

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT



**Assuring development gains and  
poverty reduction from trade:**

the labour mobility and skills trade dimension



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**Assuring development gains and poverty  
reduction from trade: the labour mobility  
and skills trade dimension**

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## ABSTRACT

It is becoming increasingly clear that the issue of global labour movement and integration is a key topic at the interface of trade, development and globalization. In 2005 the global labour force numbered 2.8 billion, of which 2.25 billion was developing country labour force. This paper attempts to provide a comprehensive picture of the impact on trade, development and poverty reduction brought about by global labour movement and integration. It attempts to answer the question as to how temporary labour mobility can be better managed so as to contribute to improving people's livelihood and welfare prospects while at the same time moving closer to the achievement of internationally agreed development goals, in particular the United Nations Millennium Development Goals.

The paper looks at temporary labour mobility and skills trade as it relates to trade and development from the perspectives of both sending and receiving countries. It sets out the problem of labour mobility, the state of play in the global labour market, push-pull factors that cause labour mobility and succinctly, the seven inconsistencies of the labour movement conundrum. A detailed examination of the socio-economic costs and benefits to sending and receiving countries provides a balanced overview of the picture. From the trade perspective the paper argues that progress in allowing temporary movement of labour by means of multilateral and regional or bilateral agreements is important to further good global governance, coherence and solidarity necessary for achieving Millennium Development Goals. The paper concludes with several mutually beneficial policy recommendations which would ensure the sustained positive effects of migration on development.

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# **Assuring development gains and poverty reduction from trade: the labour mobility and skills trade dimension**

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*Note:* All amounts are expressed in US dollars.

## **I. Introduction**

1. Historically, cross-border and intercontinental movements of labour – precursors to modern-day labour integration – took place under colonial and slave trade conditions and by way of migration as people sought better lives and economic opportunities. By the 18<sup>th</sup> century, about eight million people from other continents including Asia, had journeyed to the New World. Seven million people were slaves from Africa recruited primarily by means of coercion and contracts.<sup>1</sup> Others were political and economic migrants from and within Europe, who in the last 200 years helped create the world's richest economies. People migrated from poorer, less developed countries to richer, more developed countries and colonial powers and their territories. Therefore, migration is not a new or transitory phenomenon; people have been migrating since the onset of civilization. By and large the political, social, religious and economic reasons for migration have remained the same – especially the quest for better living conditions. In 2000, for example, only 10 per cent of migrants were refugees and

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<sup>1</sup> Chiswick B and Hatton T (2002). International migration and the integration of labor markets. IZA Discussion Paper no. 559. 8/2002: 2.

asylum seekers; the rest were economic migrants.<sup>2</sup>

2. Today, in the current, more mature post-colonial phase and second wave of trade-and investment-driven globalization and capitalism, labour movement and integration is taking place in response to a number of push and pull economic factors and market forces. The scale and extent of this is unprecedented, although it is nowhere near the scope and extent of cross-border trade, and movement of goods, capital, entrepreneurship, information and technologies; nor is it anywhere near achieving its potential. There are signs that labour integration and mobility are beginning to have a positive impact on trade and investment-driven globalization. Therefore, these factors are increasingly taken into account when devising national and international development strategies that include efforts to achieve internationally agreed development goals such as the United Nations Millennium Development Goals, in particular poverty reduction, gender equity, decent work and global partnerships for development.

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<sup>2</sup> International Labour Organization (2007). International labor migration and development: the ILO perspective. Submission made to the Pre-Global Forum Meeting on International Migration and Development, Commonwealth Secretariat. London: May.

3. Global labour integration and the ability of developing country labour to take part in global production and services provision are key factors at the interface of trade, development, migration and globalization. They are at the heart of the hopes and fears about globalization. What are the cost and benefits of globalization for developing countries and member States of the Organization for Economic Cooperation countries? Because of the potential of labour integration to help developing countries reap the fruits of the global economy via integration, many of these countries seem to regard it as a panacea for development. However, developed countries are for the first time re-evaluating globalization in the light of the competition posed by developing country labour integration and the economic, social and political pressures it generates.

4. In short, this paper attempts to answer the question as to how labour mobility and labour integration, in particular from developing to developed countries, can be managed more effectively and coherently so as to contribute to the achievement of internationally agreed development goals. It also seeks to understand how multilateral, regional and bilateral agreements and governance regimes should evolve in order to work towards global development solidarity. This paper does not attempt to look at the larger issue of permanent

migration; it focuses instead on a smaller subset of economic migration and labour integration, namely the temporary movement of labour from the perspective of developed and developing countries. To achieve this, the paper first describes the problem of labour mobility, emphasizing push-pull factors and barriers to labour mobility. Second it defines labour mobility, outlining seven inconsistencies in the labour mobility conundrum. Third, it discusses the current state of play in the global labour market.

5. Fourth, it underscores the resulting benefits and costs for both sending and receiving countries. Looking at it from the sending country lens, the paper highlights the socio-economic benefits and costs associated with such movements, including how to maximize these benefits and minimize the costs. The fifth and last part of this paper focuses on labour mobility from a trade perspective. It advocates the use of frameworks for liberalizing and facilitating the temporary movement of persons. This section argues that apart from the economic and development benefits in the interest of global coherence and solidarity, progress in allowing temporary movement of labour must be made. Two tools enabling such liberalization and facilitation are the World Trade Organization's General Agreement on Trade in Services (GATS) and bilateral labour agreements which can stand

alone or be part of broader regional and bilateral agreements. The conclusion of the paper makes several policy recommendations aimed at ensuring the sustained positive effects of migration on development at the national and international levels. Particular attention is paid to the aspects of creating and enhancing the enabling environment nationally and internationally and ensuring coherence in development policy-making. These measures could help achieve globally acceptable, coherent and mutually beneficial solutions.

A. Push-pull factors

6. Never before have there been such opportunities for labour integration and mobility in the context of trade- and investment-led globalization. The push-pull factors that influence labour mobility are probably unprecedented. It is difficult to clearly distinguish between a push factor and a pull factor. Generally speaking, however, the following push and/or pull factors can act as catalysts for labour mobility:

*Push factors*

7. The quest for better livelihoods and standards of living has led to the movement of labour not just between developing and developed countries, but among and within

developing countries. The push factors for this kind of circulation can be social, environmental or economic. While globalization has brought economic benefits to many, it has also sharpened the divide between the rich and the poor. The attendant social disadvantages and discriminations coupled with more traditional social disadvantages, such as gender and class, provide sufficient reason to encourage people to move. Skilled workers are attracted by opportunities to better use, deploy or enhance their skills, compared with what may be possible in their home countries where institutional infrastructures and entrepreneurship may be underdeveloped.

8. Another emerging push factor whose exact impact is still being estimated is the impact of environmental degradation and of natural-resources-related conflict on labour mobility. This is especially relevant in the current context of climate change. The impacts of climate change, and the wage differential among and within countries coupled with population growth in developing countries, are likely to increase the pressure on the movement of people not just within countries but between countries as well. The Stern Review on the Economics of Climate Change (October 2006) points out that climate change is likely to cause hundreds of millions of people to suffer hunger, water shortages and coastal flooding, leading to possible mass

migration and conflict in parts of the developing world. Although the exact extent of this movement is difficult to estimate, it could range from millions of people at risk of malnutrition and lack of clean water to those currently living in flood plains. According to the same report, nearly 200 million people today live in coastal flood zones that are at risk; in South Asia alone, the number exceeds 60 million people. According to the International Federation of Red Cross and Red Crescent Societies, climate change disasters cause more population displacement than war and persecution. Estimates of climate refugees currently range from 25 to 50 million. In most cases, the populations most likely to be affected are the poor.<sup>3</sup>

9. Economic considerations have been shown to be a major decision-making factor in cross-border movement. Poverty, high unemployment rates and under employment in developing countries and least developed countries, particularly among the youth, are contributory factors. The lack of job opportunities at home, promises of better wages abroad and the prospects of being able to help improve the quality of life of migrants and their families back home serve as motivations for overseas work. A prime motivating factor for

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<sup>3</sup> The term climate refugees broadly refers to people forced to migrate internally or across borders because of the environmental threats of climate change.

migration in some countries is the depletion of domestic natural resources through unsustainable exploitation furthered by, for example, bilateral agreements between host countries and countries seeking access to fish resources. In poor regions, particularly in North-West Africa where there is a great reliance on fish, not only as a source of protein but as an important source of livelihood, the consequences are particularly stark.<sup>4</sup> This loss of livelihood has been cited as a contributory factor to migration to the European Union.<sup>5</sup>

10. Socio-cultural factors also play a role, with nationals from some countries more prone to move than others. This willingness perhaps arises for reasons such as exposure to Western culture and practices, the attraction of more eclectic cultures, that is, cultures that are diverse, less traditional and more open, and tradition –some countries have a long history of migration allowing for the presence of relations or friends abroad who serve as inspiration or network to venture further afield. Linguistic and cultural affinities are also important motivating factors.

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<sup>4</sup> A 2002 report by the European Commission found that the most marketable fish species off the coast of Senegal were close to collapse.

<sup>5</sup> Lafraniere S (2008). "Europe takes Africa's fish, and migrants follow." International Herald Tribune. 14 January.

11. The expanding trade and investment dynamic has also created interesting spinoff impacts on labour mobility. Interestingly, many developing countries see two kinds of labour movement: internal and external. External labour movement involves movement from the home country to another country, generally towards a more attractive destination, whereas internal labour movement involves the mass movement of migrants from rural areas to urban centres in search of higher wages. This poses urban and infrastructural development challenges of substantial magnitude in turn leading to outward migration from urban centres as in Bangladesh, Cambodia and Sub-Saharan Africa. Even the larger developing countries such as China, Brazil and India, which are now experiencing high economic growth rates, have to meet formidable development challenges of integrating and supporting their own low-income populaces. Another interesting aspect of labour movement linked to expanding trade and investment in the emerging economies arises in the context of natural resources. The search and competition for natural resources, raw materials and trade and investment opportunities in third countries involves labour mobility. Good examples of this are the movement of workers from China to Africa, as a result of Chinese companies' involvement in infrastructure projects in African countries or Indian computer technicians providing services in third countries. A third

more skills-based aspect of the trade and investment expansion dynamic is the growth of production and distribution networks set up by multinational corporations. This has resulted in the movement of particularly skills-based labour across the globe in response to other push-pull factors.

*Pull factors*

12. Demographic and labour factors. There are increasing complementarities between countries that belong to the Organization for Cooperation and Development (OECD) and those of the developing world with respect to the interrelated issues of demographics, labour-force levels and opportunities for a genuine new skills trade. Declining population rates and ageing, with the concomitant declining labour supply and increased dependency ratios in developed countries, are a perfect match for the ample, fast-growing, young populations and workforces in developing countries, at least over the next 20 years. Elderly persons in developed countries account for 21 per cent of the population. At the global level, the total dependency ratio<sup>6</sup> will increase after the year 2025 because of an expanding population of old people coupled with

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<sup>6</sup> Total dependency ratio is the number of children (aged 0–14) plus the number of elderly persons (aged 65 or over) per one hundred persons in the working-age population (aged 15–64).

a population of children that will stop growing.<sup>7</sup> An ageing population could take a toll on the economy: efforts have to be made to maintain or boost labour productivity, and in particular, to stem the fall in labour supply.

13. Labour shortages in developed countries are either already evident or emerging and projected in several sectors across their economies. Extant and potential surpluses in developing countries at all skill levels in key sectors are increasing, available and mobile to fill the labour demand gap. In the United States' information technology sector alone, there is likely to be a skills shortage of 10 million by 2010. There has also been a steady increase in the demand for other low-skill, labour-intensive services such as in construction, agriculture and caring services. On the other hand, developing countries are gearing up with the considerable supply response to meet these skills shortages and to position themselves in the skills market. In nursing services, the Philippines and several countries in Africa and South Asia have tapped developed and other developing country markets for health services. The Philippines, for instance, has responded to the growing global demand for nurses by producing more nurses. It is estimated that Philippines nursing schools produce about

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<sup>7</sup> *World Economic and Social Survey 2007* (2007). Development in an ageing world. Department of Economic and Social Affairs, United Nations. New York.

20,000 graduates per year. Of 177,000 Philippine nurses, 85 per cent are estimated to be working overseas.<sup>8</sup> Studies show that 19 of the top 20 Indian software businesses are founded or managed by professionals from the Indian diaspora. Indian migrants, particularly those in the United States, have made significant contributions abroad to the recent growth of the Indian software industry, not only by transferring knowledge and technology but also by opening up new markets for Indian products and services.

14. The Philippines is also the largest supplier of seafarers, capturing 28.5 per cent of the total maritime population (180,000 of 632,000). Workers from Latin America, notably Mexico, provide the United States with a steady supply of seasonal agricultural workers. This rise in demand will not be confined to high- and low-skilled jobs. An interesting prediction is that there will be an incremental growth in demand in what is referred to as hard-core nontradables, that is, services (nontradables) that do not require high skills and cannot be outsourced.<sup>9</sup> This demand will arise as a result of increased

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<sup>8</sup> Ronquillo K, Elegado-Lorenzo F M and Nodora R (2005). Human resources for health migration in the Philippines: a case study and policy directions. Paper presented for ASEAN Learning Network for Human Resources for Health. Bangkok. 2–5 August.

<sup>9</sup> Pritchett L (2006). *Let their people come: breaking the gridlock on global labour mobility*. Brookings Institution Press. December.

productivity, rising incomes, aging populations and the globalization of manufacturing. It would essentially mean that in addition to the need for trained nurses, computer engineers and doctors, there will also be a need for janitors, cashiers, home-health aids and fast-food workers.

15. Labour shortages in developing countries. It is also true that in the short run, certain sectors and types of skill levels in developing countries, especially in Asia, are expected to experience skilled-labour shortages due to the emigration of their labour force in a newer direction: North–North (EU-10 to EU-15) and South–North (Asia and Africa to OECD countries). This is more likely to happen in specific categories such as healthcare, professional services and information and communication technology. Another marked demographic development, specifically in East Europe, relates to the rising average age of those left behind. By 2025 it is estimated that between one fifth and one quarter of the population in Eastern Europe will be 65 and older.<sup>10</sup> This aging population, which is accompanied by falling birth rates and a shrinking tax base, is likely to have a negative economy-wide impact.

16. Advances in transport, telecommunications, and information and communication technology are opening up new

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<sup>10</sup> Dempsey J (2007). "Eastern Europe faces generation crisis." *International Herald Tribune*. 30 August.

ways of integrating and moving labour and allowing easier access to cost-quality competitive labour worldwide. Now, not only does labour move, but investors also come to competitive labour pools – through outsourcing and offshoring, for example. In addition, the use of information technology-enabled remote services and foreign direct investment in labour-intensive manufacturing and services is shifting from high-wage economies to lower wage ones. Even in agriculture this trend is evident. For example, American farming interests are shifting to Mexico and Mexican labour after recent restrictions were introduced in the United States.<sup>11</sup> In addition, a growing demand for research and development services and the fungibility of scientific and technological manpower across borders also provide new avenues for labour mobility with industry and enterprises in developed countries becoming strong advocates of imported talent to maintain and enhance the competitive, technological and innovative edge of their firms and economies. Technology companies in the United States such as Microsoft, IBM and Intel; and research and development institutions and universities have been campaigning to open and increase the visa caps to accommodate a much larger number of scientific and technical personnel from developing countries which they claim is

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<sup>11</sup> "US farmers go where workers are: Mexico." *International Herald Tribune*. 4 September 2007.

necessary if the United States is to maintain its technological leadership in trade and in the global economy.

17. In certain sectors, the physical proximity and presence of labour remains important despite technological advancements in education, health (nursing) and caring services, enhancing rather than minimizing the human factor and therefore enhancing the value added of labour mobility. This results in business and consumers going to labour and demanding that labour come to them. It also fits in with the growing tendency of global enterprises to be footloose as they seek new areas for investments – geographically and product-wise – and cost-quality, competitive labour. Emerging economies too are deploying capital and leading production and services activities in some areas availing of developed country labour. Similarly, consumers and citizens in developed countries are demanding and making use of foreign labour to meet their essential needs and offset shortages in critical areas. This is particularly true in relation to education and health. As populations age and more and more women join the workforce in white-collar jobs, caring for children and the elderly in Europe and the United States is increasingly in demand and progressively met by foreign labour, particularly from developing countries.

18. Productivity and wage differentials between sending and receiving countries are one of the prime drivers of labour mobility. The real wage gap between sending and receiving countries particularly as far as unskilled labour is concerned is much larger today than it has been in the past, sometimes as high as 10 to 1.<sup>12</sup> This creates an even greater pressure for migration to occur. For software programmers for instance, it has been estimated that the current wage differential between professionals in Chinese home-based industries involved in information technology outsourcing and business process outsourcing and those in the United States is about 88 per cent. To mention a few other examples, software programmers in the United States earn an annual salary of \$60,000–\$80,000, \$5,000–\$8,000 in Poland and Hungary, \$6,500 in the Philippines and \$6,000–\$11,000 in India. In the least developed countries where the rate of skilled out-migration is highest at 13 per cent, it has been estimated that the wage differential in respect of skilled professionals between the least developed countries and the United States is as large as 1 to 20. Productivity and wage differentials are and will continue to be very significant between developed and developing countries. They are also not inconsiderable between developed and transition economies,

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<sup>12</sup> Pritchett L (2006). *Let their people come: breaking the gridlock on global labour mobility*. Brookings Institution Press. December.

even among developing countries themselves and across different productive sectors. There seems to be a trend towards increased and active out-migration of labour from all groups of countries covering all skill levels, including among developed countries themselves, depending on wage differentials and facility of access. In some cases, there is even a cascading effect with labour from the medium-wage countries as new members of the European Union and transition economies move to the highest wage countries – the EU-15 – and the United States and Canada face labour shortages in high- and medium-skill sectors and turn to lower-wage developing countries such as India and China to fill the manpower gap. Further, higher-wage and middle-income developing countries attract and turn to labour from the lowest-wage developing and least developed countries, particularly in neighbouring areas.

19. It is clear that the key to maintaining and building competitiveness in the global economy will lie in innovation. Innovation in turn presupposes the existence of a meritocracy that attracts and maintains the best human talent and skills. If countries wish to achieve pre-eminence in innovation or competitiveness, they must foster a creative environment at home, invest in potential talent and be open to talent from around

the world.<sup>13</sup> According to statistics provided in 2007 by European Union Justice Commissioner Franco Frattini, the United States, which has followed a relatively welcoming policy to attract global talent, currently attracts 55 per cent of all skilled migrants, whereas Europe attracts only 5 per cent. However, author Richard Florida argues that the United States is losing the race to attract talent to countries such as Finland, Ireland, Canada and Australia, which invest heavily in their universities and research centres and actively seek to nurture creativity through open immigration and urban planning.<sup>14</sup> Florida's Global Creativity Index ranks the United States fourth out of 45 countries behind Sweden, Japan and Finland.<sup>15</sup>

20. Overall, the areas of global interdependence and complementarities, especially between OECD and developing country labour and capital, are manifold and growing. In addition, there is a similar

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<sup>13</sup> Florida R (2005). *The flight of the creative class: the new global competition for talent*. HarperBusiness, HarperCollins.

<sup>14</sup> Ibid.

<sup>15</sup> Florida's Global Creativity Index offers three indices to quantify changes in creative potential: talent (the education level and size of the creative class), technology (patents and research and development expenditure) and tolerance (values and respect for individuals, as measured by survey data on attitudes about such issues as religion, women's rights, democracy and science).

progressively growing South–South segment of this complementarity. This points to an ever increasing mutually beneficial skills trade and common labour global pool in agriculture, manufacturing and services. Yet, the difference in labour market integration and goods- and financial-market-related integration is stark. Today, thanks to autonomous, multilateral and regional trade liberalization, tariffs have come down to their lowest levels in both the developed and developing countries. Multinational corporations have spread their production and distribution networks across the developed and developing world and spawned innumerable global products. The information and communication technology revolution has led to the democratization of technologies and spread of ideas and global culture often purveyed by dominant commercial enterprises. Financial markets are also increasingly becoming integrated, for example, banking, insurance, foreign direct investment and stock exchanges. Labour mobility, on the other hand, remains considerably hampered by State-erected barriers – they may be immigration-related, technical or procedural barriers, often driven by job displacement-related protectionism, cultural bias and political and security considerations.

## B. Barriers to labour mobility

21. Despite the increase in real demand for foreign workers in a significant number of developed and more advanced developing countries, barriers to entry continue to exist, with areas such as the United States and the European Union enforcing stricter entry policies rather than relaxing them. Examples of barriers include the following: numerical and skills-based quotas, economic and labour market test requirements, difficulties in obtaining recognition for diplomas and competencies acquired outside the destination country, non-portability of social security benefits, linguistic barriers, residency or citizenship requirements and complex or expensive visa and permit acquisition procedures. Such barriers to labour mobility also exist in among developing countries, but often migrants are able to circumvent them.

22. In addition to these entry barriers, foreign workers, once allowed in, may also be subjected to a host of other challenges such as abuse of terms and conditions of employment, for example, lower wages than for local staff doing the same job; underemployment, or over-qualification; absence of social security protection, including pension and medical insurance subsidies; and for some workers, vulnerability to harassment and sexual abuse.

23. Despite these limitations and restrictions, the push-pull factors to migrate prevail, leading to increased migration to destination countries. With political and security concerns amplifying since the 9/11 incident, the United States, member States of the European Union and other receiving countries have, in general, adopted harsher entry requirements but have allowed for special arrangements, particularly on a bilateral and regional basis, for some understaffed occupations. They have also resorted to temporary labour arrangements or seasonal movements, generally seen as less threatening to constituencies of receiving countries, although employers prefer continuity rather than the prospect of retraining workers on a regular basis. More recently the European Union justice commissioner advocated the creation of a blue-card system for skilled immigrants, modelled on the American green card.

#### C. Labour integration: definition and dilemmas

24. Labour integration and skills trade means that there is greater cross-border labour mobility in regions and throughout the world between sending and receiving countries, particularly in regions that require labour at specific skill levels at prices and in quantities which cannot adequately be provided by local labour. This mobility may be temporary or a more permanent

nature. Labour integration encompasses agriculture, manufacturing and services; the concentration of foreign labour may differ from sector to sector, depending on local skills availability and the value-added of foreign labour. It also depends on historical, political, linguistic and cultural linkages and on the geographical proximity of the host and home countries involved. For example, there is a growing utilization of Latin American agricultural workers in United States farming; of Indian information technology professionals in information and communications technology; of Philippine nurses in health care and of Jamaican teachers in education. This illustrates both the value of local human labour in certain sectors while making for mobility of labour and skills within and across national borders necessary in that context because of shortages in receiving countries. Labour integration is also spurred by what has been described as a massive cultural change in the human significance of work, with traditional industries giving way to hi-tech, skills giving way to mechanization, manufacturing giving way to information and economic nationalism giving way to globalization.<sup>16</sup>

25. The concept of labour integration in most literature is limited to the movement of people from the country of origin to the destination

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<sup>16</sup> Carroll J (2007). "Labour's failure." *The Boston Globe*. 3 September.

country. However, this paper suggests that a broader definition of labour integration and skills trade is also relevant, given the emerging contours of a global labour market. It is estimated that approximately one billion workers will enter the global workforce in the next decade, virtually all from the developing world.<sup>17</sup> Labour integration does not only mean movement of labour from one country to another, but also the ability of business and consumers to access this global pool of labour in different ways through physical movement or otherwise, in an effort to achieve economic efficiency.

26. Labour integration can also refer to labour used by foreign enterprises in their production of goods and services for local, regional or global supply through the establishment of commercial presence in developing countries (Mode 3 of services or foreign direct investment and joint venture) for profit maximization and cost-quality, competitive labour. Some examples include American investments in the Asian and Chinese manufacturing sectors, including textiles and clothing; German investments in the South-

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<sup>17</sup> Rothkopf D. Globalization we hardly knew ye – a reflection on messiness, American economic exceptionalism, perpetual creative destruction, jobs, language and the current state of the US debate about international economic engagement. Discussion Paper for a Carnegie Endowment for International Peace Roundtable Discussion.

and East-Asian auto sector, Japanese investments in the United States, investments by the European Union in the auto and electronic sectors and the US investments in the Mexican farm sector. This is because the labour component remains crucial, despite the proportionate increase in the importance of technology and automation in production processes and trade. Labour integration can also be achieved through Mode 1. For example, United States firms are turning to information technology professionals in India to provide information technology-enabled services or remote services, outsourcing business and knowledge processes. In the context of intra-firm transactions and intra-industry trade for instance, it is not uncommon to have multinational work teams operating virtually on different continents as if they were in the same workplace as part of 24-hour knowledge factories.

27. There is also an increased tendency for consumers to go directly to labour in other countries (Mode 2) in order to obtain services in different areas according to the competitive advantage of the labour force and skill levels, apart from consuming other services. Sectors offering a comparative advantage for developing countries include tourism, education, health and recreational services. In developed countries, exporting educational services is now very profitable and consumers in developing countries are flocking to take advantage of this.

28. All this points to the emergence of a national, regional, continental and global labour force and skills markets as a hallmark of the latest phase of globalization and capitalism. Developing countries and their labour force are to a greater or lesser extent becoming effective parts of a global labour market in many sectors. The extent of each developing country's labour force being integrated into global production and value chains depends on the quantity and quality of that country's integration into the global economy through trade, investment, skills and technology transfer and the quantity, quality, adaptability and renewability of its labour force.

29. However, while globalization has spurred the movement of capital, goods and information, liberalization of the movement of people has remained heavily regulated, notwithstanding the fact that market conditions have demonstrated the increasing need of host countries for foreign workers, particularly in sectors such as health-related, education, computer-technology and other professional services. While this demand is matched by the increasing capability of developing countries to provide such services, legal and procedural restrictions and political sensitivities in the host countries have impeded the free movement of people across borders. Protectionism also pervades other areas where developing countries are gaining a foothold:

outsourcing information-technology-enabled services, for example, has increasingly benefited developing countries such as India, China, the Philippines, Ghana, Bangladesh, Uruguay, Costa Rica and some Caribbean countries.

30. Today, job-related insecurity in developed countries has given rise to different forms of protectionism in relation to trade with and investments to and from developing countries. This is over and above concerns about foreign workers in these countries displacing local workers. There are increasing fears about the so-called export of jobs from developed to developing countries and delocalization of industry and consequently, jobs. The exodus of low-skilled and blue-collar jobs caused by multinational corporations of developed countries having shifted their manufacturing operations to developing countries, particularly in the 1990s, has resulted in the flight of higher-skilled and white-collar jobs to developing countries. At the outset, manufacturing jobs were seen to be taken by developing countries, especially in textiles, electronics and auto manufacturing with the developed country workforces moving to either higher-end manufacturing or to the services and technology sectors. Now, with the offshore outsourcing of services, especially information-technology-enabled services that include research and development services, there has been an outcry against the alleged migration of even these

white-collar jobs overseas. The concern seems to be not only about relatively low-skilled services jobs being lost to foreign workers but also higher-end service jobs in research and development, finance and high-tech as developing country workers climb up the skills ladder. This concern manifests itself in attempts to block or limit foreign labour in developed-country markets and to target foreign (often developing country) goods and services on account of the so-called low-cost labour advantage they are said to enjoy.

31. As a result, labour market integration and cross-border movements of labour suffer from seven inconsistencies that hamper their full contribution as an essential component of globalization in the development of developing countries:

(a) First, there is incoherence in the fact that cost-quality-competitive labour is one of the strongest factor endowments and a traditional comparative advantage of most developing countries. Yet this is largely being left out from the ambit of trade liberalization both at the multilateral and regional levels. This can considerably affect the openness, predictability and non-discriminatory nature and equity of the multilateral trading system as expressed in the United Nations Millennium Declaration and the 2005 World Summit Outcome.

(b) Second, there is an inconsistency between market realities and labour flows on the ground and international governance frameworks. This can be clearly observed in terms of supply meeting growing labour market demands on the one hand, and on formal international agreements and frameworks for the liberalization and facilitation of labour flows remaining restrictive on the other. Using the analogy of tariffs and applied bound-tariff rates, there is "water" between multilaterally committed labour quotas for foreigners and legal entrants and between legal foreign workers and illegal migrant workers. If the former gap were closed with greater liberalization at multilaterally committed levels, this could be an antidote to black-market labour and help avoid attendant problems for sending and receiving countries.

(c) Third, there is a disconnect between political populism against labour integration in policy discourse at national and international levels and the recognition of considerable direct and indirect, short-, medium- and long-term socio-economic, welfare and efficiency gains for all economies concerned. The danger of the resultant protectionism lies in reversing the gains of trade and investment liberalization for development, harming the economies of developing and developed countries alike. Hence a purposive campaign is needed in response to

this neo-protectionism against the tradability of labour in particular and labour integration as a factor of globalization in general. International efforts undertaken particularly within international bodies should be taken forward to reach objective and mutually acceptable solutions.<sup>18</sup>

(d) Fourth, there is, ironically, a growing perception of a gap between corporate and labour interests in the context of labour mobility and integration. Corporate interest favours greater mobility of labour, whereas domestic labour takes a more cautious stance. In reality, economy-wide interests and benefits point to a convergence of these interests, in, for example, net job creation and savings, the generation of new consumers and markets, and additional purchasing power in sending and receiving countries. This misperception needs to be corrected, particularly in developed countries.

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<sup>18</sup> International efforts include the United Nations Secretary-General's report on International Migration and Development of 18 May 2006, and initiatives taken by the inter-agency Global Migration Group, the International Organization for Migration and the International Labour Organization. With regard to trade- and development-related initiatives, UNCTAD expert meetings have considered the trade and development aspects of professional services and regulatory frameworks (2005) and market access issues in Mode 4 aimed at facilitating the increasing participation of developing countries (2003).

(e) Fifth, while labour integration is an important component of goods, finance, entrepreneurship and information-related trade, freer movement of labour is continually being resisted. This is counterproductive for all concerned: despite the technological information revolution, labour will continue to be an important factor of production and competitiveness of enterprises and economies in developed and developing countries.

(f) Sixth, there is a global hunt for talent. The race to get the best minds to drive and establish the global competitiveness of research institutions and productive sectors is proceeding apace. Bright scientists, technologists, engineers, financial experts and managers are highly sought. Nonetheless, the protectionist reflexes are unrelenting. Industry lobbies, corporate bodies and universities in developed countries have had to impress upon their governments the need to liberalize the inflow of talent into their economies if they are to preserve their competitive edge, and developing country governments are also pushing at the multilateral, regional and bilateral levels.

(g) Seventh and most ironically, the costs and benefits of labour integration and globalization are poorly understood. All countries – developed and developing countries alike – may well be poised on the threshold of the most win-win,

inclusive and pro-poor phase of globalization through labour market integration and not realize it. Belief and fears to the contrary, and regrettably, sections in those developed countries which had thus far advocated the virtues of goods and finance-related globalization to developing countries are now seeing labour movement liberalization as the last frontier. If crossed, this frontier will somehow dilute and reverse the impact of what has heretofore been a largely beneficial globalization for them. This paper will demonstrate some of the costs and benefits arising from labour integration, particularly for receiving countries.

## **II. State of play**

32. The global labour force in 2005 amounted to 2.8 billion people, 2.25 billion of were from developing countries. Based on 2005 data, the United Nations estimates that some 200 million people live outside their country of birth, up from 175 million in 2000. Persisting demographic and economic imbalances between the North and the South will lead to a steady rise with or without immigration-related barriers and policies at the borders. According to demographic projections in North America, Europe, the Russian Federation, the high-income countries of East Asia and the Pacific and China, the total labour force in those areas will lose 29 million people by 2025 and 244 million by 2050. This trend contrasts with

projections for the developing countries, mainly in South and Central Asia and in Sub-Saharan Africa, where the labour force is expected to swell to about 1.55 billion people by 2050.<sup>19</sup>

33. The flow of temporary migrants to the developed countries has grown in recent years, owing partly to new legislation and the procedures easing the requirements for admission for certain occupations. The number of work permits issued in the United Kingdom, for instance, rose from 85,600 in 2000 to 115,700 in 2001. Sectors that recorded the highest increase were education (100 per cent), health care (over 40 per cent) and computer technology (roughly 25 per cent). In Japan, the number of foreigners who were granted temporary residence for employment reasons – mostly entertainers – grew by 10 per cent in 2000–2001. As a result of Germany's green-card programme instituted in August 2000, the number of foreigners employed in the health-care sector increased threefold, and more than 13,000 green cards were granted to foreign computer engineers. In the United States, the quota of highly qualified temporary visa holders rose sharply in 2001, although recent developments point to a more restrictive immigration regime. In fact, the United States

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<sup>19</sup> Holzmann R (2005). Demographic alternatives for aging industrial countries: increased total fertility rate, labor force participation, or immigration. Institute for the Study of Labour Discussion Paper no. 1885.

Congress has opposed further increases in current quotas for foreign workers. An upward trend in inflows of seasonal workers has also been observed, with the European Union employing some 500,000 seasonal agricultural workers from countries outside the EU-15 every year.<sup>20</sup> Further, not all migrants are low skilled and poor; 6 out of 10 highly educated migrants living in OECD countries in 2000 came from developing countries.

34. In 2005 the stock of immigrants in the high-income OECD countries was 90.9 million, or 9.8 per cent of the population. Of these, 27.7 per cent originated from other high-income OECD countries; 4.8 per cent, from high-income non-OECD countries; 11.6 per cent, from low-income countries and 54.4 per cent, from middle-income countries.<sup>21</sup> The preferred destinations for immigrants are the United States, Germany, France, Canada, the United Kingdom, Spain,

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<sup>20</sup> SOPEMI (Continuous Reporting System on Migration). *Trends in International Migration*. Paris: Organization for Economic Cooperation and Development. In: *World Economic and Social Survey 2004*. New York, UNDESA/UNCTAD: 128.

<sup>21</sup> In addition, World Bank sources indicate that 4.8 per cent come from high-income non-OECD countries; 11.6 per cent, from low-income countries; 54 per cent, from middle-income countries and 1.5 per cent, from unidentified countries.

Australia, Italy, Japan and Switzerland.<sup>22</sup> The stock of immigrants in high-income non-OECD countries is 21.6 million or 33.6 per cent of the population.<sup>23</sup> Some 3.7 per cent of these immigrants come from high-income OECD countries, 30.8 per cent, from low-income countries and 47.6 per cent, from middle-income countries.

35. Temporary movement of labour is not restricted to movement from developing to developed countries; there are considerable flows of temporary workers among developing countries as well. It is estimated that just as many migrants move from developing to developed countries as move from one developing country to another. The oil-producing countries in Western Asia and other more advanced developing Asian countries, such as Singapore, the Republic of Korea and Malaysia, serve as the more popular destination countries. In 2005 the remittances sent back by South–South migrants was estimated by the World Bank at \$19–53 billion. Undocumented and large-scale economic migration also takes place between neighbouring developing countries, for example, in South Asia

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<sup>22</sup> United Nations Populations Division, the Office of the United Nations High Commissioner for Refugees, World Bank Development Prospects Group.

<sup>23</sup> These include Saudi Arabia, the United Arab Emirates, Israel, Singapore, Kuwait, Qatar, Puerto Rico, Bahrain, Slovenia and Brunei Darussalam.

between India, Bangladesh and Nepal; in Africa between South Africa and its neighbours and between neighbouring Latin American countries. In fact, almost 80 per cent of South–South migration takes place between neighbouring countries with contiguous borders.<sup>24</sup>

36. The distinction between sending and receiving countries as being the traditional North–South dividing line is gradually becoming more blurred, as many sending countries are also receiving countries. At conservative estimates, some 74 million people, nearly half of the migrants from developing countries, reside in other developing countries. Most South–South migration appears to occur between countries with relatively small differences in income.<sup>25</sup> For example, World Bank estimates in 2005 put India's stock of immigrants, largely from neighbouring countries, at 5,700,147 people or 0.5 per cent of the population. Its stock of emigrants, many of whom moved to other developing countries in South-East and West Asia, was estimated in 2005 at 9,987,129 people or 0.9 per cent of India's total population. An interesting trend of South–South immigration is the hub-and-spokes phenomenon

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<sup>24</sup> Ratha D and Shaw W (2007). South–South migration and remittances. World Bank Working Paper no. 102, 2007.

<sup>25</sup> Ratha D and Shaw W (2007). South–South migration and remittances. World Bank Development Prospects Group. 19 January.

whereby an economically more developed country acts as a magnet for migrants from its lesser developed neighbours. Trends in immigration to the Russian Federation, South Africa and India exhibit this feature; migration corridors between the Russian Federation and Ukraine, and between Bangladesh and India rank second and third behind the United States–Mexico migration corridor.<sup>26</sup>

37. The North–North and South–South movements of labour are often triggered by similar complementarities and push-pull factors. In addition, regional agreements, such as those concluded in the European Union, and free trade agreements, such the North American Free Trade Agreement, have given the movement of people a further impetus. This movement of labour encompasses all skill levels and is characterized by a growing feminization of temporary labour flows over the past decade.

The table below provides a detailed picture of temporary entries in selected OECD countries by category of workers in 1992 and 2002–2004.

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<sup>26</sup> Ibid.

**Table 1. Entries of temporary workers in selected OECD countries by principal categories, 1992, 2002–2004**  
(Thousands)

<b>Countries</b>	<b>1992</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
<b>Australia</b>				
Skilled temporary resident programme	14.6	43.3	47.4	..
Working holiday makers (offshore)	25.2	85.2	88.8	93.8
Total	39.8	128.5	136.1	..
<b>Canada</b>				
Total	60.6	79.5	70.8	74.8
<b>France</b>				
Intracompany transferees	0.9	1.8	1.5	1.4
Researchers	0.9	1.6	1.7	1.6
Other holders of a temporary work permit	2.8	6.4	7.0	6.9
Seasonal workers	18.1	23.4	24.7	25.7
Total				
<b>Germany</b>				
Workers employed under a contract for services	115.1	45.4	43.8	34.2
Seasonal workers	212.4	298.1	309.5	324.0
Trainees	5.1	4.9	5.9	..

Total	332.6	348.4	359.2	358.2
<b>Japan</b>				
Highly skilled workers	..	136.9	147.1	150.2
Trainees	..	58.5	64.8	75.4
Total	..	203.6	211.9	225.6
<b>New Zealand</b>				
Business	..	1.8	0.8	0.7
General work permit	..	29.8	35.6	37.7
Trainees/working holiday makers	..	21.5	22.8	23.8
Special highly qualified (medical, teaching, research, specialist)		6.1	3.9	5.4
Other		5.2	3.9	7.7
Total		64.5	67	75.2
<b>Republic of Korea</b>				
Highly skilled workers	3.4	40.5	..	..
Trainees	4.9	97.2	..	..
Total	8.3	137.7	..	..
Seasonal agricultural workers	3.6	19.4	..	19.8
Working holiday makers	24.0	41.7	46.5	62.4
Total	27.6	62.3	..	106.4

<b>United States</b>				
Highly skilled workers				
Specialist (visa H-1B)	38.5	118.4	107.2	139
Specialist (visa H-2B)	..	62.6	79	76.2
Intracompany transferees (visa L1)	..	57.7	57.2	62.7
Specialists (North American Free Trade Agreement, visa TN)		0.7	0.4	0.9
Workers of distinguished abilities (visa 0-1 and 0-2)	3.0	8.0	8.6	9.0
Seasonal workers (visa H-2A)	7.2	31.5	29.9	31.8
Industrial trainees (visa H-3)	1.8	1.4	1.4	1.4
<b>Total</b>	<b>47.8</b>	<b>280.3</b>	<b>283.7</b>	<b>321</b>

*Source:* International Migration Outlook 2006 (SOPEMI), OECD, p. 40.

### **III. Socio-economic benefits and costs of labour integration**

#### *The broad welfare impacts of labour integration*

38. A global applied general equilibrium model by Winters and others<sup>27</sup> predicted an increase in world welfare amounting to \$156 billion, if quotas on the number of temporary workers permitted to work in the developed economies were increased by 3 per cent of the developed economies' labour force.<sup>28</sup> This is a substantial gain which far exceeds the benefits expected from any remaining areas, including those arising from goods, non-agriculture market access or agriculture trade liberalization. The major gainers would be developing countries, confirming earlier claims that the liberalization of the movement of temporary service providers (Mode 4) would be beneficial for developing countries. Most of the benefits from liberalization come from the relaxation of unskilled labour quotas, since the gap in compensations between

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<sup>27</sup> Winters L and others (2002). *Negotiating the liberalization of the temporary movement of natural persons*. Discussion Papers in Economics, no. 87. Brighton, United Kingdom: University of Sussex at Brighton: 27.

<sup>28</sup> The model captures the effects of temporary movements on wages, remittances, income and economic welfare, among others.

developed and developing countries is widest at low skill levels.<sup>29</sup>

39. A recent study revealed that the elimination of global restrictions to labour mobility generates worldwide efficiency gains ranging from 15–67 per cent of world gross domestic product.<sup>30</sup> When only skilled labour is allowed to migrate, welfare gains are smaller – from 1–3 per cent of world gross domestic product –since skilled labour is only a small proportion of the labour force in developing regions.<sup>31</sup> This lends credence to calls, including from trade negotiators from developing and least developed countries, for allowing freer movement for less skilled labour as a litmus test of the development contents of the Doha Round. Least developed countries have insisted that temporary labour mobility of the less skilled be freed up since this is where their comparative advantage is the greatest. It is also the most likely to deliver on development goals linked to poverty reduction and gender equity. In fact the annual gains of freeing up mobility of labour from

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<sup>29</sup> Winters and others (2002); Stiglitz and Charlton, with the Initiative for Policy Dialogue, 2004.

<sup>30</sup> Iregui A (1999). Efficiency gains from the elimination of global restrictions on labour mobility: an analysis using a multiregional CGE mode. *Journal of Economic Literature*. December.

<sup>31</sup> Ibid.

developing countries are estimated to be higher than the combined gains of trade, aid and debt.<sup>32</sup>

40. To the extent that migration provides remittance recipients with an additional income source, it contributes, albeit at the micro-level, to the achievement of key United Nations Millennium Development Goals in a number of ways. At the national level it adds to the countries' or regions' income and output, contributing to poverty reduction. At the individual level in addition to poverty reduction, migration contributes to the completion of primary education, access to clean water, decent housing, communications and improvements in the health conditions of children and other family members. Likewise, to the extent that it creates employment opportunities, it helps provide decent and productive work for youth. Often it constitutes a safety valve for releasing social unrest caused by unemployment and inequalities in developing countries. It also helps promote gender equality and the empowerment of women, since migration affords women, mostly from traditional societies, an opportunity to become breadwinners, thus enhancing their self-esteem and sense of dignity and raising their economic and social status.

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<sup>32</sup> Pritchett L (2006). *Let their people come: breaking the gridlock on global labour mobility*, Brookings Institution Press. December.

41. Consider an interesting case in point: the Indian state of Kerala has for nearly two decades benefited from higher state government expenditure in education and health than other Indian states.<sup>33</sup> However without sufficient employment opportunities, the local economy is very much dependent on remittances. In a state of 32 million people, 20 per cent are unemployed; 1 in 6 Keralites work overseas, mostly in the Persian Gulf, and one in three Keralites are beneficiaries of remittances. The \$5 billion in remittances that foreign workers send home augments the state's economic output by nearly 25 per cent.<sup>34</sup>

42. The section that follows details the benefits and costs for the sending and receiving countries.

A. Benefits and costs: sending country

43. For the sending countries, which are mainly developing countries, the most visible economic and quantifiable benefit stems from remittances. In the absence of a universal agreement on how remittances should be reported, it is difficult to estimate remittance

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<sup>33</sup> The average life expectancy is 74, 11 years longer than the Indian average; the literacy rate is 91 per cent, compared with the Indian average of 65 per cent.

<sup>34</sup> De Parle J (2007). "Kerala's poor lack nothing but jobs." 7 September.

flows. Reported figures do not indicate transfers that take place through informal channels; for example, it is claimed that only around half of remittances in the Philippines travel through official channels. It is generally accepted that for some countries, remittances constitute a substantial part of their foreign earnings and a stable source of development finance. In 2001, workers' remittances to developing countries were equal to 42 per cent of total foreign direct investment inflows to those countries<sup>35</sup> and double that of official development assistance flows.<sup>36</sup> Recorded remittance flows have doubled over the past five years, standing at \$249 billion in 2005; the developing countries' share was \$180 billion.<sup>37</sup> These figures could easily be twice as much if unrecorded flows were also captured. Of the top thirty recipients of worker remittances, 24 are developing countries. In geographic terms, 70 per cent of the volume of remittances in 2005 was sent to Asia and Latin America, while flows to Sub-Saharan Africa rose more slowly, accounting for 5 per cent of the flows to developing countries during the 1990s.<sup>38</sup>

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<sup>35</sup> *Global development finance 2003: striving for stability in development finance* (2003). Washington, DC, World Bank.

<sup>36</sup> *Ibid.*

<sup>37</sup> "The international migration agenda and the World Bank: managing risks and enhancing benefits, the World Bank, September 2006, p.12.

<sup>38</sup> International labour migration and development: the ILO perspective, September 2006, High-Level Dialogue on

44. However, remittance flows are an important source of external development finance for many African countries, especially when viewed in a larger context. Official development assistance is the main source of external financing, rising from \$15.6 billion to about \$25 billion between 1999 and 2003 – a net increase of 67 per cent. While foreign direct investment increased from about \$2.2 billion in the 1980s to around \$15 billion during 2000–2003, Africa’s share of total global flows fell to 1.8 per cent from an average of 2.3 per cent in the 1980s. In the same period, remittances totalling \$17 billion per annum from Africans working abroad overtook foreign direct investment flows, which averaged about \$15 billion per annum.<sup>39</sup> Especially in the context of Sub-Saharan Africa, the absence of significant foreign direct investment, a dependence on a narrow basket of commodity exports for certain countries and the growing dependence on official development assistance, makes private transfers such as remittance flows a key source of external development finance.

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International Migration and Development, 61<sup>st</sup> Session of the United Nations General Assembly.

<sup>39</sup> United Nations Office of the Special Adviser on Africa (2005). *Resource flows to Africa: an update on statistical trends*. New York. December.

45. China and India are the largest remittances-receiving countries. They are also the world's most populous countries, with the largest migrant populations and diasporas which span the globe. Remittances play a key role in some countries' economies, in particular when they represent a significant portion of their gross domestic product as in Tonga and Lesotho, where the ratio of remittances to gross domestic product stood in 2004 at 31 and 26 per cent, respectively. But irrespective of their size or stage of development, and perhaps moreso when they are small, vulnerable economies or least developed countries, remittances play a crucial role in their trade and development.

**Table 2. Remittance as a share of gross domestic product, 2004<sup>40</sup>**  
(Percentage)

Albania	11.7
Bosnia and Herzegovina	22.5
Dominican Republic	13.2
El Salvador	16.2
Haiti	24.8
Honduras	15.5
Jamaica	17.4
Jordan	20.4
Kiribati	11.3
Lebanon	12.4
Lesotho	25.8

<sup>40</sup> World Bank (2006). *Global economic prospects*.

Moldova	27.1
Nepal	11.7
Nicaragua	11.9
Philippines	13.5
Samoa	12.4
Serbia and Montenegro	17.2
Tajikistan	12.1
Tonga	31.1

46. Two other facts about remittances should be noted. Temporary workers send greater quantities and more regular streams of remittances than permanent ones, as they are more at risk. Remittances sent by permanent migrants tend to taper off. Second, lower-skilled workers and women send home the bulk of their earnings and have a greater poverty-reduction impact in their countries of origin.

47. In actual terms, remittances – which are essentially private flows – have a tremendous value and are more stable than export earnings, impacting on poverty alleviation by flowing directly to often low-income recipients. Those remittances are channelled into household-consumption expenditures, education, health – and increasingly – investments in homes, farms and businesses. In addition, remittances produce spillover effects for the economy as a whole in terms of domestic savings, advanced education and higher consumption. With regard to their impact on poverty reduction, a Millennium

Development Goal, an analysis of data taken from household surveys indicates that remittances have been associated with declines in the poverty–headcount ratio in some countries: 11 percentage points in Uganda, 6 in Bangladesh, and 5 in Ghana.<sup>41</sup> Another study showed that a 10 per-cent increase in remittances reduces poverty by 3.5 per cent.<sup>42</sup>

48. Some questions have been raised as to the extent to which remittances are put into productive use in remittance-receiving countries. This is based on the assumption that doing this directly contributes to enhancing a country's productive capacity. It is widely acknowledged that even remittances utilized mainly for household-consumption expenditures contribute positively to the economy, particularly through multiplier effects. To the extent that the supply response is elastic, that is, domestic production responds positively to greater demand for goods and services and does not result in higher prices, remittances spent on consumption could contribute to economic growth.<sup>43</sup> To the extent that incentive schemes of sending countries

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<sup>41</sup> *Ibid.*

<sup>42</sup> Adams R and Page J (2005). Do international migration and remittances reduce poverty in developing countries? *World Development*. 33:1645–69.

<sup>43</sup> Cali M and Willem te Velde D (2007). Temporary migration and development: a review of evidence and policy option. Draft paper submitted for the Commonwealth Secretariat: 13. 4 May.

succeed in attracting remittance funds, these can and are channelled into social and physical infrastructure. Many migrants directly use such remittances to set up hospitals, educational institutions and housing complexes; build productive capacity and develop skills.

**Maximizing the impact of skills trade and minimizing the costs thereof**

Since remittances have grown in recent years and now constitute a significant portion of the gross domestic product in some low-income countries (see figures and discussion above), efforts have been made to maximize their impacts on the sending countries' development in general, and on the well-being of the migrants and their families in particular. In this regard, some governments, such as those of Brazil, Mexico, Panama and Turkey, have tried to institute measures to achieve more productive uses of remittances, for example, introducing remittance-backed bonds to raise funds at lower interest rates on the international bond market. In India, the government floated specialized bonds for development purposes, raising close to \$10 billion.<sup>44</sup>

To encourage migrants to send remittances through official channels, governments need to establish institutional frameworks that allow for the speedy, safe and less-costly transmission of remittances. In addition, encouraging remittance flows also leads to simplified transfer procedures and expanded financial networks, for example, opening branches in migrant-receiving areas and

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<sup>44</sup> Handbook on establishing effective labour migration policies in countries of origin and destination. 77–81.

establishing correspondent accounts with international banks.<sup>45</sup>

Efforts can also be undertaken to tap the skills, networks, funds and savings of the diaspora population. The Chinese diaspora and Indian information-technology specialists have either reinvested in their countries of origin or have gone home to set up their own businesses; some have even established a commercial presence in other countries. Other government initiatives targeted at assisting the reintegration of returning migrant workers and stimulating investment include the provision of facilities for importing capital goods and raw materials, business counselling and training, access to loans, and encouraging entrepreneurship for development.<sup>46</sup>

Sending governments may consider the following means to mitigate the negative effects of brain drain: requiring migrants to perform public service for critical occupations such as those relating to health care and education; paying the government back for their training or bearing a partial cost of their education if they do not complete the mandatory domestic employment requirement; devising some form of rotation scheme to ensure the availability of an ample supply of qualified nurses domestically; encouraging return migration by acknowledging their training abroad and giving them visiting scholar positions or other honorary positions and encouraging them to serve as trainers; requiring leavers to post some kind of bond to ensure their return to the country; adopting a human-resource programme that would encourage staff retention through salary increases and other incentives, expanding domestic training capacity.

With regard to bilateral country-to-country or institution-to-institution arrangements, governments could pursue

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<sup>45</sup> Ibid.

<sup>46</sup> Ibid.

further initiatives aimed at forging and maintaining bilateral cooperation arrangements, such as those that facilitate the movement of workers, for example, the recruitment agreement between the Government of the Republic of the Philippines and the Government of the United Kingdom of Great Britain and Northern Ireland. Other examples include arrangements that require some compensation from host countries for every foreign worker taken in; explore the possibility of inviting some of their own experts, practitioners and specialists to conduct training on the advances in the field on a regular, short-term basis as a form of compensating for the loss of skilled workers; establish a special visa scheme to ensure the temporariness of the workers' employment and stay in the host country, thus ensuring return migration.

#### Other benefits of temporary migration

49. Temporary migration can also improve human development outcomes since they are associated with improvements in human capital by means of technology and skill transfer, for instance. One economic model shows that, at a high enough volume of skilled emigration, the share of skilled workers in the source country actually grows.<sup>47</sup> Remittances sent back home have been associated with lower school drop out ratios, as in El Salvador and Sri Lanka. Remittance-recipient households in Mexico,

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<sup>47</sup> Mountford (1997). In: Lindsay Lowell B and Findlay A, Migration of highly skilled persons from developing countries: impact and policy responses: draft synthesis report, 1 June 2001. Report prepared for the International Labour Office, Geneva: 5.

Guatemala and Nicaragua have better health outcomes compared with non-recipient households.<sup>48</sup> Assurance of a rapid growth in demand for workers in specific occupations stimulates a supply response in sending countries in terms of private and public education, training and skill building, institutions and infrastructure. The nurses and domestic help training centres in the Philippines; similar institutions for information technology, nursing and teaching in India; training institutions in the Caribbean and health-care education centres in African countries are good examples.

50. Temporary migration is also positive, a key test of this being whether it induces developing-country labour to return to the country of origin. There is also repatriation of the migrants' assets in that the experience and knowledge they gained abroad, and their financial resources and links/networks are productively deployed at home. For example, about 70 per cent of total foreign direct investment flows to China originate among the Chinese community abroad, especially among those living in South-East Asia.<sup>49</sup> A survey of Chinese and Indians working in Silicon Valley in the United States found that 50 per cent of them went back home once a year, and 75 per cent of

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<sup>48</sup> The International Migration Agenda and the World Bank, p.14.

<sup>49</sup> World economic and social survey 2004, p. xiii.

Indian respondents and 53 per cent of Chinese expressed intentions to start businesses in their countries of origin.<sup>50</sup> Returns of migrants to Jamaica and Barbados, particularly those who have worked in high-level occupational groups in the United Kingdom have also been documented.<sup>51</sup> Migrants do indeed return and invest in productive sectors of their home countries, even in Africa and least developed countries where there are some valid concerns about brain drain, particularly in the health sector.

51. India has seen an increase in returns and investments of its diaspora population particularly after the introduction in 2006 of registration certificates called Overseas Citizens of India for persons of Indian origin. They are similar to green cards, and allow non-resident Indians most of the benefits of citizenship while keeping their foreign passports. They cannot, however, receive an Indian passport, vote in Indian elections, own agricultural and plantation properties in India or work for the Indian government. Incentives for return include attractive job opportunities in India, particularly

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<sup>50</sup> "A survey of migration". *The Economist*. 2 November 2002.

<sup>51</sup> Thomas-Hope E. Skilled labour migration from developing countries: study on the Caribbean region. International Migration Paper 50. Geneva, International Labour Organization.

in the following areas: software and other information-technology-related jobs, finance, telecommunications, pharmaceuticals and research and development. Upon their return, migrants also enjoy the prospect of finding economic growth and improved standards of living, a rich social life, strong cultural and family ties, and improved educational institutions, housing and other infrastructure services. A number of programmes have also been instituted to attract non-resident Indian intellectuals and professors to Indian universities.<sup>52</sup>

52. Knowledge transfers have been linked to diaspora networks and return migration has been associated with increased skills and improved health-care practices. Evidence from returning health workers to their home countries in the Pacific points to the positive transfer of skills and expertise, benefiting their countries' health sector. But if those who return have performed relatively poorly when abroad, and the more skilled migrants tend to stay because of higher returns and better opportunities to use their intellectual

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<sup>52</sup> Kumar P (2007) International migration and development: a case study of India. Draft paper presented during the Pre Global Forum on Migration and Development Meeting, London, 17 May.

capacities,<sup>53</sup> the positive effects of return migration may not be maximized.

53. Networks established by migrants and information gathered while abroad could also provide necessary linkages to business and employment opportunities. The positive and stable impacts of return migration can best be realized when conditions in the migrants' home countries such as the following exist: positive political, economic and social conditions that create incentives for return; suitable infrastructure and incentives enabling migrants to fully practise their newly acquired knowledge, skills, technology use and management styles and to utilize the savings and capital acquired while abroad for productive uses at home; and to some extent, the possibility to return abroad for work.

54. The growing number of female migrants has also been viewed positively. As women acquire gainful employment and are exposed to open cultures, they become more empowered and less dependent, developing higher self-esteem. Female migrants have also been reported to be better remitters and savers; and are more concerned about important development issues

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<sup>53</sup> Mountford (1997). In: Lindsay Lowell B and Findlay A, Migration of highly skilled persons from developing countries: impact and policy responses: draft synthesis report, 1 June 2001. Report prepared for the International Labour Office, Geneva: 20.

such as family welfare and education. Partner relationships also improve upon return; women are treated with more respect, that is, there is equality in household decisions and women are subjected to less domestic violence.<sup>54</sup> Other spinoffs from the temporary movement of women workers arise from backward and forward linkages, for example, when such movements lead to better skills and educational levels and to the development of women entrepreneurs. Experience obtained abroad by less-skilled women enables them to move up the value chain over time and become entrepreneurs, businesswomen and real estate agents. Such movements have also been seen to reduce gender-related wage gaps in home countries.<sup>55</sup>

#### Feminization of temporary flows

Female migrants account for half of the world's migrants, and in some countries their numbers are as high as 70 or 80 per cent of the total figure. This is perhaps a result of women migrants being more willing to migrate to the developed world than their male counterparts. Their willingness to

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<sup>54</sup> Nyberg-Sorensen and others (2002). "The migration-development nexus: evidence and policy options. State-of-the-art overview." *International Migration*. Special Issue. 40(5):8. February.

<sup>55</sup> Puri L (2004). Trade in services, gender and development: a tale of two modes. In: *Trade and gender: opportunities and challenges for developing countries*. New York and Geneva, United Nations. 233.

migrate could stem from personal or societal factors such as age, class, marital status, community norms and cultural values, reunification with spouses or other family members. It may also be the result of demand patterns in sectors of labour shortage such as nursing, health care or teaching, which may see a traditional bias towards the employment of women. In the services sector, migration flows of women are focused on labour-intensive and caring sectors such as health and domestic care services, educational services and social services. Certain kinds of agricultural and horticultural services have also seen increased gender participation. At the higher end of the scale, women are gradually entering the information and communication technology sector, other business services sectors and professional services sectors such as accountancy, engineering and management.

Gender-specific data, though limited, provide examples that suggest significant temporary cross-border employment of women. In Sri Lanka, where some 12 per cent of the total labour force works outside the country, 2002 figures reveal that 70 per cent of the 970,000 stock of Sri Lankan overseas contract workers were women. Similarly, it is estimated that 11,000 women leave Bangladesh each year for temporary work abroad. Where gender-specific data are not readily available, sectoral data could be used as proxies to get a picture of women's participation in temporary service provision/employment abroad. It is well known that there is a concentration of women service providers in occupations related to domestic

help, education, health and personal care. For some South-Asian countries and the Philippines, domestic service and personal and health-care providers account for a very large proportion of temporary migrant workers. The Philippines saw huge outflows of Philippine nurses to the United States during the 1980s which is still ongoing – of the 26,000 foreign nurse applications for the United States-registered nurse licences between 1997 and 2000, 36 per cent were Philippine-trained nurses. On average, 5,700 nurses likewise moved to the United Kingdom and Saudi Arabia between 1995 and 2001. Remittance data also indicate significant caring-services exports from countries in Africa, Latin America and the Caribbean. These countries include Algeria, Egypt, Ethiopia, Ghana, Malawi, Morocco, Nigeria, Senegal, Uganda, Yemen, Zimbabwe, Brazil, Colombia, El Salvador, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua and Peru.

*Source:* Puri L (2004). Trade in services, gender and development: a tale of two modes. In: *Trade and gender: opportunities and challenges for developing countries*. New York and Geneva, United Nations.

### Minimizing the costs

55. Notwithstanding the above positive consequences, some studies have also stressed some adverse effects of migration for sending countries. This is mainly linked to reductions in human capital which help slow down economic development and exacerbate the skills gap.

56. The need to import talent or skills to developed countries from developing countries can raise serious issues of brain drain in the latter countries arising from skills-based movements.

The flip side of labour movement for many developing countries is the potential loss of skilled personnel. Skilled personnel in turn are essential for developing countries to build productive or technological capacity, competitiveness and infrastructure, which would enable them to grow out of poverty and underdevelopment. Some EU-10 countries are already facing this problem. Romania and Poland already face severe skills shortages with consequences on their infrastructure services and productive capacity. According to empirical research, Eastern Europe's economic growth was slowed by skilled emigration during the 1990s.<sup>56</sup>

57. Even with optimum human resources and development policies, the capacity of developing countries to generate and nurture new and additional manpower is limited by institutional capacity and resources. Further, depending on the skills areas covered, development of human resources involves a reasonable gestation period. While the demand for high-skilled labour in receiving countries is great, low-skilled labour, for which there is nevertheless a substantial demand across various sectors of developed country economies, must cope with higher levels

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<sup>56</sup> From studies by Bhagwati and Hamada (1973); Barro and Sala-I-Martin (1995); Topel (1998); Hague and Aziz (1999); Wong and Yip (1999); Straubhaar and Wolburg (1997). In: Lowell and Findlay, *Migration of highly skilled persons*: 4.

of protectionism. A recent study shows that while the number of educated immigrants in western countries rose by 69 per cent between the 1990 and 2000, the number of low-skilled migrants only rose by 31 per cent.<sup>57</sup>

58. Aside from the loss in human capital investment and public resources, especially when training is obtained from publicly funded universities and training institutions, the bigger concern is ensuring the availability at home of a pool of trained and experienced professionals who can provide quality services, especially in key services sectors or those that require a high level of technical skill such as engineering, architecture, environmental management, financial services among others. The importance of developing a skilled personnel base domestically is not just to ensure that the needs of service demands are met locally. It also plays an important role in the actual administration, planning and running of a country. Take for instance the importance of having skilled actuaries or insurance professionals to work with insurance regulators or skilled engineers/architects in infrastructure building or urban planning.

59. Migration produces different effects depending on the sector. Some sectors are more

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<sup>57</sup> Caglar O in a World Bank Analysis prepared for the *New York Times*.

susceptible to brain drain than others. In the health-care sector, which inevitably requires a balanced mix of skills, and in the technology sector, which focuses on the efficient delivery of health services, the loss of health workers may produce substantial and adverse ripple effects considering that the health-care sector is also characterized by large externalities.<sup>58</sup> The negative effects of migration, apart from the direct impact on the population's health status, are its consequences on productivity and the welfare of the population. In the words of Commander and others, "skilled migration of health workers appears to be the starkest and most persistent form of brain drain", considering that health care is generally underprovided in developing countries to start with, and that health-care education normally has a strong public sector component.<sup>59</sup> Compounding the problem is the long gestation period for training health workers; in addition, there is a strong team component in health-care work – doctors, nurses and other staff have complementary inputs and any loss in team members may have a considerable impact on the efficacy of health-care service delivery.

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<sup>58</sup> Commander S, Kangasniemi M and Winters L (2002). The brain drain: curse or boon? Paper prepared for the CEPR/NBER/SNS International Seminar on International Trade, Stockholm, 24-25 May: 5.

<sup>59</sup> Ibid: 23.

60. In the Philippines, the very high turnover rates of nurses in leading hospitals, the foreign recruitment of the best and the brightest nurses, and most worrisome of all, the flight of nursing faculty members themselves have raised alarm bells in view of the huge impact on not just the local delivery of health-care service but also on the competitiveness of the Philippines on the international market for nurses.<sup>60</sup> In 2001, for example, 13,536 nurses – about one fourth of the total nurses employed by all Philippine hospitals – left the country.<sup>61</sup> The turnover rate of around 40–50 per cent during high external demand, and in recent months rising to 60–80 per cent due to the active recruitment schemes of the United States and some European States has reportedly crippled some of the vital services of affected hospitals.<sup>62</sup> In fact, the brain drain from the Philippines health sector is said to render it

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<sup>60</sup> Collantes V (2002). The General Agreement on Trade in Services (GATS): liberalizing the movement of natural persons (Mode 4): the case of Filipino nurses moving to the United Kingdom and the United States. Masters' thesis submitted to the World Trade Institute, Bern, Switzerland. 30 September.

<sup>61</sup> Philippine Overseas Employment Authority statistics.

<sup>62</sup> At the Our Lady of Lourdes Hospital in Manila, more than 75 per cent of the hospital's 225 nurses left for the United States and the United Kingdom, resulting in an acute shortage of nursing staff. Cris Prystay (2002). "Nurse shortage in US is draining talent pool in Philippine hospitals." *Asian Wall Street Journal*. XXVI (224): M8. 18 July.

"sick". This example points to a specific kind of brain drain – one that affects a basic sector with a chronic personnel shortage; moreover, staff – and consequently skill – are not automatically replaced by merely producing fresh graduates in huge numbers.

61. As teams of specialized nurses, in particular those working in surgery and intensive-care units, move abroad, some hospitals have resorted to a temporary closure or discontinuance of some services, or have gambled by utilizing the services of novices and less-experienced personnel. Those who were left behind are forced to work overtime, since they have to attend to patients who require emergency care. Recruitment of faculty members from premier Filipino nursing universities into foreign employment has caused concern because it will impact heavily on the country's ability to produce quality nurses.

62. Therefore, in some critical sectors such as health and education, the issue is not just one of labour force size, but also of the extent, possibility and pace of renewability of the lost pool of expertise at a given period. In general, evidence is mixed as to the issue of brain drain and its negative impacts, in particular, with respect to human capital formation. In the short term, however, brain drain is likely to produce a negative impact, particularly in the case of a

small country with a limited labour pool. In the medium- to long term, the effect depends on labour resources (whether there is a shortage or a surplus); the extent to which human resources can be easily replenished, not just in numbers but in terms of quality as well; and the sectors likely to be affected by the massive outflow of workers especially those which provide essential services such as health and education.

63. In this context small countries and least developed countries are particularly vulnerable to brain drain in the short- and medium term. *UNCTAD's Least Developed Countries Report, 2007* emphasizes that the impact of international migration on least developed countries which already have a low skill endowment is likely to greatly affect their human capital stock. This in turn is likely to impact the capacity to build innovative technologies, a key factor in maintaining a competitive edge in the global marketplace. Many African countries suffer the same fate. They are already characterized by low levels of human skills and capacity training, technical and technological resource pools. Most do not have sufficient financial resources to invest in public services for skills development, let alone replenishment. Further, the lack of economic opportunities and infrastructure, combined with conflict, instability and poverty deters many from returning with their financial

and technical assets, thus compounding the brain drain problem.

64. In low-income countries such as India, experience over the last 30 years illustrates that for several years after the first wave of emigration, a skills exodus did affect the availability of technical skills and human capacity, especially in the health sector, where there has always been a chronic shortage of health-care workers. In the second wave of emigration however, Indian migrants increased their remittances as confidence in a thriving economy rose, reinvesting in training and education infrastructures and setting up state-of-the-art medical and educational institutions.

65. Another concern for sending countries is brain under-utilization or brain wastage whereby professionals and university graduates from developing countries take on jobs which are far below their level of competence and training. Examples are accountants, engineers serving as cab drivers or household helpers, or trained doctors pursuing reverse education to become nurses in order to qualify for nursing jobs abroad. These impacts have to be understood in the context of sending countries: in other words, are there equivalent opportunities at home to accommodate and use their expertise? Does the lack of jobs in home countries lead to brain wastage?

### The need for balanced policies on the skills trade

66. In the era of the knowledge economy, there is a scramble for skills and talent worldwide, especially mid- and high level skills. Developing countries have to carefully nurture this talent but also ensure that their labour exports result in a net brain gain rather than a brain loss. While remittances bring many development gains to the home countries, they have to guard against over-reliance on these flows as sources of development finance, investment and foreign exchange earnings. Remittances and outbound migration, especially of skilled personnel, are not a substitute for endogenously powered domestic economic growth or revenues stemming from the competitive exports of goods and other services. On the contrary, they could impede the home country's human-resource capacity and development prospects because of labour shortages in critical areas of their economy. Hence remittance-dependent countries should not succumb to the Dutch disease; they should seek to channel resources into productive capacity-building and develop other sectors of the economy as well.

67. Aside from brain drain, other costs of temporary movement relate to effects associated with family separation and culture shock,

unfavourable terms of employment and working conditions, especially for women and less-skilled workers, such as under-average wages, longer working hours and less than satisfactory, if not hazardous working environments. It is not uncommon for foreign workers particularly the less-skilled ones to be robbed by their employers of their freedom, their passports and other work-related papers. Efforts to mitigate these negative consequences of migration have been made by sending governments on their own initiative, or in some cases, in cooperation with receiving governments. Measures taken include standardization of employment contracts by regulating the activities of recruitment companies, implementation of orientation programmes for migrants seeking employment abroad and the establishment of labour offices in popular destination countries.

68. In this regard, temporary migration within the World Trade Organization-General Agreement on Trade in Services framework has been seen as a preferred alternative to more permanent kinds of migration. Temporary migration can reduce brain drain, since migrants return after some time, thereby encouraging brain gain in the form of additional skills and possibly capital gain in the form of a migrant's repatriated assets.

**Table 3. Summary table: socio-economic benefits and costs of temporary migration for sending countries<sup>63</sup> at the macro and micro levels**

<b>Benefits</b>	<b>Costs</b>
<p>1. Impacts on the domestic labour market:</p> <ul style="list-style-type: none"> <li>- Broadens employment opportunities for workers, especially if these are not available in the home country;</li> <li>- Could ease the effect on the domestic market of the supply of excess labour, particularly in the low-skilled categories and ease the burden of unemployment and underemployment;</li> <li>- Can facilitate the broader objectives of adhering to Millennium Development Goals, the right to work, human rights and the right to development standards.</li> </ul>	<p>1. Reduced growth and productivity because of the lower stock of highly skilled workers and its externalities in certain sectors/countries and stages in the migration cycle.</p>
<p>2. Stimulus to investment in domestic education and</p>	<p>2. Loss of public investments in public</p>

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<sup>63</sup> United Nations/DESA. Partly based on Wickramasekara P (2002). "Policy responses to skilled migration: retention, return and circulation." *Perspectives on Labour Migration*, 5E. Geneva, International Labour Office. In: *World economic and social survey 2004*, UNDESA, with addition from the authors: 97.

individual human capital investment formation.	education with exodus of skills.
3. Return of skilled workers may increase local human capital, transfer of skills and links to foreign networks (brain gain and circulation).	3. Loss of human capital (brain drain), particularly when highly skilled workers are recruited; reduced quality of essential services, especially in occupations which are also much in demand at home, for example, in the health and education sector.
4. Technology transfer, investments and venture capital contributed by diasporas.	4. Potential loss of domestic capacity to innovate and build research-and-development capacity.
5. Can contribute to increased trade flows both in goods and services between sending and receiving countries.	5. Loss of fiscal revenue from taxation of workers.
6. Inflow of remittances and foreign exchange as sources of development finance; at the household level these are channelled into social and physical infrastructure.	6. Remittances may diminish over time. Over-reliance on remittances may lead to Dutch disease, and the neglect of other sectors.
7. Increased education and other opportunities, including the provision of social safety nets for those who are left behind.	7. Social impacts: separation leads to family disintegration, increased incidence of school dropouts and drug addiction arising from

	unsupervised children left behind.
8. Poverty reduction, escaping the poverty trap and raising living standards; better opportunities for future generations.	8. Selective migration may cause increasing disparities in incomes in the home country and may impact on the migrant if rights are not respected (some receive less wages than locals doing the same job, others suffer destitute working conditions or maltreatment).
9. Gender equity and welfare, economic, social and political empowerment.	9. Impact on women migrants: prone to physical and/or sexual abuse and harassment.

#### B. Benefits and costs: receiving country

Economy-wide benefits and specific sectors which benefit from the presence of foreign workers

69. In receiving countries, the main motivation for hiring foreign workers is the need to fill demand-supply gaps, particularly in key sectors such as health and emerging high-tech industries. These demand gaps are exacerbated by ageing demographic structures of many receiving countries, necessitating a greater acceptance of the reality of labour mobility. According to a statement made by the European

Union Justice Commissioner in Lisbon in 2007, the European Union's working age population will be in decline by 2011, and by 2050 one third of its population would be over 65. In order to offset the increase in the old-age dependency ratio, the European Union would require a steady net inflow of 13 million immigrants per year over the next 50 years, while Japan and the United States would each have to absorb 10 million migrants per year.<sup>64</sup> This is an area in which labour mobility could play a role in ensuring an adequate supply of workers in developed countries. The increasingly ageing populations in most developed countries means an increasing need for the provision of health-care services. One out of 7, or 90 million older people, live alone worldwide and this ratio is likely to continue to increase. While for most developing countries care giving by family members is an option, this is not so in developed countries. Since these care-giving needs are not being met domestically, the services of foreign workers are being resorted to increasingly. Developed countries may need to expand the supply of formal long-term care for older persons, including the provision of care-giving services to allow older persons to age in their home.<sup>65</sup> The workforce in traditional sectors such as agriculture and services has been revitalized; for instance, certain European Union member States

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<sup>64</sup> *World economic and social survey 2007*.

<sup>65</sup> *Ibid.*

have benefited from the seasonal agricultural labour from their East-European neighbours and the United States has benefited from Latin American labour. Additional benefits include the promotion of entrepreneurship and support for pension schemes.

70. Over the medium term, migrants contribute to an increase in the demand for goods and services, leading to greater output. Others set up businesses. These productive activities boost the demand for labour, offsetting the initial increase in the labour supply that migrants represent. Migration inflows have thus been seen as a factor contributing to the economic growth of the destination country. This is particularly true in cases where inflows of skilled workers were meant to relieve shortages in the labour market. In some cases, they may even increase the supply of labour in low-skilled occupations that domestic residents are unwilling to fill, thus complementing rather than substituting for domestic labour.<sup>66</sup> In addition, migrants also contribute to fiscal revenue, and in some cases are more at a disadvantage because they contribute more than they consume in terms of social, educational and other welfare payments.

71. As regards temporary migration, some scholars and practitioners have expressed the

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<sup>66</sup> *World economic and social survey 2007*: xiii.

view that a more defined period of stay and the turnover of immigrants may reduce some of the fears and negative attitudes and reactions of the native population to permanent migration. It is in this light that some developing country governments have pushed for more liberal arrangements facilitating temporary movement. Concerns have, however, equally been expressed that temporary migrants could use their temporary status as a backdoor to acquire a more permanent status. This is where the cooperation between the governments of the receiving and the sending countries is warranted.

72. Bilateral arrangements play a role in setting obligations for monitoring and managing migration flows between the sending and the receiving countries. Countries of origin are often responsible for pre-departure screening, for example, checking the qualifications and criminal record of potential employees and the reliability of employers. Bilateral arrangements also include measures to ensure that both employers and workers have an interest in seeing workers return to their countries of origin at the end of their contracts. Such measures include possible sanctions for employers for the non-return of workers, or positively, providing employers with the incentive to facilitate and encourage return, and perhaps also providing workers with the incentive to return to avoid jeopardizing the future employment of other temporary migrant

workers by that employer. As a result, the record of return of migrants moving under bilateral agreements has generally been very good.<sup>67</sup>

73. Contrary to the myth that immigration leads to wage depression in receiving countries, several studies have pointed out that there is no clear-cut relationship between immigration and wages and that such a relationship could be better understood in terms of the complementarities and substitutability of immigrant and local workers.<sup>68</sup> One study has shown that if the capital stock is assumed to adjust quickly enough and turn any additional gains from lower production cost as a result of lower labour cost into other productive activities, the overall impact of the inflow of migrants on local wages would be nil.<sup>69</sup> Another simulation has indicated that migration from developing to developed countries leading to an increase in the latter's labour force by 3 per cent could boost, rather than lower incomes of domestic workers in developed countries.<sup>70</sup>

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<sup>67</sup> Managing the movement of people: what can be learned from Mode 4 of the GATS. International dialogue on migration, no. 7. Geneva, International Organization for Migration: 13.

<sup>68</sup> "Myth and migration." *The Economist*, 6 April 2006.

<sup>69</sup> Ibid.

<sup>70</sup> *Global economic prospects 2006: economic implications of remittances and migration*, Washington DC, World Bank.

74. The other incentive to hire foreign workers is their cost-quality competitiveness vis-à-vis more expensive, less flexible, highly unionized domestic labour. In order for developed country firms to remain viable and competitive in agriculture, manufacturing and services, the use of foreign workers can be critical.

#### Concerns and costs

75. Despite such demand-supply gaps, the market for labour has not become open altogether. The main economic concern or issue raised is the impact on the labour market, particularly, loss of jobs for the natives, or reduced wages, particularly among the lower-end jobs. This may partly explain why most receiving countries prefer hiring the higher skilled/professional workers and are more restrictive when it comes to the less-skilled workers. Other costs and concerns for the receiving countries include the additional drain that migrants might have on these countries' social and health infrastructure and problems related to their social integration, which in some cases bear some security implications. These concerns have led to protectionist tendencies in many receiving countries. Opinion polls suggest that as few as 4 out of 10 European Union citizens believe immigrants make a big contribution to society. A survey conducted in

the United Kingdom indicated that 67 per cent of the respondents considered Great Britain to be overcrowded and only 17 per cent agreed that immigrants were needed to meet skills shortages.<sup>71</sup>

76. Further, the contribution and impact of trade and foreign direct investment on employment-generation and job losses directly and indirectly needs to be put into perspective. Most employment in developed and developing countries are in non-tradable activities, that is, services in developed countries, and subsistence agriculture and the informal economy in developing ones. Even in those sectors which are highly integrated through trade and investment such as financial, tourism and transport services, no major shifts in employment patterns between developed and developing countries have been noted. Most of the instances and evidence of labour integration in terms of actual labour mobility from developing countries leading to unemployment in developed countries are anecdotal, mostly confined to a limited number of manufacturing and services sectors. The same is true of indirect labour integration through outsourcing or developed country foreign direct investment in the manufacturing sectors of developing countries. On the other hand, in

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<sup>71</sup> The Telegraph, YouGov survey on Immigration, 2007. <http://www.telegraph.co.uk/news/graphics/2004/05/26/ngov26.gif>.

developing countries, there is evidence that goods-related trade liberalization has produced severe labour shocks when liberalization was not strategically managed, heightened by the absence of social safety nets and structural adjustment programmes and the inadequacy of state resources for them.

**Table 4. Socio-economic benefits and costs of temporary migration for receiving countries at the macro and micro levels**

<b>Benefits</b>	<b>Costs</b>
1. Economy-wide welfare effect and efficiency gains.	1. Perception that temporary migrants are a strain on domestic infrastructure, social security systems, and so forth.
2. Sectors in which foreign workers are employed generate positive gains in competitiveness and viability.	2. Potential concern in receiving country of unemployment and driving down wages.
3. Brain gain from skilled workers inflows and increased technological edge, thus enhancing global competitiveness of the receiving country.	3. Skilled workers in receiving countries are threatened by foreign workers, job insecurity and lower wages.
4. Filling of critical low skills gaps in the economy, such as construction, caring and social services.	4. Possible job displacement fears for local low-skilled labour.
5. Meeting larger global development, humanitarian and labour objectives in the context of the Millennium Development Goals and other international frameworks by facilitating temporary movement of labour and its development benefits.	5. The belief that development is about nation States and in the interest of culture, order and other economic considerations bolsters protectionist sentiments and policies.

77. In sum, the balance of benefits is positive for both developing and developed countries given proper policies, flanking measures and governance frameworks at national, regional and international levels. However, so far there has been hesitation to liberalize to the extent justified in view of the perceived risks and challenges that need to be overcome.

**IV. Regulating the movement of workers to achieve a globally acceptable solution: trade possibilities that would allow for different levels of labour integration**

78. As explained above, while there is a demand for the movement of workers, both skilled and unskilled, economic, political and social sensitivities have impeded the realization of full – or virtually full – mobility for these workers. This section looks at regulatory frameworks at the multilateral, regional and bilateral levels aimed at further facilitating the movement of labour/service providers. While the multilateral framework has a broader reach in terms of geographical coverage and skill levels, the commitments towards liberalization and facilitation are not as strong. Some regional and bilateral agreements represent more limited geographical coverage but somewhat deeper commitments at specific sectors and skill levels.

A. Multilateral frameworks: Mode 4 of the General Agreement on Trade in Services Structure of the Agreement

79. The General Agreement on Trade in Services, adopted by the Members of the World Trade Organization in 1995 is the first and only multilateral framework governing a small subset of migration, that of the temporary movement of natural persons as service providers or Mode 4.<sup>72</sup> The Agreement describes trade in services under Mode 4 as the “supply of service<sup>73</sup> by a service supplier (either a natural or a legal person<sup>74</sup>) of one Member, through the presence of natural persons of a Member in the territory of any other Member.” The Annex on the Movement of Natural Persons Supplying Services under the Agreement further specifies the application of the Agreement, as follows:

80. This Annex applies to measures affecting natural persons who are service suppliers of a Member, and natural persons of a Member who

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<sup>72</sup> The Agreement provides for four modes of supplying services: Mode 1, cross-border supply; Mode 2, consumption abroad; Mode 3, commercial presence; and Mode 4, presence of natural persons as service providers.

<sup>73</sup> Supply of service, as Art. XXVIII (b) of the Agreement indicates, includes the production, distribution, marketing, sale and delivery of a service. World Trade Organization (1999). *The Legal Texts*: 305.

<sup>74</sup> See Art. XXVIII of the Agreement for definitions. *Ibid.*: 306–07.

are employed by a service supplier of a Member, in respect of the supply of a service. 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.

81. The definition provided in the Agreement and the Annex speaks of two distinct categories of natural persons: self-employed individuals and employees. The former refers to individual foreign-service suppliers moving to another Member's territory for the supply of their services and obtaining their remuneration directly from customers; the latter represents foreign natural persons employed by a service supplier in respect of the supply of a service. The employer in the latter case may either be in the country where the service is provided, that is, with commercial presence, or located in another Member's territory.

82. According to estimates, Mode 4-related trade in services is practically insignificant, accounting for just over 1 per cent of world services trade, compared with Mode-3 trade which represents more than half of world trade in services. Mode-1 trade accounts for about one fourth of world trade in services, and Mode 2-

trade, less than one fifth.<sup>75</sup> This suggests that there is scope for further expanding this mode of services delivery. It has been estimated that welfare gains from further liberalizing the movement of workers could amount to \$156 billion per year if developed countries increased their quota for the entry of workers from developing countries by 3 per cent.<sup>76</sup> Another study, by Dani Rodrik, has projected annual gains of some \$200 billion if a temporary work visa scheme is designed and adopted multilaterally. Liberalizing to some degree the temporary movement of persons can therefore help address the underlying cause of migration significantly.

83. Critics of the use of Mode 4 have raised questions as to whether it is possible to apply certain principles of the General Agreement on Trade in Services such as most favoured nation and reciprocity to labour mobility, arguing that it could lead to politically undesirable outcomes.

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<sup>75</sup> World Trade Organization Secretariat (2002). GATS, Mode 4 and the pattern of commitments. Background information prepared for the Joint World Trade Organization-World Bank symposium on movement of natural persons (Mode 4) under the GATS, World Trade Organization, Geneva, 11–12 April:3.

<sup>76</sup> Winters A (2002). The economics implications of liberalizing Mode 4 trade. Paper prepared for the Joint World Trade Organization-World Bank symposium on the movement of natural persons under the GATS, Geneva, April.

84. Broadly, the General Agreement on Trade in Services can help realize the benefits of migration in sending and receiving countries in three ways. First, it covers services activities, which are significant in terms of size and puts on a legal footing commitments made. At a national level GATS commitments would help shift the focus away from expensive and in many cases ineffective border control and enforcement towards a more holistic approach of carefully managed migration – one that benefits sending and receiving countries alike, and the migrants themselves. Undocumented migrants are particularly prone to abuse and exploitation. Legal movement would significantly reduce this risk. Even more importantly, legal movement in the framework of GATS commitments would take place within the context of the receiving country's laws and regulations, in which human rights, social and health concerns generally receive due consideration. World Trade Organization commitments would not, of course, alter the primary importance and enforceability of domestic human rights, social, health and safety standards. Governments' international commitments, including their commitments under the United Nations human rights instruments and International Labour Organization conventions, would remain valid. These instruments would create an even broader framework for realizing a rights-based approach to the movement of individuals, with the General

Agreement on Trade in Services being one of several components.

85. A second advantage of the General Agreement on Trade in Services is that for the receiving country, temporary movement of service suppliers as envisaged under the Agreement can help match the demand and supply of labour more effectively. This is particularly true as it would be on a short-term basis, increase efficiencies through cheaper inputs by focusing on temporary movement and encourage circular – as opposed to permanent – migration. The Agreement would thus avoid brain drain and turn it into brain gain. But fears must also be heeded that without appropriate flanking policies, such movement may limit employment opportunities, create downward pressure on labour markets and more broadly, create challenges for the integration of migrant workers into host societies. By giving the temporary movement of individual service providers a status similar to the movement of goods and capital, effective Mode 4 GATS commitments would also address what many call the unfinished business of globalization and trade liberalization.

86. A third advantage of liberalizing trade in services within the context of the Agreement is that it covers both higher- and lower-skilled movement. While current GATS commitments

tend to focus on areas of highly skilled movement which is tied to foreign direct investment and corporate presence, it is increasingly evident that lower- and semi-skilled movement can offer a significant contribution to development. In fact, the percentage of money remitted is considered higher in lower- and semi-skilled movement as opposed to high-skilled movement. Lower- and semi- skilled movement does not necessarily mean unskilled labour, but rather labour with special skills, for example, construction workers or plumbers. This would provide a strong argument for liberalizing lower-skilled movement, and GATS negotiations could provide a tool to do so. However, today even higher-skilled movement faces considerable challenges such as burdensome immigration requirements, visa procedures, or non-recognition of qualifications and other requirements.

#### Existing commitments in Mode 4

87. There is an almost insignificant level of full commitments made under Mode 4<sup>77</sup> made by Members. In contrast, one out of two entries for

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<sup>77</sup> Members of the World Trade Organization specify in their schedules of commitments their level of permissiveness or restrictiveness with respect to each mode of supply. Here, Members are free to indicate a specific set of categories of persons they would allow into their territories and to list specific entry and stay restrictions they wish to apply.

Mode 2 is a full commitment. As to horizontal commitments, there are five times as many such limitations scheduled for Mode 4 than for Mode 2.<sup>78</sup> The political sensitivity of opening up a country's borders hampers the decision to liberalize the entry of foreign workers into a country's territory. Since general immigration legislations do not currently distinguish between temporary and permanent movement of labour, the tightening of security requirements by most of the major receiving countries has limited the scope for liberalizing the movement of natural persons by means of the General Agreement on Trade in Services.<sup>79</sup>

88. Members of the World Trade Organization may schedule their specific commitments under the GATS in two ways: horizontally, whereby limitations/commitments apply to all of the sectors/sub-sectors on which a particular Member has made commitments; and sector-specifically, whereby limitations/commitments apply only to a specific sector/subsector. Most Mode-4 commitments of Members of the World Trade Organization have been made on a horizontal basis, and as a positive

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<sup>78</sup> Calculated on a sample of 37 sectors deemed representative for various services areas. (See World Trade Organization Secretariat document S/C/W/99, 2 March 1999).

<sup>79</sup> Rupa C (2001). Movement of natural persons and the GATS. *World Economy*, 24:5, May.

undertaking, that is, indicating only the extent of its commitment with respect to specific categories of persons, the duration of stay, requirements for entry and the sectors to which such commitments apply. Consequently, their sector-specific commitments with respect to Mode 4 generally read as follows: "Unbound, except as provided for in the horizontal section of this schedule". As to the specific categories of natural persons included in Members' schedules of commitments and the breakdown of each category, the table below provides estimates for 108 countries that have included commitments on Mode 4 in the horizontal section of their schedules.<sup>80</sup> The commitments tend to reflect a preference for highly skilled or managerial staff.

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<sup>80</sup> The percentages refer to the proportion of countries that have made entries for the above categories in their schedule of commitments. The percentages do not add up to 100 because of multiple entries.

**Table 5. Current Mode-4 horizontal commitments, by category**  
(Percentage of total commitments)

<i>Category of natural persons</i>	<i>Percentage</i>	<i>Number of Countries</i>
Intra-corporate transferees	57	62
Other executive, managerial, specialists	21	23
Business visitors to set up commercial presence	18	19
Business visitors to negotiate the sale of a service	26	28
Other types of business visitors	12	13
Contractual service suppliers (employees of legal persons)	14	15
Independent professionals	6	7

State of play in the current services negotiations on Mode 4

89. The aim of some countries – mostly developing countries – in the ongoing services negotiations at the World Trade Organization is to seek further liberalization of trade in services, including the movement of service providers

(Mode 4). The negotiations are conducted through the request-offer process. As of July 2006, 71 initial offers have been tabled, representing 94 Member States if European Union Member States are counted individually.<sup>81</sup> Of these, less than 50 per cent, or 33 out of 70 Member States, included Mode-4 related changes in the horizontal commitments, mainly on the following:

(a) Inclusion of new categories of service providers. While this is the case, the additional categories are mainly on business visitors and high-level contractual service suppliers and independent professionals. It must be recalled that existing commitments are already skewed towards intra-corporate transferees, or employees transferred in connection with a country's commercial presence in another territory;

(b) Certain expansion of the sectoral application of commitments. This is particularly the case of contractual service suppliers where Members indicate the specific sector where their commitment to such category applies. This remains limited and mainly covers highly skilled professionals.

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<sup>81</sup> The European Union is represented as one, with a consolidated commitment and thus, has submitted one offer on behalf of all its Member States.

(c) Extension of the duration of stay. Intra-corporate transferees are granted longer durations, from three to five years, than contractual service suppliers, who are granted one-year stays. Independent professionals are normally given six months. Renewability of stay is also more relaxed for intra-corporate transferees than for the other categories.

(d) Clarification of the application of the economic needs test. Some countries have responded to calls for either the elimination or specification of the criteria for the application of the economic needs test.

(e) Residency/nationality requirements have been waived in some cases.

90. From the proposals, offers and assessments made so far, Mode 4 negotiations have been undertaken at the market-access level by seeking to expand the categories of service providers which are allowed to provide specific service sand to ease market-access restrictions. Specifically, developing and least developed countries have sought to include more categories of natural persons, in particular natural persons not linked to a commercial presence, such as independent professionals and contractual service suppliers. Least developed countries have particularly insisted on better coverage for lower-skilled and unskilled persons. At the same time,

Members are focusing on the extension of periods of stay, including possible renewal, and the elimination of scheduled restrictions such as quotas, economic need tests, citizenship, residency and nationality requirements, specifically for top-level personnel. Reflecting an existing need and demand, a number of foreign workers already provide services legally in developed countries; this is a reality that can easily be reflected through commitments made in the General Agreement on Trade in Services.

91. In addition to addressing demands for easing market-access conditions, Members have also addressed regulatory issues to ease access, particularly administrative procedures and visa requirements affecting the entry and stay of natural persons. Some negotiating proposals have suggested the development of disciplines on domestic regulation addressing the trade-restrictive effects of administrative procedures and visa requirements on Mode 4. These disciplines could take the form of multilateral disciplines applicable to all Members which make specific commitments on Mode 4, or could be made as additional commitments to be adopted by Members with their schedule of commitments, such as the World Trade Organization's reference paper on basic telecommunications. Other Members have also put forward proposals on qualification requirements and procedures and on recognition

measures in the context of the negotiations of disciplines on domestic regulation in the Working Party on Domestic Regulation of the World Trade Organization. Notification of mutual recognition agreements and facilitated accession of other parties to existing mutual recognition agreements have also been discussed at the multilateral level.

B. Bilateral labour agreements/preferential trading arrangements<sup>82</sup>

92. Bilateral and regional agreements that encompass not only movements of people but various economic activities have provided alternative avenues for managing temporary migration. In the absence of substantial progress on the facilitation of the movement of service providers in the multilateral forums via the World Trade Organization, countries have resorted to entering into bilateral labour agreements or preferential trading arrangements that include labour mobility provisions. The following section elaborates on the advantages and disadvantages of such arrangements and provides examples

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<sup>82</sup> This section draws examples from the *Handbook on establishing effective migration policies in countries of origin and destination*, chapter IX, Inter-State cooperation, Organization for Security and Cooperation in Europe, the International Organization for Migration and the International Labour Organization (2006) and Managing the movement of people: what can be learned for Mode 4 of the GATS, *International dialogue on migration*, No. 7, International Organization for Migration (2005).

highlighting the provisions relevant to facilitating the movement of labour/service providers.

#### Bilateral labour agreements

93. Bilateral labour agreements are often preferred over other arrangements because they are an effective means of ensuring quick, efficient and orderly movement and of promoting good and cooperative relations between origin and destination countries. Bilateral labour agreements allow for legal channels to move and provide services, and thus contribute to reducing movement through illegal means. They can and could also help build a systematic means of recording and monitoring movements, or even transfers, thereby addressing issues of insufficient or lacking migration-related statistics. Bilateral labour agreements can also serve to ensure orderly returns. A good example of this type of bilateral cooperation is the labour migration agreements maintained by Spain and a number of countries. These require workers to report to the Spanish consulate in their country of origin upon return, with the incentive of obtaining longer-term residence status in Spain should future employment opportunities arise.

94. For countries of origin, bilateral labour agreements ensure a stable market for their workers and are effective vehicles for negotiating terms of employment for their nationals or

facilitating training for them. Orderly management, including setting quotas to mitigate brain drain, can also be better effected through bilateral labour agreements. The Philippines is one of the most active countries in terms of facilitating the movement of people. For example, it has a bilateral labour agreement with Switzerland that involves the exchange of professionals and technical trainees on short-term employment. It has one with Indonesia, also a labour-sending country, aimed at strengthening and consolidating efforts for effective migration management, including promoting and protecting the welfare of labourers.

95. Another example of an inter-State bilateral arrangement is the Caribbean and Mexican Seasonal Agricultural Workers Programme involving Canada, Jamaica, Mexico, Trinidad and Tobago, Barbados, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines. The scheme which operates in Alberta, Manitoba, Ontario, Quebec and Nova Scotia, was introduced in response to shortages of available Canadian agricultural workers. In cases where Canadians are unavailable, employers submit an application specifying the number of workers required, the length and location of the work and working and living conditions. The programme is strictly seasonal and allows for a stay in Canada of a maximum of

eight months. It does not open any right of access to more permanent status but allows for the possibility of recirculation or re-entry through the programme if the workers demonstrate good behaviour. This partly explains the lower number of overstayers when compared with similar programmes. While in Canada, workers cannot seek alternative or additional employment or transfer to another farm without government approval.

96. The seasonality of the scheme and the lack of alternative sources of labour for employers are among the reasons for its success. More importantly, all parties to the agreement have vested interests in making the scheme work. Origin countries see this as a stable source of employment for their nationals, who benefit from Canadian labour legislation and wage standards at the same time. As the movement is on a temporary basis, brain drain is not a cause for concern. Destination countries' employers are assured of a steady and stable source of workers.

97. The Hispano-Ecuatoriano Bilateral Labour Agreement, an initiative of the Spanish Government, was signed between Spain and Ecuador in 2001. It has four aims: managing migration flows; coordinating migration agreements with labour market needs, fighting irregular migration with adequate border control and repatriation of migrants in cases of irregular

migration, and integrating migrants into society and cooperating with countries of origin whose citizens constitute a significant proportion of migrants in Spain. The Agreement includes definitions of job offers; assessment of the necessary professional qualifications; travel and reception of migrant workers; rights, work and social conditions of migrant workers; and special provisions regarding temporary workers and their return. The Agreement has resulted in an increase of about 519 per cent of the number of Ecuadorian citizens with valid residence permits in Spain. The number of work permits granted by the Spanish authorities to Ecuadorians rose from 19,995 in 2003 to 29,641 in 2004.

98. To date, Spain has signed similar agreements with Poland, Romania, Bulgaria, Colombia, the Dominican Republic and Morocco. The agreements cover the management and regulation of migration flows, and the selection of workers in their countries of origin.

99. Jamaica maintains bilateral seasonal labour agreements with the United States and Canada. The programme with the United States commenced in 1946 with the need to revive the United States' agricultural sector. Currently, Jamaicans are mainly employed as fruit and vegetable pickers and increasingly, in the tourism sector. The programme with Canada commenced in 1966. The agreement sets out guidelines

stipulating the distribution of responsibility for the recruitment and selection of workers. Like the Canadian Seasonal Agricultural Workers Programme, there is a shared responsibility between sending and receiving countries in the management of the movement of workers between the countries. Local labour market shortages test are a requirement in both the United States and Canada.

100. However, bilateral labour agreements are not an option for all developing countries because such agreements are often targeted to meet specific labour shortages and needs which could be sectoral. Not all developing countries may have the specific skill match to meet the targeted need. Further, bilateral labour agreements often operate on the basis of linguistic and geographical ties, which differ between countries. The General Agreement on Trade in Services could therefore be the more preferable option.

#### Regional trade agreements

101. Regional trade agreements generally include provisions on the movement of persons, with varying degree of openness. Some regional trade agreements have provisions which are in consonance with provisions of the General Agreement on Trade in Services. For instance, they indicate that a party has no obligation with respect to a national of another party seeking

access to its employment market, or one who is employed on a permanent basis on its territory, or to confer any right on that national with respect to that access or employment. This is also found in the GATS Annex on the movement of natural persons. With regard to terminology, some of regional trade agreements specify that access is provided for service suppliers or employees of service suppliers. They also indicate the right to enforce measures to regulate the entry or temporary stay of natural persons, including measures necessary to protect the integrity of its borders and guarantee the orderly movement of natural persons across such borders, provided that these measures are not applied in such a manner as to cancel out or infringe on the advantages to a State party resulting from the terms of a specific obligation, a language similar to paragraph 4 of the GATS Annex on the movement of natural persons.

102. The European Union encourages the free movement of labour. To date, that policy applies to the original 15 Member States but will be extended to the 10 new members on 1 May 2011. Free movement of workers in the European Union covers all forms of employment as follows: salaried or wage-earning employment (free movement of workers); self-employment (freedom of establishment); and provision of services (freedom to provide services). Movements for purposes of employment are also

accompanied by equal treatment rights vis-à-vis European Union workers in the following areas: work and employment conditions (e.g., remuneration, dismissal and trade-union rights); vocational training; social benefits and tax advantages, including welfare benefits; housing; and education of children. In addition, regulations also provide for social security entitlements.

103. Third-country nationals who have acquired long-term residence status in one European Union Member State have the right to reside and take up employment in another European Union Member State for a period longer than three months. The receiving Member State preserves its right to apply the European Union preference principle regarding access to its labour market. In addition, the European Union maintains special relations with three Maghreb countries – Algeria, Morocco and Tunisia – by means of the Euro-Mediterranean Association Agreements, which provide for equal employment conditions for nationals and social security rights for legal Maghreb migrant workers residing in the European Union.

104. In response to the Hague Programme adopted by the European Council, the Commission in December 2005 presented the Policy Plan on Legal Migration, which defines a roadmap for migration-related policymaking for

the period 2006–2009. The Policy Plan describes the current situation and highlights the European Union Member States' demand for highly skilled and less-skilled foreign workers, hence the need to facilitate their movement. The proposals include the adoption of a general framework directive guaranteeing a common set of rights to all third-country nationals legally employed in the European Union and the adoption of four specific directives governing the conditions of entry and residence for highly skilled workers, seasonal workers, intra-corporate transferees and remunerated trainees in cooperation with third countries. It also proposes the inclusion of arrangements for managed temporary and circular migration and the provision of professional training and language courses in the country of origin for those leaving to work in the European Union.

105. The North American Free Trade Agreement includes provisions on facilitating the temporary movement of the citizens of the parties to the Agreement. Access is limited to four higher-skill categories: traders and investors, intra-company transferees, business visitors, and specific categories of professionals.

106. These groups are not limited to those engaged in services and may include persons in activities related to agriculture or manufacturing. No labour certification tests or numerical limits

to the number of admissions are required. Visas and other general immigration requirements apply, and entry may be refused if authorities believe it may adversely affect settlement of a labour dispute in progress. Under the North American Free Trade Agreement, the United States provides special visas for professionals called Trade NAFTA (TN) visas, which are valid for one year and renewable. Canadians can be granted TN status at the port of entry upon presentation of a letter from a United States employer. Mexicans must arrange for their employer to file a labour condition application, and then must apply for a visa at the United States Embassy in Mexico.

107. The North American Free Trade Agreement also provides for the reduction of the barriers to trade imposed by states' licensing and certification requirements with regard to cross-border service providers through national treatment and most favoured -nation treatment. This provision is, however, limited by the fact that the member countries may retain or adopt more restrictive non-conforming measures in some sectors, sub-sectors and activities. Likewise, the most-favoured nation obligation does not grant automatic recognition of qualifications obtained in the territory of one party. The admitting party must, however, grant the other party an opportunity to demonstrate that qualifications earned in its territory should also

be recognized or to enter into a comparable agreement for recognition thereof. Some steps are taken towards establishing mutual professional standards, particularly in legal, engineering, bus and truck transportation services.

108. Asia-Pacific Economic Cooperation (APEC) is another example of an arrangement that facilitates the entry of business visitors. The grouping does not grant rights of entry but has established a scheme to facilitate the entry of business visitors under the APEC Business Travel Card Programme. The Card is valid for three years and permits multiple short-term business visits for a period of two or three months each. Card holders are required to present their passports but receive expedited airport processing and are not required to submit separate applications for business visitor visas. Participating economies commit to implementing the programme on a best-endeavour basis and are allowed to apply existing visa requirements for business visitors. All economies also retain the right to refuse an individual without stating their reasons. This includes refusing entry to APEC Business Travel Card holders at the border.

109. The Andean Community, comprising Bolivia, Colombia, Ecuador, Peru and Venezuela, adopted the Andean Labour Migration Instrument in 2003. Its aim is to gradually allow the citizens of those countries to circulate freely within the

Community for employment purposes. MERCOSUR, the Southern Common Market, signed the Agreement on Residence for Nationals of MERCOSUR States, Bolivia and Chile in 2002 allowing nationals of one member State to obtain legal residence in another member State. The agreement also provides for family reunification and equal treatment for migrants on matters pertaining to civil, social, cultural and economic rights.

110. Maintaining bilateral labour arrangements has become more convenient for sending countries since it gives them more liberal, predictable and preferential access for its labour force into target markets. These temporary labour mobility programmes give them access not only to skilled workers but also to low-skilled workers such as agricultural and construction workers. The best-practice temporary labour-mobility programmes provide facilitated entry for their workers, including simplified administrative procedures and mutual recognition of qualifications with built-in incentives for legal and safe migration ensuring good working conditions and return to their home countries, thus safeguarding against brain drain. These programmes could help lower the cost of migration associated with entry and transfer of remittances. Some also include capacity and co-development programmes whereby the receiving country cooperates with the governments of the

sending country to put in place skills development and institution-building programmes for migrants. Examples include France's co-management of seasonal labour with Morocco and an agreement between Spain and Senegal on information sharing in matters pertaining to job placement and training, return support to migrants and incentives for Spanish businesses to invest in Senegal.

111. From the receiving countries' perspective, bilateral labour arrangements facilitate managed labour mobility. Further, temporary migration is better tailored to the requirements of specific sectors and labour markets in their economy, including the necessary flexibility to deal with seasonal and cyclical requirements. It also enables governments to be insulated from labour-related political and cultural protectionism and lobbies normally associated with the labour-mobility agenda. They can also be selective in terms of picking the sending countries based on cultural, political and historical links and interests, geographical proximity and economic complementarities. There is therefore a temptation to opt for the more flexible bilateral and regional agreements rather than making multilateral commitments.

112. Thus, bilateral agreements and regional trade agreements providing for regulation and cooperative management may better facilitate

migration and efficiently balance the requirements of liberalized and facilitated circulation of labour. But there exists the danger of exclusivity and marginalization for countries that are not on the radar screen of major developed country receiving markets for political, cultural, or geographical reasons. Not all developing countries wishing to export their labour can expect to be engaged by the major developed countries in bilateral labour agreements. Even if they do, their bargaining power would be very weak as receiving countries would have the upper hand in determining the conditions of the bilateral relations, for example, in terms of defining the sector, job or occupation, quotas, period of stay and renewability, and terms and conditions of employment. Regional trade agreements, while they might include a wider set of countries, have very limited provisions on the liberalization and facilitation of labour mobility. They usually cover only the movement of business personnel, intra-corporate transferees and professionals. Also, in cases where regional trade agreement provisions may be more liberal, that is, they include rights of entry, establishment and residence, they fall short in terms of actual implementation of these provisions. This is true for South–South and North–South regional trade agreements.

113. The first best legal framework for liberalizing the temporary movement of labour

for most developing countries is through the multilateral framework provided by the General Agreement on Trade in Services in the World Trade Organization. Liberalized and facilitated market entry and access commitments in the Agreement would be the best way to ensure openness, predictability and a rules-based, equitable and non-discriminatory system of governance in this key area of trade-driven globalization. It is for this reason that developing countries have continually reiterated the centrality of major receiving countries to broaden their commitments on the temporary movement of service providers (Mode 4) at the World Trade Organization.

Summary and policy recommendations: the need for global solutions to what is increasingly becoming a global issue

## **V. Summary and policy recommendations**

114. This paper highlighted the economic benefits and costs of labour mobility – benefits which are proportionately significant for developing countries relative to the costs borne by developed countries. Studies put significant global welfare gains at \$150–\$200 billion with the relaxation of entry conditions for the temporary movement of workers or service providers at all skill levels, with more gains

realized from freer circulation of less-skilled workers. The estimated gains would be greater than the total gains expected from all of the other initiatives under discussion in the Doha work programme of the World Trade Organization. Among the major benefits enjoyed by the sending countries are remittances, poverty reduction, better quality of life, improvements in human capital, transfer of technology, positive impact of the diaspora population and gender empowerment. Concerns about brain drain have been raised at the same time, especially in critical services sectors such as health and education.

115. Receiving countries, despite the shortages that exist in their markets, have remained conservative with respect to admitting foreign workers because of the negative perceptions of their constituencies and some politicians regarding the influx of foreign workers. Concerns include the impact of foreign labour on the wages of local workers, the strain it may cause on the provision of social and medical benefits, and security and integration issues. To balance these negative concerns and the requirement to fill the gap in the labour market, receiving countries have resorted to some targeted recruitment and to bilateral labour arrangements which are occupation- and skill-specific. Some regional economic groupings have also incorporated provisions on labour mobility in their agreements. At the multilateral level, that is, the

World Trade Organization, limited improvements have been made with respect to the liberalization of the temporary movement of service providers (Mode 4), especially with regard to less-skilled workers. Nonetheless, studies have indicated that the greatest gains are realized when the movement of less-skilled labour is liberalized.

116. Based on the realities on the ground – that there are shortages in receiving countries that need to be met and that sending countries are willing and able to meet these needs – the following policy recommendations are made:

(a) There is a need to raise awareness in developed and developing countries of the true cost and benefits of labour integration to counter the fears that have been driven by populism and politicking in most developed destination countries. International organizations, non-governmental organizations, labour groups, political leaders and academics have a shared responsibility in seeing that the win-win framework for labour integration and skills trade is realized.

(b) An important part of awareness-raising is the creation of reliable, accurate statistics and information relating to the movement of labour. Given that the skills trade is likely to continue being a prominent feature of the global economy, there is a need for to build capacity in collecting

data on labour flows and in development impact analyses at the national, regional and global levels. This data should be disaggregated by sex and age; type and level of skills and other factors such as remittances in order to identify diaspora partners; devise policy tools and provide training for their implementation.

(c) Awareness efforts should be complemented by a sustained dialogue between labour and global enterprises which are most aware of the benefits and gains to be derived from labour integration and those which suffer the most from the backlash of protectionism. Results of such dialogue must be communicated first to the general public, especially the working force, to assuage its unfounded fears that labour migration leads to job losses and lower wages and second, to policymakers so that their migration-related policies can be based on facts and realities on the ground rather than on satisfying popular but often unsubstantiated reservations on maintaining a more open regime for temporary migrants.

(d) The choice of the best policy mix should be based on an economy-wide analysis of labour requirements sectorally – both domestic and foreign, and in the short- and medium term. The approach to labour integration should be multimodal in the sense that in some sectors and occupations, Mode 4 would be the preferred

mode while in others, Modes 1 or 3 would be better choices. It has already been seen in the case of information and communication technology that restrictions on labour mobility have prompted business to go approach labour through offshore outsourcing. Thus, given that the market will in any event drive the consumers of labour to the cheapest provider, cooperation between origin and destination governments to improve migration management is a worthwhile consideration. This cooperation, already under way, could extend to devising rules and regulations on employment and labour, visa regulations, human resource development, structural adjustment policies and social safety nets. Further, there are many good practices, models and initiatives that can be replicated.

(e) It is understandable for receiving countries to be cautious about opening up their borders to foreign labour. Given, however, that welfare gains in doing so have been substantiated, efforts should be directed towards better managing these movements rather than barring them altogether. The best antidote to illegal migration is liberalized, regulated entry of temporary workers. In this regard, one way of allaying public opinion against labour migration is to devise mechanisms to ensure temporariness of stay. This reconciles the fear of locals in the receiving countries with respect to job losses and issues related to brain drain in sending countries.

Ensuring temporariness requires the cooperation of sending countries –and the migrants themselves – and the receiving countries, in cooperation with the employers. There are lessons to be learned from existing bilateral arrangements such as Canada and Mexico's seasonal agricultural workers programmes which provide mechanisms to enforce the temporary stay of the seasonal migrant. The United Kingdom has also adopted an ethical recruitment policy, particularly in the health sector and in areas in which origin countries suffer from shortages themselves.

Additionally, employers could also be taxed or be made to post bonds for every migrant recruited. These measures are designed to ensure that foreign workers are hired only on the basis of necessity. Incentives could also target migrants to encourage them to return to their home country at the end of their contract, for example, by refunding their social security and pension contributions, or even certain taxes, which can be used as seed money for small business in their countries of origin. This mechanism could be best implemented with the cooperation of home countries by providing institutional support and guidance to returning migrants as to how to utilize their capital for productive uses.

(f) While enhanced market access is a main objective of countries of origin, corollary efforts

must be undertaken to maximize the use of and benefits derived from remittances and returning migrants. As the most visible and quantifiable gain from labour mobility for the sending country, remittance receipts in most countries have been shown to benefit the recipients directly in the form of increased purchasing power and consumption, which contribute to the expansion of goods production, exports and the generation of new markets. Remittances have also proved effective in improving the recipients' quality of life through enhanced access to education, health and sanitation services. Other possible economic benefits have not, however, been tapped, such as the use of increased savings and investments or the introduction of remittance-backed bonds to raise funds at lower interest rates on the international bond market. It is essential, however, for sending country governments to put in place the appropriate financial, training and educational infrastructures; provide appropriate incentives and play a key role in disseminating information and ensuring dialogue with migrants and returnees so that their foreign earnings can be put to productive use.

(g) To mitigate any possible negative effects of the movement of highly skilled workers, sending countries must continue to invest in building its human capital to ensure skills replenishment and retention. This can be accomplished by establishing curricula that

encourage students to enrol in courses leading to jobs that are most likely to be in demand abroad, such as nursing and health-care services and work in the information technology sector. In addition, continuous training in these fields should be encouraged, perhaps with the cooperation of returning migrants who might be able to provide practical advice based on their experiences.

(h) Other government initiatives aimed at assisting the reintegration of returning migrant workers and stimulating investment include facilitating imports of capital goods and raw materials; providing business counselling, training and access to loans; and encouraging entrepreneurship for development. These initiatives can also help strengthen the economy and eventually mitigate the push factors for migration.

Focus on initiatives that work toward global coherence, solidarity and understanding

117. Efforts should be made towards co-development where receiving countries share in the responsibility of ensuring that migration does not lead to brain drain. In this regard, developed countries, in response to specific developing country needs, can institute schemes to invest in enhancing developing countries' supply capacities. For example, they can set up training

institutions and other support infrastructure, particularly in sensitive sectors such as education and health, or offer compensation to partly cover the cost of each migrant loss. Other co-development efforts between sending and receiving countries include identifying specific occupational categories and regions which have a labour shortage and then identifying corresponding skill sets and personnel in the sending country that are available and willing to meet labour needs. Forging ethical recruitment policies is yet another area where co-development initiatives could work well.

118. There is a need to advocate better terms and conditions of work for workers. While labour movement brings many positive benefits from the migrants' perspective, there are a number of disadvantages, such as low or unequal wages, poor and sometimes hazardous working conditions, lack of social protection, xenophobia and social exclusion. International labour instruments can form important guidelines or benchmarks to establish better working conditions.<sup>83</sup> More often than not migrants are

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<sup>83</sup> See labour standards, including core conventions enshrined in the Declaration on Fundamental Principles and Rights at Work of the International Labour Organization, ILO Migration for Employment Convention, 1949; the Migrant Workers Convention, 1975; and the International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families.

unaware of, do not have access to or are afraid of accessing legal remedies to which they may be entitled. This is especially true of lower-skilled migrants. The following advocacy efforts should be considered:

(a) Establishing a migrant resource centre between source and destination countries to ensure timely, linked services for migrants.

(b) Operationalizing and promoting circular migration by concluding bilateral agreements between the countries of origin and of destination, for example. These agreements could also include measures to enhance the development impact of labour movement with the sending country.

(c) Making available financial intermediation services that allow workers to borrow at market rates, or if possible, at concessional rates, to cover up-front expenses prior to migration.

119. Sending countries should make labour mobility part of their development strategy. Developing countries have a responsibility to draw up a well-defined strategy and policy on the export of manpower as part of a larger trade and development strategy. This strategy should take into account and be co-ordinated with policies and measures relating to domestic human resources, labour, and technology, and domestic

requirements for skilled manpower for administration purposes. In terms of their foreign economic and trade policy, developing countries who have a special comparative advantage in manpower export should position themselves so that they can negotiate better market access and entry conditions for their workers in destination markets through multilateral, regional and bilateral agreements. At the same time, an overdependence on remittances which form only part of an overall trade and development strategy should be avoided.

120. Migration should not be considered a panacea for development, since the ultimate goal is to achieve a level of growth and development which will allow it to create stable employment opportunities at home so that moving abroad becomes a matter of choice rather than necessity. There will always be other reasons for people to move abroad – family reunification or the acquisition of new knowledge, training and technology. However, if they have an opportunity to work at home, they might not be willing to be separated from their families and their cultural and social environment. Similarly, sending governments could capture other productive niches, for example, by attracting foreign investment (Mode 3), or foreign consumers (Mode 2). They could also embrace one of the more attractive areas of outsourcing (Mode 1). By diversifying, they would still benefit from

globalization and achieve growth and development.

121. Policy coherence is required at all levels of governance and across a broad range of policy areas. This has been demonstrated in trade and development policies as they relate to agriculture, industrial production, services, fisheries, education, health, labour, commodities, finance, social security and the environment. A similar approach can be followed in the area of skills trade and labour mobility, by using development cooperation policies to address and neutralize many of the push factors for migration. Good governance should be promoted at all levels, and government initiatives taken in the field of migration and development closely monitored. Domestically, this could mean inclusive policies favouring the poor, including training policies so that they, too, can benefit from employment generation and the international skills trade. At the regional level, governance could relate to regulation and management of regulation as well as coherence in information exchange. Many regional trade agreements and bilateral agreements contain these features. While frameworks of governance and coherence are emerging at both the regional and international levels, they need to evolve further. Focal points at all levels will have an important role to play in furthering governance and coherence.

122. Coherence would also require that international and domestic policies and systems should be transparent and consistent with the Millennium Development Goals. Respect for human rights and gender equality should be mainstreamed throughout the migration and development debate. Specific vulnerabilities of female migrants should be acknowledged and labour migration policies and practices that ensure decent working conditions for women should be adopted, for example, by means of standard contracts. Since women need to be empowered, it is important to provide training and skills updating, information and guidance with regard to their rights and obligations, risks and opportunities, integration and return options. They should also receive training on how to make effective use of financial services to maximize the use of remittances sent back home.

123. Migrants should be treated on the same par as nationals. They deserve decent wages and working conditions, health care and other social benefits where applicable. Migrant rights can be ensured by providing standard contracts, prosecuting employers who do not respect the rights of migrant workers and guaranteeing the portability of social welfare benefits. Migrant rights can be promoted by empowering migrants: providing pre-departure and pre-employment information, guidance and assistance; establishing support structures in destination

countries for legal advice, advocacy, training, skills upgrading, contract or mobility negotiation; creating systems allowing the proper recognition of qualifications; and facilitating access to banking services and financial instruments for migrants.

124. On the multilateral trade front, the General Agreement on Trade in Services, which provides for the movement of natural persons as service providers (Mode 4), has been seen as a possible avenue for facilitating temporary movement at the multilateral level more effectively. Developing countries, in particular the least developed countries, have indicated this to be among their key export interests. The latter have sponsored communications and circulated a model request for liberalizing the movement of less-skilled service providers. Other developing countries have done the same but have seen few results in the form of schedules of commitments and offers for liberalization from members of the World Trade Organization. To compensate for the lack of commitments, members of the World Trade Organization have sought for greater transparency in rules and regulations affecting the entry and stay of foreign-service providers. Similarly, there have been calls for facilitating the accession of developing countries to mutual recognition agreements to facilitate the entry of their nationals in those countries which are parties to these mutual recognition agreements.

Some countries have resorted to bilateral and regional arrangements to facilitate the circulation of workers as these have proven to be effective. Ideally, these should be supplementary to the main multilateral framework of the General Agreement on Trade in Services, enforced by means of the World Trade Organization, as it offers more predictability and security of access to service providers from developing countries on a non-discriminatory basis. It is ironical that while this is the only avenue through which all developing countries can get one-stop access to major foreign labour markets, the prospect of such undifferentiated influx into these countries may deter receiving countries from making meaningful multilateral commitments.

125. Views and perspectives differ as to how Mode-4 commitments under the General Agreement on Trade in Services should be treated. While on the one hand, trade analysts and policymakers consider Mode 4 to be a trade in services issue, on the other hand there are sections of the immigration community that consider Mode 4 commitments to be largely an immigration issue of the more permanent kind related to a foreigner entering the country. A distinction therefore needs to be very clearly drawn between temporary and permanent migration and the supply of services through Mode 4. This distinction is more likely to assuage protectionist sensitivities, as the movement of

persons under Mode 4 is short term and regulated. The General Agreement on Trade in Services is the best option, since it entails binding permanent commitments which are uniformly applicable. However, receiving countries hesitate to make commitments with regard to the General Agreement on Trade in Services, since bilateral agreements, which enable receiving countries to select the countries of their choice from whence to import foreign workers, are preferable.

126. Forging new global partnerships under the leadership of governments. The first Global Forum on Migration and Development<sup>84</sup> initiated the concept of marketplace where governments and international organizations discussed concrete proposals for information, advice, training, equipment, capacity-building, project development and other initiatives to enhance the benefits of international migration and development.

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<sup>84</sup> Following the United Nations High-Level Dialogue on International Migration and Development in September 2006, Member States expressed their interest in continuing the dialogue on migration and development by means of an informal, voluntary, State-led forum. This led to the establishment of the Global Forum on Migration and Development.

127. While international migration can be a positive force for development, it is important to consider the root cause of migration: economic conditions in the country of origin. It is therefore essential to consider migration within the larger panoply of development and trade issues. Developed countries should acknowledge that future economic and social development will continue to depend on foreign workers. This idea should therefore be incorporated into national and regional policies. Developing countries should attempt to reduce the push factors for migration such as poverty, underdevelopment and in some cases, despair, by devising sound policies for economic growth and by focusing on trade, infrastructure, capacity-building, market access, foreign direct investment and the aid and trade policies of developed countries. They should also work towards mutually beneficial and positive sum co-development in the areas of skills trade and more broadly, in development.

128. At this point in the current skills-trade and labour-integration scenario, it is important to follow a comprehensive approach that would contribute positively to both sending and receiving countries. The interface of trade, migration and globalization is key to ensuring these development gains. In this process, policymakers must be better equipped to shape public opinion towards a greater understanding of the true balance of benefits accruing from labour

market integration. Advocacy in this area should be based on the premise that it is a win-win situation for origin and destination countries, and for the world economy as a whole. However in order for this to be so, labour integration and skills trade must be managed by all concerned in an enlightened and cooperative spirit, with pragmatism, and realism, a global strategic vision and without political or cultural prejudice. UNCTAD, as the United Nations focal point for the integrated treatment of trade and development, and as an active member of the Global Migration Group, is engaged in clarifying the trade and development implications of labour mobility and skills trade. UNCTAD aims to promote growth and development, especially in developing countries, through trade. In addition, it strives to spread the benefits of globalization and interdependence across issues and economies. In this light, UNCTAD has over the years made a number of policy recommendations, including those highlighted in this paper.