do not see a crisis but a market failure that will regulate itself in a few years. Therefore, they see no reason for the government to get too involved. Nevertheless, the number of returned students has increased substantially, even as the “going abroad fever” persists (figure 1). In fact, the number of returnees reached 42,000 in 2006, a historic high.

Figure 1. Number of Students Going Overseas and Returning, 1978-2006



Source: National Bureau of Statistics, *Comprehensive Statistical Data and Materials on 50 Years of New China* (Beijing: Zhongguo tongji chubanshe, 1999); *China Statistical Yearbook* (Beijing: Zhongguo tongji chubanshe, 2007).

This chapter assesses the extent to which returnees face employment problems and why such problems emerged. In particular, our research will focus on two key questions:

- 1) Do overseas returnees really face serious difficulties finding a job?
- 2) Who faces the greatest difficulties? What are the characteristics of these people?

### 3. METHODS AND DATA SETS

Our analysis is based on three surveys. Two were carried out by the Ministry of Education’s Chinese Service Center for Scholarly Exchange (CSCSE). A third was carried out in 2006-07 by the Southern China Overseas Human Resource Center (SCOHR), based on a list of returnees provided by the Guangzhou Service Center for Scholarly Exchange (GSCSE). The Center on China’s Transnational Studies (CCTR), at The Hong Kong University of Science and Technology gave advice on all three surveys.

CSCSE is the government agency in charge of overseas degree certification for returnees. The first survey focused on returnees from Japan and was carried out in 2006. It employed systematic sampling, picking one from every two names in the certification list that the CSCSE possessed. The CSCSE has a list of over 50,000 returnees who have registered their degrees with the CSCSE of whom about 7,000 are returnees from Japan. They first contacted them, asked if they would like to fill the questionnaire and if they agreed, they were mailed one. CSCSE followed up with a phone call to encourage them to respond. In total, they received 1,381 responses to this survey, accounting for a 46 percent of response rate. The second survey focused on returnees from Canada and was carried out in the summer of 2007. Drawing on a list of 2,233 returnees from Canada, they found 1,215 people who were mailed a questionnaire. Eventually, they received 529 responses, accounting for a 44 percent response rate.

The CSCSE list does not include all overseas returnees. As the authentication system was established in the 1990s, it lacks records of returnees in the 1980s. Second, returnees validate their degree in order to convince their employer about their study experience. It is mandatory if returnees want a job in a government office or other state enterprises. However, returnees who set up their own company need not validate their degree. Still, this is the most comprehensive list in China, whose missing returnees will not bias the results.

The third dataset is from Guangzhou, near Hong Kong, which hosts a significant number of returnees. Drawing on a list of 2,690 returnees who had registered with their organization in Guangzhou, the Southern China Overseas Human Resource Center (SCOHR) sent all of them an email with the questionnaire. SCOHR received 276 responses, a response rate of 10.3 percent.<sup>11</sup>

Selection bias could exist in Guangzhou’s dataset. The GSCSE list also does not include many people who set up their own companies. Second, the low response rate raises the question of the representativeness of the sample, as we wonder what were the differences between those who did and did not

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<sup>11</sup> Unlike the CSCSE, Guangzhou’s SCOHR did not ask people first if they would respond to the survey; hence the lower response rate. However, in Beijing, the CSCSE could not find half the people on their list, and half the people who had said they would respond to the questionnaire, did not do so. So, the CSCSE surveyed only 25 percent of their original list.

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respond? However, we believe this data is still valid for two reasons. First, those who had difficulty finding a job were more likely to respond to this survey as the SCOHR provided them help finding a job; so any bias would likely over-represent returnees who had difficulty finding a job. On the other hand, most variables are consistent with the CSCSE data, reinforcing our confidence in the validity of the dataset.

### 4. CHINA'S CHANGING JOB MARKET FOR COLLEGE GRADUATES

Returnees and domestic college graduates in China face the same dilemma: the exponential growth in the number of university graduates due to the expansion of university enrolments.<sup>12</sup> Young people worldwide face serious difficulties successfully transitioning from school to work. In Asia, young people are between two and a half (Japan) and five times (Hong Kong) as likely to be unemployed as adults,<sup>13</sup> with women also having higher youth unemployment than men. But unemployment falls dramatically with increased educational attainment.<sup>14</sup> In OECD countries, unemployment rates have widened among those with lower and higher levels of education.<sup>15</sup>

In 1999, the Chinese government increased university enrolments substantially. Four years later, in 2003, these undergraduates faced serious challenges finding work as 1.87 million students graduated from universities. And the supply of fresh graduates has considerably increased since 2003, reaching 4.95 million in 2007 (figure 2). According to the Ministry of Education, the number of students graduated from university waiting for a job jumped from 0.53 million in 2003 to 1.44 million in 2007. The share of graduates still looking for jobs has increased as well, from 25.6 percent in 2000 to 29.1 percent in 2007. This oversupply of university graduates is causing a serious social problem in China, as nearly a quarter of college leavers from 2007 had failed to secure a job.<sup>16</sup> Returning to such a competitive environment with a less than stellar degree (particularly an undergraduate degree or overseas diploma), no overseas work experience, and/or limited foreign language facility, makes finding a well paying job a difficult task.

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<sup>12</sup> Raymond Li, "1m who graduated last year still jobless: study," *South China Morning Post*, 4 January 2008, p. A5. Yu Nanping, "Fresh Graduates Face Unemployment," *China Perspectives*, no. 51 (Jan-Feb 2004): 4-11.

<sup>13</sup> Shane Niall O'Higgins, *Youth Employment in Asia and the Pacific: Analytical Framework and Policy Recommendations*, ILO, Bangkok, 2002.  
[http://www.ilo.org/public/english/region/asro/bangkok/conf/youth/con\\_stu/synthes.pdf](http://www.ilo.org/public/english/region/asro/bangkok/conf/youth/con_stu/synthes.pdf)

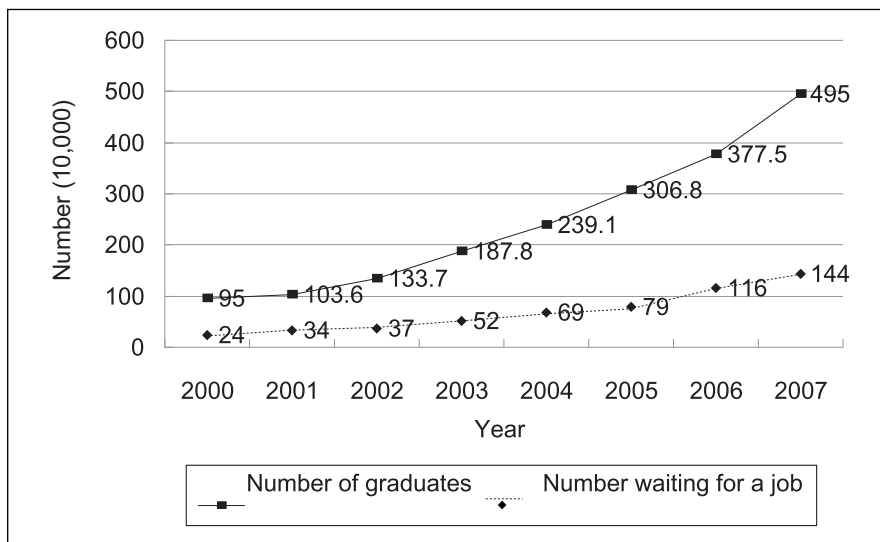
<sup>14</sup> Shane Niall O'Higgins, *The Challenge of Youth Unemployment* (Geneva: International Labour Office, 1997).

<sup>15</sup> Stephen Nickell and Brian Bell, "Changes in the Distribution of Wages and Unemployment in OECD Countries," *The American Economic Review*, Vol. 86, No. 2, Proceedings of the 108th Annual Meeting of the American Economic Association, San Francisco, CA, January 5-7, 1996, pp. 302-308.

<sup>16</sup> Li, "1m who graduate last year still jobless."

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Figure 2. Number of College Graduates and Unemployed, 2000-2007



Source: National Bureau of Statistics, *China Statistical Yearbook, 2003, 2007* and <http://news.tom.com/2007-10-26/O127/06508549.html>.

### 5. JOB SEEKING AFTER RETURNING

We adopted both subjective and objective measures to evaluate the extent that returnees were facing difficulties finding jobs. Our subjective measures included an individual’s own evaluation of the difficulties he/she faced in job-seeking. Two of our objective measures were the length of time finding a job and the monthly salary from their first job after returning. If individuals used less time finding their job, we expect that subjectively, they will weigh the difficulties they faced finding a job lightly. At the same time, a higher monthly salary in their first job could make them view the entire job search in a more positive light.

Table 1. Time Used Finding a Job, results from three surveys

Time Used to find a job	Returnees from Japan	Returnees from Canada	Returnees in Guangzhou
Arranged before returning	678 (51.7)	133 (25.7)	N.A.
Less than 3 months	372 (28.4)	243 (47.0)	189 (73.0)
3-6 months	160 (12.2)	105 (20.3)	54 (20.9)
More than 6 months	101 (7.7)	36 (7.0)	16 (6.1)
<b>Total</b>	<b>1311 (100)</b>	<b>517 (100)</b>	<b>259 (100)</b>

Note: “Arranged before returning” was not an option in the Guangzhou survey. Numbers in parentheses are column percentage,  $p < 0.000$ .

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These objective measures suggest that the difficulty finding a job is not so serious. In our Guangzhou data, 73 percent of returnees found their job within three months, while only six percent searched for more than six months. If we adopt three months as the cutoff point of the difficulties in seeking a job, only 27 percent of our sample had problems.<sup>17</sup> And when we compare the Guangzhou data with our returnees from Japan and Canada, we find that only a small number of returnees suffered a long job search (table 1). Only 27 percent of returnees from Canada took more than three months to find their job, while for returnees from Japan, it is around 23 percent. In sum, both Guangzhou and the nationwide data indicate that most returnees found their job in a short period.

While we know how long it took our returnees to find a job, has the perception of that level of difficulty increased recently? We had returnees from both Japan and Canada to assess their own level of difficulty finding a job, scaling responses from 1 (“no difficulty at all”) to 5 (“most difficult”). Of the returnees from Japan, 35 percent believed they did not have difficulties, while only five percent felt great difficulty.

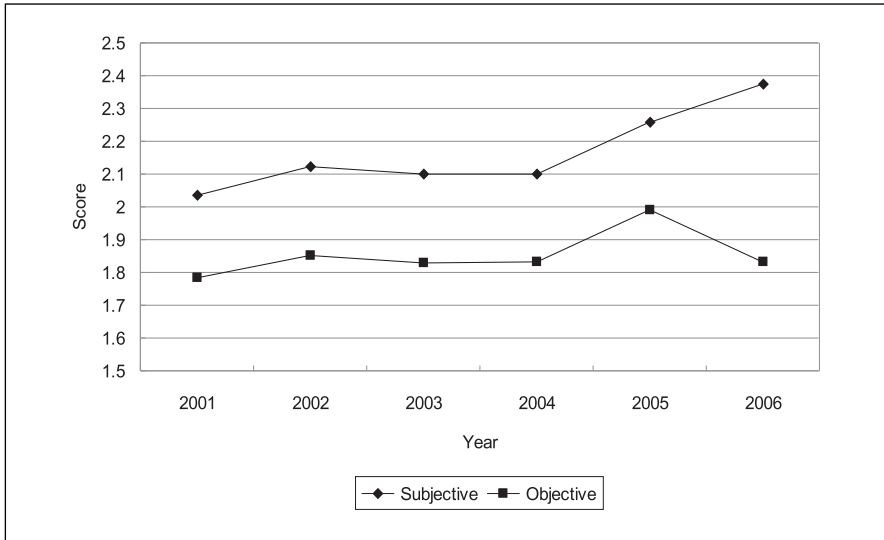
In order to check the validity of the subjective and objective measures, figure 2 compares these two measures of difficulties. The subjective evaluation of the average difficulty score was 2.3 for the returnees from Canada and Japan, indicating that their self-evaluation of the difficulty of finding a job is not as serious as expected by the media. In terms of objective measures, we adopt the length of time in job-seeking, ranging from 1 to 5, the same as the subjective measures. The comparison shows that both subjective and objective measures are almost consistent with each other, indicating the validity of the measures. The only exception is year 2006, while returnees’ self-evaluation of difficulty increased and the length of time decreased. It might be the result of the media reporting: as the media reports the issue of “haidai”, the returnees believed they face serious job-seeking problem, which makes the score of subjective measures inflated and inconsistent with the objective measures.

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<sup>17</sup> There is no formal definition of “unemployed” for students, as the ILO does not treat students as unemployed. Nevertheless, the British government reportedly defines individuals who have been seeking a job for more than three months but fail to find one as unemployed.

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Figure 3. Subjective and Objective Measures of Level of Difficulty Finding a Job, 2001-06



Note 1) Table combines returnees from Canada and Japan.

2) Coding method of objective measure: Arranged before returning=1, <3 months=2, 3-6 months=3, >6 & <12 months=4, >12 month=5

The monthly income from the first job after returning is another measure that indicates difficulties in job seeking. In our Guangzhou survey, respondents' first jobs' monthly income averages 5714 RMB per month, equalling US\$816 in 2005. The distribution of the logged income nearly equals a normal curve, suggesting the utility of using OLS regression. Most returnees in Guangzhou earn good incomes, compared with the average monthly income in Guangzhou of 2824 RMB/mo per worker. The monthly income of 57 percent of returnees in Guangzhou was 4000-6000 RMB/mo, with only eight percent receiving less than 2,000 RMB/mo. Thus, our empirical data does not support the argument that returnees face serious difficulties finding jobs. The next part of this chapter will discuss factors affecting their job search.

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Table 2. Expected and Real Monthly Income, Locals and Returnees, by gender

		<i>Locals</i>			<i>Overseas Returnees</i>		
		<b>Expected Income</b>	<b>Real Income</b>	<b>% Change</b>	<b>Expected Income</b>	<b>Real Income</b>	<b>% Change</b>
<b>Ph.D.</b>	<b>Female</b>	N/A	N/A	N/A	3573	4657	+30.3
	<b>Male</b>	N/A	N/A	N/A	3858	7889	+104.5
<b>Master</b>	<b>Female</b>	4188	3061	- 26.9	5582	4686	- 16.1
	<b>Male</b>	4342	3484	- 19.8	6303	5680	- 9.9
<b>Bachelor</b>	<b>Female</b>	2621	2348	- 10.4	3933	3786	- 3.7
	<b>Male</b>	2890	2345	- 18.9	4473	3970	- 11.2
<b>Diploma</b>	<b>Female</b>	1895	1483	- 21.7	3833	1599	- 58.2
	<b>Male</b>	1783	1521	- 14.7	3724	3589	- 3.6
<b>Average</b>	<b>Female</b>	2633	2252	- 14.5	5345	4479	- 16.2
	<b>Male</b>	2885	2425	- 15.9	6199	5845	- 5.7

Source: For data on the expectations of locals, see He Yiming and Zhang Bingshen, "Gaodeng jiaoyu dazhonghua zhihou biyesheng jiuye wenti fenxi," (Analysis of Graduate Employment Problem after Populated Higher Education), *Gaojiao Tansuo*, (Higher Education Exploration), No. 1 (Jan. 2006): 86-89. Data on returnees is derived from the survey in Guangzhou.

## 6. EXPLAINING THE JOB SEEKING RESULTS

How do we explain the differences we have found in job-seeking results? Human capital theory argues that earnings reflect returns to individual investments in education.<sup>18</sup> The higher one's educational level, the more one earns. In our explanatory model, we use the logarithm monthly income from the first job as our dependent variable.<sup>19</sup> Returnees believe that overseas study imparts new ideas, technologies and information often unavailable in China, and this "transnational human capital" makes them more valuable to Chinese society (figure 4).<sup>20</sup>

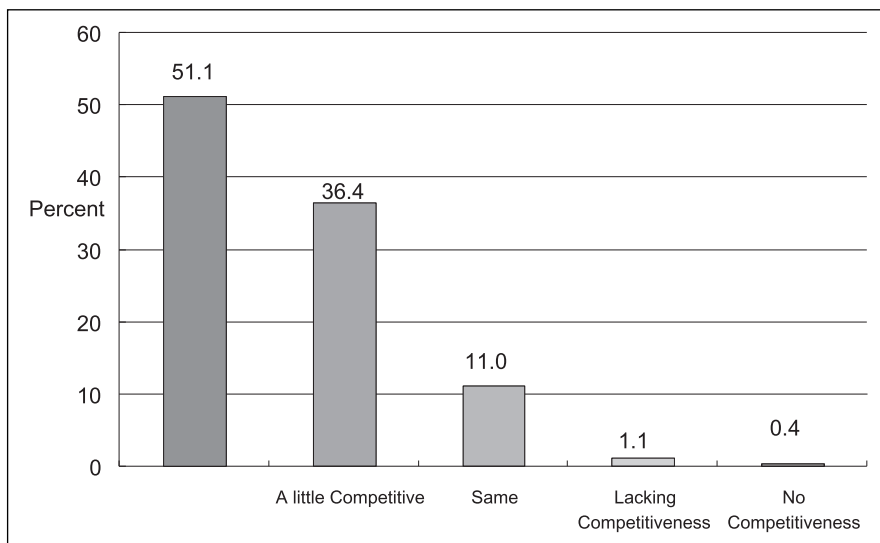
<sup>18</sup> Jacob Miner, *Schooling, Experience and Earnings* (NY: Columbia University Press, 1974).

<sup>19</sup> We considered using "length of time searching for a job" as a dependent variable, but the results were very weak.

<sup>20</sup> David Zweig, Chen Changgui and Stanley Rosen, "Globalization and Transnational Human Capital: Overseas and Returnee Scholars to China," *The China Quarterly*, No. 179 (2004): 735-757.

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Figure 4. Self-Evaluation of the Competitiveness of Overseas Returns versus Domestic Graduates in the Job Market, Guangzhou, 2006



Source: Survey of Returnees in Guangzhou, 2006.

Years of schooling is commonly used to measure educational attainments.<sup>21</sup> In our model, we adopt several variables to measure schooling: highest degree, quality of university, field of study, and country where they studied. Differences among the quality of the college and universities should affect an individual's professional attainments and the earnings of its graduates,<sup>22</sup> so we assess whether the quality of the university affects individual salaries. We also recognize the low quality of many of the schools where returnees studied, so we wish to assess the impact of this trend. The fields studied overseas differ in terms of the extent to which they offer new ideas, technologies and information, unavailable in China, which could impact on earnings as does the employment sector.<sup>23</sup> Age commonly measures working experience or seniority,<sup>24</sup> while overseas work experience measures “transnational human capital.”

<sup>21</sup> Duane F. Alwin, College Effects on Educational and Occupational Attainments, *American Sociological Review*, Vol. 39, No. 2. (Apr., 1974), pp. 210-223; Daniel Hecker, “College earnings and why they vary,” *Occupational Outlook Quarterly* 36 2 (1992): 25–26; Xiaogang Wu and Yu Xie, “Does the Market Pay Off? Earnings Inequality and Returns to Education in Urban China,” *American Sociological Review* 68 (2003): 425-422.

<sup>22</sup> Randall Collins, “Functional and conflict theories of educational stratification,” *American Sociological Review*, Vol. 36, No. 6 (Dec. 1971): 1002-19.

<sup>23</sup> Xueguang Zhou, “Economic Transformation and Income Inequality in Urban China: Evidence from Panel Data,” *The American Journal of Sociology*, Vol. 105, No. 4 (Jan. 2000): 1135-1174.

<sup>24</sup> George J. Borjas and Stephen G. Bronars, “Consumer Discrimination and Self-employment,” *Journal of Political Economy* Vol. 97, No. 3 (June 1989): 581-605.

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Table 3 presents the descriptive statistics for our key variables. The age of the sample is 29.4 years, showing that returnees are relatively young. More male are in the sample than females (approximately 6:4 ratio). Most returnees believed that they are fluent in English (mean = 3.6); 72 percent of Guangzhou respondents believe they are fluent in English, while 23 percent of them think it is “pretty good” (*lianghao*). Similarly, 72 percent of returnees from Canada believed that they are excellent in English, while, 69 percent of returnees from Japan reported being fluent in Japanese, with another 21% reporting their language level as “pretty good.” Interestingly, 18 percent of returnees from Japan reported fluency in English as well.

Most returnees received an M.A. degree (72.7%) overseas, with the UK the most popular destination country (43%). Other European countries (France, Germany, Netherlands and Russia came second with 12.7 percent. Returnees preferred to study business management (39.9%), and worked in private (27.7%) or foreign funded firms (26.9%) and as well as universities (22.1%).

To assess the impact of the quality of universities attended by the returnees, we rank their universities according to the Academic Ranking of the World University 2006 by Shanghai Jiaotong University, scaling them from 1 to 6.<sup>25</sup> More than half of the returnees graduated from universities below top 500, showing the poor quality of their overseas education. Table 3 reports the results of the multiple linear regression using salary as the dependent variable. The model’s R-square is 0.3767, showing the robustness of our independent variables.

The impact of demographic variables, such as age and gender, vary in the model. At the critical level of 10 percent, female returnees are disadvantaged in terms of their income in their first job. In contrast, age does not appear significant.

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<sup>25</sup> Our coding method was as follows: universities ranked in the top 100 = 1. Universities ranked below 500 = 6 (Similarly, 101-199 = 2, 200-299 = 3, 300-399 = 4, 400-500=5).

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Table 3. Summary Statistics (Means) for Variables in OLS Regression

<i>Variables</i>	<i>Mean or percent</i>	<i>Variables</i>	<i>Mean or percent</i>
<b>General</b>		<b>Overseas Major</b>	
Monthly Income (in RMB)	5714	- Natural Science	0.5%
- Log (monthly income)	8.179	- Applied Science or Engineering	22.1%
Age (in years)	29.4	- Social Science	15.2%
- Log (Age)	3.38	- Business Management	39.9%
Gender = Female	40.5%	- Humanities / Others	12.3%
English Fluency (1-4)	3.6		
<b>Overseas Degree</b>		<b>Overseas Country</b>	
- Diploma	4.5%	- U.K. 43.1%	
- Bachelor	13.1%	- North America (U.S., Canada)	12.7%
- Master	72.7%	- Oceania (Australia, New Zealand)	11.9%
- Ph.D	9.7%	- Europe (France, Germany, Netherlands, Russia)	12.7%
Overseas Working Experience (= Yes)	38.8%	- Hong Kong	2.2%
University Rank (mean between 1-6)	4.3	- Other Countries	14.5%
<b>Employment Sectors</b>			
- State Owned Enterprises	11.1%	- University or Research Institutes	22.1%
- Private firms	27.7%	- Government, Public Organization, others	12.1%
- Foreign firms	26.9%		

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Table 4. Results from the OLS on Monthly Earnings, Guangzhou, 2005

<b>Variables</b>	Coefficient	SE	P> t
Gender = Female	-.123	.075	0.099
Log (age )	.379	.263	0.151
English Fluency	.101	.059	0.088
<b>Major (baseline = Natural Science)</b>			
Applied Science/Engineering	-.021	.156	0.894
Social Science	-.191	.165	0.245
Business Management	-.183	.155	0.239
Humanities and Others	-.196	.165	0.236
<b>Overseas Degree (baseline= Diploma)</b>			
Bachelor	.294	.208	0.159
Master	.543	.183	0.003
Ph.D.	.548	.208	0.009
<b>Overseas Working Experience</b>	.295	.075	0.000
<b>University Ranking</b>	-.019	.018	0.314
<b>Overseas Country (Baseline = U.K.)</b>			
North America (U.S. and Canada)	.112	.129	0.383
Oceania (Australia, New Zealand)	.090	.103	0.382
Europe (France, Germany, Netherlands, Russia)	-.039	.109	0.723
Hong Kong	.618	.312	0.049
Other Countries	.095	.121	0.43
<b>Sectors (Baseline = SOEs)</b>			
Private enterprises	.105	.111	0.347
Foreign enterprises	.428	.118	0.000
University or Research Institutes	-.134	.135	0.319
Government, public organization, other	.016	.138	0.907
<b>Constant</b>	6.84	.959	0.000
<b>R square = 0.3767, F = 5.64, Observations = 218</b>			

One’s overseas experience has a complex impact on salary. One’s major overseas has no impact on earnings, while having an MA or a Ph.D. is statistically significant, i.e., the higher your overseas degree, the more you earn in your first job. However, the effects of education on earning are not linear: compared with diploma holders, the bachelor degree holder received 34% more salary ( $e^{.294}=1.34$ ); MA holders receive 72.1 percent more salary; and Ph.D.s receive 73 percent more salary, other things being equal. Neither the ranking of the university, nor the country where they studied, is statistically significant, but compared to returnees from Britain, having studied in Hong Kong increases one’s monthly income by 85 percent. Work experience overseas is significant, as is working for a foreign company, showing that foreign companies ensure the best return on investment in human capital.

## 7. DISCUSSION AND CONCLUSION

The Chinese government should take comfort in our findings. If people overseas worry that there are serious employment problems back in China, they will hesitate to return. This would harm China’s efforts to reverse the brain drain and reap the benefits of sending people abroad. But our findings do not support the idea that returnees face a major unemployment problem. In Chinese, we like to say “*hai dai bu cun zai*” (“Seaweed does not exist!”). As we show, most returnees can find a job within three months of returning, and over 93 percent of returnees in all three of our groupings had found a job after six months. And, while some of them do face problems finding a job, that dilemma is solved largely by lowering their salary expectations. So, the Chinese government in good conscience can call on people to return.

Second, if studying abroad adds little value to an individual’s human capital, the study abroad programme, a key component of China’s post-1978 opening, could be at risk. However, the facts show that overseas education has a very positive effect on salaries relative to those who do not go abroad. Women who return get much lower salaries than men—a woman with a Ph.D. earns less than a man with an MA—and women must undergo a much more significant shift in their salary expectations. But all types of returnees have higher salaries than locals who never went abroad.

Our respondents believe they are more competitive than domestic graduates, as indicated by the Guangzhou returnees’ self-evaluation (figure 4). Around 51 percent of returnees in Guangzhou believed that they are “more competitive” than domestic graduates, and 36 percent believe they are “a little more competitive.” And, table 4 shows they are correct.

That returnees have high salary expectations is understandable, given the high costs of studying abroad. Most people go overseas on their own money, while educational returns are dependent on the domestic job market. According to one interviewee in Guangzhou, she spent more than 1 million *RMB* on her overseas study. How could she recoup her investment in her overseas education if she only earned 3,000 *RMB* per months? In our sample, 58

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percent our respondents in Guangzhou admitted lowering their salary expectation. In fact, the average salary expectation of returnees was more than double the average expectation of local graduates holding the same degree. This finding confirms previous findings that actual returns to college education are less than what the graduate anticipated.<sup>26</sup> Moreover, male graduates are more likely than females to be “self-enhancing,” i.e., overestimate the salary they could earn.<sup>27</sup>

“Sea turtles” remain quite valuable, as studying overseas does enhance one’s transnational capital. In the past, many argued that the students who went overseas were already self-selected, in that only those that were good were able to go abroad. So, not surprisingly, they were doing better upon their return. But today, with over 120,000 students going overseas each year, and tens of thousands returning, some “seaweed” must accumulate. Nevertheless, the higher salaries earned by returnees demonstrate that they are adding significant value to Chinese society. China should hope that the turtles keep on swimming home.

### Appendix A

#### Eight tips from employers to “sea turtles”

1. Get rid of the sense of superiority and be prepared to compete on an equal footing.
2. Don't limit the choice of your job location to the few metropolises.
3. Don't calculate your salary request by the cost of your overseas education, but by the market rate of the position you're seeking.
4. Don't assume that the area of specialty that you majored in is still in high demand when you graduate.
5. Fluency in foreign languages alone does not usually constitute a full slate of job skills. One needs hands-on experience in a specific field.
6. Be ready to adapt your Western way of thinking to the Chinese way of making things to happen.
7. Knowing the market is not just window dressing. It is essential. Developing what you're best at regardless of market needs may land you in a dead end.
8. Be prepared to make a leap of confidence and settle down in China. Managing a business by “remote control” from abroad is not practical.

*Raymond Zhou, “How ‘sea turtles’ turned out to be ‘seaweeds’?,” China Daily, 2004-02-10.*

<sup>26</sup> Herbert L. Smith and Brian Powell, “Great Expectations: Variations in Income Expectations Among College Seniors,” *Sociology of Education*, Vol. 63, No. 3. (Jul., 1990): 194-207.

<sup>27</sup> *idem.*

PART **II**

## EMERGING GLOBAL LABOUR MARKETS

# INTERNATIONAL LABOUR MIGRATION: DEVELOPMENTS IN THE MULTILATERAL REGULATORY FRAMEWORK

*IBRAHIM AWAD*

## 1. INTRODUCTION

This chapter examines the international regulatory framework for international labour migration developed by the International Labour Organization (ILO). The framework consists of binding and voluntary legal instruments. The chapter looks at the changes in both the multilateral policy framework and the international system. Clearly, developments in the latter have shaped the instruments adopted by ILO's Members to regulate national labour migration policies.

ILO's work in the field of international labour migration is grounded in the preamble to its 1919 Constitution, which stipulates that one of the Organization's objectives is the "protection of the interests of workers when employed in countries other than their own".<sup>1</sup> Twenty-five years later, in 1944, the Philadelphia Declaration recognized ILO's obligation to further full employment. The Declaration, which was incorporated into the 1946 Constitution, states that full employment will be achieved *inter alia* by facilitating "the transfer of labour, including migration for employment".<sup>2</sup> It was at that time that labour migration started to be considered from the point of view of full employment, a subject of concern at the end of the Second World War. Various international labour conventions had already been adopted, however, that dealt with workers employed in countries other than their own. For example, article 3 of Convention No. 2, adopted in 1919, provides: "The Members of the International Labour Organisation which ratify this Convention and which have established systems of insurance against unemployment shall, upon terms being agreed between the Members concerned, make arrangements whereby workers belonging to one Member and working in the territory of another shall be admitted to the same rates of benefit of such insurance as those which obtain for the workers belonging to the latter."<sup>3</sup>

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<sup>1</sup> Preamble to the ILO Constitution, 1919.

<sup>2</sup> Article III, Declaration concerning the aims and purposes of the International Labour Organization, Annex to the ILO Constitution, 1946.

<sup>3</sup> Unemployment Convention (No. 2), 1919.

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This chapter deals specifically with the three basic instruments making up ILO's policy framework, namely Convention No. 97, Convention No. 143 and the ILO Multilateral Framework on Labour Migration. It examines them in sequence, and concludes with a number of observations.

### 2. THE MIGRATION FOR EMPLOYMENT CONVENTION (REVISED) (NO. 97), 1949

The first international labour convention on migration for employment was adopted in 1949. It deals essentially with the management of international labour migration and the exchange of information pertaining thereto. Key articles concern facilitating the departure, journey and reception of migrant workers, the exchange of information, access to a free employment service and the adoption of measures against misleading propaganda on emigration and immigration. Article 6 deals with non-discrimination between immigrants lawfully within the territory of the State party and nationals. The Convention has three annexes. The first deals with migration by individuals: recruitment, placing and conditions of labour of migrants for employment recruited otherwise than under government-sponsored arrangements for group transfer. The second covers migration by groups: recruitment, placing and conditions of labour of migrants for employment recruited under government-sponsored arrangements for group transfer. The third discusses the importation of the personal effects, tools and equipment of migrant workers. The subjects of all three annexes are in keeping with the management goal of C97 (1949). An international labour recommendation was adopted at the same time, the Migration for Employment Recommendation (No. 86). This is also characterized by concern for the management of migration.<sup>4</sup> In fact, the annex to the recommendation is a model bilateral agreement that includes among other things the content of a model employment contract for migrant workers.

That C97 (1949) should cover management aspects of international migration is in fact quite logical. It follows on the Philadelphia Declaration on full employment worldwide and was adopted at a time of imbalance in global employment demand and supply. In the countries of Europe, an excess of labour resulted from the demobilization of troops engaged in the fighting during the first half of the 1940s, but also as a consequence of the destruction of their production apparatus. Moreover, the war had brought the flow of migrants to an abrupt halt, depriving the new world of a fresh supply of labour while it lasted. Both sides therefore had an interest in promoting labour mobility between them. They were all the more interested in that the countries destroyed by the war in Europe would be needing labour in the years to come for their reconstruction. It must not be forgotten that the world as it was organized in

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<sup>4</sup> International labour recommendations are not binding. As the name indicates, they comprise principles and measures recommended for the establishment of national policy.

the system of international organizations consisted, at the time, essentially of the countries of Europe and of the new world, in the Americas and Australia.

The number of ratifications of C97 (1949), the States party to it and the dates of their ratification bear witness to their interest in its provisions. To date, 49 States have ratified the Convention. The list of States that did so in the decade after its adoption shows that the Convention was of concern mainly to Western Europe. During the 1950s, the Convention was ratified by Belgium, France, Germany, Israel, Italy, Norway, the Netherlands and the United Kingdom. It was of secondary importance to the new world, where only three States ratified it during the 1950s: Cuba, New Zealand and Uruguay. The 37 other States that ratified it did so in the following decades, the most recent, in the new millennium, being Albania, Kyrgyzstan, Madagascar, the Republic of Moldova, the Philippines, Serbia and Tajikistan.

### 3. THE MIGRANT WORKERS (SUPPLEMENTARY PROVISIONS) CONVENTION (NO. 143), 1975

Between the adoption of C97 (1949) and the mid-1970s, the international scene changed profoundly. Starting in the late 1950s, the ranks of the international organizations were swelled by dozens of countries who became full members. The number of Member States of ILO almost doubled, from 62 in 1949 to 123 in 1975. In addition, the global economy and global labour supply and demand underwent several transitions. Western Europe had absorbed the excess labour on its territory through reconstruction. It had been prompted to introduce an active policy to recruit workers from eastern and southern Europe and in the countries of North Africa, even after the latter had won independence. Reconstruction and later the development needs at the dawn of decolonization spawned high and sustained growth rates. These were the Glorious Thirty. At the end of the 1960s, however, the global economy started to slow down. The first oil crisis, in 1973-74, brought expansion to a standstill. Problems of unemployment appeared. Furthermore, the potential demand for jobs from the economically active populations of the new members of the international system grew considerably.

The countries of Western Europe that had previously actively recruited abroad ended their policies of labour migration. Clandestine migration emerged. But the migratory experience of the previous thirty years had also highlighted the problem of equal treatment and non-discrimination between national and foreign workers, even when the latter were lawfully employed, individually or under agreements with their countries of origin. Thus was born the two-part Migrant Workers (Supplementary Provisions) Convention, 1975 (No. 143). One part is entitled "Migration in abusive conditions", the other, "Equality of opportunity and treatment". C143 (1975) is flexible, in that ILO Member States can choose to ratify only one of the parts. Indeed, international labour conventions have been increasingly characterized by flexibility, as ILO's members come to grips with the wide disparities in their social and economic situations.

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In other words, flexibility is a consequence of the expansion in the international State system. Its aim is to promote ratification by the States.

In Part I, on migrations in abusive conditions, hitherto unknown concepts appear. There are references to “illegally employed migrant workers”, to “clandestine movements of migrants for employment and illegal employment of migrants” and to “organisers of illicit or clandestine movements of migrants for employment”.<sup>5</sup> Article 6 contains a provision on “the application of administrative, civil and penal sanctions, which include imprisonment in their range, in respect of the illegal employment of migrant workers”. Part I is intended to combat migration in abusive conditions, but it also provides for the protection of the rights of the migrant workers who are its victims, whether their situation is regular or irregular. That is the objective of articles 8 and 9, which lay the groundwork for future developments in the international legal instruments on labour migration.

Part II applies to all regular migrant workers. It confirms the principle of equality of opportunity and treatment, echoing, specifically for migrant workers, the provisions of the fundamental Discrimination (Employment and Occupation) Convention, 1958 (No. 111). Articles 10 to 14 of C143 (1975) expound on the principle of equal treatment set out in article 6 of C97 (1949), and explicitly extend it to members of the families of migrant workers lawfully on the territory of the State party<sup>6</sup>. In reality, C97 (1949) refers to the application without discrimination to immigrants of treatment no less favourable, whereas C143 (1975) formulates the principle in positive terms, those of equality of opportunity and treatment. The new convention expands the principle’s field of application to include efforts to preserve the national and ethnic identity of migrant workers and their families. It also provides for the facilitation of family reunification for all migrant workers residing lawfully on the territory of the State party. Both provisions are obviously born of the experience of the previous 25 years.

To date, 23 States have ratified C143 (1975). The list of ratifications in the decade that followed the convention’s adoption nevertheless reveals that it targeted a different group from C97 (1949). It was no longer the countries of Western Europe that hastened to ratify, as had been the case in the 1950s. Between 1975 and 1985, 11 countries ratified the convention, of which only five were Western European: Cyprus, Italy, Norway, Portugal, San Marino and Sweden. Portugal took the opportunity to ratify C97 (1949) at the same time. Norway is the only country to have ratified both conventions in the ten years following their adoption. The seven other Western European States that had been among the first to ratify C97 (1949) did not accede to C143 (1975). One possible reason is that they were reluctant to do so in the face of the new sit-

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<sup>5</sup> Articles 2 and 3 of Convention No. 143 (1975).

<sup>6</sup> Article 10.

uation in global labour supply and demand. The other States that had ratified the Convention by 1985 were Burkina Faso, Cameroon, Kenya, Togo, Uganda and Venezuela. The eleven countries that have ratified the Convention since then include Albania and the successor States to Yugoslavia. It would seem that, unlike C97 (1949), the countries of Western Europe do not feel affected by C143 (1975). The countries of the new world also kept their distance.

#### 4. THE ILO MULTILATERAL FRAMEWORK ON LABOUR MIGRATION

Thirty years later, in 2004, the Members of ILO, following a general discussion at the International Labour Conference, decided to adopt a new instrument for the protection of migrant workers. They took care, however, to stipulate that the text would be non-binding. They called it a multilateral framework, which implied that it was not an international recommendation giving rise to the undertakings implicit in that form of legal document under article 19, paragraph 6, of the ILO Constitution. In 1975, most of the Organization's Members had not objected to the adoption of a convention, even if they did not subsequently adhere to it or indeed never intended to do so. In 2004, however, after over 50 new States had joined ILO<sup>7</sup>, it was out of the question for a number of government constituents in particular to agree, as they had in 1949 and 1975, to the adoption of an instrument that created obligations, no matter what kind.

The Multilateral Framework is one of seven components of the ILO Plan of Action for Migrant Workers provided for in the resolution adopted by the 92<sup>nd</sup> Session of the International Labour Conference in 2004. It was negotiated and adopted by consensus the following year by representatives of the Organization's constituents meeting as a tripartite group of experts. Importantly, the Framework is not a bureaucratic text produced by a closed group but rather the fruit of political and technical convergence of opinions and attitudes among the Organization's Members. The Governing Body took note of its adoption in March 2006, thereby "ratifying" the Multilateral Framework in the name of the Organization.

The Multilateral Framework deals with matters of resonance to the protection of migrant workers that had been brought to light in the thirty years since the adoption of C143 (1975). It therefore did the same thing C143 (1975) had done in terms of the period preceding *its* adoption. It proved yet again that when establishing normative or indicative texts for the constituents' conduct, the Organization's members were reacting to developments that had occurred or were occurring around them.

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<sup>7</sup> Between 1975 and 2004, the number of Member States rose from 123 to 177.

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The Framework explicitly recognizes the sovereign right of States to draw up policies for labour migration management. It comprises nine sections containing fifteen principles. Guidelines point to measures that the Organization's Members can take to give effect to the principles. The first three sections deal with decent work, international cooperation and a global knowledge base. The last six sections cover the substance of the measures required to protect migrant workers. They develop and adopt a fresh approach to questions dealt with in C97 (1949) and C143 (1975). Such is the case for management of labour migration, now said to be "effective", the protection of migrant workers and the prevention of abusive migrant practices. Section V discusses "protection" in the strict sense of the applicable provisions of international and domestic law. Sections VI to IX deal with matters that were merely hinted at in the 1949 and 1975 conventions or are entirely new, namely the migration process, social integration and inclusion, and migration and development. The section on the migration process looks for the first time at the return and reintegration of workers. The section on social integration and inclusion deals with the social integration and inclusion of migrant workers and the establishment of specialized bodies on equality and non-discrimination. The last section, on migration and development, covers, for example, the incorporation of labour migration into national employment policies, the productive investment of remittances, reducing the costs of remittance transfers, mitigating the impact on development of the loss of workers with critical skills and promoting circular migration, and return and reintegration in the country of origin.

The publication containing the Multilateral Framework also encompasses an annex with examples of best practices applied by the governments and social partners in terms of labour migration policies and programmes. The practices are aligned on the Framework's fifteen principles and were collected under ILO's aegis.

The Multilateral Framework is sub-titled, *Non-binding principles and guidelines for a rights-based approach to labour migration*. The emphasis is therefore explicitly on the Framework's indicative and voluntary character. The question is how effective a document of that nature can be when compared with a binding convention. Some authors see it as undermining the international legal arrangements for the protection of migrant workers. This is absolutely not the case.

The Multilateral Framework can be viewed as an exchange that is in the interests of migrant workers and the countries of origin and destination. It is true that the binding nature of the instrument was abandoned. But in exchange the range of subjects on which rules are suggested was considerably expanded. In addition, protection is conceived more broadly than through the simple adoption of legal rules. The expansion is accompanied by detailed measures that would have been out of place in a convention. Ultimately, application of the principles and measures set out in the Multilateral Framework is voluntary, but then so is ratification of the conventions. The experience of the ratification of C143 (1975) in particular did not bode well for the adoption of a new

convention. The detailed terms of the Multilateral Framework, on the other hand, enable the States that so desire to use them as a basis on which to formulate and apply their labour migration policies. Lastly, the adoption of an indicative and voluntary instrument in no way precludes the subsequent adoption of a binding convention when conditions in the international community are favourable thereto.

## 5. CONCLUSION

Examination of developments in the multilateral regulatory framework for international labour migration makes it clear that it has been affected by the changes in the international system in the past sixty years. The system went from being a more or less exclusive club of large industrialized States, which was at least openly dominated by them, to one expanded by the addition of over one hundred countries. In the international organizations, including ILO, considered individually or by groups of Member States, the interests of the various parties became, at least in appearances, increasingly divergent. The levels of development, population growth rates and demand for jobs in all the Member States were completely different in nature.

Over the course of the past sixty years, the States that were at the origin of the rules on labour migration after the Second World War came to doubt the principle of binding provisions and later rejected them outright. It is as though the rise in the number of members of the Organization went hand in hand with the flexibility gradually introduced into the instruments adopted. Obviously, that flexibility already exists in the principle of international law that the States only adhere to the rules they wish to accept. In the specific case of labour migration instruments, in 25 years the system went from a convention all of whose provisions are applicable by the States that ratify it to an instrument that is optional in nature: the States parties can choose to be legally bound to apply the provisions of only one of its two parts. Thirty years later, binding rules or constraints are no longer accepted.

But flexibility is also a function of the number of provisions the instruments contain and the subjects they deal with. The 1975 Convention has two parts, contains more articles and regulates a larger number of subjects than the 1949 Convention. The Multilateral Framework on Labour Migration, which is completely optional, goes further. It contains a considerably higher number of provisions and covers a substantially broader range of subjects.

The impact of a multilateral regulatory framework may be measured by how it is used by the States parties. The juxtaposition of binding and optional provisions expands the options afforded to the members of an international organization. It does no more than reflect the imperfect nature of the international system.

## ACTORS AND FACTORS IN THE INTERNATIONALIZATION OF LABOUR MARKETS

*CHRISTIANE KUPTSCH AND PHILIP MARTIN*

The internationalization of labour markets refers to increased movement of work and workers over national borders. The movement of work over national borders is reflected in freer trade, meaning that workers compete with one another indirectly as the goods they help to produce cross borders and compete in the marketplace. The movement of workers over borders is reflected in rising migration.

This chapter explores the dimensions of labour migration, the reasons for its growth, and some of its effects. It finds that labour markets are becoming internationalized or linked across borders in a very uneven fashion. Migrants from developing to industrial countries are concentrated at the extremes of the job ladder, reflecting policies that seek to “welcome the skilled and rotate the unskilled.”<sup>1</sup> In industrial receiving countries, workers with a secondary education, in the middle of the job ladder, are most affected by increased trade in goods, while professionals and low-skilled workers are more likely to be affected directly by migrants.

The actors involved in rising labour migration include migrants, employers, and intermediary agents, and the factors motivating migration include demographic and economic differences between countries, economic and social networks that link workers and jobs over borders, and trade, labour, and migration policies. The motivations of actors are relatively easy to understand, and there is abundant knowledge of differences that encourage and networks that enable workers to cross borders. Government policies that deal with actors and factors are more difficult to grasp and often contradictory, as when they limit trade in farm commodities but permit the entry of foreign farm workers.

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<sup>1</sup> Most richer OECD countries welcome students and professionals, often with their families and invitations to settle, while admitting low-skilled workers temporarily without their families or tolerating their unauthorized presence.

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### 1. FACTORS: DIFFERENCES AND NETWORKS

The number of international migrants is at an all time high. There were 190 million “migrants” in 2005 and the world is expected to have 214 million “migrants” in 2010, defined by the United Nations as people who left their country of birth or citizenship for a year or more (UN, 2006, 2009). The number of migrants in industrial countries more than doubled within 20 years, from 55 million in 1985 to 120 million in 2005.

International migration is likely to increase for reasons that range from persisting demographic and economic inequalities between countries to revolutions in communications and transportation that increase mobility (Martin, Abella, Kuptsch, 2006). Especially young people aware of these differences are encouraged to move over borders to take advantage of higher wages and more opportunities. Employers, universities, recruiters, travel agents, and other actors in the evolving migration infrastructure help migrants to cross borders and live and work abroad.

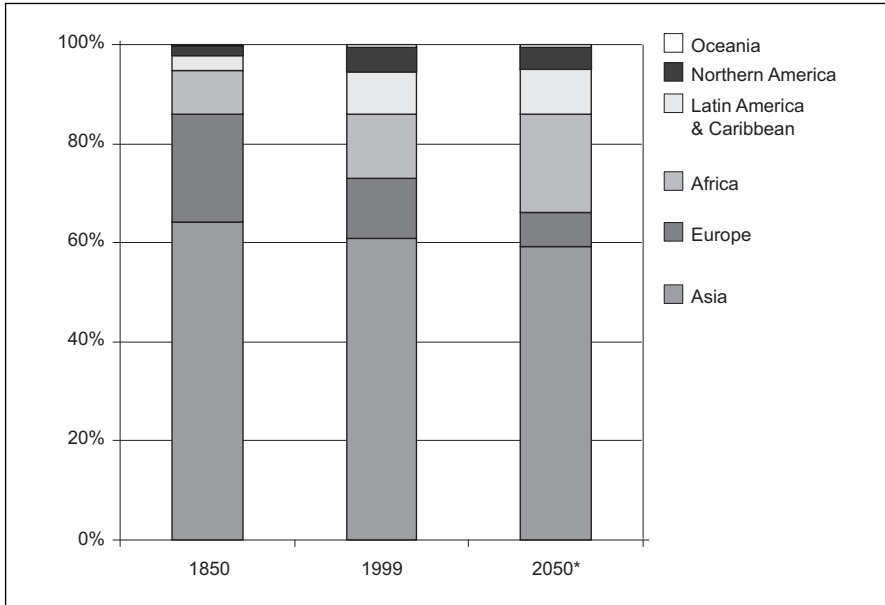
Demographic differences in the past prompted large-scale migration. For example, Europe had 21 percent of the world’s almost 1 billion residents in 1800 and the Americas had 4 percent. When there were five Europeans for every American, millions of Europeans emigrated to North and South America in search of economic opportunity as well as religious and political freedom (Hatton and Williamson, 2006).<sup>2</sup>

Will history repeat itself? Africa and Europe have roughly equal populations today, but by 2050 Africa is projected to have three times more residents than Europe. If Africa remains poorer than Europe and the response to demographic differences is repeated, the two continents’ diverging demographic trajectories may propel young people from overcrowded African cities to European cities that may have empty housing.

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<sup>2</sup> Hatton and Williamson stress the oversupply of labour as a motivation for migration rather than demand for labour. Migrants are trapped in poverty until they “escape” via migration, which becomes easier to do with communications and transportation revolutions that increase information about opportunities abroad and lower the costs of reaching them.

Figure 1. World Population by Continent, Percent Shares



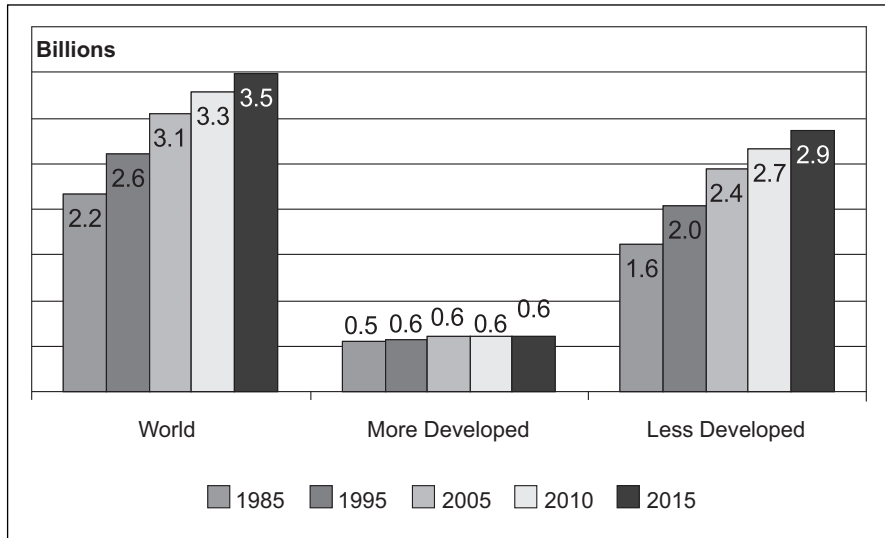
Two types of economic differences encourage international migration: inequality between countries and inequality within a country. The world's almost 200 nation-states have per capita incomes that range from less than US \$250 per person per year to more than US \$50,000 (World Bank Economic Indicators), a difference that provides a significant incentive to migrate over borders for higher wages and more opportunities. The 30 high-income countries had a billion residents in 2005, a sixth of the world's population, and their gross national income was US \$36 trillion, 80 percent of the global US \$45 trillion. The resulting average per capita income of US \$35,131 in high-income countries was 61 times the average US \$580 in low-income countries and 13 times the US \$2,640 per capita in middle-income countries. Despite rapid economic growth in some developing nations, including the four East Asian "Tigers" (Taiwan, Singapore, Hong Kong, and South Korea) in the 1990s, and China and India more recently, the ratio of per capita income in high-income countries compared with that of low- and middle-income countries has increased over the past quarter century.

More inequality, as measured by average per capita incomes, combines with the fact that most population and labour force growth is in low- and middle-income countries to set the stage for more economically motivated migration. The world's labour force of 3.1 billion in 2005 included 600 million workers in the more developed countries and 2.5 billion in the less developed

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countries. The labour force in less developed nations is projected to increase by about 425 million between 2005 and 2015. In the high-income countries, by contrast, the labour force is projected to remain stable at just over 600 million.

Figure 2. Economically Active Population (EAP), 1985–2015



Source: International Labour Office, *Laboursta Database* (<http://laboursta.ilo.org/>)

Income inequality within a country can also contribute to international migration. In lower-income countries, 40 percent of workers are employed in agriculture, a sector in which workers' earnings are often lower than average because of low productivity as well as government policies.<sup>3</sup> Since farm incomes are usually less than nonfarm incomes, there is an incentive for farm workers and farmers to leave rural areas for higher wages and opportunities for themselves and their children.

Industrialized countries had "great migrations" off the land in the past, providing workers for expanding factories, fueling population growth in cities, and adding to emigration pressures. Similar migrations are underway in developing countries from China to Mexico, and this rural–urban migration has three implications for international migration. First, ex-farmers and farm workers are most likely to accept 3-D (dirty, dangerous, degrading) jobs in-

<sup>3</sup> In many developing countries, there is a single purchaser of farm commodities, who is thus able to buy crops for less than world-market prices. There are often monopoly suppliers of agricultural inputs who can charge high prices for fertilizer and seed.

side their countries or abroad. Second, rural–urban migrants must make physical as well as cultural transitions as they adapt to urban life. With many of their friends and relatives already settled in the cities of industrial countries, many rural–urban migrants find the transition to urban life abroad as easy as at home, as when Mexicans find adapting to Los Angeles no more difficult than navigating Mexico City. Third, rural–urban migrants get one step closer to the country's exits in cities, where it is usually easier to obtain visas and documents for legal migration or to make arrangements for illegal migration.

Demographic and economic differences encourage migration, but it takes networks or links between areas to support actual moves. Migration networks are a broad concept and include communication factors that enable people to learn about opportunities abroad as well as the migration infrastructure that actually transports migrants over national borders and the rights regime that allows them to remain abroad. These networks have been reshaped and transformed in the past half century to make migration easier and cheaper.

The communications revolution helps potential migrants to learn about opportunities abroad. The best information comes from migrants already established in the receiving country, since they can provide family and friends with understandable information about opportunities there as compared to those at home. Cheaper communications help migrants transmit job information as well as advice on how to cross national borders. For example, friends and family in rural Mexico may hear about California farm jobs even before people living in nearby cities with high unemployment rates. Meanwhile, films and television programmes depicting life in high-income countries may encourage potential migrants to believe that a move will lead to economic betterment.

The transportation revolution provides easier and cheaper travel. British migrants unable to pay one-way passage to the North American colonies in the eighteenth century often indentured themselves, signing contracts that obliged them to work for three to six years for whomever met the ship and paid the captain. Today, traveling anywhere in the world typically costs less than US \$2,500, and even being smuggled long distances usually costs less than US \$30,000. Studies suggest faster transportation-payback times for migrants than in the past, meaning that even migrants who pay high smuggling fees can usually repay them after two or three years abroad.

The legal rights of migrants can speed or slow the internationalization of labour markets. Most industrial countries have policies that simplify procedures for foreign students and professionals to enter, work, and settle, rolling out a red carpet for those at the top of the education ladder. Many also have policies for low-skilled workers that essentially hold up a red card for those aiming to settle, meaning that most are guest workers expected to return or unauthorized workers who can be removed.

Managing migration when migrants are not like native workers is proving troublesome and giving rise to new actors. The best single predictor of earnings in industrial countries is years of education. When native-born workers are arrayed by years of education, they form a wide middle or a diamond shape,

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representing those who have completed secondary school. There is a narrower top for those who have completed university and an even narrower bottom for those who have not completed secondary schooling.

In developing countries, by contrast, workers arrayed by level of education take on more of a pyramid shape, with fewer university graduates, a wider middle of secondary school graduates, and an even wider base of workers who have not completed secondary school. Migrants moving from developing to industrial countries tend to be drawn from the top and the bottom of this pyramid. Once they reach industrial countries, these developing country migrants tend to be near the top or bottom of the diamond, although many migrants with e.g. university degrees end up working on industrial-country jobs that do not require these credentials, so called brain waste.

## 2. ACTORS: MIGRANTS, EMPLOYERS, AGENTS

International migration is usually a carefully considered individual or family decision. The two central actors involved in international labour migration are the migrant worker in one country and the employer in another. Intermediary actors that can encourage or discourage matching workers and employers over borders include recruiters, transport agencies, as well as government policies and agencies that deal with migration and labour.

### 2.1. Migrants

Migrants are usually the central actors in migration decisions. The major reasons for an individual to migrate from one country to another can be grouped into two categories: economic and noneconomic, while the factors that encourage the migrant actor to move fall into three categories: demand-pull, supply-push, and networks. These factors are listed in Table 1.

An economic migrant may be encouraged to move by employer recruitment of guest workers, demand-pull, while migrants crossing borders for noneconomic reasons may be moving to escape persecution, a supply-push factor. A worker may decide to migrate to another country because a friend or relative tells him or her of a job, highlighting the availability of higher wage jobs as a demand-pull factor. The worker may not have a regular job at home or face debts from a family member's medical emergency, examples of supply-push factors that encourage emigration. Networks encompass everything from moneylenders who provide the funds needed to pay a smuggler to cross the border, to employers or friends and relatives at the destination who help migrants find jobs and places to live.

## Actors and factors in the internationalization of labour markets

Table 1. Factors Influencing Migration

### Factors Encouraging an Individual to Migrate

Type of Migrant	Demand-Pull	Supply-Push	Network/Other
Economic	Labour recruitment, e.g. guest workers	Un- or under-employment; low wages; e.g., farmers whose crops fail	Job and wage information flows; e.g., sons following fathers
Non-Economic	Family unification; e.g., family members join spouse	Flee war and persecution; e.g., displaced persons and refugees / asylum seekers	Communications; transportation; assistance organizations; desire for new experience / adventure

These examples are illustrative. Individuals contemplating migration may be encouraged to move by all three factors. The importance of pull, push, and network factors can change over time.

Thinking about migration in terms of demand-pull, supply-push, and network factors has been influenced by the so-called new economics of labour migration (NELM), which stresses that the decision to move may be motivated by more than the gap between high and low wages (Taylor and Martin, 2001). Farm families facing weather, pest and other risks that they cannot easily insure against may send a son or daughter abroad to ensure the family has some income if crops fail, or encourage a family member to migrate in order to quickly obtain the money necessary for a local investment. Migrants abroad may remit for altruistic reasons as well as self interest, including to ensure that they are welcomed home if apprehended or injured abroad. The NELM factors enrich and add insight to the basic economic motivation to migrate.

The factors that motivate migrants to cross borders rarely have equal weights in an individual migration decision, and the weight of these factors can change over time. Generally, demand-pull and supply-push factors are strongest at the beginnings of a migration flow, and network factors become more important as migration streams mature, as is evident in many guest worker programmes.

Transnational analysts go one step further, separating factors that motivate migration into macro and micro, with meso factors linking the large and small. The basic insight of transnationalists is that individuals may feel part of or connected to two societies simultaneously, not just earning in one society to invest or spend in another, but actively trying to change work place conditions abroad and political conditions at home. For such transnationals, a variety of mediating institutions, from unions to churches to hometown associations, provide bridges between societies.<sup>4</sup>

<sup>4</sup> On the different levels of analysis see Faist, 2000, Müller-Schneider, 2003; for the 'transnational turn in migration studies' see Levitt and Nyberg Sorensen, 2004.

### 2.2. Employers and other gatekeepers

Employers are the second key actors in international labour migration, since it is their decisions to hire migrants that provide the justification for moving. There are always alternatives to migrants, including restructuring work via automation to eliminate the need for workers, raising wages and benefits to attract available workers, or ceasing production. Profit-maximizing employers who hire migrants find the migrant alternative cheaper than the others.

In producing agricultural and industrial goods, labour-saving changes allowed the demand for labour to fall as wages increased, that is, the flexibility in goods production inside higher wage countries was primarily on the demand-side of the labour market. Where labour-saving changes were more difficult, producers of goods reduced production in high-wage countries and shifted production to lower-wage countries, in some cases creating the global production networks explored below.

The new frontier is dealing with the cross-border supply of services, which are 70 percent or more of the economies of most industrial countries. The World Trade Organization's General Agreement on Trade in Services (GATS), which aims to liberalize trade in services, groups services that cross borders into four categories or modes: cross-border supply, consumption abroad, foreign direct investment (FDI) or commercial presence, and Mode 4 migration, which the GATS refers to as the temporary movement of "natural persons."<sup>5</sup> However, unlike with employers at the centre of global production networks such as Wal-Mart, there is far less concentration among employers of service workers.<sup>6</sup>

Employers are not the only gatekeepers to industrial countries. There are almost two million foreign students in the OECD countries, and their number is expected to double in the next decade. Foreign students often become temporary workers and settlers, making universities and similar institutions that admit them "gatekeepers" to the labour market.

Many industrial countries have recently liberalized their policies toward foreign students, allowing more to work while studying and stay after graduation. Canada, which selects most of its immigrants on the basis of the human capital attributes of the household head, has discovered that education, language and youth are not sufficient to ensure success in the Canadian labour market. For this reason, the Minister of Citizenship and Immigration Diane Finley announced in April 2008 that henceforth foreign graduates of Canadian universities would be able to remain for up to three years after graduation under the Post-Graduation Work Permit Program. By gaining Canadian work

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<sup>5</sup> Temporary is not defined in the GATS, but GATS explicitly does not apply to permanent migration. Most WTO members limit service providers to less than five years in their country. For more on GATS, see also the paper by Martin in this volume.

<sup>6</sup> Wal-Mart, with 1.2 million US employees is likely the world's largest private-sector employer. Its stores in 15 countries had sales of US \$312 billion in 2005, approaching the GDP of Belgium or Switzerland.

experience to complement their Canadian education, foreign student graduates of Canadian universities should be able to qualify for immigrant visas under the new Canadian Experience Class, which issues visas to foreigners already in Canada.<sup>7</sup>

### 2.3. Recruiters

Recruiting agencies are intermediaries in labour-sending and –receiving countries who help to match workers and jobs (Kuptsch, 2006). Recruiters range from agents of employers seeking workers to public employment services, but most are private entrepreneurs who collect fees for matching workers in one country with jobs in another. About 40 percent of Bangladeshi migrants sent abroad in recent years moved with the help of recruiting agencies, as did about 75 percent of the Sri Lankans.

Table 2. Share of Migrants Placed by Agencies, 1999-2004

	Bangladesh	Sri Lanka
1999	41	67
2000	41	70
2001	41	72
2002	37	75
2003	34	74
2004		75

Sources: Siddiqui (Bangladesh), and Ruhunage (Sri Lanka), in Kuptsch (ed., 2006) 2003 Bangladesh data are Jan-Sept

Jobs in other countries for low-skilled workers are rarely advertised or posted on job banks, making the major assets of recruiters their knowledge of the availability of local workers and foreign jobs. In many cases, there are at least two agents involved, an agent in one country specializing in procuring workers, and an agent in another specializing in finding jobs for them.

There are many reasons why international job matching often involves specialized recruitment agents. First, there are few internationally recognized job descriptions and systems to verify worker credentials, making it harder to use standard job search mechanisms. Second, some labour migration is at least quasi-unauthorized, meaning that the job may not satisfy government wage and

<sup>7</sup> Previously, foreign graduates could remain if they received a job offer within 90 days, and could stay one additional year if they worked in the three major immigrant cities, Toronto, Vancouver, and Montreal, and two years if they worked outside these cities. Finley said that Canada’s “ability to retain international graduates with Canadian qualifications, work experience and familiarity with Canadian society, will help increase our competitiveness and benefit Canada as a whole.” <http://www.cic.gc.ca/ENGLISH/department/media/releases/2008/2008-04-21.asp>

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working condition requirements, the worker may not have full legal status, and the agent(s) may be charging more than government-set fees for their services.<sup>8</sup>

Wage wedges or gaps of 10 or 20 to one between earnings abroad and at home provide the fundamental economic motivation for labour migration, but the trend in the international job-matching industry is for recruiters and other intermediaries to take an ever-larger share of this wedge, the opposite of what would be expected as migration flows mature. Job-matching costs should decline with experience (Abella, 2004), as employers and workers become familiar with one another and current employees refer friends and relatives to fill vacant jobs.

In the case of migration from Poland and other new EU member nations to the UK and Ireland, recruitment costs appear to have fallen over time, as networks replaced recruiters (many Polish migrants do not pay recruitment costs but work for gangmasters who pay lower than average wages). Migrants headed to the Gulf oil-exporting states, by contrast, continue to pay high recruitment fees, in part because more want to go abroad than there are available jobs and migrants require a sponsor, so that many migrants pay at least a quarter of what they expect to earn in fees levied by recruiters and their own as well as the foreign government. In Taiwan, recruiters appear to have locked up the labour market in such a way that it is very difficult for migrants and employers to find each other without their help and fees.<sup>9</sup>

In some cases, the ability of recruiters to charge high fees is linked to the changing structure of production, which is explored more fully below. The global food industry provides an example. Concentration in food retailing means that multinational food producers want to deal with multinational suppliers, who produce some of the food they sell but increasingly buy it from “independent growers” who produce it to specification (Barrientos, 2010). These growers turn to a variety of labour contractors and other middlemen to supply workers as they are needed, which requires a pool of workers willing to accept casual or seasonal jobs.

Many of these workers are migrants. Some move within a country, as from southern to northern Mexico to produce vegetables for American consumers; others cross borders, such as Polish workers who migrate to the UK to pick strawberries for British consumers. By turning to contractors to obtain

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<sup>8</sup> The fact that there are significant economies of scale in job-matching, but major temp firms such as Adecco and Manpower are not involved in international job matching, suggests there could be a significant level of quasi-legal activities.

<sup>9</sup> In order to avoid high brokerage fees, the governments of Taiwan and the Philippines are trying to encourage employers and workers to bypass agents, but only 600 Filipino migrants were hired directly in 2007. Most migrants earn N\$17,280 (US \$565) a month in Taiwan, which should limit placement fees to US \$565 if the one-month cap on recruitment fees is followed. However, many migrants report paying recruitment fees of over US \$3,000 by writing post-dated checks to recruiters or having extra fees deducted from their Taiwanese wages.

The Council of Labour Affairs (CLA) reported there were 357,937 legal foreign workers at the end of 2007; the largest number are from Indonesia.

seasonal workers, growers can specialize, since they do not have to worry about arranging a series of jobs in order to keep their workers employed year-round. Contractors employing low-wage workers almost always offer lower wages and fewer benefits than similar low-wage workers employed directly by the operators of the workplaces where they work (Plant, 2007; Kuptsch, 2006).

It is easy to predict that international labour migration is likely to increase in a world of persisting demographic and economic differences and ever-denser networks that make it easier to move workers over borders. What is uncertain is how the wage gap motivating migration will be allocated between migrants, employers, intermediaries and governments. In the absence of bilateral agreements and government agencies that deploy workers abroad, recruiters are often most important at the beginning of a labour flow, when there are fewer networks between migrants and employers. However, government policies such as the sponsorship system and recruiting cartels as in Taiwan can keep recruitment fees high for decades.

### 3. POLICIES, PRODUCTION, PROTECTION

#### 3.1. Policies

The OECD (2006) emphasizes that immigrants arriving in the world's richest countries are concentrated at the extremes of the education ladder, among the highly skilled and the unskilled. The policies of industrial countries tend to welcome the skilled and attempt to rotate the unskilled.

There are three broad types of policies to regulate economically motivated migration. So-called supply approaches, as practiced in Australia, Canada, New Zealand, and the UK, use point systems to choose among those who want to enter. Under the Canadian point system, foreigners seeking to immigrate as skilled workers must earn at least 67 points on a 100-point scale.<sup>10</sup> Education is worth up to 25 points (for an MS or PhD), knowing English and/or French is worth up to 24 points, and there are up to 21 points available for work experience. Those aged 21 to 49 get 10 points, those employed legally in Canada with a temporary work visa get 10 points, and up to 10 points are awarded for "adaptability," such as having studied or worked in Canada.

The point system ensures that half of the adult immigrants arriving in Canada have college degrees, versus 25 percent of Canadian-born adults. However, supply-based selection systems may result in so-called brain waste, as when an immigrant doctor drives a taxi. A House of Commons report in June 2003 cited accreditation barriers, concluding that education "does not seem to pay off for immigrants. If this is indeed the case, the entire skilled

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<sup>10</sup> The point test is on line at: [www.cic.gc.ca/english/immigrate/skilled/apply-factors.asp](http://www.cic.gc.ca/english/immigrate/skilled/apply-factors.asp)

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worker selection process, with its emphasis on advanced education, would appear to be misguided.” Canada, Australia, and other countries are creating offices to expedite credentials recognition.<sup>11</sup>

An alternative approach is to select immigrants on the basis of employer requests for particular workers, the US demand-side policy. Employers request immigrant visas for foreigners they find to be best qualified to fill vacant jobs, and after supervised recruitment that fails to find qualified US workers, immigrant visas can be issued to the foreigner named by the employer. As a result, immigrants should be assured jobs, but the selection system may reflect the desires of individual employers rather than a broader public interest.

Supply- and demand-approaches to immigrant selection can converge. Supply-oriented systems can award points for having a job offer, while demand-side approaches can make more visas available for foreigners with at least a university degree. This convergence between supply and demand is evident in plans for the EU’s Blue Card programme, which allows non-EU professionals to enter the EU with their families if they are offered jobs regarded as highly qualified employment — where the latter is defined by education and/or salary.<sup>12</sup> After eighteen months of legal residence in one member state, Blue Card holders will be able to move to another EU country if they have a job offer in the country to which they want to move. The goal is to increase the flow of highly skilled workers. European Commission President Josa Manuel Barroso said: “with the European Blue Card, we send a clear signal. Highly skilled workers are welcome in the EU.”<sup>13</sup>

Policies to deal with labour recruiters are slightly different. First, governments can step up the regulation of labour brokers by requiring them to register, obtain licenses, and obtain bonds to cover the wage and other promises they make to migrants. Second, public agencies that protect migrants can compete with private brokers, providing an option for migrants that can drive down fees. Third, public agencies can rate private recruiters to guide migrants who may not be repeat users of their services, encourage self regulation by e.g. giving privileges to recruiters who are A-rated, and make the firms that use recruiters to bring workers into the work place jointly liable for labour-law violations.

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<sup>11</sup> There are 13 jurisdictions, 15 regulated professions and more than 400 regulatory bodies that deal with worker credentials, prompting Joe Volpe, then minister of citizenship and immigration, to say in 2005 that Canada has “an arcane infrastructure of professional organizations that essentially mitigate against the immediate integration of these highly skilled immigrants.” Several business leaders unveiled a web site, [hireimmigrants.ca](http://hireimmigrants.ca), to promote the hiring of qualified immigrants. Private firms, such as World Education Services ([www.wes.org/](http://www.wes.org/)) offer to assess foreigners’ credentials for a fee.

<sup>12</sup> The recommended minimum salary is at least three times the national minimum wage.

<sup>13</sup> The European Council adopted the EU Blue Card in May 2009. Following publication in the Official Journal of the EU, member states will have two years to incorporate the new regulations into their domestic legislation.

These policy options are similar to those that aim to reduce the cost of transferring remittances over borders, but there are fundamental differences between moving workers and moving money over borders. Workers are people whose status and goals can change, economies of scale may be less important in moving migrants because people have to be interviewed and moved, and multi-dimensional migrants must evaluate a “package” of wages, benefits, and other factors offered by recruiters, making the employment package far more complex than the remittance transaction. Unlike remittances, where banks and money transfer firms offer migrants a variety of “formal market” mechanisms to transfer their funds over borders, multinational temporary help and employment services firms have avoided recruiting especially unskilled workers in one country and placing them in another.

### 3.2. Production and the global division of labour

In classical trade theory, goods were produced in one country, sent over borders, and consumed in another. Global production networks (GPNs) refer to the practice of sourcing or obtaining components in several countries, assembling the final good in one country, and distributing it in that country and abroad. For example, electronics may be designed in the US or Europe, the components produced in Korea or Taiwan, and the final product assembled in China or Vietnam.

Harvard economist Richard Freeman frequently emphasizes that the entry of China, India, and the ex-USSR into the global economy since the 1990s effectively doubled the number of workers linked to global trade from about 1.5 billion to over 3 billion. Most of these new global workers were accustomed to low wages and, even though there was a surge of foreign investment, especially in China, the result was to add far more workers to the global labour force than capital to that part of the global economy involved in trade, putting downward pressure on wages.

GPNs that take advantage of the comparative advantage of particular regions can lower the cost of production, achieve economies of scale, and gain competitive advantage. GPNs are clearly spreading, but it is not clear how ever-denser networks of designers, manufacturers, and distributors affect international migration. Multinational firms move highly skilled managers and specialists across national borders between subsidiaries, and restrictions on such intra-company transfers are generally diminishing.

However, low-skilled workers are not employees of the multinational firms at the centre of a GPN. This means that a vegetable firm that obtains produce in several countries does not move the harvesting crew from country to country. Instead, the multinational typically has contractors in each country or area in which it operates. Since these contractors require a pool of workers without better job options to assemble crews when they are needed, the result of GPNs in low-skilled work can be increased job instability, as workers “are caught in a pincer movement where dominant agents and buyers extract value up the chain and drive risks down the chain” (Barrientos and Kritzing, 2004).

## The internationalization of labour markets

Much of the literature on GPNs and the new global division of labour refers to multinationals that produce goods, including labour-intensive farm products. But global labour migration chains are also emerging to move service providers over borders, as when health-care professionals migrate over national borders or domestic helpers cross borders to provide care for the young and old.

Colonial powers that established systems of health-care training in their former colonies and allow recruitment of those trained to their standards facilitate the migration of health-care workers. Connell and Stilwell (2006) believe that most of the migration of skilled health workers is demand led and is leading to a “growing global integration of health care markets.” The demand for foreign health care professionals is primarily Gulf States, Europe and North America, where aging populations increase the demand for health-care workers faster than the supply. Health-care migration is becoming more complex, e.g. Japan is beginning to open its doors to foreign health-care workers and China and Central and Eastern European countries are becoming more important supply sources.

There is something of a hierarchy in global health-care labour migration, with the United States among the most attractive destinations, so that some Filipino nurses migrate first to Canada to improve their chances of eventually moving to the US. Efforts to replace health-care workers who emigrate can lead to follow on migration. For example, Bermuda in 2004 expressed concern about the loss of nurses to the United States, and soon Jamaica was worried about recruitment of its nurses by Bermuda (Connell and Stilwell, 2006). The UK recruits doctors and nurses in South Africa, and South Africa imports health care workers from Cuba.

Similar global labour migration chains also develop as concerns child-care and elder care, domestic help and other forms of personal care services. The major labour-force change in most industrial countries over the past half century is the rising labour force participation of married women with children. There are many reasons for this increased labour force participation, including increased acceptance of women with children working for wages and more child-care facilities. Most middle- and lower-income women with children in industrial countries take their children to workplace or freestanding child-care centers; some higher-income families prefer in-home child or elder care. As a result, there can be so-called “global care chains”, when women with children in low-income countries leave their children with a husband or relatives to provide child or elder care in industrial countries, or employ a domestic helper themselves – often another internal or international migrant.

Misra, Woodring and Merz (2006) highlight how welfare state restructuring in more affluent countries has led to a “pull for care,” as poor women with children are encouraged to work for wages and it pays for households to replace better educated women’s care work with low-wage domestic help. By relying on female migrants, social reproduction is ensured despite welfare state retrenchments. Countries with thinner social safety nets tend to have more

immigrant domestic workers (Parreñas, 2001 and Milkman et al. 1998 cited in Misra et al., 2006). On the other hand, structural adjustment policies in developing nations have contributed to a “push to care,” as more and more women have to look for new income generating strategies and realize they can earn higher wages abroad.

The “global care chains” literature identifies transnational routes for domestic workers, such as from Albania and Bulgaria to Greece; the Dominican Republic, Peru and Morocco to Spain; Sri Lanka to Singapore, Saudi Arabia, Kuwait and Canada; and Mexico, Central America and the Caribbean to the US. Well over 600,000 Filipinas served in foreign households in 2001, from Hong Kong and Singapore to Italy and Spain and the Middle East (Yeates, 2005).

Some analysts also underline the importance of non-labour market factors as drivers for this type of labour market internationalization. In receiving countries, not all recruitment of migrant domestic workers occurs for economic reasons, i.e. out of the necessity to avoid a double day for a working woman. Some is linked to the maintenance of lifestyle and social status, as often in the Middle East. Similarly, not all emigration by poor women is for survival, as when middle-class Filipinas go abroad to work as domestic helpers to pay for their children’s college education or to participate in local status-enhancing activities (Parreñas, 2001, cited in Yeates, 2005).

### 3.3. Protection

Workers outside their country of citizenship have long been a special concern of the ILO and other international organizations. ILO Convention 97 (1949) defines a “migrant for employment” as “a person who migrates from one country to another with a view to being employed otherwise than on his own account.” The most important principle of Convention 97 is equality: migrant wage and salary workers should be treated like other workers in the countries in which they work. If the recommendations embodied in Convention 97 were the norm, most migrants would cross borders under the terms of bilateral agreements that spell out recruitment procedures, exchange information on migration policies and regulations, and foster cooperation to ensure that employers have accurate information on migrants and migrants have complete information on wages and working conditions abroad.

ILO Conventions are shaped by the circumstances that motivated them<sup>14</sup>. Convention 143 (1975) was enacted after oil-price hikes led to recessions in the European countries that had been importing large numbers of guest workers. It emphasizes steps governments can take to minimize irregular migration, such as recommending sanctions on employers who hire unauthorized migrants, and to promote the integration of settled migrants.<sup>15</sup> Migrants are also

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<sup>14</sup> Editor’s note: See also the article by Awad in this volume.

<sup>15</sup> Conventions Nos. 97 and 143 exempt seafarers, frontier workers, the self-employed, artists and trainees.

## The internationalization of labour markets

protected by other ILO Conventions, including Convention 87, Freedom of Association and Protection of the Right to Organize (1948), and Convention 98, the Right to Organize and Collective Bargaining (1949).

The United Nations General Assembly (1990) approved the International Convention on the Protection of the Rights of all Migrant Workers and Members of Their Families. This UN Convention is more comprehensive than the ILO Conventions, e.g. it covers all migrants, including seafarers and the self-employed, and has more ambitious goals than simply promoting equality in the work place.<sup>16</sup> The UN Convention aims to “contribute to the harmonization of the attitudes of States through the acceptance of basic principles concerning the treatment of migrant workers and members of their families” (Preamble). Some of its most controversial provisions call on migrant-receiving countries to “facilitate the reunification of migrant workers with their spouses... as well as with their minor dependent unmarried children” and to provide the families of migrant workers with access to education, social and health services.<sup>17</sup>

It is easy to decry the gaps between protections for migrants laid out in the ILO and UN Conventions and the realities faced by many migrant workers. The rights-based approach to improving migration management endorsed by the International Labour Conference in 2004 led to a nonbinding multilateral framework to urge adherence to international labour standards, provide technical assistance to countries sending and receiving migrant workers, and strengthen social dialogue between employers, unions and governments<sup>18</sup>.

## 4. Conclusions

Globalization refers to the increasing inter-connections between nation states. The global economy allows firms to source and sell their products throughout the world, capital to flow over borders in search of the highest return, and global output to rise via comparative advantage and economies of scale. Trade and finance channels are kept open by global, regional, and bilateral trade and finance agreements that aim to deter protectionist forces seeking to limit competition from abroad.

Experience with trade negotiations suggests that free-trade channels should be dug as wide and deep as possible to slow protectionist forces from slowing trade in goods (Cline, 2004). Trade specialists often use a bicycle metaphor, suggesting that there must be an ongoing effort to promote freer trade, analogous to the bicycle rider needing to keep moving in order to avoid

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<sup>16</sup> ILO Convention 97 is about 5,600 words, C143 is 3,000 words, and the UN Convention is over 14,000 words.

<sup>17</sup> The UN Convention asserts that “states of employment shall endeavor to facilitate for the children of migrant workers the teaching of their mother tongue and culture.”

<sup>18</sup> Editor’s note: On the international policy framework, see also the contribution by Awad in this volume.

falling. Differences in endowments and other factors can maintain significant trade flows over time even if wages and incomes converge.

Migration can be unlike trade. As workers move from poorer to richer countries, there should be equalizing effects in sending and receiving countries that reduce the differences that motivate migration. Experience suggests that migration flows can grow larger over time until sharp policy changes slow or stop them, as with outbreaks of war that stopped economically motivated migration to the Americas in the 20<sup>th</sup> century or recruitment stops in Europe. Unless there is economic development in sending regions, some migration can beget more migration, prompting migration specialists to recommend narrow entry channels in anticipation that network factors will enlarge labour migration over time.

The actors embodied in these networks are not all well understood. Migrants have an incentive to move, and employers an incentive to hire them, but the roles of recruiters, travel agents, and others in the evolving migration infrastructure are less well understood. In some cases, these actors simply match brawn with jobs requiring strong backs, as for low-skilled farm workers, cleaners, and domestic helpers. At the other extreme, the actors include universities and credential-issuing bodies that grant degrees or enable professionals to be accountants, doctors, or nurses in another country.

The policy options for dealing with the factors motivating international labour migration are to promote economic development in sending countries that reduces the differences that prompt migration, and encourage changes in the demand for labour in receiving countries that attract migrants, such as automating low-skill jobs, freeing up trade in ways that eliminate e.g. farm jobs, or managing the influx of migrants to fill e.g. domestic helper jobs. At the top end of the labour market, decisions about standardizing curricula, admitting foreign students and allowing them to stay upon graduation, and giving employers easy access to foreign professionals and recognizing their credentials affect entries and stays.

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# OPTIMIZING MOBILITY: EUROPE NEEDS MORE AND BETTER GEOGRAPHICAL LABOUR MOBILITY

HUBERT KRIEGER

## 1. INTRODUCTION AND EU POLICY DISCOURSE<sup>1</sup>

In discussing the link between occupational and geographical mobility in Europe, this chapter looks at labour mobility which is combined with a change of residence<sup>2</sup>. As the focus is on ‘emerging’ European labour markets, i.e. whether one sees an emergence of a pan-European labour market alongside national labour markets, it analyses economically motivated long distance labour mobility within and between EU Member States. The wider issue of third country migration into the EU is not discussed in detail.

The chapter takes a policy perspective by linking the empirical results on geographical mobility with the current EU policy debate on the future of the European employment strategy within the context of the ‘Post-Lisbon’ policy agenda. It relates to the on-going vivid debate on mobility: the perceived gap between existing and desired level of mobility, the short and long-term economic and social effects and most promising policy interventions.

This debate is accompanied by high hopes on economic and social gains, but also includes expressions of worries on lower future employment and income security, cultural fears, and community tensions. Debates on mobility are often loaded with rhetoric, hidden or overt assumptions and speculations. The best the European Foundation and its international team could do in its research for the European Commission (related to the European Year of Mobility) is to present objective mobility facts and grounded mobility extrapolations<sup>3</sup>. As the EU policy discourse is influenced by the perceived ‘mobility

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<sup>1</sup> I would like to thank my colleagues Christoph Maier from the European Commission and Enrique Fernandez and Anna Ludwinek from the European Foundation (EUROFOUND) for their comments on a first draft of this chapter.

<sup>2</sup> Commuting will not be discussed in this chapter. The importance of commuting between regions and between countries for an emerging European labour market is discussed for example in European Commission (2006a), *Employment in Europe: Brussels*, p.238ff.

<sup>3</sup> This contribution is based on a joint research project between DG Employment, Social Affairs and Equal Opportunities of the European Commission and the European Foundation (Dublin). All research reports are available on the website of EUROFOUND ([www.eurofound.eu.int](http://www.eurofound.eu.int)).

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gap' between Europe and the US, the chapter will have a small section on geographical mobility in a transatlantic perspective<sup>4</sup>.

### 1.1. Mobility is positive

How much mobility for workers do we need and want in Europe? Europe had designated the year 2006 as the "European Year of Workers' Mobility", a clear indication that mobility is one of the central issues in the European Employment Strategy. The general idea is that Europe would profit from more workers' mobility. More mobility would facilitate the adaptability of the workforce. The idea in economic terms – but also in the broader social sciences as such – is that there are potential gains to geographical labour mobility. Such gains are derived in the first place from the relocation of labour from regions with a surplus of workers to regions with labour shortages. Gains can also result from a more efficient allocation of labour to activities and regions where they are (likely to be) more productive and would generate increased income.

Secondly, particular voluntary job-to-job mobility may lead to better competence development of employees enhancing their employability, income and career prospects. For companies more labour mobility increases their flexibility and adaptability with positive effects on competitiveness through cost reduction and higher productivity. Finally, the possibility of freely moving place of residence and employment to anywhere in the EU is an extension of basic civic rights for all EU citizens<sup>5</sup>. The opportunity for mobility is regarded as a cornerstone for a good quality of life and high personal life satisfaction of citizens in a more integrated Europe. This right is of central importance to Europeans: when asked what the EU represents to them, 53% say 'freedom to travel and work in the EU'. This answer comes first, well ahead of the introduction of the Euro as a common currency (44%) and safeguarding peace (36%)<sup>6</sup>.

### 1.2. Getting the balance right

Taking a closer look at geographical labour market mobility, however, shows that there is a balance of potential gains, costs and risks for companies, employees, regions and countries. The challenge for all parties is to find the right equilibrium between mobility and stability, to cope with search and information costs, to deal with substantial degrees of uncertainties as regards short-/long-term and micro/macro effects of mobility and to weigh up the economic advantages and social disadvantages of mobility (trade-offs).

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<sup>4</sup> The European Foundation organized on the issue of regional labour market mobility a joint seminar with the German Marshall Fund in Dublin end of October 2007. Around 60 leading experts from the US and the EU participated in this seminar. The conclusions of this seminar are summarised in: Ester, P. and Krieger, H. (2008), *Labour mobility in a transatlantic perspective: The more mobility, the better?* European Foundation for the Improvement of Living and Working Conditions: Dublin.

<sup>5</sup> This is valid with the exception of temporary restrictions for employees from new Member States in transition periods after enlargement.

<sup>6</sup> See Eurobarometer Survey (EB 64.1), which was conducted at the end of 2005.

## Optimizing mobility: Europe needs more and better geographical labour mobility

This means for companies to consider in their human resource policy the relative importance of numerical/external flexibility against the importance of functional/internal flexibility. Employees have to balance the wish for higher income, more employment security and better quality of work with a new employer and/or within another region with the risk of deteriorating employment conditions, a possible devaluation of their human capital and a loss of social capital through reduced support from established social networks and family. Mobility policies of governments have to consider the relationship and overall balance between possible brain gains of receiving regions against possible brain drains of sending regions. To optimize the economic and social results of mobility is a challenge for all parties concerned.

### 1.3. Mobility behaviour of workers is bounded

This complex situation influences the behaviour and leads to ‘bounded rationality’ of workers on the labour market<sup>7</sup>. In the traditional framework, which is based on the assumption of rational actors maximizing their utility, in markets with perfect information structure, all workers would be optimally satisfied with their present job. It is broadly accepted that the assumptions of rationality and perfect information structures within markets are not met in reality leading to suboptimal firm-employee matches.

More realistic behavioural theory based on ‘bounded rationality’ assumes that the ability to make unconstrained decisions is limited by several factors: (i) uncertainty about the future, (ii) the costs of the acquisition of information and (iii) trade-off relations with other life domains. In this analytical perspective mobility is always bounded mobility, bounded by family, community, social contacts, networks, and culture.

Consequently, individuals are not maximizing their utility in a strictly rational sense. Therefore they follow a strategy of ‘satisfying’, which means setting an aspiration level for income, employment conditions and quality of life which is regarded as satisfactory. The rational of ‘satisfying’ guides people’s evaluation by balancing on one side the utility of their own job and quality of life in their actual location against the perceived job opportunities in other companies located in different regions or countries. This is combined with the expected quality of life in other regions including transition costs. If the overall aspiration level is achieved a person is satisfied. If it is not achieved, decisions have to be altered or the aspiration level has to be changed. One decision is to find a new employer either at the same or at a different place of residence. In circumstances of higher degrees of uncertainty regarding alternative job opportunities, dissatisfied workers may decide to lower their aspiration levels instead of moving.

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<sup>7</sup> More in detail see Fouarge D. and Ester P. (2006), *International and regional migration intentions in Europe*, European Foundation for the Improvement of Living and Working Conditions: Dublin, p.4ff.

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### 1.4. EU policy discourse

Policy makers on the EU level have to consider different policy agendas regarding the issue of workers mobility. There is first of all a ‘rights’ agenda for EU citizens and EU workers: The right of freedom of movement for all citizens within EU Member States<sup>8</sup>, the right of ‘non-discriminatory’ access to employment and the right of equal opportunities on the labour market. This rights agenda is outside any economic cost-benefit calculations of mobility policies.

A second key issue on the European policy agenda centres on the ‘Lisbon process’ (2000-2010) and the European Employment Strategy (EES). Discussing the implementation of the EES in its mid-term the European Council in April 2005 reflected the need for greater labour market related geographical mobility<sup>9</sup>, as (i) it increases the responsiveness of the labour market, fostering a smooth adjustment of prices and wages and thus leading to an enhanced capacity to react rapidly to economic shocks and avoid inflationary pressures; (ii) it improves efficiency on the labour market and improves the matching of labour market supply and demand; (iii) it improves the adaptability of workers by assisting them into more effective transitions in different occupational status like training, self employment, unemployment, paid employment<sup>10</sup>.

In this context the Commission has taken various initiatives<sup>11</sup>. End of 2007, the Commission launched a new Job Mobility Action Plan for the period 2007-2010<sup>12</sup>. This is the second action plan following the first initiative of the Commission in 2002. The new action plan has four main parts: For the first part it aims at improving existing legislation and administrative practices regarding working mobility. Here governments should take concrete measures ensuring the elimination of obstacles on the labour market preventing voluntary mobility through better social security coordination (social protection, portability of pensions, recognition of qualifications).

In a second part it asks for ensuring policy support for mobility from authorities at all levels. That means beside others to encourage Member States to include job related geographical mobility as a priority in their national employment and lifelong learning strategies and to ask authorities on the local and regional level to remove remaining practical obstacles. It asks for the development of new European mobility schemes and support for the implementation of the European Qualification Framework.

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<sup>8</sup> This right became possible in 1968.

<sup>9</sup> European Commission (2005), *Integrated guidelines for growth and jobs (2005-2008)*: Brussels.

<sup>10</sup> This is also reflected in the emerging flexicurity discourse on the European level.

<sup>11</sup> The term ‘Commission’ used in the following text always means ‘European Commission’.

<sup>12</sup> See European Commission (2007), *Communication on mobility, an instrument for more and better jobs: The European Job Mobility Action Plan*: Brussels.

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Thirdly, it aims to foster awareness of the advantages of mobility by actively propagating more mobility and to encouraging employees towards more job-to-job and geographical mobility. Fourthly, it seeks to reinforce the effectiveness of EURES as the one-stop instrument to facilitate mobility of workers and their families within a European labour market.

Another operational activity of the Commission was related to the European Year of Mobility in 2006. It had three concrete objectives: (i) to inform the citizens about their rights, opportunities, costs and support measures related to the free movement in the EU; (ii) to develop the exchange of good practice between all stakeholders; (iii) to improve the knowledge base on mobility process through better data collection and research.

Finally, the EU should put on its policy agenda the challenge to secure on one side economic gains resulting from a more efficient allocation of labour to activities and regions with higher productivity and income. On the other side it has to consider supporting in under-developed regions the retention of human resources and the development of infrastructure and economic and social conditions, which guarantee a certain level of inter-regional competitiveness leading to adequate income and living conditions in disadvantaged regions. Here the effective use of the means of the EU Regional and Structural Funds are of importance.

### **1.5. Basis of analysis**

To know more about the extent of the current and expected future geographical and labour market mobility, the European Commission funded a special module on mobility as part of a 2005 Eurobarometer Survey (EB 64.1). Data were collected in the 25 EU Member States. Comparisons were made with Eurobarometer surveys in 2001/2002. The European Foundation for the Improvement of Living and Working Conditions commissioned an international research consortium to analyse these data. In one descriptive and five analytical reports, they have analysed the drivers and barriers to mobility in Europe, and the economic and social effects of mobility patterns in Europe. A second basis of analysis is a selected analysis of results based on the European Labour Force survey, which were published in the Employment of Europe Report by the Commission in 2006. A third data source used, are the soon to be published results of a Eurobarometer survey of the Commission in February/March 2007 on geographical mobility of citizens. The use of these results is limited to some overview tables as the actual data files are not yet available.

## **2. MOBILITY INDICATORS IN EUROPE**

The following section gives a brief overview of global indicators on labour market related geographical mobility in the European Union. According to the European Labour Force Survey (LFS) in 2005 the EU25 has a stock of 9% of foreign nationals as part of its active working age population (15-64 years of

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age). Figures for the EU15 are slightly higher with 10.4% (19 million). Of those less than 20% originated from other EU Member States (3.3 million) and more than 80% were third country born migrants. Out of the 3.3 million internal EU migrants 0.6 million came from one of the 10 new Member States (NMS 10) and 2.7 million from EU15 countries.

An overview on citizens, who have experienced some form of long distance mobility after they left their parental home, is provided by the Eurobarometer (EB) results from 2005 for people aged 18 years and more. Based on these results 18% of citizens in EU25 had moved across regions in their country, 4% moved between EU Member States and 3% had migrated to countries outside the EU<sup>13</sup>. These results are confirmed by the Eurobarometer of the Commission from 2007<sup>14</sup>.

In its report 'Employment in Europe 2006' the Commission tries to identify annual flow figures in the EU15 for the year 2005. By using LFS data it estimates the number of mobile workers per year across the EU15 of between 0.1 and 0.2% of the total workforce. In an alternative measurement it applies the 'year of residence' as a proxy for annual change. Based on this measure the Commission estimates an annual mobility of 610.000 for 2005 which equals a rate of 0.34%. This may indicate a slight increase in inter-country mobility in comparison to the year 2000, in which the rate was 0.26%.

As regards mobility between regions of the EU15 countries the Commission also calculated regional mobility rates between so called NUTS1 and NUTS2 regions for 2005<sup>15</sup>. Within the larger NUTS1 area it identifies an annual mobility rate of around 1% and within NUTS2 of 1.3%. As a trend the Commission sees a levelling off by observing an increase as regards NUTS1 between 1995 (0.8%) and 2000 (1.2%) and a decrease between 2000 and 2005 (1.0%).

To summarize in broad terms the existing stock and flow figures for the EU in 2005: (i) just below one out of ten workers in the EU are migrants (9%); (ii) approximately one out of 50 workers is an internal EU migrant (2%); (iii) annual flow figures on inter-country mobility of EU15 working age population are between 0.1 and 0.3%; (iv) rough estimates for annual flow within EU27 may reach 0.5%; (v) annual regional mobility within EU15 is between 1.0 and 1.3%.

As far as the importance of migration is concerned there are important differences between the 27 Member States, e.g. in the share of active working age foreign nationals relative to the total working age population (2006)<sup>16</sup>. As

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<sup>13</sup> More in detail see, Vandenbrande T. (ed.) (2006), *Mobility in Europe - Analysis of the 2005 Eurobarometer survey on geographical and labour market mobility*, European Foundation for the Improvement of Living and Working Conditions: Dublin.

<sup>14</sup> European Commission (2008) *Geographical mobility of citizens – Special Eurobarometer*: Brussels.

<sup>15</sup> See European Commission (2006a), *Employment in Europe*: Brussels, p.220f.

<sup>16</sup> Results are based on LFS spring data for 2006.

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an extreme case Luxembourg reaches around 46% and is clearly ahead of Cyprus, which has the second highest share in EU27 with 19%. Sweden, Austria, Spain and Belgium have a share of active working age foreign born residents relative to the total active working age population of their country of between 13.5 and 15.5%. Two Baltic countries have, due to a higher share of Russian born workers, a share between 14.2% (Latvia) and 10.7% (Estonia) whereas other countries in the New Member States (NMS10) such as Poland and the Czech Republic have a share of between 0.5 and 2%.

For the question regarding the 'Europeanization' of the labour market in EU27 it is important to analyse the share of active working age EU27 born residents in another EU Member State in 2006. Not surprisingly, Luxembourg has by far the highest share of nearly 38% followed by Cyprus with 8%. Ireland, Belgium and Austria follow on third place with just below 7%. Spain representing another Southern Member State has a share of 4.5%, whereas in the Nordic area Sweden has with 4.5% the highest percentage of foreign active working age population. The new Member States are very low with Poland having a share of 0.2% and the Czech Republic of 2.2%.

Those figures would suggest a European labour market is emerging slowly and most labour related mobility of Europeans takes place on local and regional labour market within the Member States and is often not combined with a change of residence. However, there is a much higher internationalization of the European labour market through the influx and availability of labour from third country migrants. It has to be discussed to what extent higher degrees of international labour mobility are substitute for sub-optimal levels of internal EU mobility. In addition, policy makers have to consider that the level of 'Europeanization' of national labour markets varies substantially between the Member States.

### 3. MOBILITY BETWEEN 'OLD' AND 'NEW' MEMBER STATES

Although both European policy makers and European citizens strongly support the opportunity of mobility across borders in the EU, concerns still exist regarding the potential negative impacts of labour inflow from new Member States, particularly in the early phases after accession. At each stage of enlargement of the EU bar one, temporary transitional arrangements have limited the free movement of people on the labour market.

In 2004, with the accession of ten new Member States a maximum transition period of five years was agreed for eight countries (under exceptional circumstances, this can be extended to seven years). From the outset, three Member States (Ireland, UK and Sweden) decided not to apply any restrictions. At the beginning of 2008 seven EU15 Member States have released completely any restrictions on free mobility, six EU15 Member States have decided to simplify restrictions on mobility and only two countries (Germany and Austria) apply the original restrictions. In May 2009 all restrictions have

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to be released and only in exceptional circumstances a further transition period of two years can be granted.

At the beginning 2007 the EU saw a further enlargement with the accession of Romania and Bulgaria. The conditions for mobility of workers inside the EU in this enlargement round are a repeat of earlier practice. Even countries like the UK and Ireland, which opened up their labour markets to workers from EU8 immediately after May 2004, imposed restrictions on workers from the two new Member States after January 2007. As far as the actual situation is concerned only Finland and Sweden provided free access to their labour market. Not only the remaining EU15 countries but also Malta and Hungary imposed restrictions on the mobility of Bulgarian and Romanian workers.

What is the actual situation regarding migration between old and new Member States<sup>17</sup>? As far as the number of migrants from the NMS10 in the **total** working age population of EU15 is concerned, the Labour Force Survey suggested that for 2005 this is 0.9 million, which increases in 2007 to just under 1.5 million<sup>18</sup>. In 2007 this represents 0.6% of the total resident employment age population in EU15.

The total numbers of workers from Bulgaria and Romania in EU15 show a similar trend on a slightly lower level: In 2005, 0.85 million people were part of the **total** working age population of EU15 increasing to 1.25 million in 2007.

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<sup>17</sup> Due to the existing data the results regarding new Member States (NMS) have to be seen as provisional. Based on LFS data the share in the active employment age population of people coming from the NMS10 into the EU15 is estimated in 2005 at 0.33% or 0.6 million out of a stock of 180 million.

<sup>18</sup> New calculations provided by the Commission.

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Table 1: Member States' policies towards workers from the new Member States

	<b>Member State</b>	<b>Workers from the EU-8/EU-15</b>	<b>Workers from BG and RO/EU-25</b>
EU-15	Belgium	Restrictions with some simplifications	Restrictions with some simplifications
	Denmark	Restrictions with some simplifications	Restrictions with some simplifications
	Germany	Restrictions with some simplifications*	Restrictions with some simplifications*
	Ireland	Free access (1 May 2004)	Restrictions
	Greece	Free access (1 May 2006)	Restrictions
	Spain	Free access (1 May 2006)	Restrictions
	France	Restrictions with some simplifications	Restrictions with some simplifications
	Italy	Free access (27 July 2006)	Restrictions with some simplifications
	Luxembourg	Free access (1 November 2007)	Restrictions with some simplifications
	Netherlands	Free access (1 May 2007)	Restrictions with some simplifications
	Austria	Restrictions*	Restrictions*
	Portugal	Free access (1 May 2006)	Restrictions
	Finland	Free access (1 May 2006)	Free access, subsequent registration for monitoring purposes
	Sweden	Free access (1 May 2004)	Free access
United Kingdom	Free access (1 May 2004), mandatory workers registration scheme for monitoring purposes	Restrictions	
EU-10	Czech Republic	No reciprocal measures	Free access
	Cyprus	-	Free access, subsequent registration for monitoring purposes
	Estonia	No reciprocal measures	Free access
	Latvia	No reciprocal measures	Free access
	Lithuania	No reciprocal measures	Free access
	Hungary	Reciprocal measures with simplifications as of 1 January 2008	Restrictions with simplifications
	Malta	-	Restrictions
	Poland	No reciprocal measures (17 January 2007)	Free access
	Slovenia	No reciprocal measures (25 May 2006)	Free access, subsequent registration for monitoring purposes
	Slovakia	No reciprocal measures	Free access
EU-2	Bulgaria	-	No reciprocal measures
	Romania	-	No reciprocal measures

\* Restrictions also on the posting of workers in certain sectors

Source: DG Employment

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These absolute figures represent in 2007 0.5% of the total resident working age population in EU15<sup>19</sup>. That means the combined figure for NMS12 would be in 2007 2.75 million or around 1.1% of the total working age population of EU15. This represents at first sight not a large share in the working age population of the receiving countries.

However the shares of NMS10 migrants vary significantly between the 15 Member States. Ireland has a share in 2007 in the **total** working age population of 5.4%<sup>20</sup>, Austria and UK of 1.3% and Luxembourg and Germany of 0.8% to 0.9%. All other EU15 Member States have a percentage of between 0.1- 0.4%.

Looking at the **active** working age population for NMS12 nationals resident in another EU country the picture is as follows: Ireland is likely to have the highest share of above 5.4% as suggested by the figure in the previous paragraph. In second place in 2006 is Spain with 2.3% followed by Austria, Luxembourg and Cyprus (1.8-1.5%). Germany and Greece have a share of between 1.0 and 0.8%.

Looking at the stock of the sending countries and identifying the share of migrants living in an EU15 country for 2005 3.5% of the active working age population of Lithuania lives in an EU15 country. The comparable figures are: Poland 2.1%, Slovakia 2.0 and Hungary 1.2%.

An estimation of flow figures is particular difficult. Based on an analysis of resident and work permit schemes for 2005 the Commission estimates an annual flow of under 1% of NMS10 citizens as part of the destination country's working age population. However above this average is Ireland with 1.9% in 2004 and 3.8% in 2005. Also Austria was clearly above average<sup>21</sup>.

The Eurobarometer data provide the opportunity to estimate the future intentions of people from the new Member States to migrate into another country of the EU in the next five years. Here we have results from three Eurobarometers in 2001, 2005 and 2007, which allow us to look at a certain dynamic over time.

For the eight countries, who are under the transition arrangements from 2004 we find three different patterns: The first group of countries includes the three Baltic countries and Poland. Those four countries were in the 2005 EB survey identified as high mobility countries, which was also confirmed by other data. Between 2001 and 2005 these four countries saw a strong increase

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<sup>19</sup> Overall the LFS figures may under-estimate the actual extent of migration from the NMS10 to EU15. Calculating on the basis of Census data the percentage of NMS workers as part of the total workforce in Ireland in 2006 leads to a significantly higher figure than the estimate provided on the basis the LFS data.

<sup>20</sup> The Irish results are also confirmed by a recent OECD report. See OECD (2008) *Economic Surveys – Ireland*: Paris.

<sup>21</sup> European Commission (2006b) *Communication on the functioning of the transitional arrangements*: Brussels.

in the intention to migrate across the EU of up to three times. This was probably a reaction to accession into the EU in May 2004. These nearly 'euphoric' intentions have become more realistic in 2007, in which the intentions to migrate have decreased by around 50% in comparison to 2005. However, citizens in all four countries have still a fairly high general intention to migrate across the EU of around 5%, which translates in a firm intention to migrate of between 1.7 and 2.5% over the next five years.

The second pattern is represented by Hungary and Slovakia. In 2005, both countries were regarded as low mobility countries. They started in 2001 from a very low level of intended migration into EU 15, which increased slowly but steadily in 2005 and 2007. It reaches in 2007 a general intention to migrate in the next five years of under 4%. Based on these figures one can assume a firm intention to migrate of between 1.3 and 2.0% of the population over 15 years of age over the next five years.

The third pattern emerges in the Czech Republic and in Slovenia. Here we have a very low level of intended migration in 2001, which remains on a low level through our observation period. In 2007 around 1.5% of the population in both countries have a general intention to migrate to one of the EU15 countries. This represents a firm intention of around 0.5 to 0.75% over five years.

Looking at Bulgaria and Romania, we find first of all not surprisingly in 2007 the highest intention of internal EU migration within all new EU12 countries. 7.1% of the Bulgarians and 6.2% of the Romanians have a general intention to migrate. This is nearly two percentage points higher than the general intention to migrate from the Baltic countries and from Poland. The dynamic over time in Bulgaria and Romania is also different in comparison to the former countries as the intention to migrate doubles between 2001 and 2007<sup>22</sup>. The firm intention can be estimated for the next five years of between 2.2 and 3.2%. However, similar to the trend in NMS8 one may suspect another 'euphoric' effect immediately after accession and more realistic intentions may develop in the near future.

To conclude: (i) overall there is a significant but relatively limited overall migration flow between the new Member States and the EU15 after enlargements in 2004 and 2007; (ii) the potential risk of stronger distortions on national labour markets in EU15 seems to be limited and not very high; (iii) countries with high migration inflows like Ireland and Spain have benefited economically from migrants from the new Member States; (iv) countries with a restrictive regime like Germany and Austria may have received significant numbers of undocumented migrants from new Member States, taking up 'undeclared work'

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<sup>22</sup> Unfortunately there are no data for Bulgaria and Romania as far as 2005 is concerned. In 2001 the aggregated general intention for Romania and Bulgaria was 3.3%.

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and becoming part of the 'black economy'. Such migration flows may cause distortions on the national labour market; (v) concerning future intentions the differences between the new Member States have narrowed down. Most migration movements in the next five years can be expected from Bulgaria, Romania, Poland and the three Baltic Countries; (vi) 2009 will probably see the end of transition arrangements for NMS8 and the opening up of the labour market of 13 of the EU15 countries. Only Germany and Austria may apply for a further extension of two years referring to exceptional circumstances on their labour markets.

### 4. EU-US COMPARISON<sup>23</sup>

A major policy benchmark for promoting higher geographical mobility among European workers is the assumed greater mobility among American workers. The idea, implicitly or explicitly, is that the European workforce is less mobile than the American workforce and that this hampers a better match between labour demand and supply in the European economy. Americans, so the argument goes are not only working harder, but are also willing to move more easily over greater distances to where the work is. Europeans are reluctant to move. Americans are 'movers', Europeans are 'stayers', so the perception goes. This difference leads the European Commission to the view that Europe lacks a genuine mobility culture<sup>24</sup>.

What do the data tell us? As far as stock figures are concerned 32% of the US population live outside the state in which they were born<sup>25</sup>. Eurobarometer results from 2005 show only 4% of EU25 respondents have ever lived in another EU country. In comparison this would indicate a nearly eight times higher level of inter-state mobility in the US than in the EU. Due to different regional settings within larger EU Member States it may be however more appropriate to compare inter-state mobility in the US with the percentage of the EU population that has ever lived in a different state or a different larger region within a Member State, e.g. someone in France who moved from Provence to the Paris area. For 2005 the Eurobarometer gives a figure of 21% of the EU25 population. US mobility would according to this comparison be around 55% higher than in Europe.

Looking at flow data for the year 2005 one observes that in EU15 between 0.1 and 0.2% of the working age population change their country of residence, whereas in the US the figure is 2.5% according to the U.S. current population census. This figure declines further in 2006 to 1.9%. In compar-

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<sup>23</sup> This chapter is based on a joint report by Ester, P. and Krieger, H. (2008) *Labour Mobility in a Transatlantic Perspective: The More Mobility, the better?* European Foundation for the Improvement of Living and Working Conditions: Dublin.

<sup>24</sup> European Commission (2006) *Report on the Functioning of transitional arrangement*: Brussels.

<sup>25</sup> US Census Bureau, data from 2000.

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ison those flow figures reflects nearly the same difference as in the stock figures. Using the regional mobility figures of EU15 on the NUTS1 level the EU15 figure increases to around 1% per year. Based on this comparison US annual flows would be twice as high as in EU15.

But how to interpret this comparison? Contrasting geographical mobility trends in Europe and the United States is not without difficulty. What is the basis and scope of comparison? The validity of comparing interstate mobility in the US with cross-border mobility in Europe is in fact problematic. The United States is a federal state, the EU is not. The US is one nation, the EU is not. Freedom of movement in the US is as old as America itself, but only a recent possibility in the EU. Labour legislation is different in the US compared to the EU, but different Member States in the EU (still) have different legislation as well. And finally, the language and social and cultural mobility barriers within the EU are much greater than in the US. If one moves from New York to Los Angeles, one still moves within one nation, with one common language, under the same labour market legislation. But if one moves from Helsinki to Barcelona, one moves from one country to another, with different languages, with very different cultures, with different labour market systems, different fiscal regimes, and different institutional arrangements. Mobility, in short, is a complex phenomenon. Simply comparing overall mobility indicators for Europe and the US neglects this complexity.

These institutional and cultural differences imply to compare internal geographic mobility in the US not between Member States of the EU but *within* Member States. Data furthermore indicate a decrease in interstate mobility in the US in the period of 2000-2006 from 3.4% in 2000 to 1.9% in 2006. Besides, findings clearly point out that mobility in the US has in fact declined in the post-War decades (at least as within county-mobility is concerned) and that mobility for the most part is housing related and not labour market related: only one in five movers in the US identifies job related reasons as their main reason for moving.<sup>26</sup> The US workforce may be more mobile but not only for labour-market related reasons.

## 5. ENCOURAGING NEWS FOR POLICY MAKERS TO OPTIMIZE MOBILITY

In the following chapter we want to present briefly additional policy relevant results for the Europeanization of labour markets in Europe based on a joint research project between DG Employment, Social Affairs and Equal Opportunities of the European Commission and the European Foundation

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<sup>26</sup> See Theodos, B.A. (2006), *Geographic mobility and geographic labour mobility in the United States*, The Urban Institute: Washington DC.

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(Dublin)<sup>27</sup>. Overall the five reports together with the LFS data provide a number of substantive results, which indicate changing trends, encouraging practices and positive effects of mobility. These are positive indications for policy makers, who are concerned with the low level of mobility in Europe and who want to promote more mobility in the future.

### 5.1. Extent increases slowly

According to the LFS, the number of recently mobile workers defined as 'active working age EU15 citizens', who are resident less than five years in another EU Member State has increased between 2000 and 2007 from 470.000 to 800.000. In 2005 the figure was around 610.000.

As far as stock figures are concerned Bruecker (2007) presents a trend for the number of residents from the NMS8 in the EU15 for the period 2000-2006<sup>28</sup>. In this period the number of residents from the 8 new Member States which joined in 2004 increased from nearly 700.000 (2000) to 1.3 million (2006)<sup>29</sup>.

The Eurobarometer data show between 2001 and 2005 a small but significant increase of the future intentions of inter-state mobility in Europe for respondents in EU25 of age 15 years and older. In 2001, the general intention for internal EU migration is 1.7%. It increased in 2005 to 3.1% and remained nearly stable in 2007 at an estimated 2.8% despite the use of a stronger wording in the questionnaire<sup>30</sup>.

What decreases significantly, however, in 2007 is the intention to move across regions within Member States. Between 2001 and 2005 the number of potentially mobile people between 18 and 64 years of age increased from 6.1 to 8.2%. This trend reversed to around 4% in 2007<sup>31</sup>. It is difficult to interpret

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<sup>27</sup> The analysis was provided by an international research team, which was coordinated by T. Vandenbrande from the Institute of Labour Studies (HIVA) of the University of Leuven. The following research reports have been published: Vandenbrande T. (ed.) (2006), *Mobility in Europe - Analysis of the 2005 Eurobarometer survey on geographical and labour market mobility*, Dublin: European Foundation for the Improvement of Living and Working Conditions; Fouarge D. and Ester P. (2006), *Determinants of international and regional migration intentions in Europe*, Dublin ; Coppin L. & Vandenbrande T. (2006), *European workers' expectations on voluntary and forced job mobility*, Dublin; Bukodi E. & Robert P. (2006), *Occupational career mobility and social stratification in Europe*, Dublin; Schömann K., Geerdes S., Fasang A. & Siarov L. (2006), *Job satisfaction and labour market mobility*, Dublin; Birindelli, L. & Rusticelli, E. (2006), *Long Distance Mobility: Does it pay?*, Dublin. All research reports are available on the website of the Foundation ([www.eurofound.europa.eu](http://www.eurofound.europa.eu)).

<sup>28</sup> Bruecker, H. (2007) *Labour mobility after the EU's Eastern Enlargement: Who wins, who loses?* GMF: Washington DC.

<sup>29</sup> For the EU27 the share of foreign born residents from EU27 Member States as part of the working age population increased between 2005 and 2007 from 2.0% to 2.2% according to estimates based on LFS figures.

<sup>30</sup> 2.8% is a figure for EU27 as it includes Bulgaria and Romania.

<sup>31</sup> The figure for 2007 is an estimate, as we have no access to the data file. We only know that the figure for all respondents in 2007 was 2.7% for EU27.

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these results. There are two possibilities: Either the stronger wording in the 2007 questionnaire as far as the intention for inter-regional mobility is concerned had a strong effect, or the intention to inter-regional mobility has decreased significantly.

Interesting in this context is trends in the US and in Europe seem to run in a different direction. Whereas in Europe inter-state mobility is increasing slowly from a low level, the US experiences a steep decline from 3.4% in 2000 to 1.9% in 2006. Over the period of seven years it is a steady decline, which nearly halves the annual inter-state mobility rate. The dynamic in Europe can be mainly explained by changing mobility behaviour and intention related to the two stages of enlargement of the European Union in 2004 and 2007<sup>32</sup>, whereas the sharply decreasing mobility rate in the US needs further explanation.

Table 2: Geographic mobility in the United States 2000 – 2006  
(percent of working age population)

Year	Different state, same Census Division	Different Census Division, same Census Region	Different Census Region	Different state
	1	2	3	4 = 1 + 2 + 3
2000	1.7	0.5	1.2	3.4
2001	1.6	0.5	1.0	3.1
2003	1.5	0.4	1.0	3.0
2004	1.4	0.4	1.0	3.0
2005	1.2	0.3	1.0	2.5
2006	0.6	0.4	0.9	1.9

Source: US Census Bureau, Current Population Survey.  
(<http://www.census.gov/population/www/socdemo/migrate.html>)

## 5.2. 'Islands' of high mobility in Europe

Citizens in EU Member States have a very different level of experience in geographical mobility, which is hidden by the European average. Several Member States have a high level of past long distance geographical mobility, which equals and under certain assumptions even surpasses the extent of mobility in the USA, which is seen by many European policy makers as the most relevant benchmark. Most of these countries combine a high level of mobility with an excellent overall labour market performance. These 'islands of

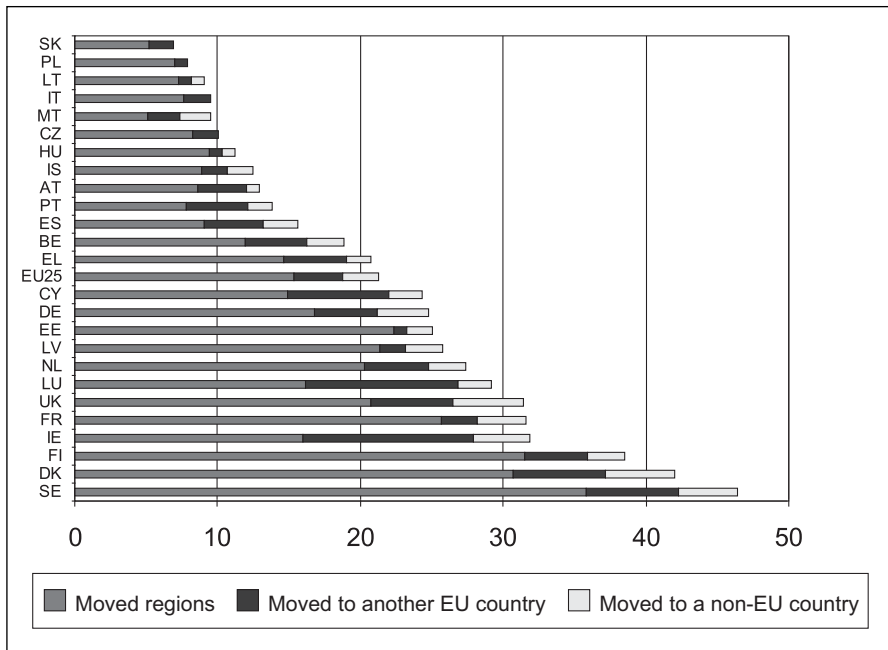
<sup>32</sup> See Krieger, H. (2008) *Migration and mobility culture: an analysis of mobility intentions*, in: Alber, J. and others, *Handbook of quality of life in the enlarged European Union*, Routledge: London and New York.

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advanced practice’ are examples which can be promoted and used to support a learning process through the peer-review process within the European Employment Strategy.

According to the results of the Eurobarometer study from 2005 most regional mobility of working age population can be found in the Nordic and the Western (Ireland, UK) and continental (France) European countries. Sweden for example would have a total long distance geographical mobility of more than 45%<sup>33</sup>. Denmark and Finland would have figures of around 40%.

Figure 1: Past patterns of long-distance mobility in the EU, by country (%)<sup>34</sup>



<sup>33</sup> For population above 15 years of age since they left their parental home.

<sup>34</sup> Working age population (18-64).

### 5.3. Higher willingness of the unemployed towards long distance geographical mobility

A strongly discussed issue for many years is the assumed unwillingness of unemployed as regards long distance geographical mobility. Even though there are groups of unemployed with low willingness for regional mobility, in comparison to the actually employed in Europe the unemployed show a higher propensity for across country migration and inter-regional mobility. Using employment status in a multi-variate statistical logit model in order to explain the future intentions for cross-country mobility in 2005 the unemployed show a statistically highly significant beta coefficient of between 0.56<sup>35</sup>.

Table 3: Estimates from logit model for intended migration to another country, coefficients from model and marginal effects (all respondents)

	Beta coefficient	Marginal effects (%)
Female	-0.406**	-1.2
Educational level (ref: average)		
Low or no	-0.158	-0.4
High	0.446**	1.4
Still studying	1.296**	6.5
Age (ref: 35-44)		
18-24	1.547**	8.4
25-34	1.016**	4.0
45-54	-0.618**	-1.5
55-64	-0.827**	-2.0
Employment status (ref: employed)		
Unemployed	0.574**	2.0
Retired	-0.109	-0.3
Housewife/man	0.340*	1.1
Household type (ref: couple, no child)		
Couple (with child)	-0.680**	-1.7
Single	0.482**	1.6
Single parent	-0.014	0.0
Divorced/separated	0.351*	1.1
Widowed	0.521*	1.8
Homeowner	-0.556**	-1.8
Constant	-3.042**	2.9

N = 13,081; Pseudo R-squared = 0.287

\* p<0.05, \*\* p<0.01

<sup>35</sup> See Fourage, D. and Ester, P. (2006), p. 22.

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### 5.4. Feminisation of migration

There are some indications of an increasing feminisation of mobility between the ‘old’ EU15 Member States and in particular from the NMS12. According to LFS figures the share of men in the EU15 mobile active workforce originating from another EU15 country was 60% in 2000, decreases to 57% in 2005<sup>36</sup> and reaches 53% in 2006<sup>37</sup>. The proportion of women increased accordingly to 47% in 2006.

Looking at the gender balance of the active working age population in 2006, one finds significant differences between the share of men and women originating from EU15 or NMS12. As far as mobility into EU15 countries is concerned, women from NMS12 have a surplus of + 8 percentage points in relation to men, whereas women from EU15 have a disadvantage of – 5 percentage points. The gender difference of mobility towards NMS12 is even more pronounced. Women originating from NMS12 have a surplus of + 7 percentage points while women originating from EU15 have a disadvantage of – 37 percentage points. I.e. we have a general strong proportion of women in outward migration from NMS12 independent of the target areas, an overall weaker outward migration of women prior resident in EU15 and a particular weak outward migration of those women into NMS12.

Table 4: Geographic mobility by gender and country of origin, EU15, NMS12, EU27 2006 (in percent)

	EU15		NMS12		EU27	
	Country of Origin		Country of Origin		Country of Origin	
Selected Characteristics	EU15 <sup>1</sup>	NMS12 <sup>2</sup>	EU15 <sup>3</sup>	NMS12 <sup>4</sup>	EU15 <sup>5</sup>	NMS12 <sup>6</sup>
<b>Sex</b>						
Male	52.5	45.9	68.4	46.5	53.1	45.9
Female	47.5	54.1	31.6	53.5	46.9	54.1

Source: Eurostat, LFS, spring results 2006

- 1) EU15 citizens resident for less than 5 years in another EU-15 country aged 15 to 64
- 2) NMS12 citizens resident for less than 5 years in another EU-15 country aged 15 to 64
- 3) EU15 citizens resident for less than 5 years in another EU-12 country aged 15 to 64
- 4) NMS12 citizens resident for less than 5 years in another EU-12 country aged 15 to 64
- 5) EU15 citizens resident for less than 5 years in another EU-27 country aged 15 to 64
- 6) NMS12 citizens resident for less than 5 years in another EU-27 country aged 15 to 64

<sup>36</sup> See European Commission (2006a), p.224.

<sup>37</sup> IZA and others (2008) *Geographic mobility in the European Union: Optimising its economic and social benefits*, Report for the European Commission DG Employment, Social Affairs and Equal Opportunities: Brussels. Those figures need, however, some further investigation as the increase of the share of women in the mobile workforce across EU15 countries between 2005 and 2006 seems fairly high.

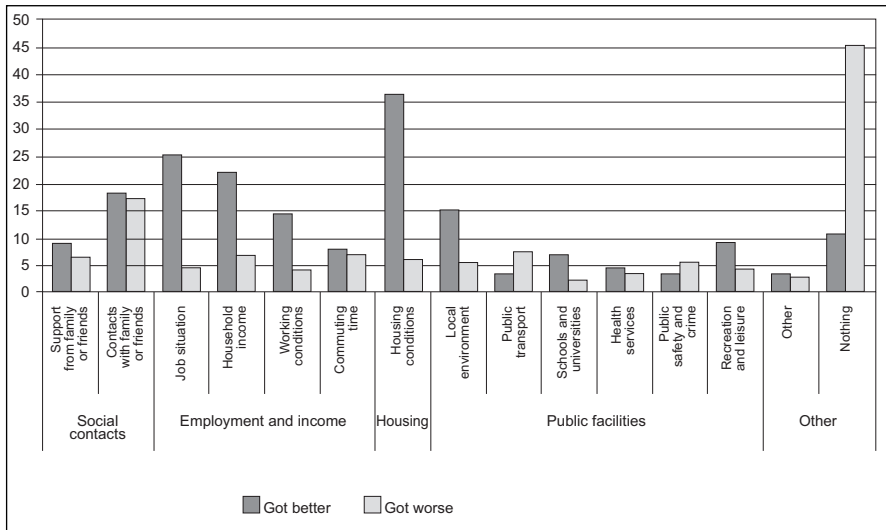
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In the long term these results indicate enhanced opportunities to achieve more equality in the labour market between men and women. As regards intentions for inter-regional mobility women show only slightly less willingness to more mobility in the future than men; the difference is larger as regards inter-country mobility.

**5.5. Movers are satisfied**

More personal openness for mobility is also supported by the reported positive experiences of mobile workers<sup>38</sup>. According to the Eurobarometer study from 2005 only 12% of movers perceives no positive results of personal regional and cross country mobility. More than a third report better housing conditions; a quarter have a better job situation for themselves or their partner and a higher income; and nearly 20% report even better contacts with family and friends. Just under half of the movers see no deterioration in any of their relevant life domains. However, 17% report a deterioration of their contacts with family and friends and 8% experience more problems with public transport and longer commuting times.

Figure 2: Perceived results of long-distance moves (%)



Source: Eurobarometer 2005

<sup>38</sup> Results are based on the Eurobarometer study from 2005. See Vandenbrande T. (ed.) (2006) p. 20.

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### 5.6. Positive macro- economic relationships

Policy-makers can also refer to statistically proven positive macro level relationships of mobility. Both forms of high long distance mobility in a country (across countries and across regions) have a strong positive association with higher employment rates and higher GDP per capita and a small association with reducing regional labour market imbalances within a country<sup>39</sup>. However, it has no significant negative association with the long-term unemployment rate in the country.

Table 5: Mobility patterns (% shares of respondents), employment and long-term unemployment rates 2005 - Rank correlations between mobility variables and macro indicators<sup>40</sup>

Mobility patterns		Employment rate 2005		Long-term Unemployment rate 2005	
		rs values	P	rs values	P
Long distance	Across countries	0.646	0.0%	-0.324	5.7%
	Across regions	0.616	0.1%	-0.448	1.3%

Source: calculations elaborated by the author on the basis of Eurobarometer Survey Dataset 2005 and EUROSTAT (<http://epp.eurostat.ec.europa.eu/portal/>).

However, these results have to be carefully interpreted as it can be a statistical relationship in a two way direction as existing employment rates/long-term unemployment rates may influence mobility rates and vice versa. In addition, it may be also plausible that the relationship between labour market performance and mobility is caused by a third determining factor as for example the ‘quality of and trust within socio-economic governance’.

<sup>39</sup> See Birindelli, L. & Rusticelli, E. (2006), p. 8-10.

<sup>40</sup> R-value and probability value P (one-tail) for the Spearman rho test. Positive (negative) R-values indicate a (direct) inverse rank correlation. Correlation is expected positive for Employment rates and negative for Unemployment rates.

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Table 6: Mobility patterns (% shares of respondents), GDP real long-term growth (absolute and per capita) and GDP per capita level 2005  
Rank correlations between mobility variables and macro indicators<sup>41</sup>

Mobility patterns		GDP - Per capita level in $\Leftrightarrow$ 2005		GDP - Average compound real growth rates 1996-2005		GDP per capita - Average compound real growth rates 1996-2005	
		rs values	P	rs values	P	rs values	P
Long distance	Across countries	0.772	0.0%	-0.110	69.7%	-0.291	91.6%
	Across regions	0.521	0.4%	-0.083	65.2%	-0.133	73.3%

Source: calculations elaborated by the author on the basis of Eurobarometer Survey Dataset 2005 and EUROSTAT  
(<http://epp.eurostat.ec.europa.eu/portal/>)

### 5.7. Encouraging micro-economic relationships

In addition, the empirical results of the report of Eurofound (Birindelli and Rusticelli, 2006) show job related inter-regional mobility increases individual labour force participation, employment rates and access to permanent jobs. In contrast, across country migration of employees has less significant statistical relationships with important labour market indicators. However, it enhances the individual employment opportunities for job related movers<sup>42</sup>. In addition, voluntary job to job mobility going hand in hand with regional mobility is an important factor in influencing a high subjective quality of work (job satisfaction)<sup>43</sup>.

## 6. CONCERNS AND RISKS OF MOBILITY

The results of Eurofound studies on mobility are not pointing in one direction only. They also provide evidence of concern for policy makers who think it is necessary within the European Employment Strategy to enhance workers' mobility. In addition, being mobile is a behaviour which carries risks for employees and companies.

<sup>41</sup> R-values and probability value P (one-tail) for the Spearman rho test. Positive (negative) R-values indicate a (direct) inverse rank correlation. Correlations are expected positive.

<sup>42</sup> See Birindelli, L. & Rusticelli, E. (2006), p. 13ff.

<sup>43</sup> See Schömann K., Geerdes S., Fasang A. and Siarov L. (2006).

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### 6.1. Low overall level in comparison

As previously mentioned, the EU has a significantly lower level of interstate and long distance mobility than the US. Although a large part of the difference in geographic mobility between the US and the EU can be explained by the absence of national borders in the US, English as the common language and a similar institutional framework, these comparisons still suggest that there is more room for higher geographic mobility in Europe. But the difficulty is to assess *how much* (extra) mobility Europe needs, and in (and between) which regions and countries. Experts underline that the policy debate on mobility in Europe should be on optimizing mobility - rather than on merely increasing mobility - but we hardly started to discuss the parameters that determine optimal mobility levels and patterns. This should be the next step in the European mobility discourse<sup>44</sup>.

### 6.2. Countries and regions with a low long distance mobility culture

Within the European Union certain regions and countries have had low mobility rates in the past and display a low willingness to consider long distance geographical mobility in the future. These countries include mainly the Southern Member States, some of the continental corporatist countries (e.g. Austria) and some ex-communist new Member States. According to table 1, Malta and Italy have less than 10% of respondents in working age with an experience of long distant mobility. Austria is with 13% also far below the European average of 22%. Many of these countries have lagged behind the European average for many years and a low mobility culture seems to be deeply engrained.

In some of these countries it has to be considered, however, to what extent higher levels of long distance commuting within the country and in border regions between countries are a functional substitute for long distance inter-regional and cross country mobility. Take the example of Austria. It had a regional commuting rate in 2006 of 11.1%<sup>45</sup>, which is significantly higher than the EU15 average of 7.3%. At the same time it had also an above average cross boarder commuting rate to EU15 of 0.6% and to EU12 of 0.4% of its working population. Both figures are above the European average<sup>46</sup>.

### 6.3. Groups with below average mobility

Certain groups of employees have a significantly lower level of mobility than the average: groups for example such as the lower educated and older employees. From the group of internal migrants in EU27 originating from EU15 only 21% are older than 44 years of age. The age profile is even more

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<sup>44</sup> See Ester, P. and Krieger, H. (2008) p. 4 and IZA and others (2008) p.121-127.

<sup>45</sup> This is defined as the percentage of working population which works in a different NUTS2 region from the one it resides.

<sup>46</sup> See IZA and others (2008) p. 137f

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pronounced for migrants coming from NMS12 countries. Here only 8% of internal EU27 migrants are older than 44 years of age.

As far as the level of education is concerned, 37% of migrants originating from EU15 have a higher level of education, whereas only 22% have a lower level of education. This profile is different for migrants coming from the new Member States, as 26% of them have a low level of education and only 16% a higher degree. As far as the latter group is concerned, policy makers have to consider the high employment risks for lower educated employees in general and combined with geographical mobility. Strong support from social networks and family is an important safeguard against social exclusion, which may be weakened through long distance mobility to other regions or countries.

Table 7: Geographic mobility by gender and country of origin, EU27 – 2006 (in percent)

Selected Characteristics	EU27 Country of Origin	
	EU15 <sup>1</sup>	NMS12 <sup>2</sup>
<b>Age Group</b>		
15 - 24	21.0	27.0
25 - 34	35.1	50.1
35 - 44	23.1	13.9
45 - 54	13.2	7.0
55 - 64	7.6	1.3
<b>Education</b>		
Low	22.4	26.0
Medium	40.5	57.7
High	37.1	16.3
<b>Labour Market Status</b>		
Employed	62.4	72.7
Unemployed	7.6	7.9
Inactive	30.0	19.4

Source: Eurostat, LFS, spring results.

- 1) EU15 citizens resident for less than 5 years in another EU-27 country aged 15 to 64
- 2) NMS12 citizens resident for less than 5 years in another EU-27 country aged 15 to 64

### 6.4. Reluctance to move when unemployed

A 'litmus' test for attitudes towards geographic mobility occurs in case a person or a member of the family or household is unemployed. Most economic theories of labour market processes assume that people are ready to move to where the jobs are. Is this a realistic assumption? Do European citizens commonly share this belief, also in case they would be affected themselves?

The readiness to be geographically mobile constitutes an important precondition to find a new job, particularly in regions undergoing economic restructuring. Especially for the low skilled and/or lower income groups of society, however a lack of financial, human and social capital may inhibit an otherwise gainful move to re-enter employment. These persons are at risk of becoming 'locked in' in an immobile situation, respectively a region. In structurally weak regions with high unemployment rates, people tend to substitute a lack of (mobile) resources, such as capital, with immobile resources such as the provision of resources within informal networks. Homeownership also strongly ties persons to a location, if real estate prices are very low and the rent in a different area is not affordable.

When asked 'if you were unemployed and had difficulties finding a job, would you be willing to move to another region or country to find one?' 31% of European citizens are ready to move both to another region or another country, and 6% even report being ready to move to another country only. Another 29% is willing to move to another region only. About one third (30%) of the EU25 population, however is not ready to move at all<sup>47</sup>.

Breaking down these results by age, the Eurobarometer survey from 2005 show that older people above 55 years of age have the highest level of apprehension to move despite being unemployed.

### 6.5. Loosing support of social networks and family

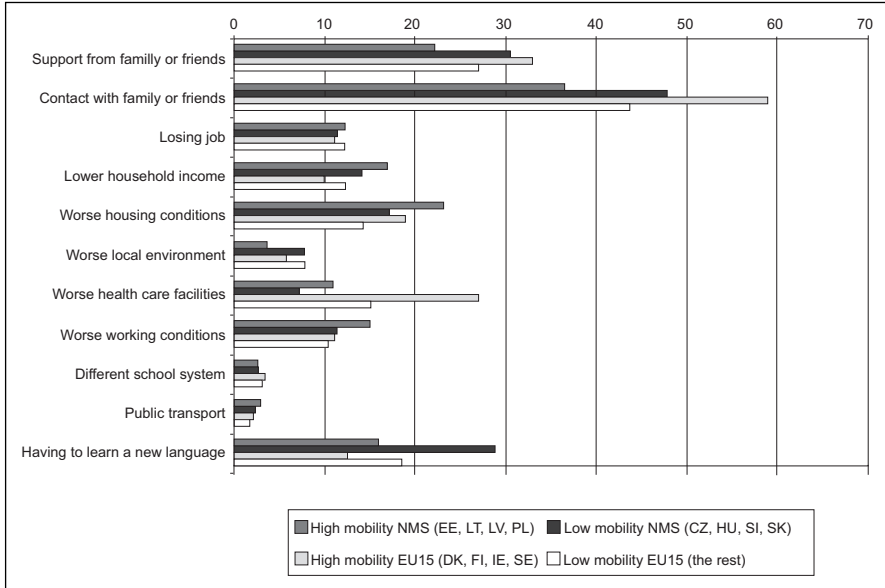
A great risk for all employees but particularly for vulnerable groups on the labour market, like less educated and young people is the loss of social networks and family support as a result of long distance geographical mobility. In 2005 around 40% of all employees in Europe were aware of these risks. The strongest worry can be found in the low mobility countries of EU15 with nearly 60%. However, those risks are less important for employees in the four high mobile new Member States (Baltic countries and Poland).

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<sup>47</sup> See Vandenbrande T. (ed.) (2006), p. 58f.

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Figure 3: Factors discouraging mobility (by country groupings)<sup>48</sup>



Source: Eurobarometer (2005)

**7. CONFLICTING POLICY OBJECTIVES?**

For many years, the European Union has been confronted with conflicting policy objectives and trade-offs regarding its policies in relation to mobility.

**7.1. ‘Too much’ mobility during accession and ‘too little’ geographical mobility in normal times**

Despite the overall objective to increase mobility of workers in the EU all but one round of enlargement of the EU has been accompanied by transitional arrangement restricting the rights of workers from new Member States to take up employment in the ‘old’ Member States for a certain period of time. The latest figures from various sources show a slow down of outward migration in NMS after the first accession phase, a different extent of mobility and mobility intentions between accession states, positive economic effects for receiving countries and the danger of increasing the number of undocumented workers from NMS in the ‘old’ Member States by imposing strong restrictions on labour market mobility over a longer period of time. As a consequence, the EU (as suggested by the European Commission) could decide on a total lift of any restrictions for NMS8 in 2009 when the transition period of five years will finish. As far as Bulgaria and Romania are concerned, the situation seems

<sup>48</sup> Figures are only for people not intending to move to another EU country.

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to be more complicated as even countries like the UK and Ireland, which opened up their labour markets to workers from NMS8 immediately after May 2004, imposed restrictions on workers from the two Member States after January 2007.

### 7.2. Brain drain versus brain gain

Research consistently shows that especially the highly educated and highly qualified workers are more likely to cross the regional or country borders within Europe, but also the students. This could lead to high potential risks of a combined brain and youth drain for some regions/countries in Europe. However, the extent of these risks will depend on two conditions: firstly, whether the migration streams will have a permanent character or if they will result in substantial circular or return migration. And secondly, whether this reflects an age effect for a certain life phase or a cohort effect of and increased propensity to migration of younger cohorts over their whole work biography. Both a cohort effect and a higher degree of permanent migration would change the effects of migration flows in Europe quite drastically. Systematic monitoring of migration flows is essential for answering such a crucial topic.

### 7.3. Paradox of positive general assessment and satisfying individual experience of mobility but low individual mobility rates

Given that a majority of respondents in the EU regard mobility as a good thing and considering that mobility is regarded by the movers as a positive experience, it is astonishing that mobility rates in the past have been low and will probably remain low in the future. The main reason for this paradox is the trade offs between economic and social aspects of geographical mobility. Economic opportunities and a better life style are counterbalanced by the fear to loose support from family and friends, to learn a new language and to find suitable housing. Compared with administrative and legal barriers, accessing social security provisions or public services emerged as less discouraging.

## 8. POLICY DIRECTIONS

What further implications for EU economic and social policy can be identified in the reports?

### 8.1. Easing mobility barriers

In policy terms, the Commission should continue its successful activities to remove existing legal and administrative barriers on transferability of qualifications, the introduction of a European health insurance and the portability of supplementary pensions. It can be safely predicted that the reduction of obstacles will not lead to mass migration inside the EU.

Despite the removal of legal and administrative barriers, however the social, cultural, educational and infrastructure barriers to mobility will remain as the main obstacles. Here policy makers have to get engaged in (i) fostering

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the integration of migrants, (ii) providing a more attractive urban infrastructure and a sufficient supply of affordable and attractive housing, (iii) investing in language skills and (iv) helping young people to study and work abroad<sup>49</sup>. In this context, the Commission should also consider more direct or indirect support for the spouses and partners of mobile workers.

This policy line is further pursued by the Commission in its new job mobility action plan 2007-2010<sup>50</sup>. Within this plan the Commission suggests four lines of action: (i) improving existing legislation and administrative practices; (ii) ensuring policy support for mobility from authorities at all levels; (iii) reinforcing the role of EURES (European employment services) and (iv) fostering awareness of the advantages of mobility.

### 8.2. Considering alternative policies

Policies aiming for increased labour mobility may also consider functionally equivalent policies for a better matching of labour demand and supply within a regional labour market, e.g. more capital mobility by attracting foreign direct investment (FDI). In this respect allocation and related personnel policies of multinational companies are of particular importance.

### 8.3. Discussing relationship between mobility policies and regional policies

EU policy is confronted with the policy dilemma to secure on the one side economic gains resulting from a more efficient allocation of labour to activities and regions where they are (likely to be) more productive. On the other side, Europe supports in under-developed regions/countries the retention of human resources and the development of economic and social conditions, which guarantee a certain level of inter-regional competitiveness. It is assumed that this would lead in the long run to adequate income and living conditions in disadvantaged regions. Permanent mass-migration of the better educated and younger parts of the workforce would undermine such policies. Regional and structural policies financed through the structural funds of the European Commission play in this context an important role supporting the retention of labour in economically under-developed regions. The question is how these various policies are related and dovetailed within the context of a more integrated EU employment, regional and social policy?

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<sup>49</sup> Conclusions and recommendations of the Commission (2006a), *Employment in Europe Report 2006*, p. 244.

<sup>50</sup> European Commission (2007).

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### 8.4. Combining policies on economic migration without comprehensive policies for social integration

Following the European Commission's communication of integration of third country migrants from September 2005, policies promoting economic migration of migrants should be accompanied in the Member States of the European Union by accompanying measures of labour market, social and cultural integration of migrants. Effective integration policies are a cornerstone in optimizing the economic and social returns in regional labour mobility. These complementary policies and activities are not only necessary for third country migrants but as well necessary for an effective social integration of migrants from other EU Member States.

### 8.5. Closing the knowledge gap

The basis of statistical information on stock and flow data of migrants in the European Union should be improved. This concerns better collection of statistics within the European labour force survey and within Eurobarometer studies. To judge effects of mobility processes it would be important to cover the dynamics of the individual work biography of workers either through panel data or through life history data. New forms of circular and seasonal migration as well as the extent and the effects of return migration can only be judged on the basis of good flow data.

### 8.6. Optimizing mobility

Existing trade offs between economic and social aspects of mobility need more policy attention. One should not advocate the simplistic policy position of *the more mobility, the better*. Evidently, mobility has clear economic potential gains, but sizeable mobility also has clear potential social losses, eroding community ties, creating new cultural constraints, and family pressures. To ensure the long-term success of mobility, we need the right balance between economic gains and social integration.

In conclusion: The issue is not to maximize mobility but to *optimize* mobility between EU countries. The debate should not be on "quantitative" mobility but on more "*qualitative*" mobility. What Europe needs is "more" and "*better*" mobility.

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PART 

THE SERVICES SECTOR: SPECIFIC ISSUES

# OFFSHORING OF SERVICE ACTIVITIES: OVERVIEW AND PROSPECTS

*EL MOUHOU B MOUHOUD*

## 1. INTRODUCTION

The question of corporate offshoring is set in the broader context of globalization. The bulk of corporate globalization involves merger and takeover operations for market conquest purposes or access to certain technological skills. The type of offshoring that is denounced in the public debate – operations where cheap labour is sought – is in the minority, although the phenomenon has recently been accelerating<sup>1</sup>. This form of outsourcing involves more international sub-contracting and direct imports rather than capital transfers in the form of FDI or mergers and takeovers (M&T). A study that has been conducted based on individual data on French firms in the industrial sector (Aubert and Sillard 2005) considers that outsourcing is accompanied both by job cuts and a rise in imports by the establishment in the group concerned: the authors report that 95,000 industrial jobs were displaced in the period from 1995 to 2001 due to offshoring, i.e. an average of 13,500 per year. They estimate that less than 7000 jobs a year are displaced to emerging countries and the rest go to industrialized countries. These figures have been updated to 2003 (Barlet et al, 2007). It transpires that (i) the number of displaced jobs is increasing slightly over time and (ii) the proportion of jobs that are displaced to emerging countries is clearly rising. The increase in displaced jobs is thus due to the increase in the flows to low-wage countries, and in particular to China<sup>2</sup>.

Until recently, even if offshoring was accelerating, economists were quite reassuring: these phenomena were (rightly) regarded as a minority phenomenon concerning certain unskilled-labour-intensive sectors and certain regions where such activities are concentrated – the textile-leather-garment industry,

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<sup>1</sup> In the case of foreign direct investments, only 4% to 5% concern offshoring for reasons of wage cost differentials involving the re-importing of the final products to the firms' markets of origin. This share is higher for the European Union as a whole (8%), the United States (7%), and Germany (20%) (Mouhoud 2008).

<sup>2</sup> The number of jobs that were offshored to China rose from 1459 per year in the period from 1995 to 1999 to 4114 in the period from 2000 to 2003.

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metallurgy products, and electronic and electrical products. This optimism is strengthened by the predictions of the theory that jobs that are destroyed will be compensated at the macroeconomic level in the long term<sup>3</sup>.

However, although this effect where jobs that are destroyed locally or in certain sectors are offset by jobs that are created in other activities at the global level is theoretically probable and has been verified historically, there are impediments to that compensation, which help to maintain pockets of low-skilled unemployed workers with limited mobility in vulnerable regions. What is more, the fact that, for reasons of wage cost differentials, offshoring has very recently been extended to service activities, which are often regarded as sectors that compensate for the jobs lost in industry since they are traditionally described as non-tradable and thus protected from international competition, is a matter of concern, which foreshadows the rise of emerging countries in all economic activities including technological innovation activities. The share of jobs destroyed in the information and financial services sectors has thus grown in industrialized countries.

In fact, contrary to what Werner Sombart's law (1902), which was formulated in the early 20<sup>th</sup> century, predicts, international trade did not collapse as the result of the increase in the proportion of services in the economy. Not only are services that were traditionally regarded as non-tradable now being traded on an expanding international market, but the production of these services is now also being outsourced abroad. The services now account for two-thirds of GDP and FDI in developed countries and almost 20% to 25% of international trade<sup>4</sup>.

The liberalization of trade in services is negotiated in the WTO context through the General Agreement on Trade in Services (GATS). Since the beginning of the 1990s, a process has been developing through the liberalization of international trade in services and the development of information and communication technologies (ICTs) where certain tertiary activities are being offshored. This phenomenon is defined as the transfer of part of national services output to low-cost countries followed by the synchronous re-importing of those services (in real time) onto the domestic market.

But is there not also collective exaggeration of these phenomena? Can one rely solely on the international sub-contracting potential that has developed in the intangible services field as the result of the – admittedly extraordinary – development of information and communication technologies to conclude that the world will become flatter by the day, as Thomas Friedman put it (“the world is flat”). This theory is relayed by economists, who seem to attribute a predominant role to ICTs due to their ability to abolish distances

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<sup>3</sup> See E.M. Mouhoud (2008) for a recent survey of offshoring operations.

<sup>4</sup> All studies agree on this order of magnitude of 20% to 25% of world trade. See Welsum and Reif (2006), for example.

by promoting new forms of societal and corporate organization in networks<sup>5</sup>. The extension of the Taylor principle of the decomposition of the value chain (or the international splintering of production processes into different modules) to the services sector heralds spectacular and inexorable decentralization of production in industrial and service activities, creating immediate competition amongst workers across the globe. The alarmist projections of certain groups of consultants predicting mass job destruction in the services as the result of offshoring to low-wage countries can be cited<sup>6</sup>, but this illusion of the endless advantage of dispersing service activities or activity fragments (call centres, accounting services, computer services, information services, and so on) must be clearly qualified: first of all, we must return to the analysis of spatial discontinuities (polarization and centre-periphery links), which has been applied essentially to the manufacturing industry. How are service activities located spatially? Are they concentrated or dispersed? Which of them are mobile, offshorable activities and which of them have the potential to remain and develop on the territories of developed countries? What does the empirical literature have to say on the subject? Section 3 deals with international trade in services and proposes to unravel the links between trade and the offshoring of activities on the basis of the four supply modes on which the WTO (GATS) negotiations are based. What are the effects of the liberalization of trade in services? Analysis that is more refined than certain superficial works on offshoring, is then required of the extent and determinants of international trade in services and of offshoring. Why are service activities that were previously offshored to low-wage countries being repatriated to the countries of origin, as is also happening in industry? In the services which we can describe as tradable or offshorable should we not introduce an analysis of the nature of the services concerned and the forms of coordination between partners in order to have a less schematic and less caricatured idea of the effects of ICT on the offshoring of services to low-wage countries? Section 4 proposes answers to these questions. And lastly, what is the outlook for the future of the globalization of service activities? An approach will be provided that is based on the work of the DIACT<sup>7</sup> Forecasting Group on the Services Economy and Regions.

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<sup>5</sup> It is interesting to note that this “theory” of a decentralized world where activities are disbursed at the global level resulting in worldwide wage competition is also found – although expressed in different terms – in the work of post-Marxist authors such as Mickael Hardt and Toni Negri, who (in their work entitled “Empire”) see the development of ICTs as the emergence of intangible work which will lead to the effective homogenization of the work process.

<sup>6</sup> The Forrester Research consultancy, for instance, predicted that 3.3 million jobs would be offshored from the United States to low-wage countries, as Forrester Research President John McCarthy stated in 2002 (see [http://www.forrester.com/rb/analyst/john\\_mccarthy](http://www.forrester.com/rb/analyst/john_mccarthy)). Deloitte Research estimated that the major financial services firms around the world would offshore almost 2 million jobs to low-wage zones in 2008. Many other projections have been put for predicting mass job destructions, which have not been confirmed in actual fact.

<sup>7</sup> DIACT: inter-ministerial delegation on regional area management and competitiveness, France; chaired by E.M. Mouhoud (2007-2008).

## The internationalization of labour markets

A typology of service activities based on an endogenous approach using activity location factors will provide a basis for answering the question of the vulnerability of employment areas depending on the types of services they host. Section 5 will propose an approach of this nature for discussion.

## 2. THE ECONOMIC GEOGRAPHY OF SERVICE ACTIVITIES – CONCENTRATION OR DISPERSION?

It is widely known that since the 1980s the tertiary sector has been leading employment growth and growth in value-added in France and in other major OECD countries (Gadrey, 2003). What is more, the services are no longer merely industry-driven sectors. It is in fact recognized that innovation has been flourishing within the service activities in response to the demand from industry (Hertog and Bilderbeek 1999). Although the gap in productivity between the services and industry persists in general, productivity gains are particularly high for certain service activities.

Service activity location factors are characterized by four fundamental elements (Jennequin, 2007). First of all, a large proportion of intermediate production in the services is for industry (Francois and Reinert 1996). Returns are increasing in service production, a fact which allows clustering, as is the case in the manufacturing industry (Markusen, 1989). They have a high level of skilled labour (Evangelista and Savona, 2003), and employment is being transferred from industry to computer and communication services. And lastly, services are becoming increasingly tradable between countries and have a direct impact on international competitiveness (van Welsum and Reif, 2006; Bensidoun and Unal-Kesenci, 2007).

### 2.1. How to measure service activity location

There is abundant economic geography literature which endeavours to verify the degree of spatial concentration of activities. The results generally concern the manufacturing industries and have converged towards the observation of a trend towards accelerating geographic polarization of activities as countries become globalized or join a regional area such as the European Union. Innovation activities always seem to be more concentrated than production activities (Lallement, Paillard and Mouhoud, 2007)<sup>8</sup>, whereas tradable services are more concentrated in Europe (Hallet, 2000) than are personal services (Midelfart et alii, 2002, Gaulier, 2003).

These initial results are of limited relevance, however, due to the high degree of clustering of service activities (there are only five service sectors). For example, corporate service activities (consultancy, merchant banks, etc.)

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<sup>8</sup> This high level of concentration is to be explained by the need for geographic proximity in the transmission of knowledge, since knowledge is tacit and the dissemination of knowledge externalities is localized.

and so-called knowledge-intensive activities such as research and development (R&D) are concentrated relatively more in the European Economic Area, partly as the result of European integration which prompts the clustering of corporate service activities as well as industrial and innovation activities.

These approaches are also of limited scope since they have the problem of disaggregating service activities and, what is more, of giving an exogenous or even arbitrary definition of tradable services as opposed to non-tradable services. More recent work endeavours to remedy these shortcomings by proposing an endogenous definition of tradable service activities on the basis of Krugman's intuition (1991).

## 2.2. The Krugman approach

Paul Krugman (1991) hypothesizes that non-tradable services are distributed proportionate to demand at the elementary regional level (dispersion), whereas tradable services are characterized by the possibility of the separation of locations: they can be concentrated in one location while serving demand over distance. Demand proximity thus is not necessary.

The empirical application of this theoretical approach consists of verifying whether regions which host concentrated service activities are vulnerable to job offshoring (mobile services) whereas regions hosting non-mobile service activities or service activities with limited mobility (non-tradable activities) are more protected from these offshoring movements. Concentration allows tradable services to achieve returns of scale and economies of agglomeration. The concentration criterion must be handled with caution, however. Concentration does not necessarily imply vulnerability: it is an asset in financial activities and constitutes a certain degree of attractiveness for regions, which promotes the establishment of multinational firms.

## 2.3. Bradford Jensen and Kletzer's application (2005)

In order to test this hypothesis proposed by Krugman, Bradford Jensen and Kletzer modify the Gini indices and the Ellison-Glaser index (see Box 1), proposing a new measurement method with which the importance of the region in service activity employment ( $s_i$ ) can be compared to its share in demand for that industry ( $IDS_{i,p}$ ). Whenever the region's share of employment in a given activity is significantly higher than the region's share in total aggregate employment, this indicates concentration or specialization in that activity. Such an activity is then said to be tradable if local employment exceeds local demand in the region. The difference is thus traded with external regions.

The results obtained by Bradford Jensen and Kletzer (2005) on all 92 of the sectors in the classification used are hardly surprising: The manufacturing sectors of agriculture and mining are classed typically in categories 2 and 3 – categories with a relatively high or very high level of geographic concentration. The retail trade service sectors seem to be non-tradable, unlike transport activities. Public administration activities are all classed as non-tradable with the exception of defence services (the army) and public finance. As

## The internationalization of labour markets

is shown in Table 1, financial services, consulting, advertising, management or rental/leasing services appear to be highly concentrated and thus tradable. However, the high concentration of R&D activities cannot suggest that these activities are liable to be offshored simply because they are highly concentrated. Information services also seem to be tradable as one might expect, except in the case of radio, TV, newspapers and advertising.

This empirical approach of the degree of tradability of services is then compared to the jobs which can be displaced or outsourced due to the relative mobility of these activities. Jobs in agriculture and mining are classed as tradable (categories 2 and 3). Most industrial employment is classed as tradable. Jobs in the construction industry, on the other hand, are not tradable according to this methodology.

The authors find that employment growth is lower in tradable services than in non-tradable services. But this lower employment growth rate concerns the least skilled jobs in tradable services. Since the employment level is much higher in the services than in industry, the risk of jobs being destroyed in the tradable services due to international competition, productivity gains or offshoring to countries with lower wage costs is also higher.

The activities with a large share of offshorable or tradable jobs are as follows: financial operations (68%), jobs connected with the computer sciences and mathematical operations (100%), architecture and engineering (63%), legal jobs (96%), and jobs in the physical life sciences and social sciences (83%). Non-tradable jobs concern education and documentation (99% non-tradable), health (86%) and the catering industry (96%). As regards unskilled jobs, 90% are jobs in maintenance, installation and repair work, and 89% of jobs in the transport industry are classed by the authors as non-tradable.

The authors add that in the service sectors that are classed as non-tradable 10% of jobs are considered to be offshorable (mobile). All in all, according to these results, jobs in the services seem to be relatively vulnerable to offshoring to low-wage countries.

When the demographic features of the persons employed in the various activities are examined, however, this observation of a greater vulnerability of service jobs to globalization can be qualified to some extent. Contrary to the traditional vision of the services as a sector which is protected from international competition and where jobs are maintained, the results show that the majority of service jobs are in tradable service sectors and are therefore offshorable. The authors calculate that an average of 30% of jobs are potentially tradable or offshorable in the very broad sense of their concept of tradability (concentration). Persons employed in tradable services are highly skilled, however, and command higher salaries than those employed in non-tradable services. This population is mainly male. In the non-tradable sectors, on the other hand, employees earn salaries that are 10% lower than those earned by workers in the tradable sectors. All in all, the two effects add up: being employed in a sector that is considered to be tradable and having a job that is also considered to be tradable means that higher wages can be earned.

The characteristics of workers employed in the tradable services (highly skilled and earning high salaries) present a certain degree of coherence with the observation that the US has a considerable comparative advantage in international trade in services compared to the manufacturing industries or non-tradable services.

**Box 1.**

**Measuring the tradability of service activities: the Bradford Jenson and Kletzer method (2005)**

Using the input-output data of the Bureau of Economic Analysis (BEA), the authors construct an indicator for measuring region-specific demand for each sector. The measurement of the share of demand addressed to the sector ( $IDS_{i,p}$ ) represents the degree of geographic concentration of the demand for goods or services  $i$  in a region  $p$  at the elementary location level (Work Metro Area):

(1)  $IDS_{i,p} = \sum_j (Y_{i,j} / Y_i * \ln EMP_{j,p} / \ln EMP_j)$

Where  $Y_{i,j}$  = output of sector  $i$  used by sector  $j$  (households and the State also being considered to be  $j$  sectors);

$Y_i$  = total output  $i$ ;

$\ln EMP_{j,p}$  = employment in sector  $j$  in region  $p$ ;

$\ln EMP_j$  = total employment in industry  $j$

In order to construct measurements of demand specific to jobs per region the authors use indicator (1) and weight it by the share of employment in the sector

(2)  $ODS_{o,p} = \sum_j (IDS_{j,p} * OcEMP_{o,j} / OcEMP_o)$

Where  $IDS_{j,p}$  = share of sectoral demand for sector  $j$  in region  $p$

$OcEMP_{o,j}$  = jobs held in sector  $j$ ;

$OcEMP_o$  = total jobs held

**Measuring concentration**

Ellison and Glaeser's indicator (1997) is used.

(3)  $EC_i = \sum_p (s_{i,p} - xp)^2$

This indicator compares the share of regional employment in sector  $i$  ( $s_{i,p}$ ) with the share of total employment in region  $p$  ( $xp$ ).

Whenever the share of a region in employment in an activity is significantly higher than the region's share in total aggregate employment, this indicates concentration or specialization in that activity. The EC index shows geographical concentration for a given activity. Such an activity is tradable if local employment exceeds local demand in the region. The difference is thus traded outside the region.

The authors suggest modifying the EC indicator in order to verify the difference between the region's share in employment in an activity and the region's share in the demand for that activity.

(4)  $EC_i = \sum_p (s_{i,p} - IDS_{i,p})^2$

This new measurement thus provides a basis for comparing the region's place in employment in the service activity ( $s_i$ ) with its share in the demand for that industry ( $IDS_{i,p}$ ).

The second measurement of geographical concentration uses the Gini coefficient.

(5)  $G_i = | 1 - \sum_p (\sigma Y_{i,p-1} + \sigma Y_{i,p}) * (\sigma X_{i,p-1} - \sigma X_{i,p}) |$

Where  $p$  is the regional index (the share of the region in employment in the activity),  $\sigma Y_{i,p}$  is the cumulated share in employment of activity  $i$  in region  $p$ ,

$(p-1)$  is the lowest regional share in industrial employment,  $\sigma X_{i,p}$  is the cumulated share in employment in activity  $i$  of region  $p$ , and  $\sigma X_{i,p-1}$  is the cumulated share in total employment in the region  $(p-1)$ .

The Gini coefficient is modified so as to give

(6)  $G_i = | 1 - \sum_p (\sigma Y_{i,p-1} + \sigma Y_{i,p}) * (\sigma IDS_{i,p-1} - \sigma IDS_{i,p}) |$

where  $\sigma IDS_{i,p}$  is the cumulated share of the region in the demand addressed to activity  $i$ .

**The authors apply this method** by using the data from the (2000) Decennial Census of Population Public Use Micro Sample (PUMS)). The geographical data used pertain to the Consolidated Metropolitan Statistical Area or the Metropolitan Statistical Area. The concentration index is used for each activity. Since the two indicators are highly correlated, the authors focus on the adjusted Gini coefficient.

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Table 1. Types of services by degree of concentration of service activities

Degree of concentration GINI classes	Gini class 1 (those least concentrated geographically) $G < 1$ (36 %)	Gini class 2 ( $1 < G < 3$ ) (37 %)	Gini class 3 ( $G \geq 3$ ) those most concentrated geographically (27 %)
<b>Information services</b>	Newspapers and publishing RADIO TV advertising and cable Documentation and archives	Wired telecommunications carriers Data production services Other telecommunication services Publishing except press and software Other information services	Imaging and video industry Sound industries Software publishing
<b>Finance and insurance</b>	Savings institutes including credit organizations  Banking and related activities	Insurance companies and related activities  (Non-depository) credit and related activities	Placements, financial investments, funds, trusts and other financial investments
<b>Rental/leasing services</b>	Video recording and disc rentals  Renting of other consumer goods	Commercial, industrial, and other intangible assets rental and leasing Real estate Automobile equipment rentals	
<b>Scientific and professional services, technical services</b>	Veterinary services Accounting services, corporate taxation services and pay services, etc.	Architectural and engineering services, related services Other professional services and technical services Legal services Specialized designing services Computer systems, designing systems and related services Advertising and related services Management services, consultancy services and technical services	Scientific research and development service
<b>Management</b>		Group and corporate management	

## Offshoring of service activities: Overview and prospects

Table 1. Types of services by degree of concentration of service activities

Degree of concentration GINI classes	Gini class 1 (those least concentrated geographically) $G < 1$ (36 %)	Gini class 2 ( $1 < G < 3$ ) (37 %)	Gini class 3 ( $G \geq 3$ ) those most concentrated geographically (27 %)
<b>Administrative services</b>	Waste management and remediation services Business development services Construction services Land services	Employment services Other administrative assistance services Investigation and security services Travel and reservation services	
<b>Education</b>	Primary and secondary schools Universities and higher education Other schools, instruction and education services	Business schools and technical training colleges	
<b>Health services and social services</b>	Hospitals, dentists, doctors, day nurseries, domestic services, etc.	Collective catering, emergency services, etc.	
<b>Arts and leisure activities</b>	Bowling centres, other leisure activities	Museums, art galleries, historical sites, etc. Independent artists, show business and the performing arts, sportspeople, etc.	
<b>Accommodation</b>	Drinking places, alcoholic beverages Restaurants and other food services Recreational vehicle parks and camps, and rooming and boarding houses	Traveller accommodation	
<b>Other services</b>	Automobile repair and maintenance Machine repair services Dry-cleaning Car wash services, electronic equipment maintenance, etc.	Trade fairs, professional congress facilities, etc.	Unions Shoe-repairing
<b>Public administration</b>	Administration of justice, training programmes, public services relating to economic and environmental programmes, construction, etc.	Public finance activities	Various army services

Source: adapted from Bradford Jensen and Kletzer (2005)

## The internationalization of labour markets

### 2.4. Application to the case of France

Work has been carried out recently for the DIACT by Barlet et al (2008), applying the models to France and using the Bradford Jensen and Kletzer approach (2005). The purpose of the study is to identify and rank mobile and non-mobile services starting from an analysis of levels of service activity concentration. Which regions of metropolitan France are most vulnerable, given the intensifying globalization of trade in services? In order to measure the concentration the authors use the corrected Gini demand distribution coefficient and Ellison and Glaeser's index. They use the [French] CLAP database (Connaissance Locale de l'Appareil Productif – local knowledge of the production system) comprising 1,910,550 establishments employing at least one wage earner.

This database can be complemented with the population data from the 1999 census and national accounting data (the Input/Output table) in terms of imports, exports and output per sector. The database is broken down into 341 employment zones, 21 administrative regions, 94 departments, and 36,248 municipalities. The results confirm that the service sectors are less concentrated than the industrial sectors. The most concentrated service sectors in terms of the GINI index and Ellison and Glaeser's index are air transport, R&D services, insurance services, audiovisual activities, and computer activities. Seven sectors (including the above) appear to be the most concentrated and thus the most offshorable. They accounted for 881,154 jobs in 2005. As was found in the Bradford Jensen and Kletzer study, the least concentrated sectors are the retail trade, the automobile repair trade, the wholesale trade, welfare services, postal and telecommunications services and health activities.

## 3. THE LIBERALIZATION OF INTERNATIONAL TRADE IN SERVICES

The services now account for two-thirds of GDP and FDI in developed countries and almost 20% to 25% of international trade. Since the 1990s annual growth in trade in services has exceeded annual growth in industry in the European Union (EU-15) and in the United States. Negotiations within the World Trade Organization (WTO) on international trade in services are organized on the basis of four principal modes of liberalization, inspired by Bhagwati's work on service supply (1984a and 1984-b)<sup>9</sup> (see also Box 2 and Table 2).

- Mode 1 concerns the cross-border supply of services, that is to say, export in the classical sense of the term as in the case of trade in goods; it is the service itself which crosses the border from country A to country B<sup>10</sup>.

<sup>9</sup> The General Agreement on Trade in Services (GATS) was signed in Marrakesh in 1994.

<sup>10</sup> The broadcast of a television programme by satellite, for example, or the transmission of a consultation with the lawyer to a client who is located in another country by mail, fax or e-mail, the execution of a financial operation by an agent in London for a client in Paris, and so on.

- Mode 2 concerns the consumption of services abroad in that it is the consumer from country B who crosses the border to go to country A<sup>11</sup>.
- Mode 3 refers to the commercial presence of the service supplier from country A, who has crossed the border as a corporate body in order to establish an office or subsidiary in country B on a permanent basis<sup>12</sup>.
- Mode 4 refers to the presence of natural persons and describes cases where a supplier from country A crosses the border in order to provide his/her service but this time in the form of the physical movement of persons or the temporary migration of staff<sup>13</sup>.

Only services that are supplied directly by a domestic producer to a foreign user correspond to traditional international trade (Hill, 1999). This is thus a very broad vision of international trade in services which includes all transactions concerning knowledge and know-how between a resident in one country and a resident in another country, irrespective of the location of the operation. Numerous service transactions only become international through the difference in country of residence between the purchaser and the vendor of the service (Lipsev, 2006).

A study by Bensidoun and Unal-Kescenzi (2007), using balance of payment data for trade transiting via modes 1 and 2 between residents and non-residents, shows a downward trend in “travel and transport”, which were traditionally predominant, compared to the “other services” item, which accounts for 49% of world trade in services. This “other services” item includes licence fees and financial activities, which have developed very rapidly in contrast to the communications, building and public works sectors or the cultural sector. The European Union (EU-27) is a leader in the export of services if one considers intra-Community trade. As regards the ranking of individual countries, the United States was in the lead in 2005 (15% of world service exports compared to 8% for the United Kingdom, 6% for Germany and 5% for France). Furthermore, the structures of UK and US exports are fairly similar, whereas Germany and Japan continue to specialize in manufactured products.

Mode 3, which largely corresponds to the sale of services in the destination country via a foreign direct investment operation, remains predominant, accounting for the following shares: 80% in the case of the US, 73% in the case of France, and 6% in the case of Germany (Bensidoun and Unal-Kescenzi, 2007). The geographical breakdown of service exports under Mode 3 shows that in the case of the United States, France and Germany many undertakings

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<sup>11</sup> A tourist who goes to stay in a hotel or a patient who goes abroad for medical care.

<sup>12</sup> The representative office of an airline company, for example, or a branch of a bank.

<sup>13</sup> Engineers, architects or consultants providing services abroad for a specific length of time, for example.

## The internationalization of labour markets

come mainly from Europe, whereas in the case of Japan it is mainly American firms that are concerned in terms of both purchases (imports) and sales (exports).

Modes 1 and 4 play a minor role in trade in services except in the case of Japanese imports, where they are slightly predominant. Furthermore, the share of the commercial sector in the internationalization of services is very significant in the case of all countries (between 62% and 87% of mode 3 trade). Mode 2 (tourism) is significant in the case of France (17%).

### *Developed countries are specializing more and more in service activities*

The authors analyse international specialization, using as indicator the comparative advantage revealed by international trade in the three sectors – primary, manufacturing and tertiary; they compare Japan, the EU-27 and the United States and correct for trade surpluses or deficits so that the results do not depend on any deficits. Japan confirms its position on the manufactured products market, whereas in the case of the United States the contribution of the services sector is positive. In Europe, the situation in the tertiary sector is more differentiated. A comparison of European countries shows marked specialization in the services in France, although it is declining due to the deterioration of the “other services” sector, whereas tourism remains the country’s strong point. The United Kingdom, like the United States, has embarked on full-scale specialization in the services, setting in motion a process of de-industrialization in the long term.

A comparison of the United States and the EU-27 according to their positioning in each tertiary activity brings out the strong position of the US in the “licence fees” sector (cultural services), which contrasts with Europe’s weak position. The US’ weak points are to be found in the insurance sector, whereas the European strong points are in the fields of computer services or finance (Bensidoun & Unal-Kescenzi 2007).

In the “other services” sector, which is considered to be more dynamic, good performance is recorded on the part of the US, UK and Germany, unlike France, whose position is waning.

**Box 2:**

**The problems of measuring trade in services according to the four supply modes**

Measuring trade in services according to each of the four supply modes (Cross-border supply, Consumption abroad, Commercial presence, Presence of natural persons) proves delicate. For although the balance of payments includes cross-border trade and trade concerning consumption abroad (modes 1 and 2), no distinction between operations connected with goods or services is available for FDI and commercial presence (mode 3). And lastly, there are no harmonized statistics on temporary presence abroad (mode 4). Furthermore, until the mid 1990s, only trade in services connected with trade in goods was identified in balances of payments: Transport, travel (tourism), and all other service activities were grouped together in the "other services" category. Eleven commercial services sectors have since been identified: transport, travel, construction, communications, insurance services, financial services, computer and information services, levies and licence fees, other corporate services and personal, leisure and cultural services.

According to the WTO, the sale of the supply of a service to a non-resident (trade in the broad sense defined by the GATS) is carried out mainly through commercial presence (see Table 2). Sales of services to residents through commercial presence abroad can be estimated by means of the so-called FATS statistics (Foreign Affiliates Trade in Services Statistics), which identify the activity of the resident subsidiaries of foreign multinational undertakings (FATS inward) and that of subsidiaries of, for example, French multinationals abroad (FATS outward). The turnover achieved by the latter can also be used as an approximation of sales abroad. However, it proves difficult to compare cross-border trade and sales abroad through commercial presence, for the FATS data are broken down according to the activity of the parent company rather than that of the group as a whole or the product traded (recorded for modes 1 and 2). The problem proves to be particularly delicate in the case of trade for which the value of the product sold is included in the turnover of the marketing or construction subsidiary, which includes the value of the materials used. Furthermore, the FATS and balance of payments data cannot be compared directly, because the data are recorded under different categories for products (goods and services) and activities respectively. Bensidoun and Unal-Kenzens (2007) have processed these data for four countries: the United States, Japan, France and Germany. They state that this is the only estimate which takes account of data harmonization problems.

The difficulty in approach in the case of mode 3 must be underlined; the GATS gives a very broad definition of the concept of "trade". Foreign direct investment corresponds to a product, the creation of value-added or jobs in the host country and not in the country of origin; it thus differs from trade, for which the product, value-added and employment are created in the exporting country. It can thus be considered an exaggeration to regard sales carried out by foreign subsidiaries of French firms as "trade", since the latter come under the production of the service abroad for sale in that country. Clearly, this calculation method may nevertheless seem oversimplified: it provides an average while the sectors vary widely at this level. Since sectoral FATS data are available, distinctions can be made according to service activities. However, differences at the international level make it difficult to carry out comparisons.

In order to obtain mode 3 figures, the authors state that a correction is necessary to proceed from commercial sector turnover to the trade margin (the commercial service as such). Two approaches can be adopted for this: One the one hand, one can carry out a calculation on the basis of the gross profit rate (between 20% and 25%) and apply a uniform rate of 25% to all sectors, which would correspond to the service part of turnover. In the case of the balance of payments, the distribution services data are included in the goods traded: The second, more radical, method would thus be to exclude trade (and construction). This option has been suggested in particular by the OECD.

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Table 2. Connections between the four modes of trade in services and the various forms of corporate globalization

From country A to country B	Mode 1 <b>Cross-border supply</b>	Mode 2 <b>Consumption abroad</b>	Mode 3 <b>Commercial presence</b>	Mode 4 <b>Presence of natural persons</b>
Trade in services between country A and country B	Classical <b>export</b> of a service (broadcast of a television programme by satellite, consultation with a lawyer)	Here, a consumer from country B crosses the border to go to country A. (tourism, medical care, etc.)		A supplier from country A crosses the border but this time in the form of the physical movement of persons.
Market-seeking FDI			The service is supplied by a supplier from country A, who has crossed the border as a corporate body in order to establish an office or subsidiary in country B on a permanent basis. (representative office of an airline or branch of a bank or insurance company)	
Outsourcing or offshoring (international sub-contracting)	<b>Import</b> into country A from country B Sub-contracting of a service operation to an independent firm: the service is intended for final consumption in the country of origin (call centres) or for intermediate consumption (computer data input, accounting, etc.)			

*FDI are predominant in the services and are continuing to grow*

The share of FDI stock in the services sector in the world stock grew in most countries in the period from 1995 to 2003, accounting for over half of the world stock and even for 88% of the inward FDI stock into Germany and 82% of French FDI stock abroad. The share of FDI in the services sector in GDP also increased in the decade from 1990 to 2000 (UNCTAD, 2004).

However, as is the case with industry, FDI in the services sector generally seek to gain market access rather than to offshore services for reasons of wage cost differential; offshoring typically involves international sub-contracting or mode 1 “cross-border supply” of services according to the WTO typology of trade in services (column 1 of Table 2).

Table 3. Share of the services in inward and outward FDI stock in 2003

	Inward FDI stock in the services sector as a % of total FDI	Inward FDI in the services / GDP	Outward FDI as a % of total FDI	Outward FDI in the services / GDP
France	80	23.4	82	32.9
Germany	88	24.2	81	24.
United Kingdom	66	22.3	61	42.3
United States	62	8.1	74	12.2

Source: van Welsum and Reif (2006)

### 3. 1. The effects of the liberalization of trade in services

Quantitative studies use computable general equilibrium models (CGEMs) to analyse the effects of the liberalization of trade in services<sup>14</sup>. The effects of that liberalization differ from one study to another depending on the methodologies used and the services selected.

In the studies which limit liberalization to service activities alone, expanding the services sector to the detriment of the other sectors, the result for developed countries is a slight reduction in the improvement of their real income and well-being and a net gain for service importers, whereas producers lose. In the case of developing countries there is a marked decline in service activities to the advantage of manufacturing activities such as textile production.

<sup>14</sup> Rabaud and Montotalieu (2007) have summarized the analysis of the elimination of barriers subsequent to the Uruguay Round by Dee and Hanslow (2001); studies on the elimination of barriers to commercial presence by Brown and Stern (2001) and on the temporary movement of natural persons by Walsmey and Winters (2003), as well as on the role of the services as differentiated intermediate goods by Markusen et al. (2006). See also Hoekman (2006).

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Markusen et al. (2006) analyse the impact of the lifting of restrictions on foreign suppliers of corporate services taking account of the specific features of those activities. They obtain a 15% welfare gain whenever the price of the corporate services is divided by five. These results are very questionable, however, due to numerous limitations (Rabaud and Montalieu, 2007). In particular, the gains are due largely to the deregulation of service activities, particularly by emerging countries such as China. But as Deardorff and Stern (2004) point out, regulations in the services sector should not all be regarded as protectionist: “*Many regulations serve legitimate purposes such as protecting health and safety or preventing fraud or other misconduct.*” If liberalization is restricted solely to doing away with protectionist regulations this would result in a less marked reduction in prices. In short, the fragility and heterogeneity of the results obtained in the various studies using general calculable equilibrium models call for great caution in the assessment of estimated effects of trade in services on developed and less developed economies.

### 3.2. The regional or sub-national effects in Europe

The effects of the liberalization of trade, and in particular of trade in services, on real regional incomes within countries have been studied by means of a MIRAGE (Modelling International Relationships in Applied General Equilibrium) model, disaggregated (Deep Regional Economic Analysis Model: DREAM) by the CEPII (Centre d'études prospectives et d'informations internationales) (Laborde & Valin, 2007- see also Box 3). The authors distinguished regions according to export and import protection. The purpose here is to identify those European regions which might be more sensitive to liberalization. The most protected regions are those which are more specialized in the services, irrespective of the type of protection observed (exports or imports). A more refined sectoral breakdown confirms a general loss in the agricultural and textile industries, whereas the transport sector is one of the sectors with the greatest advantage.

Taken as a whole, the model reveals growing internationalization of service activities, in which mode 3 (commercial presence) is predominant mainly via market-seeking foreign direct investments. Both mode 1 (cross-border supply of services) which includes offshoring operations that result in domestic jobs in the contracting country being replaced by jobs abroad, and mode 4 (temporary migration) remain supply modes of minor significance. Mode 2 (consumer movement – as in tourism) is important in the case of certain countries. Trade liberalization has rather weak welfare impacts, and regions specializing in the services cope better than others with the liberalization of agricultural trade and trade in manufactured goods.

**Box 3:**

**The DREAM-MIRAGE approach**

The CEPII used a MIRAGE computable general equilibrium model in which all of the world regions are included with the possibility of aggregating or disaggregating geographic zones depending on the degree of refinement desired. MIRAGE is in fact a multi-sectoral and multi-regional CGEM, designed for analysing trade policies. When one works with it at the regional level, however, one has to choose between geographical refinement and data quality. 57 sectors are covered including service activities. The features of the DREAM model are as follows: base year 1997, Global Trade Analysis Project (GTAP) data for 119 regions and 21 sectors (3 agricultural sectors, 2 primary sectors, 9 industrial sectors and 7 service sectors) with relatively informative service data. Two sectoral classifications coexist: one comprises 16 sectors and the other, more refined, comprises 39 sectors divided into 15 agricultural sectors, 2 primary sectors, 14 industrial sectors and 8 services including one specific public service sector. All in all, the database comprises 247 regions and the 39 sectors mentioned above with full data for 2003 on value-added, employment, pay per sector, GDP and income per region.

#### 4. THE OFFSHORING OR INTERNATIONAL SUB-CONTRACTING OF SERVICES

##### 4.1. Recent estimates

Several recent studies have tried to estimate the share of service jobs that are potentially offshorable due to opportunities for the offshoring or international sub-contracting of service activities. Welsum and Vickery (2005), for example, have calculated the share of jobs in service functions which can be directly offshored. The employment data are selected by examining tasks and functions in detail on the basis of four “offshorability” criteria: the intensity of ICT use; the ITC-enabled transferability of the service over distance (call centres, for example); the degree of codification of the knowledge or know-how required in the services (certificates, software, etc.); and the non-necessity of face-to-face contact between suppliers and clients. The result obtained is that approximately 20% of the jobs held in such functions are potentially outsourceable at the international level due to the intensive use of ICT and the increase in the degree of tradability of the services.

Other studies using similar methods arrive at similar results. Blinder (2005) suggests the figure of 20% of offshorable service jobs for the United States (data for 2004). He makes a distinction between “personal service jobs” and “impersonal service jobs”. Since the controversies during the 2000 US election campaign over job losses in connection with services offshoring, many studies have tried to provide a method for measuring offshorable service jobs. Very different results have been obtained: Mankiw and Swagel (2006) put the phenomenon in perspective and consider that international sub-contracting is unlikely to have caused any significant share of the job losses observed during

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the economic slowdown in the United States at the beginning of the 2000s. Bardhan and Kroll (2003) have estimated that around 11% of total US employment in 2001 was potentially offshorable, whereas the pessimistic estimates of consultancies such as Forrester Research put forward the figure of 44% of total employment. As is the case with industry, the results are very heterogeneous due to differences in methodology (classifications, data, “offshorability” criteria, etc.).

Welsum and Reif’s study of 2006 estimates that the share of potentially offshorable jobs in the EU-15 increased from 17.1% in 1995 to 19.2% in 2003. The estimate for Canada is almost 20% for 2001, dropping to 18.6 in 2003; and their estimate for the United States also reveals a decrease from 19.2% in 1995 to 18.1% in 2002. In brief, the Welsum and Reif study (2006) shows that the share of offshorable jobs does not exceed 19% to 20% in all developed countries with a downward trend in that share everywhere except in the EU.

We would underline that the progression in the share of offshorable jobs in Europe (EU-15) is to be explained both by an increase in the share of services in employment (particularly in the Southern European countries) and by the enlargement of the EU to the Central and Eastern European countries (CEECs), which prompts offshoring within the EU (Marin, 2004; Mouhoud, 2008). Furthermore, Ireland continues to be attractive for offshored operations. In the other industrial countries, the decrease in the share of offshorable jobs can be explained by a drop in employment in the services presumed to be offshorable due to productivity gains in those sectors that face international competition. In fact the authors conclude that in sensitive sectors employment is increasing less rapidly but that there is not necessarily a decrease in absolute terms.

Service imports by US multinationals account for only a very small share of the parent companies’ total purchases of goods and services, less than half a percentage point, decreasing from 0.4% of those purchases in 1994 to 0.2% in 2002.

What is more, the data concerning “offshorable jobs” do not always make a distinction between market-seeking offshoring and offshoring aiming to “re-import” the final service, which is consumed in the country of origin of the supplier who has engaged in offshoring. Most work on individual data show that service activities that are offshored from the United States are aimed at winning foreign markets. Market-seeking FDI can have positive effects on the activity in the country of origin in other segments of the value chain.

In addition, as is the case with industry, the jobs that are lost due to offshoring can be offset by job creation in the same sectors due to the effects of complementarity between offshoring and competitiveness in the firms’ countries of origin. Mann (2003 and 2004) shows that international sub-contracting (offshoring) affects the composition of work within an activity in various ways including a change in the composition of workers’ skills. She shows that approximately 125,000 programmer jobs in the US were lost in the period from

1999 to 2003 but that 425,000 jobs were gained for more highly skilled computer engineers (who are generally better paid), software engineers and analysts. Over the same period, Mann (2004) notes that over 500,000 jobs were lost in service occupations requiring “routine tasks” such as telemarketing and data input – about one-third of jobs in these occupations in 1999.

Other studies confirm that it is low-level programmer jobs that are lost by the United States to the advantage of India. Taken as a whole, the severest estimates state that 180,000 jobs per year were transferred to foreign subsidiaries of US multinationals between 1997 and 2001, i.e. 0.16% of employment in the private sector (Mankiw and Swagel, 2006).

The results show that, as is the case with offshoring in industry, the destruction of jobs in connection with vertical offshoring is of minor significance on the whole, even though it can cause major shocks in certain activities and certain regions.

#### 4.2. Survey data

According to studies conducted on the basis of surveys, the first tertiary jobs that were offshored were telephone operator posts (call centres), customer relations management posts (back-office jobs), and data input jobs (billing, pay services, insurance claims for insurance companies, etc.) (Le Tournel, 2004). In certain countries, these routine low-skilled jobs were very quickly transferred abroad. Accounting or computer maintenance tasks have also been outsourced abroad. Highly skilled occupations are now also concerned: network administration, software programming and development, engineering, designing, legal services, and so on.

The factors determining this offshoring are not to be reduced to the exploitation of wage cost differentials. Canada, Ireland and Singapore host a large share of offshoring or international sub-contracting operations, yet wage costs in these countries are much higher than in less developed countries. The level of labour productivity, workers’ skills, market access, coordination and transaction costs, geopolitical risk factors and foreign exchange factors also play a role. Language distance also plays a decisive role: the dominance of the English language facilitates offshoring for British and American firms to the English-speaking zones of low-wage countries (such as India). French firms offshore activities to Morocco to create local computer system maintenance platforms or call centres. Whereas offshoring accounts for some 10% of the US computer service sub-contracting market, it accounts for only 2% to 3% of the French market. Most French contractors are telecommunications and mail order sales operators. Firms operating in these activities offshore only a fraction of their operations due to technical limits. It should be noted that computer service and “other corporate service” imports by developed countries (accounting, back-office operations, etc.) account for only a small share of the GDP of the principal States: 0.4% of GDP in the United States, 1.2% of GDP in the United Kingdom and 1.4% of GDP in France in 2002 (Amiti and Wei, 2004). But the phenomenon has been growing since the 1990s.

#### 4.3. Some firms are repatriating their activities

A recent wave of repatriation, that is to say, moving offshored units or operations that have been sub-contracted to low-wage countries back to the country of origin, has been underway since the beginning of the 2000s, in response to an acceleration of services offshoring and problems of group rationalization resulting from market constraints and constraints concerning return to shareholders. A number of shortcomings of offshored services and the ensuing risk of losing competitiveness are prompting firms that have offshored activities to repatriate them: DELL and General Electrics have had to repatriate part of their call centres from India due to comprehension difficulties between clients and technicians; similarly, the Taxis Bleus call centres that were offshored to Tunisia have been moved back to France. The firm Everdream (information technology services), which was established in Silicon Valley in the United States, offshored its production units to Costa Rica in 2002 through international sub-contracting. This move was accompanied by a training programme for the team recruited in Costa Rica (Malecki and Morizet, 2008). But the results in terms of skills were not fully convincing — in a sector governed by innovation competition — and the firm decided to repatriate its production units to the United States, albeit to other US regions with lower costs than the Silicon Valley agglomeration.

#### *When the nature of services counts*

Some observers have seen the emergence of information and communication technologies (ICT) and the associated services as a phenomenon that would bring far-reaching changes in the conditions of the supplier-client relationship. This view seems to be exaggerated as the vast majority of services remain conditioned by the need for a direct relationship between the supplier and the client and there is no sign that this direct relationship is diminishing. On the other hand, clearly the nature and impact of that relationship on the quality of the service and the location of service firms have become more complex. It is important to analyse the role of that client-supplier relationship since it considerably influences the choices made in locating service activities (du Tertre, 2008). Not all tradable services are necessarily offshorable within our meaning of offshoring, which we see as a process where fragments of activities abroad replace national production and not within the meaning of mode 3 of the liberalization of trade in services (FDI).

ICTs have admittedly made it possible to offshore financial service activities to certain tax havens (offshore financial centres) (Malecki and Morizet, 2008). But, as is shown in Table 5, the offshoring of services must not be mixed up with the outsourcing of service activities. In the case of the same service activities, some firms (i) internalize functions and thus do not offshore them (this is known as onshoring), (ii) internalize by creating subsidies abroad or through mergers and takeovers (offshoring), (iii) externalize functions by sub-contracting within the home country (onshoring), or (iv) externalize them by sub-contracting abroad.

A matrix analysis, as in Table 4, does not suffice for analysing the underlying reasons explaining the very high degree of heterogeneity of practices of service firms in the field. To do so the nature of the information services that are potentially outsourceable or offshorable must be analysed (Table 5)

Table 4. Internalization, externalization, international sub-contracting of service activities

		Mode of corporate governance	
		Internalization	Externalization
Geographic location			
	Onshore (domestic)	Service provided by the firm in the home country (i)	Service sub-contracting to do a domestic operator (e.g. the Zara group sub-contracts distribution logistics to the André group) (iii)
	Offshore (abroad)	Offshoring to the group's subsidiary abroad (e.g. DELL offshores to its subsidiary in Bangalore) (ii)	Sub-contracting to an independent firm abroad (e.g. software sub-contracted by Microsoft to Bangalore. Rhodia accounting activity sub-contracted to Accenture in Prague, etc.) (iv)

In fact, the production of a service can be defined by three aspects: the production process as such (not specific to the service activity); the service is produced in face-to-face contact with the client; firms outsource tasks to beneficiaries. As du Tertre (2008) puts it, the services involve a problem of accessibility and of co-production between suppliers and beneficiaries. The beneficiary is traditionally presumed to be near the supplier or in face-to-face contact, since co-production presupposes a synchronous process. The fact that ITCs make it possible to fragment this co-production by supplying a service over distance while conserving the synchronous face-to-face relationship will not systematically prompt firms to offshore the supply of those services.

When it comes to information services (information, knowledge, advisory services, etc.), which are eminently eligible candidates for this international fragmenting of production processes, they must be divided into two categories: formalized information data and non-formalized information data, where the subjectivity of the actors is involved (du Tertre, 2008). Pessimistic approaches that predict mass offshoring of information or intangible services confuse the industrial production of formalized data and the question of the appropriation of information or knowledge by clients.

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As Table 6 shows, the industrial production of formalized data can result in taylorist operations of refined fragmentation of production based on a logic of profitability and cost minimization. International sub-contracting will then be accompanied by the externalization of burdens (in terms of cost and time) to the client, who has to adapt and incorporate the data transmitted over distance in a standardized system. Having offshored these services to low-wage countries, Internet operators or after-sales service operators of software and computer service groups can sometimes find themselves in a situation where they are losing market shares in connection with the quality of the data transmitted to the client, and this sometimes prompts them to repatriate their operations in a logic of proximity to clients (Taxis Bleus in France, DELL in the United Kingdom, and so on). In the case of service activities involving the adaptation of information (2<sup>nd</sup> line of Table 5), the actors will prefer to maintain proximity to clients (onshoring) or call into question an offshoring operation.

This is why we must go further than the fetishist approach to ICTs that only considers the fact that transaction costs are low or even nil in offshoring processes and in the fragmentation of the value chain of information service activities.

Table 5. The nature of services and offshoring/externalization versus internalization

	Offshoring	Repatriation/nearshoring	Internalization/Onshoring
Industrial activity of producing formalized data or information	Externalization of burdens to the client (in terms of costs and time), offshoring based on a taylorist model of ICT-enabled fragmentation of production (e.g. call centres, after-sales services of Internet operators or DELL, etc.)	Repatriation to the country of origin when the final service (information) has shortcomings and the supplier loses market shares (e.g. repatriation of the Taxis bleus call centres, etc.)	Mass offshoring project abandoned in order to keep production in the country of origin (e.g. insurance sector, etc.)
Service activity involving the adaptation of information			Advisory activity requiring client proximity (e.g. financial placements, investments, insurance contracts)

## 5. ELEMENTS OF FORWARD THINKING AS TO THE FUTURE OF THE GLOBALIZATION OF SERVICES<sup>15</sup>

The typologies of the studies presented in the first sections of this chapter are purely empirical in nature: a service is tradable whenever it is concentrated and spatially removed from demand. A service is not tradable whenever it is associated with the location of residential demand. However, the nature of services deriving from the location factors of the activities themselves needs to be analysed as well.

Several factors influence the choice of the location of services: household incomes, the presence of firms, a spatial logic in regions which have been neglected but where the development of activities can be promoted thanks to an intersection of major roads, for example, a transit zone, or new information technologies, irrespective of whether these activities are services or industrial activities. It might thus be of interest to develop a regional approach. There is also a high degree of interaction between industry and the services. Due in particular to their complementarity with industry, the services play a key role in the structuring of regions in terms of activity location.

It is not possible to capture the diversity of the logics of location and foothold in service regions with the definitions and classifications of existing services, which make a distinction between commercial and non-commercial services or between corporate and personal services. We propose a prospective analysis of the future of services in regions by constructing an endogenous typology using activity location criteria. Areas can then be identified where regions and types of service coincide so that the degree of vulnerability of the regions hosting the various types of services to offshoring and international competition can be described in terms of established foothold or volatility of activities.

The methodology consists of basing the typology of services on economic activity location criteria, which can be reduced to the following three determinants: i) access to resource “externalities”, ii) the agglomeration effects in the services, and, lastly, iii) the firms’ relationship with their clients.

When these various activity location factors are compared, a typology of services can be drawn up by simplifying these criteria according to three main elements: the need for specific resources, the opportunity to take advantage of (financial or technological) economies of agglomeration, and the need to be located near one’s clients. Table 6 below presents the results thus obtained. It makes a distinction between six categories of services according to the importance for the service suppliers to be located in proximity to their clients and the economies of agglomeration observed in each activity. The varying degree of constraints posed by these two characteristics determines the degree of regional foothold for each category of services. Service categories are thus being determined endogenously and these are linked with the conventional

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<sup>15</sup> This section is based on the collective work of the DIACT “Forecasting Group on the Services Economy and Regions” chaired by E.M. Mouhoud.

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classification as well as with the appropriate regional level (international, regional, sub-regional, local, etc.) where there is interaction with the other actors involved in the given activity.

The first category of services, entitled “cognitive services and intangible investments” is the product of a threefold requirement of access to specific resources, available economies of agglomeration, and the need for proximity to clients. Their foothold in the region is relatively well established, while the dominant mode of competition is based on innovation and differentiation, which implies low exposure to competition from low-wage countries. It can be noted that this first category in fact corresponds to the upstream stage of the value chain of both the manufacturing industries and the service sectors. Category V, “(Internalized or externalized) intermediate consumption information services”, can be cited by contrast (Computer maintenance, Tertiary operational functions, Call centres, etc.): this category is the product of virtually total indifference to the three location factors (access to resources, economies of agglomeration, proximity to clients). Foothold in the region is thus very weak (maximum volatility) and there is maximum exposure to international competition from low-wage countries.

This typology is then mapped on all of the regions of Europe, taking account of the dynamic effects of these types of services in terms of job creation and job quality and of wealth creation under conditions involving the coordination and quality of central and local public policies.

Table 6. Endogenous typology of services using location determinants

<b>Access to resources</b>	YES	YES	NO	YES	NO	NO	NO
<b>Economies of agglomeration</b>	YES	YES	NO	NO	NO	NO	YES
<b>Proximity to clients</b>	YES (RC)	NO	YES (AC)	NO	NO	NO	YES
<b>Types of service activity</b>	(I) “Cognitive services and intangible investments”	(II) “Logistic services and intermediation information services”	(III) Local final and intermediate consumption services”	(IV) “Intangible final consumption services”	(V) “(Internalized or externalized) intermediate consumption information services”	(VI) “Public or private collective services enabling considerable economies of scale”	
<b>Degree of established foothold in the region</b>	High	Relatively high	Moderately high	Relatively high	Low Very volatile	High (except exogenous changes)	
<b>Exposure to competition</b>	Low	Relatively low	Low (virtually non-tradable)	Relatively high	Very exposed	Low	

AC: absolute constraint, RC: relative constraint  
Source: Working Group on the Service Economy and Regions, DIACT (2008).

## 6. CONCLUSION

This chapter has first given an account of recent studies that offer a distinction between tradable service activities and non-tradable activities following Paul Krugman's theory (1991) which holds that non-tradable services are distributed proportionate to demand at the elementary regional level (dispersion), whereas tradable services are characterized by the possibility of location separation: they can be concentrated in one location while serving demand over distance. Taking the study by Jensen and Kletzer (2005) as a basis, service activities can thus be classed in a relatively refined breakdown into non-tradable activities, moderately tradable activities and highly concentrated and thus tradable or offshorable activities. Analysis of jobs and their characteristics reveals a high proportion of offshorable (tradable) jobs in tradable sectors but also that 10% of jobs in non-tradable sectors are offshorable. All in all, almost 30% of jobs in the services are potentially offshorable, but most of these jobs are also skilled and well paid and this limits the risk of offshoring.

We have also presented models that predict the growing internationalization of service activities in which mode 3 (commercial presence) will be predominant mainly via market-seeking foreign direct investments. Both mode 1 (cross-border supply of services) which includes offshoring operations that result in domestic jobs in the contracting country being replaced by jobs abroad, and mode 4 (temporary migration) remain supply modes of minor significance. In these models, mode 2 (consumer movement – as in tourism) is important in the case of certain countries. Moreover, trade liberalization has rather weak welfare impacts, and regions specializing in the services cope better than others with the liberalization of agricultural trade and trade in manufactured goods.

Detailed analysis of vertical offshoring operations in the services then provides a basis for complementing the very broad approach adopted by Bradford Jensen and Kletzer (2005) who use a criterion of spatial concentration and distance from demand for measuring the degree of services' tradability. Recent empirical studies are less alarming than what has been implied by conventional wisdom predicting the mass offshoring of service activities as the result of the explosion of ICTs and the rise of emerging low-cost countries (China and India). These studies show that the share of potentially outsourceable jobs has not exceeded 20% of services jobs for the last 10 years and is even showing a downward trend. Further analysis of individual and survey data highlights marked heterogeneity of practices in the same activities: some firms offshore activities, others keep production in their countries of origin despite higher wage costs, and others repatriate their activities after unsuccessful offshoring operations. For the nature of the services provided and the quality of the provider-client relationship count in weighing up whether to offshore or to stay in the innovation race. The accessibility of the information provided and the client's comprehension of that information are determining factors in the decision to continue to produce services in proximity to clients.

And lastly, we have put forward several elements of forward thinking concerning the degree of foothold or volatility of services in regions by

proposing an endogenous typology using activity location factors, which we consider goes further than the empirical typology of the tradability or concentration criterion. Intangible services or cognitive investment services seem to be relatively resilient and to drive other activities in the regions concerned; this contrasts noticeably with intermediate consumption information services (call centres, for example), whenever the information in question can be reduced to standardized data.

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# MIGRANT WORKERS' VS. 'INTERNATIONAL SERVICE PROVIDERS': LABOUR MARKETS AND THE LIBERALIZATION OF TRADE IN SERVICES

*PHILIP MARTIN*

## 1. INTRODUCTION

The World Trade Organization (WTO), which replaced previous organizations that aimed to supervise and liberalize international trade in 1995, includes the General Agreement on Trade in Services (GATS), which aims to liberalize trade in services between WTO member countries via the most-favoured-nation principle of treating all member countries equally and requiring member countries to abide by the commitments they make during trade negotiations.

Services are usually defined as items that are produced and consumed simultaneously, as with haircuts and sometimes change the consumer, as with medical services. Many services are non-stockable, meaning that suppliers cannot maintain an inventory to meet surges in consumer demand, although directing consumers seeking information to a web site with frequently asked questions is one way in which service providers try to create "inventory." The value of services is about 75 percent of the economy in high-income countries, 65 percent of the world economy, and half of the economy in low-income countries.

There are four major modes or ways to provide services over national borders, often summarized as cross-border supply, consumption abroad, foreign direct investment (FDI) or commercial presence, and Mode 4 migration, which the GATS refers to as the temporary movement of "natural persons."<sup>1</sup> Mode 4 movements of service providers can be substitutes or complements for the other modes of services trade. For example, accountancy services can be provided on-line (Mode 1) rather than by sending an accountant abroad to audit financial statements (Mode 4); the client could travel to the country where the service provider is located (Mode 2), suggesting an array of options along the trade and migration spectrum. Similarly, an IT service provider abroad (Mode 4) may return and provide services to foreign clients via the internet (Mode 1), suggesting that Mode 4 movements can complement Mode 1 or attract clients to travel, as in Mode 2.

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<sup>1</sup> For details see below under "Trade in Services: Four Modes". Temporary is not defined in the GATS, but GATS explicitly does not apply to permanent migration. Most WTO members limit service providers to less than five years in their country.

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GATS Modes 3 and 4 involve the international movement of factors of production. Mode 3 commercial presence involves the movement of capital and is often accompanied by some Mode 4 movements, as key personnel accompany investments in subsidiaries. Mode 4, on the other hand, involves the movement of service-provider workers.

The WTO notes that “no trade in services data are available broken down by modes of supply,” (WTO, 2004, 61). However, the WTO in 2002 made estimates of trade in services by mode that suggested 85 percent of trade in services occurs in Modes 1 and 3, cross-border supply and FDI. Mode 4 migration to provide services accounted for one percent of global services trade, based on workers’ remittances and compensation of employees data that may underestimate financial flows to service providers’ countries of origin. There are no updated Mode 4 estimates, but most experts agreed that Mode 4 accounts for less than three percent of global trade in services.

Table 1. Global Trade in Services by Mode, 2000

Mode	2000 (\$ mils)	Percentage Distribution
1. Cross-border supply	1,000	28%
2. Consumption abroad	500	14%
3. Commercial presence	2,000	56%
4. Migration-compensation	50	1%
<b>Total</b>	<b>3,550</b>	

Source: WTO Statistics, March 14-15, 2002

Both GATS and the General Agreement on Tariffs and Trade (GATT) were incorporated into the World Trade Organization in January 1995.<sup>2</sup> Both aim to liberalize trade: the preamble to the GATS says that the goal is to establish: “a multilateral framework of principles and rules for trade in services with a view to the expansion of such trade under conditions of transparency and progressive liberalization, and as a means of promoting the economic growth of all trading partners and the development of developing countries.” Trade in services is expanded by countries making commitments to open part of a particular service sector to foreign providers, such as health care, dental care, or nursing care.

Liberalizing trade in services to promote economic growth is one of the main goals of the current Doha Development round of WTO negotiations aimed at increasing the benefits of globalization for developing countries.<sup>3</sup> The WTO

<sup>2</sup> GATS was created under GATT, and both were combined in the WTO in 1995.

<sup>3</sup> GATS does not include all services: it excludes most air transport services as well as “services supplied in the exercise of governmental authority.”

Council for Trade in Services began liberalization talks in January 2000 via the “request-offer” approach, with each country requesting that other WTO members liberalize in a particular sector by, for example, making a sector-specific commitment to open to foreign service providers.

When all requests are received, countries announce the liberalizations they are willing to offer to obtain the access to other countries' service sectors that they requested.<sup>4</sup> Requests and offers can be horizontal (covering one mode of supply in several or all sectors, such as allowing Mode 3 commercial presence in banking) or be limited to particular modes of supply and sectors<sup>5</sup> (allow Mode 3 commercial presence in investment but not consumer banking). Most commitments are horizontal, covering the presence of all business visitors rather than only business visitors in banking.

For each service sub-sector, governments make commitments about market access and national treatment. They can choose full access (no restrictions on foreign service providers in that sector), no access (unbound), or partial access (bound commitments).<sup>6</sup> Partial-access restrictions can specify the number of service providers (firms or persons) permitted, the minimum or maximum value of assets or sales that are open to foreign service providers, or the type of legal entity or joint venture allowed. GATS commitments are unilateral in the sense that they provide access for foreign service providers; there is no corresponding requirement that sending countries e.g. cooperate to reduce illegal migration or accept the return of their nationals.

Before the Doha round, launched in November 2001, most GATS commitments dealt with exploratory business visits and moving key personnel across borders within a multinational. In most cases, business visitors were allowed to stay up to 90 days, while the managers transferred over borders by multinationals are generally allowed to stay at least three years (Chaudhuri, 2004). The WTO's services web page lists sectoral requests and offers, such as those liberalizing trade in accountancy services or construction as well as horizontal or multisectoral proposals. As of 2004, 108 of 147 WTO member countries had made horizontal Mode 4 proposals, most covering several sectors, and 70 percent of the proposals dealt with highly skilled workers accompanying foreign investments, including business visitors, managers, and specialists (WTO, 2004, 54).

Standard analyses of requests and offers in 2004-05 concluded that industrial countries want to liberalize Mode 3 trade in services, since their

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<sup>4</sup> Specific requests were to be made by June 30, 2002, with offers due March 31, 2003 in order to reach agreement by January 1, 2005. This has not happened.

<sup>5</sup> Negotiators can but do not have to use the Services Sectoral Classification List (MTN.GNS.W/120), which lists 12 broad service sectors and 160 subsectors.

<sup>6</sup> As of July 2003, no developed countries provided full Mode 4 access to medical service providers, 16 provided partial access, and two had unbound commitments, that is, they did not allow any Mode 4 movement of medical service providers (Kategekwa, 2008, 11).

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comparative advantage is investing capital in the form of subsidiaries to provide banking, insurance, and other services in developing countries. Developing countries, on the other hand, want to liberalize Mode 4 movements of natural persons, reflecting their comparative advantage in lower-wages (Mattoo and Olarreaga, 2004). However, except for some liberalization of intra-company transfers, the Doha round currently looks as if it will not lead to significantly more movements of service providers, which has disappointed many developing country negotiators.

GATS applies to trade in services, not labour migration, and thus does not apply to “measures affecting natural persons seeking access to the employment market of another country [or] measures regarding citizenship, residence, or employment on a permanent basis” in another country. However, GATS applies to foreigners providing services as self-employed independent contractors or as foreign employees of foreign firms. Foreign employee service providers covered by GATS are considered migrant workers under ILO Conventions, so that even if GATS negotiators take pains to emphasize that they are concerned with temporary movements of service providers, not labour migration, the statement that “temporary presence avoids the deeper economic and social problems associated with migration” (WTO, 2004, ii) is disingenuous.

If developed countries make more commitments under GATS to facilitate the entry of foreigners to “provide services,” developing country governments could file trade complaints against the immigration and labour departments of WTO member countries that slow or block the entry and work of their service providers. In an extreme case, a country that agreed to waive, e.g. wage parity or minimum wage protections for Mode 4 service providers could be abiding by its GATS commitments while violating ILO Conventions and norms.

## 2. FOUR MODES OF TRADE IN SERVICES

The GATS has 29 articles covering the four major modes of providing services:

- **Mode 1. Cross-border supply** are services provided from the territory of one country to another, such as telephone calls that cross borders and are answered in call centers abroad. Mode 1 service supply is most analogous to trade in goods, since services but not worker-producers or buyer-consumers cross borders.
- **Mode 2. Consumption abroad** are services provided inside a country to foreign visitors, such as tourism or educational and health services. In this case, consumers cross borders to reach the service provider and receive the service.

- **Mode 3. FDI or commercial presence** include services provided via a subsidiary of a bank, insurance company, or other firm that is established in the country where the service is provided. Mode 3 services are often accompanied by foreign investment and some migration, as when the investor transfers managers or specialized workers to the subsidiary.
- **Mode 4. Temporary movement of natural persons** involves services provided by individuals abroad. These migrants can be foreign workers, as when Indian IT workers are employed abroad, or self-employed migrants, as with architects or consultants who cross borders to supervise construction of buildings they have designed; most self-employed migrants are paid directly by final consumers.

Liberalization of trade in services is achieved primarily via the most-favoured-nation (MFN) principle, which holds that, if a country allows foreign firms to enter a sector such as banking, all (foreign) banks from all WTO member countries should be treated equally. However, unlike reciprocal trade liberalization in goods, as when the United States and Mexico simultaneously reduce tariffs on auto imports, GATS negotiations may not be reciprocal. For example, the US could allow foreigners to enter and teach in public schools, but other countries may not reciprocate (the US does not require public school teachers to be US citizens). Once a GATS liberalization commitment is made, there is to be no backtracking, e.g. the US committed to 65,000 H-1B visas a year in the first round of GATS negotiations, and if it were to reduce this ceiling, it could be obliged to compensate other WTO members by offering market access in another area equal in value to the loss of H-1B visas.<sup>7</sup>

The second GATS liberalization principle is national treatment—equal treatment for foreigners (or foreign firms) and nationals (or national firms). Under trade in goods, national treatment means that governments should not place additional taxes on foreign-made cars or provide subsidies for locally produced cars. However, many services are provided by governments, and GATS allows exemptions to favour nationals in providing government services. For example, GATS allows governments to permit only citizens to be employed in the provision of government-provided or funded-services.<sup>8</sup> Since GATS is about trade and not migration, governments are explicitly allowed to cite national immigration policies as a reason to close a particular sector to foreign service providers and to deny entry to particular individuals.

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<sup>7</sup> The US has an H-1B programme that allows US employers to easily obtain up to six-year visas for foreigners with a college degree or more. It reserved 6,800 H-1B visas for nationals of Chile and Singapore under bilateral free-trade agreements, leaving 58,200 for the rest of the world. So far there have been no complaints from other WTO members about the reduced availability of H-1B visas.

<sup>8</sup> Countries may also de-regulate the provision of services, but limit competition to national suppliers, e.g. introduce vouchers and charter or private schools, but allow only national firms employing citizens to provide educational services.

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Services are 70 to 80 percent of output and employment in the world's high-income economies, and the service sector tends to expand with economic development, as when women work outside the home, generating a demand for day care and restaurant meals. The demand for most services is income elastic, which means that if incomes rise 10 percent, the demand for tourism or health care services rises more than 10 percent. Finally, many services that were once considered to be immobile have become mobile with falling telecommunications costs, including back-office jobs processing bank and medical records, which first moved from the inner cities near the headquarters of banks and insurance companies to suburbs within industrial countries and today are often outsourced abroad.

Labour typically accounts for 70 to 80 percent of producing services, versus 20 percent of the cost of producing manufactured goods. Lower wages in developing countries give those workers a "comparative advantage" in providing many labour-intensive services, especially as technologies and training in more occupations becomes globally standardized. Industrial country firms have outsourced some computer-intensive services, as exemplified by call-center operations in India and coupon-redemption centers in the Caribbean, enlarging Mode 1 services trade. Health-care tourism is a rapidly expanding form of Mode 2 trade in services in some countries; multinationals have expanded Mode 3 FDI-related trade in services; and Mode 4 movements of key personnel associated with Mode 3 investments also increase.

The distinction between producing goods and services is blurring, which can make Mode 4 coverage unclear. Foreign farm workers picking apples would seem to be excluded from the GATS because they are employed abroad to produce goods, but the WTO noted that temporary migrant workers brought to a farm to pick apples by a labour contractor may be covered by Mode 4 because they are providing "services incidental to agriculture."<sup>9</sup> With many employees in factories supplied by temporary help and employee leasing firms, the line between goods and services and the workers employed to produce them can be very blurry (Nielson and Taglioni, 2004, 8).

There are no consistent measures of Mode 4 movements. A recent WTO report used several measures of Mode 4 flows, including a financial measure: compensation of employees (monies transferred to home countries by persons abroad less than one year) and workers remittances (transfers home by those abroad more than one year). Other measures of Mode 4 movements involve foreign workers. In an analysis of the US for Fiscal Year 2000, the WTO reported that 137,000 new employer requests for H-1B visas were approved, that 75,000 were for computer-related jobs, and that two-thirds of the foreigners

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<sup>9</sup> Aaditya Mattoo of the World Bank said: "It might seem to be a gimmick of nomenclature to call a fruit-picker a provider of fruit-picking services, but perhaps it can be seen instead as the kind of imaginative action that negotiators need to take in order to make Mode 4 match more closely the needs of both the immigration regimes and the business community." Session 7 of the IOM – World Bank – WTO Seminar on Trade and Migration, October 4-5, 2004.

requested to fill these computer-related jobs were Indians. The Mode 4 imports associated with these 137,000 H-1B petitions were US \$6.5 billion, or US \$47,500 per foreign worker (WTO, 2004, 60). In this case, Mode 4 analysis appears to be incidental to analysis of foreign worker employment and earnings.

### 3. DEVELOPING COUNTRIES' MODE 4 DEMANDS

The WTO aims to promote cross border flows of goods and services, and GATS aims to increase trade in services and service providers. Mode 4 movements can be affected by both trade and migration policies. A country's Mode 4 trade commitments can affect migration policies by e.g. allowing easier entry to particular types of service providers, while a country's migration policies can affect how easy it is for a service provider to secure the necessary entry and employment documents required to actually become a service provider abroad.

Developing countries led by India advocate liberalization of Mode 4 (Kategekwa, 2008).<sup>10</sup> Their requests fall into four major areas that would make it easier for service providers to cross borders: eliminating the economic needs tests receiving countries use to determine if foreign workers are necessary, expediting visa and work permit issuance, facilitating credentials recognition and obtaining needed licenses, and exempting foreign service providers from participating in work-related benefit programmes and the payroll taxes that finance them<sup>11</sup>. Ideally, liberalizers would like a "GATS visa" that would be uniform across WTO member countries (Chandra, 2001, 648) and allow multiple visits within a given period of time, say one to three years.<sup>12</sup>

Most industrial countries have been reluctant to liberalize Mode 4 movements for reasons that range from debates over whether foreign professionals are needed and the effects of their presence on local labour markets to widespread recognition, indeed even encouragement in some countries, that temporary service providers can become immigrants by adjusting their status to settle abroad. Many industrial countries are considering major reforms to their immigration systems, including Canada and the US, or have recently

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<sup>10</sup> Kategekwa, in the executive summary, asserts that developing countries are "ambitiously pursuing enhanced market access and national treatment commitments from developed countries for provision of services through the movement of natural persons."

<sup>11</sup> Chandra (2004, 634) calls these four categories restrictions on entry and stay, recognition of credentials, differential treatment, and regulations on commercial presence, a taxonomy that groups economic needs test and visa-work permit issuance.

<sup>12</sup> The Coalition of Service Industries says that a "GATS visa" allowing multiple short-term visits would be limited to professionals and highly skilled individuals, and proposed a model of how countries could implement a GATS visa regime. GATS visas would be given to employees of established foreign firms, which would post bonds on each GATS visa holder that would be forfeited if the visa holder did not obey the terms of the visa.

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made major reforms and are likely to want to see how these new laws affect migrant inflows before opening additional doors, such as Britain, Germany, Ireland and Spain.

### 3.1. Economic needs tests

Economic needs tests (ENTs) require employers seeking to hire foreign workers or service providers to satisfy their governments that local workers are not available. There are two major types of tests: pre-admission and post-admission. Pre-admission tests, sometimes called labour certification, require employers to demonstrate to labour agencies that they tried to find local workers while offering at least prevailing or government-set wages—if they fail to find local workers, they are “certified” to employ foreign workers. To obtain certification, employers place ads seeking local workers for a specified period of time and keep logs that record why local applicants were not hired. This has the effect of keeping the border gate closed until the government certifies or agrees that foreign service providers are truly needed.

The alternative is a post-admission test or employer attestation. Under this trust-the-employer approach, the employer seeking to hire foreign workers attests or certifies that the foreigner is needed to fill the job and makes other assurances, such as promising to pay foreigners the higher of the minimum or prevailing wage and guaranteeing that the job is not vacant because of a lawful labour dispute. Government approval of employer attestations in countries such as the US is virtually automatic, and there are generally no inspections unless the labour department receives complaints. Post-admissions tests allow employers to open border gates, often within days of applying for visas for foreign service providers.<sup>13</sup>

Developing countries and most employers prefer few or no economic needs tests, post-admission rather than pre-admission tests, and more transparency in procedures used by government agencies to determine prevailing wages and other factors that are used in both pre-admission and post-admission systems.<sup>14</sup> Labour departments usually consider protecting local workers to be a top priority, so that developing countries and employers often seek systems that minimize the role of labour departments in decisions about foreign workers. Even when labour departments maintain a key role in labour market testing, reductions in data collection and job matching by public employment agencies have reduced their credibility in arguing that employers do not need the foreign workers they are seeking.

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<sup>13</sup> There are also in-between labour market checks. One strategy, “blanket certification,” involves the government specifying labour-shortage occupations such as nursing and approving employer requests for foreign nurses if the employer makes wage and other assurances. Employers who are requesting workers to fill jobs for which there is not blanket certification must go through the normal certification steps of searching for local workers.

<sup>14</sup> In some countries, there is no appeal if a labour agency rejects an employer’s application for a foreign service provider visa.

Economic needs tests are based on the premise that most jobs can be filled by local workers, including settled immigrants, so that the burden of proof is on the employer to prove that a temporary worker is needed to fill a vacant job. Economic theory spells out how markets adjust to gaps between demand and supply. If the demand for IT-specialists and nurses exceeds supply, wages should rise, which has the effect of reducing the demand for IT-specialists and nurses and increasing the supply. The reduction in demand can involve substitution of capital for labour, restructuring jobs to allow more part-time or off-site work, or increased trade, as when computer work is outsourced abroad or patients are sent abroad for medical care. In some countries, an annual cap or quota is fixed to limit the number of foreign workers that can be admitted in one year and/or for a particular industry and area.

There are three major reasons why governments may decide to allow employers to import foreigners rather than let rising wages bring demand and supply into balance:

- First, education may be required to fill the job, so that the local supply cannot be increased quickly. Importing IT-specialists and nurses in such cases can prevent production bottlenecks that could reduce the employment in the entire sector.
- Second, diverse work teams may increase productivity and service quality. Having people of diverse backgrounds on a team may enable it to solve problems faster, just as having a diverse medical staff can make patients from many backgrounds more comfortable.
- The third reason is cost—it is usually cheaper to import foreigners than to have employers undergo wage-induced adjustments. Restructuring work can be costly because it leads to wage adjustments that affect a large group of workers. For example, if there are trained nurses not working as nurses, as in most industrial countries, and there are shortages of nurses in inner-city hospitals and on night shifts, it may be cheaper to import nurses and not adjust the salary scale rather than make the wage adjustments needed to get local nurses back into the profession.

Wages lie at the core of economic needs tests, and the wage equality that is a bedrock principle of ILO Migrant Worker Conventions 97 and 143 is often attacked by those who want to liberalize Mode 4 migration. Chaudhuri et al (2004) assert that “Wage-parity... is intended to provide a nondiscriminatory environment, [but] tends to erode the cost advantage of hiring foreigners and works like a de facto quota.” Chanda says that wage parity “negates the very basis of cross-country labour flows which stems from endowment-based cost differentials between countries” (2001, 635).

Instead of wage parity between local and foreign workers, Chanda argues that the wages of foreign service providers can be below host country wages but “within a fair margin.” She argues that foreign service provider

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wages could be “decided mutually by the concerned countries under bilateral wage agreements and discussions between professional or industry associations in these countries” (2001, 650) at levels that are presumably below minimum or prevailing wages. Chanda goes one step further, and advocates levying a tax on less-skilled foreign service providers to generate funds to compensate local workers whose wages may be depressed or who may lose their jobs because of the presence of Mode 4 service providers, that is tax the migrants to compensate local workers adversely affected (2001, 650).

### 3.2. Visas and work permits

Economic needs tests and wage rules determine if foreigners are needed, while visa and work permit procedures determine if a particular individual can actually enter the country. After an employer receives permission to hire a foreign service provider, the foreigner must normally be interviewed by a government agency, such as consular staff in the migrant’s country of origin, to determine if she is eligible for entry and work visas. These procedures can be simple and handled by mail, or require in-person interviews that must be scheduled and may involve travel from the migrant’s residence to a consular office. There may also be fees involved in obtaining required visas.

In some countries, separate agencies issue work and residence visas, and there can be conflicts between them over whether a visa should be or should have been issued, which increases costs and uncertainties. Under the US system, for example, a visa issued by the Department of State abroad is technically a “letter of introduction” to the immigration inspector at the port of entry. The inspector is authorized to refuse entrance to a foreigner with a valid visa if, for example, the inspector believes the foreigner will violate the terms of the visa. Developing countries do not like the this multi-layered system for visa issuance, and would like the GATS to lead to “one-stop GATS visa shops,” perhaps outside normal consular and labour agencies, that would issue multiple entry visas and work permits.

The long-term goal of some governments is a GATS-issued Service Provider Visa that would allow first professionals from architects to zoologists, and later less-skilled workers, to move freely between GATS signatory nations as employees or as self-employed service providers. One model is the Asian-Pacific Economic Cooperation (APEC) Business Travel Card, issued by national authorities to facilitate business travel among APEC countries. In practice, however, the Business Travel Card is simply a three-year multiple entry visa that expedites entry and permits two- to three-month stays in other APEC countries. It does not allow holders to work for wages as a local worker (Nielson, 2002).

### 3.3. Credentials and licenses

A major demand of developing countries in the GATS negotiations is faster recognition of qualifications earned in the migrant’s country of origin. Professional migration is facilitated if degrees and credentials earned outside

the country of employment are recognized quickly and in a transparent process, and if there are national rather than state or provincial bodies issuing licenses and monitoring the quality of the services provided.<sup>15</sup>

There are few national and fewer international bodies vetting individuals who earned their qualifications abroad. Instead, the usual way to facilitate the recognition of an individual's credentials is via mutual recognition agreements (MRAs), e.g. within the European Union (EU) and between previous mother countries and colonies, as in the British Commonwealth. The basic principle of a MRA is that, if one government issues or recognizes a credential or license, others will do so on a reciprocal basis. This means that a person recognized as a doctor in France will also be recognized as a doctor in Germany, and vice versa. Despite MRAs within the EU, relatively few professionals move from one country to another, highlighting the importance of factors such as recruitment and language in inducing professionals to cross borders.<sup>16</sup>

MRAs are most common when educational systems and credential-issuing processes are similar. Efforts to develop MRAs among countries at different levels of development have been limited largely to accounting and actuarial sciences, perhaps the most global occupation, although there is discussion of standardizing medical education around the world.<sup>17</sup> Many developing countries would like a global MRA administered by the WTO, so that a WTO-certified doctor would be recognized as a physician in all member countries. However, until there are more MRAs, or a WTO-administered MRA, many developing countries want developed countries to provide temporary licenses to foreign service providers who present credentials earned at home rather than making them wait until they can take local qualification tests. For example, immigrant doctors in Canada often complain of the time required to take theoretical and practical tests to obtain Canadian credentials, and many engage in work such as driving taxis until they can pass appropriate tests.

Most credentials require earned degrees and tests. Another developing country demand is to allow experience to substitute for formal education in meeting education requirements for licensed occupations. Some developing

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<sup>15</sup> In Canada and the US, many of the licenses needed to work in professions such as doctor or nurse are issued at the provincial or state level, and are valid only in the province or state issued. Canada has 15 regulated professions and more than 400 regulatory bodies, and is seeking to reduce the "brain waste" that occurs when an immigrant trained as a doctor drives a taxi because he cannot quickly get a Canadian license by making grants to professional organizations so that they can more quickly determine if foreign-trained doctors, nurses, engineers and other professionals qualify for Canadian licenses. It has been estimated that immigrant earnings would be C\$2 billion higher if they worked in the occupations for which they are educated (Canada: Brain Waste. 2005. Migration News. Vol 12. No. 3. July).

<sup>16</sup> The EU's mutual recognition system applies only to EU nationals, so that a Turk recognized as a doctor in Germany does not have to be recognized as a doctor in France.

<sup>17</sup> On May 29, 1997, the WTO Council for Trade in Services adopted guidelines for mutual recognition in the accountancy sector.

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countries argue that, if the host-country employer deems an individual qualified to fill a job, the employer's word should suffice. Developing countries note that employer assessments are most common in "new fields" that do not have a credential infrastructure, such as IT, and that there are few checks on the qualifications of managers sent between branches of a multinational. There has been some liberalization in this direction. For example, foreigners are generally required to have college degrees to obtain US H-1B visas, but they may substitute at least three years of relevant work experience for the degree if the employer deems them qualified.<sup>18</sup>

### 3.4. Taxes and service providers

The fourth developing country demand centers on social security and related tax issues. Payroll taxes add 20 to 40 percent to wages in most industrial countries, and developing countries complain that migrant service providers are often required to pay them, even when they have limited or no access to the benefits these taxes finance. Some developing countries have proposed keeping migrant service providers out of work-related programmes, with the possible exception of work-related accident insurance.

Exempting migrant service providers from payroll taxes would lower their cost, adding to the comparative advantage of developing country service providers. On the other hand, many migrants find ways to stay abroad even if they were intending to be only temporary migrants. If migrants excluded from work-related benefit programmes settle, they might wind up with fewer social security benefits than other workers, raising equity issues. Exempting migrant service providers from work-related taxes and benefit programmes may violate the WTO norm of "national treatment" as well as ILO conventions calling for equality between migrants and local workers.

There are a number of other developing country demands that have received less attention. For example, in most countries, spouses and dependents do not qualify for work permits simply because the household head gets a work permit, which some developing countries consider a barrier to migration. Like other temporary workers, Mode 4 migrants may lose their right to be in the country if they lose their jobs, which may discourage them from filing complaints of labour market rules. There may also be confusion about which country's labour law applies under GATS Mode 4, as in the case of an Indian IT worker employed temporarily by Deutsche Bank in New York.

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<sup>18</sup> The US-H1B programme allows US employers to temporarily employ a foreign worker in a specialty occupation, defined as an occupation that "requires the theoretical and practical application of a body of specialized knowledge and a bachelor's degree or the equivalent in the specific specialty." <http://atlas.doleta.gov/foreign/h-1b.asp> In 1999, the US Department of State testified that 20 percent of the applications for H-1B visas in Chennai (Madras) India included false education and employment credentials. H-1Bs: Visas Run Out. 1999. Migration News. Vol 6. No 7. <http://migration.ucdavis.edu>

#### **4. GATS MODE 4 LIBERALIZATION: POTENTIAL GAINS**

The usual argument for liberalization of Mode 4 is that “temporary movement can help realize the gains from trade in services while averting social and political costs in host countries and brain drain from poor countries” because temporary service providers, unlike guest workers, will return (Chaudhuri et al, 2004). The estimates of the gains in global GDP from more migrants moving from developing to developed countries are three to four times Official Development Assistance. For example, Winters et al. (2003) estimated that if OECD countries increased their labour forces by three percent with migrants from developing countries, the overall gain would have been some US \$156 billion in 1997.

The WTO in a 2004 report argued that “liberalization of Mode 4 trade...will increase global wealth, favour specialization and a more efficient allocation of resources, foster transfer of technology, encourage innovation, and offer consumers in each country a wider variety of services at lower prices.” (WTO, 2004, 47). The WTO went on to suggest that the benefits of Mode 4 movements range from reducing unemployment and generating remittance flows in sending countries to increasing other forms of services trade and expanding trade in goods. More trade, in turn, raises global output and makes people in both sending and receiving countries better off.

##### **4.1. Projected gains: US \$150 billion**

Migration and trade arise from differences between areas, as people move from one area to another for higher wages, jobs, and opportunities. The greater the differences between areas, as between unskilled workers in developing and developed countries, the greater the potential gains from migration to the migrating person and to global economic output. However, as Chaudhuri et al, (2004) note, “few countries are today willing to assume multilateral commitments on unskilled labour,” such as agreeing to accept a certain number of unskilled migrants each year.

If there were more Mode 4 “temporary labour migration,” the largest gains would come from the movement of low-skilled workers, where the wage gaps are greatest, sometimes 20 to one or more.<sup>19</sup> Mode 4 liberalization should narrow these wage gaps by putting upward pressure on wages in sending countries and downward pressure on wages in receiving countries.<sup>20</sup> Most of those estimating the gains from more Mode 4 migration draw exact parallels to trade in goods, emphasizing that workers can move over borders or labour-intensive goods can cross borders, and that adjustment assistance for workers

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<sup>19</sup> Successive rounds of trade negotiations have reduced differences in goods prices to two to one or less across most countries.

<sup>20</sup> According to the WTO, the prices of goods between developing countries are much more similar than the prices of services, and more services trade would narrow services' wage and price gaps (WTO, 2004, 50).

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displaced by increased trade in goods, such as extended unemployment insurance and retraining for new jobs, could also cushion any adverse impacts of more Mode 4 migration (Winters et al, 2002).

The starting point for most analyses of the potential gains from moving more workers from lower to higher wage countries is the effort by Hamilton and Whalley (1984) to estimate the effects on global GDP of factor price equalization, or moving enough workers over borders so that wages were equalized in seven multi-country regions. They assumed the world's labour supply was fully employed to produce a single output and used constant elasticity of substitution production functions to estimate differences in the marginal productivity of labour, assuming that differences between regions were due to migration restrictions. Hamilton and Whalley estimated the increase in output that would result from workers crossing regional borders until marginal productivities and wages were equalized, so that workers in migrant receiving countries saw their wages fall while capital owners had higher returns, and there were the opposite distributional effects in sending areas.

If there were sufficient movement of labour between regions to equalize wages, Hamilton and Whalley estimated that global GDP could more than double, rising from US \$8 trillion to between US \$13 – 24 trillion in 1977, that is, world GDP could double or triple. The magnitude of the gain from more migration has led many economists to assert that even small increases in labour migration would significantly raise global GDP, since the first migrants to move gain the most because the wage gaps are largest at the beginning of the convergence process.<sup>21</sup> Of course, the estimated gains from more migration depend on the assumptions, such as full employment, so that wages are determined by marginal productivity, the assumption that the ratio of wages to profits is one in both rich and poor countries before migration barriers are lifted, and the assumption that capital does not move even as labour migrates.

Complex models are not needed to grasp the basic point that, if a person crosses a border and earns \$10,000 a year more, the personal gain of \$10,000 also increases global GDP, even if individual and global gains are adjusted for purchasing parity. Given such potential gains from more migration, why are there migration restrictions? The restrictions are especially surprising when it is remembered that the benefits of labour migration tend to be immediate, measurable, and concentrated, as migrants go to work abroad and generate higher wages that are measurable in monetary terms.<sup>22</sup> The costs of migration, if any, tend to be deferred, diffused, and harder to measure, as when wages in destination areas rise slower due to the presence of migrants, or if settled migrants send for their families and increase tax-funded schooling and health care costs.

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<sup>21</sup> Harvard economist Dani Rodrik asserts that “even a marginal liberalization of international labour flows would create gains for the world economy” far larger than prospective gains from trade liberalization.

<sup>22</sup> Owners of capital in receiving areas also benefit.

There are also more difficult to measure integration and diversity issues that can arise with settlement, ranging from bilingual education, distributing scarce resources such as housing, and maintaining unity in a more diverse population.

Winters et al (2003) produced the estimates that figure most prominently in the debate over liberalizing Mode 4. Using a computable general equilibrium (CGE) model of the global economy, they asked how much higher GDP would have been in 1997 if there had been three percent more migrants in OECD countries from developing countries. The Winters model relies on assumptions that range from perfect competition to market-clearing prices, and assumes that migrants move from lower to higher wage areas and remit some of their earnings. Winters et al assume that migrants have a lower productivity than local workers in receiving countries.

Adding 8 million skilled and 8.4 million unskilled workers to OECD labour forces would, according to the Winters model, have increased global GDP of US \$26 trillion in 1997 by US \$156 billion or 0.6 percent, with the migrants getting 63 percent of the gain and the owners of capital in receiving countries 44 percent (Winters et al, 2003, 1145). As would be expected, wages decline in receiving countries and rise in sending countries, while output rises in receiving countries from the presence of more fully employed workers and falls in sending countries, as some of their fully employed workers emigrate. Winters et al emphasize that losses to developing countries are minimized if unskilled rather than skilled workers move (2003, 1148).

The analyses of Winters and others are the basis of WTO assertions that there would be substantial gains from more Mode 4 movements. The WTO asserts that more migrants should also increase imports and exports of goods<sup>23</sup> and “may help to alleviate problems caused by ....an aging population..[as] the temporary movement of young foreign workers to developed countries may re-equilibrate the share of the working population....[and] may reduce the size of the illegal labour market.” (WTO, 2004, 49). The WTO stresses that Mode 4 migration involves temporary service providers, thus avoiding “additional costs in terms of infrastructure (such as schools and housing) and social and cultural integration” associated with permanent migration (WTO, 2004, 49, footnote 13).

#### 4.2. Potential losses

There are also potential losses from more Mode 4 migration, many analogous to the costs that arise from trade in goods. The arrival of foreign service providers can depress the wages of local service providers or increase their

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<sup>23</sup> A US study found a 10 percent increase in temporary service providers was associated with a 2.5 percent increase in imports and exports from the migrants' country of origin as well as more Mode 1 trade in services and more FDI. Most of these effects were from Indian IT workers arriving in the US to provide IT services (WTO, 2004, 53).

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unemployment, just as more imports of labour-intensive goods can lead to factory closures and job losses. If countries make binding commitments to admit IT workers or nurses, these GATS commitments may affect the education and career choices of local youth, raising issues about long-term competitiveness. For example, as the share of foreign-born science students increased in the US over the past several decades, more employers began to require lengthy post-doc periods of experience, which are typically low-paid work in the labs of senior scientists. This discouraged many US students from getting doctorates in the basic sciences: one estimate is that bioscientists earn US \$1 million less than MBAs graduating from the same university in their lifetimes (Teitelbaum, 2003).

In sending countries, the costs of more Mode 4 migration may include loss of skills, investments in education, and any taxes paid on foreign earnings to host governments. Because of the potential for settlement abroad, the WTO acknowledges that the “overall impact of liberalization of Mode 4 mobility on the level of human capital of a country is ambiguous,” with the balance depending on whether the extra skills acquired by returning service providers exceed the skills lost due to the settlement of stayers. If the best and brightest from a country migrate to a higher-wage country, and the most successful migrants stay abroad, the skills balance is likely to be negative.

### 4.3. Other effects

There are also other effects of more Mode 4 migration that raise questions with no easy answers. For example, emigrating doctors and nurses can be replaced in their country of origin by importing replacements, as when emigrating South African doctors and nurses are replaced by Cuban doctors and nurses. In this case, trade in services has increased, but welfare effects are ambiguous. Similarly, if women who emigrate to be domestic helpers abroad, in turn hire local women to look after their own children, trade in services has increased, but do the remittances of mothers compensate for loss of maternal care?

One way to think about the gains and losses from more labour migration, which is what GATS Mode 4 is about, is to think about what would happen if there were one country with free internal movement instead of 200+ nation states and territories. Under a one-country regime with no internal barriers to the movement of people and goods, there would undoubtedly be significantly more flows of people from lower to higher wage areas, likely accompanied by private and government policies to cushion the effects of the increased migration, either by slowing it with barriers or by providing incentives to stay at home.

For example, the prevailing wage laws common in many countries for publicly supported construction projects can sometimes be traced to contractors recruiting workers in poorer rural areas—requiring all workers to be paid the local wage eliminated the incentive to recruit workers willing to work for lower wages. Similarly, farm support policies in many countries have their

roots in periods of low farm prices when a significant share of the labour force were farmers, and governments transferred money to farmers by supporting the prices they received for the commodities they produced. There is often direct government investment in lagging areas to promote economic development, so that military bases, educational institutions and research facilities are sometimes located in poorer areas, and governments often provide tax incentives for private firms to locate there.

## 5. GATS NEGOTIATIONS AND ALTERNATIVES

The Doha development round of trade negotiations that aims at maximizing benefits for poorer countries appears to be “in trouble” because industrial countries refuse to reduce farm subsidies and the so-called “Singapore issues” related to intellectual property and government procurement are unresolved. There has also been little progress in GATS negotiations, especially in making offers and commitments to liberalize Mode 4 movements.<sup>24</sup>

A 2004 analysis of the negotiations complained that many service sectors remain off limits to foreign service providers, and that the “liberalization commitments” made by developed countries often limit the access of foreign service providers to jobs and earnings by establishing economic needs tests or placing quantitative limits on entries (WTO, 2004, 46-71). Most countries’ GATS offers simply reflect current policies, which tend to limit the movement of service providers to professionals, managers, and highly skilled workers. In some cases, current policies are more liberal than GATS commitments. For example, most countries that admit unskilled service providers via guest worker programmes have excluded these programmes from their GATS commitments.<sup>25</sup>

The firmest liberalization commitments in the GATS negotiations are for business visitors, intra-company transfers, and professionals. A third of Mode 4 commitments refer to intra-company transfers, such as managers and specialists being moved within a multinational over borders. Many of these commitments permit managers to enter and work without tests of the local labour market or wage tests, but most include conditions, such as requiring that the worker being transferred was employed at least a year in the multinational’s home country or a third country<sup>26</sup> (WTO, 2004, 55).

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<sup>24</sup> “WTO Chair Cites Absence of Initial Offers As Major Problems Facing Services Talks,” WTO Reporter, September 5, 2004.

<sup>25</sup> There are often two reasons advanced for why e.g. the Germany-Poland and Canada-Mexico seasonal agricultural worker programmes are not part of GATS. First, as bilateral programmes, they violate WTO non-discrimination policies: although countries can limit benefits to certain countries, the basis of the WTO is a level playing field or treating all member countries equally. Second, bringing seasonal worker programmes under GATS would limit the flexibility of governments to adjust numbers and programme rules.

<sup>26</sup> One of the EU’s liberalizing offers is to allow multinationals to transfer recently hired university graduates to their EU subsidiaries for one-year of training.

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Developing country representatives have called for extending current commitments that give relatively free entry to managers and professionals to workers who are not employed a year or more by the transferring firm and to allow the entry of less-skilled workers (Chandra, 2001, 647-48). They would also like entire sectors to be open to foreign service providers, such as professional and business services (Winters, 2005).<sup>27</sup>

### 5.1. Mode 3 as an alternative

An alternative to the Mode 4 movement of service providers may be more Mode 3 migration. Most countries, developing and developed, allow multinational firms to move managers and specialists over borders between subsidiaries fairly easily. Indian IT firms have demonstrated that developing country multinationals can use intra-company transfers to move IT workers over borders, which is Mode 3 service provision.<sup>28</sup> Chaudhuri et al (2004) offer a compromise: allow less-skilled employees to move within a multinational over borders, but restrict intra-corporate transfers to one year abroad. If this proposal were adopted, an Indian multinational could establish a US subsidiary and move managers, IT professionals, and janitors to the US without testing the US labour market or paying these transferred workers US wages if their stay was a year or less.

What about independent service providers, such as architects and translators, who often work in a non-employee relationship with their client-consumers? Most industrial countries require self-employed migrants to provide the service to a final consumer, but developing countries say their service providers do not have contacts to find consumers abroad. Developing countries would thus like industrial countries to allow their professionals to enter and work as employees for architectural or accounting firms, movements that are currently subject to guest worker rules.

If GATS liberalized the entry of foreign service providers arriving to fulfill contracts with final consumers, a new class of brokers or recruiters would likely emerge to match customers in receiving countries with service providers in sending countries. Receiving country brokers would obtain contracts from customers, sending country brokers would find service providers to fulfill them, and both would charge fees whose size would be limited by the wage gap between the countries. With no labour market tests or wage parity requirements, developing country architects, accountants, and others could sign contracts providing very low wages, with brokers, migrants themselves, and perhaps governments justifying them as imparting “experience” in addition to income.

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<sup>27</sup> The *North American Industry Classification System* (NAICS) defines professional and business services to encompass scientific and technical services (54), management of companies and enterprises (55), and administrative and support and waste management services (56).

<sup>28</sup> Winters et al. (2002, 57) conclude that subcontracting and using intra-company transfers “offers the greatest chance of extending Mode 4 to lower-skilled workers.”

One way to try to police abuse under such a scheme would be to require all service provider-customer contracts to be registered with a government agency, so that fees and thus wages are publicly known. However, even apparent "normal prices" in registered contracts could be evaded by brokerage fees paid to get the contract, transportation and housing fees, or the many other ways that labour brokers use to take away some of the wage difference that motivates migration in the first place, suggesting that any new brokerage industry created by Mode 4 liberalization of independent contractor service providers would eventually require regulation. Chaudhuri et al (2004), in advocating the easier movement of independent contractor service providers, acknowledge that it is one thing to define a subcontract for an architectural or IT project and another to define a subcontract for a nursing project.<sup>29</sup>

There is also a possibility of linking trade in goods and the migration of service providers. Mattoo and Olarreaga (2004, 16) propose reciprocity between different areas of trade, so that India would reduce its tariff on cars if the US made it easier for Indian IT service providers to enter and work. In their example, lowering tariffs so that the US sold 1,000 more US \$15,000 cars in India would be reciprocated by the US permitting the entry of 375 more Indian IT workers earning US \$40,000 a year. They urge such a formula to make progress in the Doha round but, as the example makes clear, in a trade negotiation that does not allow countries to favour one country over another, linkages are difficult to achieve: opening up the IT entry avenue may benefit Indian IT workers, but lowering Indian auto tariffs may benefit Asian rather than US auto producers.<sup>30</sup>

## 5.2. Specialty workers and intra-company transfers

Some proposals to get Mode 4 negotiations moving faster toward liberalization suggest "scheduling" or putting the current guest worker programmes of developed countries into the GATS, thereby locking current numbers and entry criteria into place and providing a basis for further liberalization (Winters et al, 2003, 1154). Most countries with guest worker programmes, on the other hand, do not want to lock current numbers and entry criteria into an international trade commitment, since that could limit their ability to reduce numbers or tighten entry criteria when unemployment rises.

One programme that is locked into GATS is the US H-1B programme, which permits up to 65,000 foreign professionals a year to enter the US and fill jobs in an easy-entry procedure for employers (foreigners inside the US

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<sup>29</sup> The GATS schedules of the European Union and Canada have a special category for temporary entry by contractual service suppliers, with the EU allowing them to stay for up to six months while Canada allows one year or the time necessary to complete the project.

<sup>30</sup> Mattoo and Olarreaga note that it would be better to make linkages sector specific, so that lowering barriers to software exports was linked to easier entry for software engineers, but such sector-specific trade-offs are likely to be less liberalizing for service provider movements.

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such as foreign students may get H-1B visas without leaving).<sup>31</sup> The initial visa can be up to three years, renewable once, and H-1B visa holders may bring their families with them. Foreigners seeking H-1B visas may assert that they intend to settle in the US, although to do so they must qualify for an immigrant visa by e.g. marrying an American or immigrant or finding a US employer to sponsor them for an immigrant visa. Chaudhuri et al (2004) consider the H-1B programme a model for GATS liberalization.

Complaints about the H-1B programme center on the displacement of US workers, depressed wages, and unscrupulous intermediaries. The H-1B programme gives employers easy access to H-1B foreign workers, under the assumption that US workers with college degrees would complain loudly against abuses. For example, the H-1B programme allows US employers to displace US workers and hire H-1Bs, and some have done so prompting complaints from laid-off US programmers who had to train their replacements to get severance pay. Only a handful of H-1B-dependent employers, those with 15 percent or more H-1B workers, must certify that they did not lay off US workers to hire H-1B workers.

There are also complaints about the intermediaries who recruit H-1B workers for US jobs. These so-called body brokers aim to maximize their revenues, which are obtained from migrants and employers. Many charge migrants fees to bring them to the US and charge US employers more for their services than the migrant receives. However, the major disputes arise between jobs, when the migrant is incurring living expenses, and may be technically in an illegal situation, but has no earnings. Atlanta-based Deep Sai Consulting Inc in November 1999 was charged with “harbouring illegal migrants” after bringing 43 Indian programmers to the US for jobs that did not materialize. Deep Sai said it was the victim of an unfortunate change in business; US prosecutors said it was “white-collar alien smuggling.” Indian-owned ChristAm collected fees from H-1B workers it brought to the US, but went bankrupt after they arrived and before they were placed in jobs, leaving the H-1B workers in debt and with no legal prospect for earning US wages.

H-1B workers are employees of foreign or US firms who can remain up to six years. L-1 visa, on the other hand, are managers, executives and specialists<sup>32</sup> brought to the US by a multinational, including non-profit, religious, or charitable organizations, with operations in the US and abroad who may stay for up to seven years with their families. Some Indian IT firms have used L-1 rather than H-1B visas to bring workers into the US, thereby evading the ceiling on H-1B visas, since there is no ceiling on L-1 visas. US unions tend

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<sup>31</sup> An additional 20,000 foreign graduates of US universities with at least a Masters degree may obtain H-1B visas outside this cap each year, and H-1B visas obtained by nonprofit organizations such as universities do not count against the cap.

<sup>32</sup> Specialists have specialized knowledge of the company’s products or processes and were employed at least one year abroad by the multinational.

to oppose both H-1B and L-1 visas, arguing that they permit employers to displace US workers.

### 5.3. Foreign students

One of the most important and overlooked entry doors that could be affected by GATS negotiations is that for foreign students (OECD, 2004). The number of foreign students in the OECD countries doubled between 1980 and 2000 to almost 1.8 million, and their number is projected to quadruple to 7 million by 2025.<sup>33</sup> The rise of for-profit higher education institutions, and public universities seeking (full) fee-paying students, is matched neatly by the Asian economic miracle that enables many middle-class families to pay for a foreign education for their children. In most cases, the Chinese and Indian students who dominate developing to developed country flows intend to return, but for others student migration is a prelude to immigration.

The globalization of higher education bolstered by GATS has been accompanied by rising fraud on the part of institutions and students, exemplified by the rise of so-called diploma or degree mills that sell degrees based on the “experience” of students rather than study, and students who sign up for language or other classes in order to work. Some degree mills have classrooms and libraries, and some ask “students” to prepare “theses” based on their lifetime experiences, but most give diplomas in exchange for payments. Customers in developed countries usually realize that the degrees they are buying are not the same as those earned in accredited institutions, but some students in developing countries who thought they would get an education as well as a diploma are cheated.

The student door is often the easiest one to enter for developing country youth looking abroad for opportunity. Most countries allow educational institutions to select their incoming students and, so long as the student can demonstrate an ability to pay, a visa is issued that allows entry to study and usually to work part time. After graduation, most countries allow students to remain as guest workers or immigrants, meaning that what began as a short-term study trip can turn into immigration as foreigners “adjust” their status from one category to another.

## 6. MIGRATION REALITIES AND MODE 4

GATS Mode 4 discussions often seem to be divorced from much of the international labour migration that is occurring. GATS contributes to this sense of separation by emphasizing repeatedly that its provisions cover international service providers, not “natural persons seeking access to the employment market

<sup>33</sup> Half of the foreign students in 2025 are projected to be Chinese and Indian when China and India are expected to account for 35 percent of the world's 7.9 billion residents.

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[and] measures regarding citizenship, residence or employment on a permanent basis.”

The apparent separation between trade in services and labour migration prompts misleading assertions such as the following: “Temporary movers [from developing to developed countries] hardly pose any cultural or integration threats and make virtually no call on public services...[their] threat to indigenous low-skilled workers ...is neither more nor less than the challenge posed by imports of labour-intensive goods ...[which have] been significantly overcome in the past by the weight of economic gain that trade could deliver and by policies to ease adjustment among the local unskilled.” (Winters et al, 2003, 1142). To emphasize that migrant service providers are expected to rotate in and out of the country, Winters et al assert that “the jobs are permanent, the workers not.” (2003, 1143). In one recent discussion, Mode 4 was offered as a way to provide health and personal care workers for aging populations “without imposing the burden of pension payments onto the host country at a later stage, since all migration under this scheme is temporary.”<sup>34</sup>

However, the distinction between international service providers and migrant workers is absent from the major WTO review of Mode 4, which concludes that most migrant workers are covered by Mode 4 (WTO, 2004, 65-66).<sup>35</sup> Similarly, ILO Conventions 97 and 143 define most GATS Mode 4 service providers as migrant workers, since most are nationals of one country who are wage and salary employees in another.<sup>36</sup>

Negotiators whose experience has been with trade in goods may not appreciate the fundamental differences between goods and workers. Many advocates for liberalization of Mode 4 argue that the logic of moving more people over borders exactly parallels the logic of moving more goods over borders. With countries specializing in the production of the commodity in which they have a relative cost advantage, most residents of the two countries involved benefit from trade and the value of global output rises with freer trade.<sup>37</sup> This reasoning leads Bhatnagar (2004) to conclude that “economic arguments against the free movement of natural persons are based on the narrow perspective of the welfare of domestic workers while ignoring the benefit it

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<sup>34</sup> Quoted in the discussion at Session 1 of the IOM – World Bank – WTO Seminar On Trade And Migration, October 4-5, 2004.

<sup>35</sup> The WTO report acknowledges that most workers engaged in the production of goods, as in agriculture and manufacturing, are not covered by GATS.

<sup>36</sup> Convention 97 (1949) defines a “migrant for employment,” as “a person who migrates from one country to another with a view to being employed otherwise than on his own account.”

<sup>37</sup> Comparative advantage is the economic theory that, if countries specialize in producing the goods in which they have a relative cost advantage because of differences in endowments or economies of scale and engage in trade, both countries will have higher economic output. Relative cost advantage means that one country uses less of a scarce resource such as capital or labour (or another good) to produce the good in question, so it should specialize and trade.

brings to the economy as a whole.” Countries that do not admit migrant service providers willing to work for lower wages, Bhatnagar asserts, are giving up economic output they could have in order to protect the wages of domestic workers who might be displaced or have their wages lowered.

The theory of comparative advantage assumes full employment. Comparative advantage theory asserts that, to maximize global output, all resources should be fully employed, resources should be allocated within countries to reflect each country's comparative advantage, and there should be free trade. In the absence of full employment, the case for comparative advantage-based free trade is weakened, and can be weakened further by highlighting the differences between people and goods.

### 6.1. Goods versus people

People are different from goods. Workers cannot be separated from their work, which means that people are “hired” rather than bought, and there is continuous bargaining in the work place over the pace and quality of work that must be performed for a worker to keep a job paying a particular wage. Most individuals have only one asset, their own time. It cannot be stored, while makers and sellers of goods usually have multiple products that can be stored. Goods such as autos are one dimensional (a car remains a car), have predictable impacts wherever they are used, and their movement over borders can be regulated reasonably effectively by border controls.

People are multi-dimensional, since workers are also consumers and residents who have an interest in how a society is organized and managed. People can change their status, as when migrants who intended to be temporary residents wind up settling. Finally, people can reproduce, and the status and rights of their offspring may be different from their own. These differences between people and goods make it hard to heed calls for treating Mode 4 temporary service providers “outside the domain of immigration-related laws and labour market regulations.” Such arguments imagine a separation between workers and people that does not exist.

Trade negotiators focused on increasing flows of goods and services over borders think of the movement of people as somewhat incidental to their larger goal of increasing cross-border flows. Those charged with managing migration, on the other hand, tend to focus on the movement of workers more than the services the migrants may be providing.

Migrant service providers are in fact migrant workers who are covered by ILO conventions. The bedrock principle of ILO migrant worker conventions 97 and 143 is equality of treatment in the labour market, meaning that migrants earn equal wages and have the same rights and obligations of local workers. ILO Convention 97 (1949) aims to protect migrants and ensure their equal treatment by encouraging countries to sign bilateral agreements<sup>38</sup>

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<sup>38</sup> ILO Recommendation No. 86 includes a model bilateral agreement for migrant workers, and has been used as a model for many of the bilateral agreements that were established.

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governing labour migration. Convention 143 (1975) emphasizes steps governments can take to minimize irregular migration and to promote the integration of settled migrants. Beyond equality of treatment, Convention 143 provides for equality of opportunity, e.g. as concerns access to training.

### 6.2. Regional migration, global trade

Instead of trying to liberalize the movement of service providers on a global scale, does it make more sense to promote liberalization on a regional level? There are many regional agreements that facilitate cross-border movements of migrant workers and service providers, from the European Economic Area (EEA) to the Trans-Tasman Travel Arrangement between Australia and New Zealand to the North American Free Trade Agreement (NAFTA), which includes provisions permitting professionals from Canada, Mexico, and the US to cross borders in response to job offers in other member countries.<sup>39</sup>

Nafta's Chapter 16 covers four types of business travel: business visitors, traders and investors, intra-company transferees, and professionals. Under US immigration law, the first three groups of trade-related migrants enter with visas that existed before Nafta went into effect on January 1, 1994, e.g. business visitors use B-1 visas, treaty traders and investors use E-1 and E-2 visas, and intra-company transferees use L-1 visas. Nafta created a new visa for the fourth group, allowing employers in the three Nafta countries to offer an unlimited number of jobs requiring college degrees to Nafta nationals with college degrees and, in the US, there is no requirement that a Nafta employer pay at least the prevailing wage, unlike the H-1B programme. These written job offers, plus proof of the requisite education, suffice to have indefinitely renewable TN-visas issued at ports of entry. The number of Canadian professionals entering the US with Nafta-TN visas almost tripled since 1995, from about 25,000 entries a year to 70,000 entries, but the number of Mexican entries remains low, generally less than 2,000 a year.<sup>40</sup>

There are even more plans for free migration areas in developing countries, from Africa to the Caribbean to Latin America. Most of these are works in progress, often consisting of a very ambitious plan for freedom of movement signed by government leaders and limited implementation. For example, Caricom ([www.caricom.org/](http://www.caricom.org/)) has been committed to "freedom of movement within the Caribbean Community" for over a decade, but only five categories of workers had freedom of movement rights in 2005: graduates of the University of the West Indies, media workers, musicians, artists and sports persons. Governments are still in the process of harmonizing and making transferable migrant social security rights and Caricom is still trying to establish mecha-

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<sup>39</sup> Julia Nielson said that "NAFTA provided a model for the GATS." Presentation in Session 4 of the IOM – World Bank – WTO Seminar On Trade And Migration, October 4-5, 2004.

<sup>40</sup> Canadians also enter the US to work with H-visas, and an average 20,000 Canadians a year immigrate to the US.

nisms for certifying and establishing equivalency of degrees. To expand migration, there are calls to allow migrants to have their families join them and to give migrant dependents equal access to local education, health care and housing services.

The Asia-Pacific Economic Cooperation (APEC) Business Travel Card (BTC) programme has facilitated the cross-border movement of business visitors since 1997, and included 16 countries in 2004 ([www.businessmobility.org](http://www.businessmobility.org)). When the BTC card holder shows up in another APEC country, she receives expedited admission. As the number of countries grows, so does the number of cards—6,000 were issued in 2004, half to Australians. Applicants apply to their home governments, which submit information on approved business visitors to other APEC member countries for approval before the BTC is issued; this means that one country's refusal blocks an applicant from receiving a BTC.

The WTO is based on the principle that all 148 member countries should be treated equally, the most-favoured nation principle, so that if a country opens itself to accountants, there should be equal rules for all WTO nationals. However, countries are more likely to permit freer migration from neighbours with whom they have special relationships and similar credential and licensing systems rather than with 148 diverse WTO members. Indeed, some fear that if GATS were to succeed in slightly liberalizing the global movement of service providers, this development could slow expansion of more comprehensive regional free mobility regimes.

Most countries with significant numbers of migrants operate unilateral programmes, meaning that they announce the criteria employers must satisfy to employ foreign workers, but allow employers to recruit anywhere and in any way they choose. Cultural and language ties and transportation costs generally encourage employers to recruit migrants in nearby countries, even if no recruitment country is specified in the legislation.

There can also be bilateral agreements that favour recruitment in particular countries. The OECD reported 200 such agreements involving OECD countries in 2004.<sup>41</sup> These bilateral agreements vary greatly, with some simply setting out general criteria for private recruitment and contract review, as with the German-Polish seasonal worker programme, and others actively involving the sending country's labour ministry in migrant recruitment and returns, as with the Canada-Mexico programme. Bilateral programmes often place great emphasis on ensuring returns, offering employers the chance to specify a migrant by name for the next period of employment and the migrant the chance to return if programme rules are obeyed.

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<sup>41</sup> Georges Lemaître, presentation in Session 3 of the IOM – World Bank – WTO Seminar On Trade And Migration, October 4-5, 2004.

## 7. CONCLUSION: WHITHER MODE 4?

The GATS is an ambitious effort to expand international labour migration to help developing countries. The push for liberalization of Mode 4 movements of service providers is justified by World Bank estimates that, if OECD labour forces swelled by 3 percent with migrants from developing countries, global GDP could rise by over US\$150 billion and developing countries would benefit via remittances.

GATS liberalization means different things to different people, making its likely outcomes uncertain. For example, remittances, the major benefit from more GATS-inspired migration, could provide the capital missing for development or be a band-aid that allows governments to put off the often painful reforms needed to prepare a developing country for an economic take off. Liberalizing movements under GATS could also speed or slow expansion of regional free mobility regimes.

There is a fundamental difference in time horizons between trade and migration. Economic theory and international institutions advocate ever-increasing trade, arguing that a rising share of trade in a country's economy is good for the countries involved as well as global GDP. GATS Mode 4 sees the temporary movement of service providers in the same light—having more service providers cross national borders benefits the migrants, sending and receiving countries, and global GDP. However, there is no theoretical or institutional basis for ever-increasing international flows of service providers. Most sending countries view large-scale international labour migration as a short-term or transitional phase in their development, until economic growth creates sufficient jobs at high wages at home. Countries accepting migrants usually want to maximize their flexibility, the inflow when unemployment rises and sending jobless migrants home, a flexibility often lacking in practice.

Many economists and international development institutions support the call of developing countries for GATS liberalization, citing estimates that suggest enormous gains to developing countries. These estimates are based on models filled with assumptions, and may divert attention from alternatives that provide a surer path to faster development. For example, instead of demanding easier access for health-care service providers, developing countries may want to encourage industrial countries to make health-insurance portable so that patients can travel to lower-cost countries for procedures, spurring development via Mode 2 rather than Mode 4 and reducing the risk that health-care professionals will leave and not return. Instead of challenging fundamental labour market norms, it may be better to liberalize the movement of service providers via other “modes” or ways of providing services, such as attracting customers to low-cost areas (Mode 2) or moving employees within multinational firms (Mode 3). In many cases, such liberalization requires changes in non-labour market laws, without challenging equal treatment principles.

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## **Appendix A: GATS Definitions**

### **General Agreement on Trade in Services Article I Definition**

[www.wto.org/english/docs\\_e/legal\\_e/26-gats\\_01\\_e.htm](http://www.wto.org/english/docs_e/legal_e/26-gats_01_e.htm)

2. For the purposes of this Agreement, trade in services is defined as the supply of a service:
  - (a) from the territory of one Member into the territory of any other Member;
  - (b) in the territory of one Member to the service consumer of any other Member;
  - (c) by a service supplier of one Member, through commercial presence in the territory of any other Member;
  - (d) by a service supplier of one Member, through presence of natural persons of a Member in the territory of any other Member.

### **GATS Annex on movement of natural persons**

[www.wto.org/english/tratop\\_e/serv\\_e/8-anmvnt\\_e.htm](http://www.wto.org/english/tratop_e/serv_e/8-anmvnt_e.htm)

1. This Annex applies to measures affecting natural persons who are service suppliers of a Member [independent contractors who are paid directly by the consumers of their services], and natural persons of a Member who are employed by a service supplier of a Member [foreign but not local employees of foreign firms established outside the firm's country of origin], in respect of the supply of a service. [Note that the WTO and some member countries consider virtually all foreigners employed abroad as service providers to be covered by GATS]
2. The Agreement shall not apply to measures affecting natural persons seeking access to the employment market of a Member, nor shall it apply to measures regarding citizenship, residence or employment on a permanent basis.
3. In accordance with Parts III and IV of the Agreement, Members may negotiate specific commitments applying to the movement of all categories of natural persons supplying services under the Agreement. Natural persons covered by a specific commitment shall be allowed to supply the service in accordance with the terms of that commitment.
4. The Agreement shall not prevent a Member from applying measures to regulate the entry of natural persons into, or their temporary stay in, its territory, including those measures necessary to protect the integrity of, and to ensure the orderly movement of natural persons across, its borders, provided that such measures are not applied in such a manner as to nullify or impair the benefits accruing to any Member under the terms of a specific commitment. [The sole fact of requiring a visa for natural persons of certain Members and not for those of others shall not be regarded as nullifying or impairing benefits under a specific commitment].

## The internationalization of labour markets

### Appendix B: Estimating gains from GATS liberalization

The World Bank projected the gains from adding three percent developing country migrants to the labour force of high-income countries between 2001 and 2025 via increased migration, that is, adding 14 million migrants to the current 28 million. The estimated gains are based on a computable general equilibrium (CGE) model that calculates that global GDP would rise 0.6 percent due to this increase in migration by 2025, raising projected global GDP of US \$60 trillion by US \$360 billion.

The major impacts of this additional migration would fall on four groups:

- the new migrants see their wages rise on average 11 times, making them the major gainers from more migration between low- and high-wage areas
- native owners of capital in high-income countries gain in higher returns to capital and higher asset prices
- migrants already settled in high-income countries see their wages decline significantly with the influx of new migrants and
- those remaining in developing countries gain from remittances that average an estimated 17 percent of migrant foreign earnings

The model is based on a high-income labour force of 480 million in 2001, including 28 million migrant workers<sup>42</sup> from developing countries, or 6 percent of the high-income countries labour force (high-income countries are the European Union and countries of the European Free Trade Area, Canada, the United States, Japan, Australia, New Zealand, and the newly-industrializing economies). The high-income workers are comprised of 150 million skilled workers (including 3 million migrants from developing countries) and 330 million unskilled workers (including 25 million migrants from developing countries).<sup>43</sup> High-income country workers were 69 percent unskilled and 31 percent skilled in 2001.

The fifteen developing countries include China, the Philippines, India, Russia, Turkey, South Africa, and Mexico as individual countries, plus 6 regions representing the remaining countries. They had 2.6 billion workers in 2001 who were 92 percent unskilled and 8 percent skilled. However, there were more skilled workers in developing countries, 200 million, than in high-income countries, 148 million.

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<sup>42</sup> The total migrant population from developing countries is 65 million, suggesting 1.3 dependents per migrant worker.

<sup>43</sup> The US in 2004 had 40 million workers with college degrees, including 6 million who were foreign born.

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The experiment is to raise the number of migrants in high-income countries by 14 million between 2001 and 2025, including almost 10 million unskilled and 5 million skilled migrants. Nonetheless, the total labour force of high-income countries shrinks slightly, to 475 million, and the shares of skilled and unskilled workers are assumed to remain constant, a questionable assumption in light of rising levels of education. Meanwhile, developing country labour forces increase by one billion, to 3.6 billion.

Table 2. Labour Force in High- and Low-Income Countries, 2001 and 2025 (mils)

	2001	2001	2001	2001		2025	2025	2025	
High-income countries	Migrants	Share	Total LF	Shares	Migration	Migrants	Share	Total LF	Shares
Migrants from LDCs	28	6%	479		14	28.5	6%	475	
Unskilled	25	7%	332	69%	10	25.3	8%	324	68%
Skilled	3	2%	148	31%	5	3.2	2%	145	31%
<b>Developing countries</b>									
Total labour force			2,596					3,561	
Unskilled			2,396	92%				3,294	93%
Skilled			200	8%				267	7%

Source: Estimates from [www.gtap.org](http://www.gtap.org)

CGE models aim to highlight the interactions between economic sectors by specifying the equations used to describe microeconomic maximization behavior, that is, consumers maximize utility and producers maximize profits. Most CGE models assume perfect information and competition, so that workers are paid the value of their marginal productivity and there is no unemployment. In order to use CGE modeling to estimate the effects of additional workers, more assumptions had to be made, including the assumptions that new migrants compete mostly with each other and settled migrants, not native workers, and that the arrival of unskilled migrants has minor effects on the wages of unskilled natives.