Foreign direct investment and international migration

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International migration that arises from differences in economic conditions among countries is becoming an issue of increasing concern for migration-receiving countries, in view of the adjustment problems involved. But the link between economic development and migration has not been sufficiently explored. The present article examines one aspect of that link, namely, the relationship between foreign direct investment (which serves, in theory, as an alternative to labour movement) and migration. It suggests that, to the extent that transnational corporations contribute to economic growth in migrant-seeking countries and that this growth leads to a reduction in poverty, foreign direct investment can reduce — in the longer term and on balance — the necessity to migrate, especially because of poverty. In the short term, foreign direct investment can help to reduce migratory pressures through the creation of employment, which, though tending to be small in the aggregate, can be sizeable in some countries and industries. Furthermore, training and career prospects, often associated with employment in foreign affiliates, create the potential for upward mobility and improvements in status, which may mitigate the desire to migrate of those seeking better opportunities. Policies need to aim more at facilitating foreign direct investment and at promoting employment creation and upward mobility through transnational corporations.

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Introduction

International migration is likely to be one of the key issues of the 1990s. As a result of striking changes in the direction and composition of migration flows because of shifting demographic, economic and political conditions in various regions, prospects for large and unregulated migration flows have increased, creating concern among receiving countries. Both developing and developed countries are affected, including, among the latter, each of the Triad members, that is, the European Community, the United States and Japan. In addition, temporary movements of labour and skilled professionals are taking place on an increasing scale, not only between developing and developed countries but also between developing countries themselves, in response to human-resource needs and surpluses in different countries. In total, some 75 million legal and illegal migrants, transient workers, refugees and displaced persons from developing countries were not residing in their own countries at the beginning of the 1990s.

It is generally agreed that the lack of economic development is one of the principal causes of emigration. Little is known, however, about the interrelationships between development and migration, although interest is beginning to focus on that relationship.[1] The present article examines *one* aspect of that relationship, namely, the link between foreign direct investment (FDI) and economic migration, focusing particularly on how FDI may influence migration from developing countries.

Economic migration refers to migration determined by differences in economic conditions between countries. Such differences range from differences in access to the means of survival to differences in economic opportunity of various kinds, including the opportunities for gainful employment, improved remuneration and conditions of work and upward mobility in terms of occupational status and responsibility. In other words, the economic factors leading to migration represent a continuum, characterized at one end by the *push* of poverty and economic hardship, and at the other by the *pull* of opportunity and attaining an advanced standard of living. While the

[1] Recent meetings and conferences reflect this interest; for example, the International Conference on Migration organized by the OECD in Rome, 13-15 March 1991, and the Tenth IOM Seminar on Migration, organized by the International Organization for Migration in Geneva, 15-17 September 1992, which focused, in part, on the links between migration and development. The Transnational Corporations and Management Division of the United Nations Department of Economic and Social Development, in collaboration with UNCTAD and IOM, is implementing a project focusing on the interrelationships between foreign direct investment, trade and migration. See also Papademetriou and Martin, 1991; United States Commission, 1990.

boundaries between migration motivated by economic and non-economic considerations (including cultural, social and political factors) are not clear-cut, that economic factors are an important force determining international migration is quite clear.

The discussion below focuses, first, on the growing importance of FDI in the world economy; second, on the impact of FDI on migration, by contributing to economic growth in the long run; third, on the role of FDI in the creation of improved opportunities, through generating employment and opportunities for advancement in employment; and, finally, on some policy implications.

Factor mobility, trade and the importance of foreign direct investment

Economic theory suggests that if factors of production — broadly defined as land, labour and capital — are mobile among countries, differences in their earnings would decrease. In reality, there are limitations to the mobility of capital, labour and, of course, land. International trade in goods and services can, in theory, act as an alternative to the movement of factors of production. Thus, under competitive conditions, if factor endowments of countries differ, but technologies are the same and factors are not mobile, the differences in factor endowments will be reflected in the differences in relative prices of products among countries; countries will therefore find it profitable to export goods that use their relatively abundant factor of production more intensively, and to import those that require a more intensive use of their scarce factor. As a result, the scarce factor in each country becomes somewhat less scarce, and the abundant factor becomes relatively less abundant. In that fashion, labour-abundant countries export their labour in the form of labour-intensive goods and import capital in the form of capital-intensive goods. In theory, the result is the equalization of factor prices, or at least a movement towards an equalization of factor prices. To what extent the actual pattern of trade follows factor proportions depends on the technologies used, transportation costs, market structure and the availability of information. But the basic theoretical principle remains, namely, that trade in goods (and services, to the extent that they are tradable) can work as a substitute for the movement of land, labour and capital.

There is no doubt that international trade has contributed during the past century to compensate for differences in factor endowments and the lack of mobility of factors. Its impact in reducing economic disparities due to imbalances in factor availabilities has, however, been only partly effective. Part of the reason is protectionism. A further liberalization of trade could thus contribute to a further reduction of the pressure for migration due to economic differences caused by imbalances between labour and capital availabilities in many developing countries.

Flows of trade, however, even on a vastly liberalized scale, cannot fully address the problems of poverty, low incomes and/or limited economic opportunities that underlie the decisions of many who migrate from less-developed countries. First, the existence of non-traded goods and services limits the extent to which international cross-border trade can work as a substitute for the movement of factors of production. Second, it is clear that patterns of trade are determined not only by factor endowments, but also by differences in technologies, skills, income levels and political factors that affect the grants of preferential trade status. Third, flows of trade work indirectly, and their ability to compensate for factor movements depends upon factor-market conditions as well. In other words, unless the technological and human resource gaps between developed and developing countries, as well as income disparities, are reduced, and unless markets, including labour markets, function perfectly, trade can act only partially as a substitute for the movement of capital and labour, or production factors more narrowly defined.

Flows of capital or finance can act directly to reduce differences in factor proportions between countries and to bring relative factor prices and incomes of countries closer together. Capital is perhaps the most mobile factor in terms of freedom from regulatory constraints, but capital does not always flow in the direction of countries in which it is most scarce. The reasons include institutional factors, that is, the lack of markets and instruments to channel portfolio investments into capital-scarce developing countries, as well as the fact that it is not capital alone, but a package of capital, technology, managerial know-how and market access, along with the institutions that support economic activity, which is required to put labour to productive, or more productive, use.

Both trade and capital movements, therefore, work imperfectly to equalize or bring together factor proportions, or wages and incomes, between countries with large differentials. The movement of labour thus has an important role to play. Contrary to what might be expected, given the existence of national boundaries and immigration laws, extensive movements of labour take place to locations where labour and skills shortages exist and where new capital is accumulating alongside innovation, technical progress and entrepreneurial development. In fact, labour may well be the most mobile factor, not only within regions and between neighbouring countries, but also on a wider scale internationally, driven as it is by individual or household decisions requiring little institutional support. There are, however, limits to the extent to which labour can move, not only because of the financial, physical and psychological costs of moving to the migrant, but also because of the costs of adjustment and absorption within the receiving societies and, sometimes, within the sending countries as well. The strong and widespread restrictions by many countries on inward labour movement testify to those limits.

Given the limitations on the movement of capital as well as of labour, the role of FDI, or of the investment made directly in an enterprise in a foreign country in order to acquire a lasting interest and control in the enterprise, deserves attention. It is a distinguishing characteristic of FDI that it combines capital, technology, training and trade in order to organize and create production capacity. In other words, the transnational corporations (TNCs) that are responsible for FDI bring an integrated package of tangible and intangible assets to host countries, which can serve as an alternative to labour movement, as well as a stimulus to development. The package acts not only to supplement domestically available factors of production that create opportunities for employment and income generation, but also to stimulate growth through transfer of technology, training, interlinkages with the rest of the economy and access to foreign markets.

Indeed, the role of FDI in international economic transactions has increased in importance during the 1980s. Foreign-direct-investment flows, undertaken by an estimated 36,000 TNCs with over 170,000 affiliates abroad (of which about 70,000 are in developing countries), grew faster than both exports and domestic output during the period 1986-1990, to reach a stock of about $1.9 trillion in 1991 (table 1). World-wide sales by foreign affiliates, estimated at $5.5 trillion in 1990, have become more important than exports, valued at $3.3 trillion, for delivering goods and services to markets. The strategies of TNCs play an important role in decisions regarding the location of activities and discrete functions along the value-adding chain of production. Increasingly, the role of TNCs is to integrate and co-ordinate those functions, which has led to the emergence of an integrated international production system. In other words, international production by TNCs is becoming more interdependent, with linkages between parent companies and affiliates, as well as among affiliates, increasing in number and

Table 1. World-wide foreign direct investment and selected economic indicators, 1991, and growth rates for 1981-1985, 1986-1990 and 1990-1991
(Billions of dollars and percentages)

Indicator	Value, 1991 (Current prices in billions of dollars)	Annual growth rate, 1981-1985	Annual growth rate, 1986-1990	Annual growth rate, 1990-1991
Foreign-direct-investment outflows	180	4	24	-23
Foreign-direct-investment stock	1 900	5	11	11
Sales of transnational corporations	5 500[a]	2[b]	15	..
Gross domestic product at factor cost	22 300[b]	2	9	-6[c]
Gross domestic investment	5 100[b]	1	10	..
Exports	3 500	2	10	4
Royalties and fees receipts	30[c]	-1	20	-1

Source: United Nations, Transnational Corporations and Management Division, 1993a.

[a] For 1990.
[b] For 1982-1985.
[c] Estimate.

complexity, and becoming more integrated on a regional or even global scale. Indeed, the increasing regionalization of the world economy in terms of trade and investment blocks — and the regional core strategies of TNCs underlying the process of deep integration associated with the formation of regional investment blocks — could create an environment within which the cross-border flow of migrants is facilitated, even in the absence of formal integration schemes.

Most FDI outflows originate from and are directed to developed countries. Five home countries (France, Germany, Japan, the United Kingdom and the United States) account for 67 per cent of total outflows (table 2), estimated at $180 billion in 1991 (UN, TCMD, 1993a). About 50-55 per cent of worldwide outflows from those countries during the second half of the 1980s were in the services sector. In recent years, developing countries have received, on average, less than 20 per cent of worldwide FDI inflows. In fact, the share of average annual investment inflows in developing countries fell from 26 to 17 per cent between the periods 1981-1985 and 1986-1990. (The proportion rose to 25 per cent in 1991, however, as a result of increasing flows to developing countries and decreasing flows to developed countries.) As loans from private sources to capital-importing developing countries declined during the 1980s, FDI has become the principal source of foreign savings from private sources for those countries, accounting for about 75 per cent of total long-term capital flows from private sources.

Foreign direct investment, growth and migration

As mentioned earlier, substantial economic differentials among countries play an important role in creating the potential for international migration. The persistence of income differentials between developing and developed countries highlights the fact that economic growth in developing countries during recent decades, with a few striking exceptions, has been relatively low. In part because economic growth has not kept pace with rapid population growth, the income gaps between many developing countries and the developed economies have persisted and, in absolute terms, widened. The average annual per capita income of countries classified as low-income economies by the World Bank increased in real terms (1987 dollars) from $180 in 1970 to $350 in 1990, while in the high-income economies, including developed countries and oil-exporting countries, it increased from $11,150 to $17,150 (The World Bank, 1992, table 2). It has been estimated for a group of major potential migrant-sending countries of Eastern Europe and North Africa that GNP rates of growth of 6 per cent to 8 per cent would be required to equalize their per capita GNP to that of France in 50 years (Tapinos, 1991, p. 6). There is a widespread recognition therefore that, unless appropriate policies are pursued at national and international levels for promoting the growth of developing countries, the existing income differentials causing migration are unlikely to narrow (Appleyard, 1991, p. 14). To put it differently, unless rapid growth is set in motion in the developing countries, as well as the countries of Central and Eastern

Table 2. Outflows of foreign direct investment from the five major home countries, 1987-1992

Country	1987	1988	1989	1990	1991	1992[a]	1981-1985	1986-1990	1991	1981-1985	1986-1990	1991
	(Billions of dollars)						Share in world total (Percentage)			Growth rate (Percentage)		
France	9	14	19	35	24	17[b]	6	10	13	-17	45	-31
Germany	9	13	18	28	21	16[c]	9	9	12	13	27	-24
Japan[d]	20	34	44	48	31	16[e]	11	19	17	8	32	-36
United Kingdom	31	37	36	18	18	16[c]	19	17	10	-2	2	2
United States[f]	26	14	26	29	29	50[c]	23	13	16	-5	16	-0.4
Total[g]	95	112	143	158	123	115	68	68	67	.01	23	-22

Source: United Nations, Transnational Corporations and Management Division, 1993a.

[a] Based on preliminary estimates.

[b] Estimated based on outflows in the first two quarters of 1992.

[c] Estimated based on outflows in the first three quarters of 1992.

[d] Data for Japan do not include reinvested earnings.

[e] Estimated based on outflows in the first quarter of 1992.

[f] Excluding outflows to the finance (except banking), insurance and real estate industries of the Netherlands Antilles. Also excludes currency-translation adjustments.

[g] Totals may not add up due to rounding.

Europe, economic pressures for movements of people to developed countries, driven by hardship or by relatively greater opportunity abroad than in their own countries, are likely to increase.

It is in this context that the role of FDI in promoting growth becomes relevant. The potential of FDI to contribute to growth is being increasingly recognized, reflecting, on the one hand, an awareness of the limitations with respect to the flows of private lending and official development assistance and, on the other, the favourable experience of countries, such as some of the economies of East and South-East Asia, which have achieved high rates of growth with a substantial involvement of TNCs and associated resources.

Economic growth is a complex process involving the interrelationship between a number of factors, many economic, others political and social. Classical political economy emphasized the importance of expanding the quantity of the basic factors of production: capital, land (including natural resources) and labour, as well as the importance of the role of expanding markets to improve efficiency. More recently, research has shown the important contribution of technical change to economic growth, over and above the contribution from expanding quantities of productive factors, and the role that can be played by elements such as improvements in the organization of production and exchange (Solow, 1957; Denison, 1985). Even more recently, economists have emphasized the role of qualitative improvements in the labour force of an economy, improvements that come about from better health, increased education and greater access to training. Investment in human resource development has become an important component of growth and development strategies for both developed and developing economies.

Thus, economic growth can occur in a variety of ways and be driven by different features of an economy. Growth may be stimulated by investment that augments and improves the productivity of national physical resources. It can be driven by innovation and technological change, which not only improve the productivity of existing activities, but also create competitive advantages in new ones. The development of labour skills, or investment in human resources, has grown in importance as a source of economic growth. International trade can promote growth by allowing countries to exploit their existing comparative advantages and develop new ones, encouraging a faster and more efficient utilization of domestic resources and enabling countries to reap the benefits of economies of specialization and participation in the international division of labour.

Transnational corporations can contribute to each of these sources of growth:[2]

- Transnational corporations are a major channel for transferring *capital* across borders. Foreign direct investment that adds to the physical capital stock of a host country directly affects host-country growth. Even in those developing countries where FDI constitutes a small share of gross domestic capital formation, it is usually a larger share in key industries, such as advanced-technology manufacturing industries. In the Republic of Korea, for example, FDI inflows during 1986-1989 accounted for 1.6 per cent of gross domestic capital formation, but foreign affiliates contributed about one half of new capital in the electrical-machinery and transportation-equipment industries during 1984-1986 (UN, TCMD, 1992, p. 118). Furthermore, TNCs can stimulate local production through linkages with the domestic economy, especially in those developing countries where local businesses have developed sufficiently to serve the needs of these firms. For example, in 1988, local procurement by Japanese affiliates in Latin America and Asia was 30 per cent and 44 per cent, respectively; in manufacturing, the corresponding figures were 52 per cent and 47 per cent.

- The presence of TNCs that invest in host economies may be more critical for the development of those economies than the direct contribution of FDI to capital formation indicates, since these firms create several channels through which economic impulses can be transmitted. One of these channels is the development of *technology*. The transfer of technology from TNCs to developing countries is an important channel through which technology can be acquired by these countries. For many developing countries, in fact, FDI may be the only way of gaining access to the latest technology or to key technologies. Foreign direct investment can foster technological change in developing countries through its contribution to higher factor productivity, changes in product and export composition and the introduction of organizational innovation. Other indirect means of transferring technology to developing countries include the provision of technical assistance to local firms to which foreign affiliates have

[2] For a detailed analysis of the impact of TNCs on economic growth of developing countries, see United Nations, Transnational Corporations and Management Division, 1992.

subcontracted the supply of parts, leading to the upgrading of the technological level of supplier industries.

- Transnational corporations can also contribute to growth in host developing countries through their effect on the *quality of human resources*, especially with respect to the improvement of management capabilities. Improving managerial capabilities can take place through formal as well as informal learning. The latter consists of on-the-job training through short courses or assignments to the parent company, career development provided by TNCs, as well as the informal transmission of values, attitudes and beliefs embedded in the organizational culture of these corporations that foster entrepreneurship and enhance productivity.

- Transnational corporations also affect growth in developing countries through their effects on international *trade*. Transnational corporations play an important role in international trade (for the United States, for example, 80 per cent of the combined exports and imports in 1989 was undertaken by TNCs). A significant portion of international trade — perhaps as much as 30-40 per cent — consists of intra-firm transactions. Given their importance in international trade (for example, exports of foreign affiliates accounted for 30 per cent of total exports of the Republic of Korea and manufacturing exports of foreign affiliates accounted for 44 per cent of total manufacturing exports of Brazil), TNCs can have a significant impact on the growth of developing countries through the improvement of export performance and by inducing a structural shift in exports of developing countries towards technologically advanced products, such as electrical machinery and transport equipment.

Transnational corporations are likely to have a stronger impact upon growth through some of the channels outlined above — and their components — than through others; in some instances, the importance of TNCs may be small. More than the direct contribution of TNCs to the growth of host developing countries through each channel, it is the synergistic nature and interaction between these channels, as well as the development of linkages with the domestic economy, that strengthens their overall contribution to growth. From that perspective, the actual size of investment capital brought to a host country is only a small part of the total package of assets that TNCs bring to a host country.[3] The actual impact of TNCs on the host-country economy, however, depends on a number of factors, including the stage of development of the country, which determines how effectively countries are able to attract FDI flows and absorb the opportunities offered by these corporations. It also depends on the effectiveness of host-country policies in avoiding or minimizing costs that arise on account of business practices of TNCs and on host-country capabilities available for negotiating with TNCs. Finally, it must also be recognized that, unless growth leads to a reduction in poverty and hardship, the indirect effect of FDI on growth will have little impact on migratory pressures.

To conclude, FDI brings capital, technology, skills and expertise to host countries and, in this manner, contributes to increasing the productivity and the rate of growth of the host economies; it also contributes indirectly through trade linkages to world markets and backward and forward linkages to domestic firms. There is considerable evidence to show that these impacts can be significant, although the extent of such contributions depends principally upon the economic conditions and policies of the FDI-receiving host country on the one hand and the strategies of TNCs on the other. The relationship between FDI and migration is, therefore, indirect and complex, since it depends upon the impact of FDI on economic development and economic opportunity and upon the responsiveness of potential migrants to increased incomes and opportunities. Foreign direct investment is likely to act as an important complement to domestic investment for stimulating growth in the long run, thereby reducing the necessity for emigration from the host country due to poverty or lack of economic prospects.

Effects on migration are, however, likely to emerge only in the long run. The immediate impact of growth may well be to increase the supply of outward migrants, in particular by raising the ability to meet the costs of migration. Moreover, FDI may also establish linkages between industrialized and developing countries that subsequently serve as bridges for international migration. It has been observed, for example, that, paradoxically, FDI

[3] It has been noted that, for a number of countries in Asia, the amount of FDI that would be needed to compensate for the loss of migrants' remittances received by these countries, based on present levels of investment, would have to be significantly higher — 25 times the current amount of investment flows in the case of the Philippines, for instance (UNDP, 1992, p. 59). Such estimates ignore precisely the fact that TNCs bring to the host country an integrated package of tangible and intangible assets. The multiplier effect of the investment capital on the domestic economy and the positive externalities that are associated with TNCs can generate income streams and benefit the host country beyond what the actual amount of investment suggests.

and the promotion of export-oriented growth in developing countries and the central role played by the United States in this process seem to have had the effect of encouraging immigration to the United States from the countries involved (Sassen, 1989, p. 814). The inflow of migrant workers from Asian developing countries into Japan for the first time in that country's history, in the 1980s, has also been attributed, at least partly, to the linkages created by the growing presence of Japanese TNCs in the migrants' home countries (Sassen, 1993, p. 16).

Although it is quite possible that the creation of new economic linkages between countries through FDI adds to the complex set of factors influencing positively the supply of migrants from developing to developed countries, it is likely that both the factors mentioned above operate primarily in the short run. In the long run, sustained development works to stem migration by raising incomes as well as generating the expectation of improved economic prospects in the future, eventually turning migrant-sending countries into net immigration ones. The size and composition of migratory flows can be expected to vary with the rate, stage and nature of economic development of a country, as is evident from the experience of developed countries as well as newly industrializing economies.[4]

Foreign direct investment, employment and migration

As discussed in the preceding section, the contribution of FDI to economic growth — and, with it, its impact on migration — is not immediate. But the employment opportunities arising from FDI are immediate. Furthermore, the opening of possibilities for upward mobility and career advancement within foreign affiliates can also act as an incentive for potential emigrants seeking better opportunities to remain at home. Thus, by stimulating economic growth, FDI widens the range of economic opportunities and thereby reduces the incentive for migrants to leave their countries. Moreover, the very engagement of TNCs in a country, especially on a large scale, their contributions to domestic growth and the improvements in future growth prospects that this signals, strengthens the perception that new opportunities are emerging at home, thus further discouraging the outflow of opportunity-seeking migrants.

[4] For a discussion of the evolution of migratory flows in relation to the development process, see Appleyard, 1989, chapter I. See also United States Commission, 1990.

Employment

The creation of employment opportunities is one of the consequences of the package of tangible and intangible assets that TNCs bring into a host country. More importantly, the establishment of foreign affiliates in a host country has a direct and immediate impact on the employment situation of that country, reducing at least one of the economic incentives for outward migration.

By one estimate, worldwide employment by TNCs in parent firms and foreign affiliates stood at about 6.5 million at the end of the 1980s (International Labour Office, 1992, p. 49). In terms of magnitudes, however, direct employment created by TNCs in host developing countries is relatively small, estimated at about 7 million in the mid-1980s (less than 1 per cent of the economically active population of these countries); indirect employment is estimated to be two to three times that figure (UN, TCMD, 1992, p. 183). Moreover, overall employment by foreign affiliates of TNCs from major home countries was fairly stagnant during the 1980s, increasing by about 6 per cent annually between 1981 and 1989 for Japan, 5 per cent between 1984 and 1990 for Germany and remaining unchanged for the United States (table 3). A similar trend can be observed for employment by manufacturing foreign affiliates of these countries, which also grew slowly or remained stagnant. This is supported further by evidence from some developing countries, which shows that employment by foreign affiliates has been declining. Labour-replacing technological advances and the increase in capital intensity of some investments partly account for that decrease.

In the light of the above, then, the creation of employment by foreign affiliates can, *overall*, play only a limited role in counteracting migration. Still, in those host countries in which there is unemployment (or underemployment), the creation of employment by foreign affiliates may ease immediately at least some of the push for outward migration in search of jobs. On the other hand, for host countries facing tighter labour-market conditions, the creation of new jobs by foreign affiliates could initially raise wages and improve job opportunities, thus acting as an incentive for potential migrants not to seek better opportunities of work and living elsewhere; in fact, these countries could become attractive for immigrants from elsewhere.

Table 3. Employment by foreign affiliates of transnational corporations from Germany, Japan and the United States
(Thousands)

Country	Total[a]	Manufacturing	Services	Developed countries	Developing countries
Germany					
1984	1 697.0	1 237.0	445.0	1 206.0	445.0
1985	1 789.0	1 312.0	461.0	1 262.0	483.0
1986	1 788.0	1 276.0	496.0	1 241.0	506.0
1987	1 881.0	1 336.0	528.0	1 326.0	517.0
1988	1 974.0	1 395.0	563.0	1 414.0	525.0
1989	2 172.0	1 518.0	636.0	1 562.0	567.0
1990	2 328.0	1 638.0	674.0	1 700.0	570.0
Japan[b]					
1981	738.5	626.3	83.6	160.2[c]	578.4
1985	709.5	558.1	124.1	200.5[c]	509.0
1987	961.8	753.6	171.6	349.4[c]	612.4
1989	1 156.6	922.3	205.9	539.0[c]	617.6
United States[d]					
1977	7 196.7	..	..	..	..
1982	6 640.2	4 432.9[e]	1 972.5[e]	4 536.1[e]	2 236.2[ef]
1983	6 383.1	..	..	..	..
1984	6 417.5	..	..	..	..
1985	6 419.3	..	..	..	..
1986	6 250.2	..	..	..	..
1987	6 269.6	..	..	..	..
1988	6 403.5	..	..	..	..
1989	6 622.1	4 196.8[e]	2 271.5[e]	4166.6[e]	2 586.9[ef]
1990	6 706.3	..	..	..	..

Sources: United States Department of Commerce, 1985 and 1992; Mataloni, 1992; Germany, Deutsche Bundesbank, 1992; Japan, Ministry of International Trade and Industry, various issues.

[a] Total includes sectors and regions other than those shown separately.

[b] Ending in March of that year. Data are based on surveys of affiliates and cover a different universe of affiliates in each year.

[c] Includes Oceania.

[d] All affiliates of non-bank United States parent firms.

[e] All affiliates of all United States parent firms.

[f] Includes employment in international affiliates, that is, those that have operations in more than one country and are engaged in petroleum shipping, other water transportation, or operating movable oil and gas drilling equipment.

In those economies (for example, Malaysia, Hong Kong, Singapore) in which FDI has been particularly important to the domestic economy, the employment impact of TNCs has been considerable. For example, the share of employment by majority-owned foreign affiliates in the manufacturing sector of Singapore in total employment was 60 per cent in 1988 (UNCTC, 1992a; ILO and UNCTC, 1988, chapter 3). In addition, TNCs are the primary source of employment in export-processing zones. It was estimated that, by the end of the 1980s, more than 200 export-processing zones were in operation in developing countries, employing over 1.5 million workers, with another 150 under construction or in the planning stage; the number of employees in export-processing zones of developing countries is anticipated to reach 2.5 to 3 million by the mid-1990s (UNCTC, 1990a, chapter 1). (It should be noted, however, that most export-processing zones never live up to the expectations with which they were created, and that many have failed.) Export-oriented manufacturing assembly operations in Mexico, the Caribbean Basin and Mauritius, established mainly by TNCs from the United States, have been a dynamic source of employment opportunities in these countries. As a result, foreign affiliates in export-processing zones of developing countries may account for a substantial share of total employment by all foreign affiliates in a given country, as well as of total employment. For example, employment by *maquiladoras* in Mexico was estimated to be about 470,000 in 1991, which was about half of all employment by foreign affiliates in Mexico and about 16 per cent of Mexican manufacturing employment (Martin, 1992, p. 4, and UN, TCMD, 1993b). Similarly, in 1986, assembly operations accounted for about 62 per cent of total manufacturing employment in Barbados, 35 per cent in Haiti, 25 per cent in the Dominican Republic and 11 per cent in Mexico (Schoepfle and Perez-Lopez, 1991). In addition, jobs were created through backward linkages with supplier industries. Most affiliates in export-processing zones engage in low-skill labour-intensive manufacturing production (mostly assembling, light manufacturing and data processing), and pay low wages. Still, by providing employment, affiliates in export-processing zones can relieve some of the pressure for outward migration. But the fact that the foreign affiliates in such zones usually employ workers with low levels of skill (mostly women) may not keep relatively skilled workers from seeking better employment opportunities elsewhere.

The success of export-oriented investments in labour-abundant economies in generating employment and stemming migration depends significantly on the prospects for trade. Mexico is an example. Taking advantage of low labour costs and proximity to the North American market, employment by the Mexican affiliates of General Motors, Ford and Chrysler grew from 22,000 in 1980 to 80,000 in 1988, while employment in the automobile industry in the United States fell by 150,000 between 1978 and 1989 (Koechlin and Larudee, 1992, p. 20). The conclusion of the North American Free Trade Agreement (NAFTA) in 1992, and the free trade access which the treaty (when ratified) provides producers in Mexico to the United States and Canada, is likely to play an important role in further stimulating the flow of FDI to Mexico. By one estimate, the increase in employment between 1992 and 2000 in Mexico as a result of United States FDI directed into Mexico is expected to be between 400,000 and 680,000 (Koechlin and Larudee, 1992, p. 24). Considering the influx of FDI from other countries into Mexico, as well as the dynamic growth effects of NAFTA on the domestic economy, employment creation by inward FDI would actually be much higher. It would include, among other things, employment created for skilled workers in the domestic services sector resulting from an increase in demand for professional services (accounting, advertising, legal services etc.) by newly established foreign affiliates and domestic firms subject to increased international competition.[5] More generally, according to an estimate by Sherman Robinson *et al.* (cited in Hufbauer and Schott, 1993, pp. 19-20), a 1 per cent increase in the Mexican capital stock can reduce the level of permanent migration to the United States by about 44,000 workers. Thus, an increase in FDI in Mexico of $31 billion between 1992 and 2000 ($3.5 billion each year) (Koechlin and Larudee, 1992, p. 23) as a result of NAFTA could raise the stock of domestic capital, estimated to be about $500 billion, by 6 per cent and create employment opportunities leading to a reduction in permanent emigration to the United States of about 260,000 workers (Hufbauer and Schott, 1993, p. 20).[6]

In some developing countries, furthermore, the role of FDI — and hence its job-creating potential — may be particularly important in certain key industries. For example, in the Republic of Korea, FDI has been particu-

[5] On the other hand, NAFTA is expected to result in a rise of unemployment in agriculture (ranging between 800,000 and 2,000,000) as a result of the removal of trade barriers and subsidies to corn producers, which would be too large to be absorbed by the *direct* job creation through FDI (Koechlin and Larudee, 1992, p. 21).

[6] The annual average inflow of FDI to Mexico during 1987-1991 was $3.3 billion. In 1991, FDI flows to Mexico were $4.8 billion (UN, TCMD, 1993). Although an inflow of FDI of that magnitude may be partly in anticipation of NAFTA, whose impact on FDI could subside after some time, it is not unreasonable to believe that FDI inflows in excess of $3 billion can take place.

larly significant in electrical machinery and transportation equipment in terms of its contribution to capital formation. In Thailand, assets of foreign affiliates account for over 85 per cent of total assets in mechanical and electrical equipment. In the Philippines, assets of foreign affiliates accounted for over 40 per cent of assets in chemicals and electrical equipment. Employment in these industries may be particularly rewarding, as these industries are central to economic development and have a strong future-orientation.

Important in this context is also that wages offered by foreign affiliates in host developing countries are often higher than wages offered by domestic firms. To the extent that that is the case, there will be less incentive to migrate because of wage differentials, although, in the case of structural unemployment, the flow of migrants in search of employment may still occur. On average, the annual nominal wage offered by majority-owned non-bank affiliates of non-bank United States parent firms in developing countries increased by almost 50 per cent between 1982 and 1989, to $12,500 (United States, Department of Commerce, 1985 and 1992). There is evidence indicating that compensation payments offered by foreign affiliates in services in developing countries are higher than those offered by domestic services companies in those countries. To illustrate, in the case of Kenya, the average wages paid by foreign service affiliates exceed those paid by domestic service companies by 75 per cent (UNCTC, 1989, pp. 16-17). Moreover, wages offered by foreign affiliates in the services sector in developing countries are similar to the prevailing wage in developed countries, since the same technology is used, and the same skills are required, in both groups of countries (UNCTC, 1989, pp. 16-17). Concerning wages in export-processing zones, it was found that wages for workers in such zones in Sri Lanka were considerably higher than wages of similar workers in the rural areas or the informal sector (ILO, 1986, p. 68). In the Caribbean, wages in export-processing zones are generally higher than average wages in industry outside these zones (Long, 1986, p. 29). Higher wages offered by foreign affiliates may therefore encourage those migrants seeking better employment opportunities to remain in their country of origin — although, as pointed out earlier, the total number of jobs in foreign affiliates is limited.

Finally, where labour markets are already tight, substantial inward FDI can further increase pressures on the domestic supply of labour, creating upward pressures on wages and strengthening incentives for workers to upgrade their skills and increase their productivity. Several newly industrialized economies in Asia fall into this category. In fact, partly as a result of their labour shortages, some of them have become substantial outward investors (UNCTC, 1991). To alleviate their labour shortages, inward migration of skilled labour seeking better work opportunities has sometimes been encouraged by these countries. Thus, about 25,000 of the 150,000 foreign workers in Singapore in 1990 were skilled or professional workers, and the Government of Singapore has a clear policy to encourage such settlers (Lim, 1991, pp. 25 and 49). The Governments of Thailand and Malaysia, as well as of other newly industrialized countries, in fact, financially assist inward migration. Increased numbers of migrants were required to complement capital flows in these countries and to oversee the operations of TNCs; indeed, the ethnic composition of migrants has changed, reflecting the composition of foreign investment (Appleyard, 1991, p. 40).

In sum, with the exception of those countries in which FDI is important in relation to the size of the domestic economy and, to a certain extent, export-processing zones in which foreign affiliates are a significant source of employment, the scope of TNCs to generate employment is fairly narrow if compared to the economically active population. The creation of employment in host developing countries by TNCs can, therefore, contribute only to a limited extent to a reduction of outward-migratory pressures. Furthermore, in countries with tight labour markets, the entry of TNCs may induce inward migration.

Upward mobility

Prospects for upward mobility within foreign affiliates are a potentially important impact of FDI — not necessarily in terms of the number of top managerial positions that are available, but in terms of the hope and expectation to achieve status through merit-based advancement in firms that are often regarded as more stable and promising than domestic ones. The prospect, expectation and reality of upward mobility within foreign affiliates may diminish the incentive for those seeking improved economic opportunities to leave, by offering greater scope for career advancement at home. This is further enhanced by the availability of training, which improves the prospects for professional advancement in foreign affiliates in comparison to domestic companies. It should be noted, however, that the scope for such advancement depends on the type of activities in which these affiliates are involved.

Foreign affiliates can positively affect managerial capabilities in host developing countries: directly through non-formal training and indirectly through the transfer of values conducive to enhancing entrepreneurial and managerial capabilities. Foreign affiliates usually undertake vocational training of locally hired employees to provide them with the skills necessary for the functioning of the affiliates. The training of unskilled and semi-skilled workers accounts for a substantial part of all training efforts by foreign affiliates in terms of the number of workers trained. However, their greatest contribution lies in the development of management capabilities in host developing countries. A few large foreign affiliates have established their own training programmes for high- and medium-level managerial staff and key technical personnel. In terms of the share of training expenditure of TNCs, the training of skilled labour accounts for a large share. Transnational service corporations in particular invest heavily in training, since much of services technology is embodied in human beings. In general, foreign affiliates spend at least as much as domestic firms for the training of skilled workers. In the case of Turkey, for example, expenditures of foreign affiliates for executive training of host-country nationals, as a share of payroll, exceeded those for executive training in domestic firms by a factor of two (Erden, 1988). The availability of training schemes as well as informal training of employees by foreign affiliates (often in industries that are central to economic development) and the possibility of merit-based promotion can create perspectives for local employees that counteract pull factors from elsewhere.

Those counteracting forces are further strengthened by the fact that the overwhelming majority of employees in foreign affiliates — including a substantial share of employees at the management level — is locally recruited (and, as mentioned in the preceding paragraph, locally trained). In other words, prospects for career development in foreign affiliates are favourable: workers can advance within foreign affiliates by assuming greater responsibilities and, eventually, even reach the highest managerial levels. Data on the number of expatriates working in foreign affiliates bear this out. For example, evidence from Japanese and United States TNCs shows that the number of expatriate workers in foreign affiliates is, indeed, small: the combined number of expatriates for these two countries was less than 57,000 in 1989 or about 1 per cent of employment in foreign affiliates. In the case

Table 4. Expatriate employment in foreign affiliates of United States and Japanese transnational corporations

(Number of and percentage share of home country citizens in total employment)

Item	United States[a]		Japan	
	1982	1989	1981	1989
Number of expatriates	41,200	19,700	15,181	36,800
Sector (Percentage share)				
All industries	0.8	0.4	2.0	3.0
Mining	5.3[b]	2.6[b]	1.2	2.5
Manufacturing	1.9	0.2	1.0	1.7
Services	1.3	0.5	..	..

Source: United Nations, TCMD, 1992, p. 178; United States, Department of Commerce, 1985 and 1992; Japan, Ministry of International Trade and Industry.

[a] Data are for majority-owned non-bank affiliates of non-bank United States parent firms.

[b] Petroleum.

of United States TNCs, there has even been a marked decline in their share of employment in foreign affiliates (table 4). Thus, the great majority of employees of foreign affiliates are, indeed, hired locally.[7]

It should furthermore be noted that career possibilities are not necessarily limited to advancement within foreign affiliates. Since these affiliates are part of larger transnational corporate systems, career development increasingly can also include assignments elsewhere, including, of course, in developed countries. The emergence of an integrated international production

[7] While host-country nationals account for the majority of employees in foreign affiliates, at the senior level, expatriates typically do account for a higher percentage. There may also be differences in the use of expatriates in senior management positions among United States, European and Japanese affiliates in developing countries, with Japanese ones relying more heavily on home-country nationals (Kobrin, 1989; Scullion, 1991; and Zeira and Banai, 1985). To a certain extent, however, this may reflect the newness of the bulk of Japanese FDI. It can be expected that, as the stock of FDI matures, an increasing number of management positions in Japanese foreign affiliates will be taken over by nationals of the host country, as has been the case in foreign affiliates of United States and European TNCs, if only because expatriates typically are very expensive for their parent firms.

system and the greater specialization and cooperation that this implies within the framework of corporate networks spanning several countries further increases the possibilities of career development beyond national borders, especially for professional, technical and kindred personnel.

Looked at from a different perspective, TNCs and their affiliates constitute a mechanism through which FDI internalizes the migration of skilled personnel at both the professional and upper-echelon managerial levels within their international production systems. This is facilitated, moreover, by the fact that official impediments to migration (the transaction costs of migration) are likely to be much smaller for TNC-sponsored transfers of personnel for well defined positions than for independent migration efforts (Dunning and Gray, 1991). Foreign-direct-investment flows may therefore instigate the movement of managerial and technical staff from one country to another. This is particularly likely in the case of service industries. Furthermore, expatriate personnel need not necessarily come from the country of the parent company; there is some indication that trained managerial personnel from third countries are attracted. For example, expatriates from other countries in Asia (particularly, India and the Philippines) are finding employment as middle-level managers and accountants in foreign affiliates in Indonesia, which has a shortage of such personnel.[8] It is also conceivable — as mentioned above — that some of the locally hired staff may be transferred abroad, including to the country of origin of the investment. Overall, however, the figures involving this type of outward migration are relatively small. What is more important is probably that the possibility of upward mobility of this kind can have an important psychological effect which becomes an input in the decision-making processes of potential migrants when deciding whether or not they need to move elsewhere in their search for advancement.

Foreign direct investment and migration: an assessment

Transnational corporations deliver a package of assets to host economies and link together various elements that determine growth. The overall impact of these various elements is likely to be greater than the sum of their individual effects. Indirect effects through interactive synergies on unrelated domestic firms in the host economy must also be taken into account. This positive contribution of TNCs to the growth of developing economies can be expected to have some impact in the long term in reduc-

[8] "MNCs in Indonesia look to Asian expats to fill management posts", *Business Asia*, 11 May 1992, p. 159.

ing the push for outward migration created by poverty and economic hardship.

Foreign direct investment can also reduce directly the immediate desire for emigration by providing employment to those seeking employment or improved economic opportunity. Although the contribution of foreign affiliates to overall employment is small, it is not negligible, and it is particularly significant in economies in which FDI accounts for a fairly high share of total investment, as well as in export-processing zones and other export-oriented activities; moreover, employment is often concentrated in key, future-oriented industries. Partly as a result, employees in foreign affiliates often also enjoy higher incomes than their counterparts in domestic firms. Furthermore, affiliates of TNCs also provide opportunities for local managerial, professional and technical personnel for professional development and advancement through training programmes and advancement within the foreign affiliate — and, in fact, even outside the affiliate. The creation of these opportunities is likely to have some impact in terms of reducing outward migration, particularly if one takes into account the improved perspective that growth itself, and the presence of TNCs, is likely to provide.

It must be recognized, however, that the impact of FDI may be greater for middle- and high-income developing countries than for low-income countries. This is not only because low-income countries receive very little FDI, but also because the key requirements for growth in those countries, such as increasing agricultural productivity, improving basic infrastructures and increasing educational and nutritional standards, are generally not areas of TNC participation.

Thus, a threshold level of domestic development may be required to benefit most from the potential for growth that FDI provides. On the other hand, some low-income countries are able to attract FDI on the basis of large domestic markets because of large populations, or natural resource endowments. Moreover, FDI by TNCs, whatever its size, releases other resources, both domestic and foreign, for investments in the important areas mentioned earlier. It thus serves to supplement, in low-income countries, domestic investment and development assistance in reducing the pressure to migrate. In the middle- and higher-income countries, the growth- and opportunity-producing impact of FDI and, hence, the impact on migration, are likely to be much greater.

Policy issues

The previous sections emphasized the contributions that FDI can make to reducing the economic pressure to migrate, by promoting the long-term development prospects of migrant-producing countries as well as through the immediate creation of employment opportunities and improvements of employment conditions and job-upgrading possibilities. The share of many developing countries, as well as Central and Eastern European countries, with a migration potential in FDI world-wide is, however, low (table 5). It is important, therefore, to increase the share of these countries in FDI flows. It is also important to create conditions and incentives conducive to maximizing the contributions of TNCs to growth through technological development, human resource development and trade in the host countries, both directly and through linkages with domestic enterprises, and to promote employment generation and the availability of higher-level jobs available to host-country nationals. Since the objectives of TNCs are not necessarily identical with those of host countries and, moreover, the objectives of home and host countries of TNCs may also differ, the challenge is to structure policies in such a way that TNCs, in pursuing their corporate strategies, contribute the maximum in the above respects to host developing countries.

This is not an easy challenge to respond to, since, to date, FDI policies have not been used as a tool of migration management—in other words, the migration effects of FDI have not been taken into account either by host countries, home countries or the international community when formulating policies towards FDI. This is not surprising, since many of the links between FDI and migration are indirect, and since the factors influencing migration are complex and involve a wide array of both domestic and foreign economic policies. Nevertheless, coordinated policies by host countries, home countries and the international community directed towards increasing investment flows as well as towards strengthening their contributions to development on a sustained basis would serve to alleviate outward migration by improving economic conditions and prospects for the future, as well as by creating employment opportunities. Furthermore, policies directed specifically towards enhancing the contribution of FDI to employment generation and the creation of higher-level job opportunities would contribute directly to reducing the pull of more plentiful and better employment abroad. It needs to be emphasized, however, that the issue is not migration per se but rather the broadening of choices facing potential migrants.

Policies for strengthening the contribution of foreign direct investment to growth

Policies to stimulate FDI for growth that would assist in reducing outward migration must focus on increasing FDI flows and enhancing its contribution to growth through the various channels discussed earlier. Studies on the determinants of FDI suggest that economic conditions in host countries — including, especially, the size and growth of domestic markets and a minimum level of human and physical infrastructure — are important factors.[9] Many poor countries lack these attributes. However, many of them do have specific locational advantages, such as particular natural resources endowments or an abundance of low-cost labour. Given the general economic conditions and specific locational conditions, however, the existence of a congenial investment environment is essential for TNCs to invest. Potential host countries, therefore, need to strengthen their efforts to improve the climate for FDI by reviewing their FDI policy regimes relating to such issues as the exclusion of sectors or industries from FDI, restrictions on local borrowing, the purchasing of shares in local markets and the repatriation of earnings by TNCs. While strategic interventions in the area of FDI — usually implemented through investment incentives and performance requirements and/or restrictions on FDI, with a view to increasing long-term benefits or ensuring local control — may have a role to play, such interventions should be highly selective and based on a careful assessment of cost and benefits. Maintaining a credible and stable policy environment, once it is put in place, is also important. Administrative structures and practices must be aligned with policies, so that disparities between practice and policy do not deter prospective investors. Host countries also need to pay attention to the efficiency of their public administrations in dealing with matters relating to FDI.

Host country policies can influence the contribution of FDI to growth not only through their direct addition to investment capital, but also through the various other channels, discussed earlier, by which growth is enhanced. In many instances, this requires policies to reinforce and strengthen the capabilities of host country institutions and coordinate investment policies with macroeconomic and trade policies. Some of the measures necessary include the following:

- Measures to support and encourage local entrepreneurship, including the removal of administrative restrictions on the formation of new

[9] For a review of these studies, see UNCTC, 1992b.

Table 5. Foreign direct investment in selected migrant-sending countries

Country	Average annual FDI inflows, 1986-1990 (Million dollars)	Ratio of FDI inflows to GDCF, 1986-1990 (Percentage)	Employment in foreign affiliates (Thousands)	Number of emigrants[a] (Thousands)
Africa				
Algeria	9.2	(0.04)	..	..
Benin	..	..	..	..
Botswana	60.9	(25.7)	35.0 (1989)	..
Burkina Faso	1.5	..	..	..
Egypt	1 067.8	(8.1)	..	..
Ethiopia	2.1	..	..	..
Malawi	0.02	..	..	..
Mali	3.8	..	..	..
Morocco	95.6	(1.4)	..	23.8[e]
Somalia	..	..	..	..
Sudan	0.7	(0.2)	..	..
Tunisia	74.0	(3.7)	..	..
Asia				
Bangladesh	2.2	(0.1)	..	..
India	160.5	(0.2)	..	..
Rep. of Korea	676.0	(1.6)	315.0 (1978)	415.8[c]
Pakistan	174.8	(2.0)	..	..
Philippines	492.6	(8.5)	156.0 (1988)	438.2[d]
Central and Eastern Europe				
Albania	..	..	..	..
Bulgaria	..	..	..	..
Czechoslovakia	..	..	..	29.7[l]
Hungary	..	..	..	1 690.4[k]
Poland	28.6	(0.01)	85.3 (1990)	278.8[j]
Former USSR	..	..	103.7 (1990)[m]	..
Europe				
Turkey	388.2	..	..	..
Yugoslavia	15.7	..	..	..

(Table 5. cont'd)

Country	Average annual FDI inflows, 1986-1990 (Million dollars)	Ratio of FDI inflows to GDCF, 1986-1990 (Percentage)	Employment in foreign affiliates (Thousands)	Number of emigrants[a] (Thousands)
Latin America and the Caribbean				
Bolivia	8.2	(0.0)	..	..
Colombia	454.6	(0.3)	..	69.1[f]
Ecuador	77.4	(0.05)	..	2 901.7[g]
El Salvador	14.8	(0.0)	..	2 709.8[h]
Haiti	7.4	(0.0)	..	..
Jamaica	46.4	(0.03)	87.0 (1988)	..
Mexico	2 606.4	(1.7)	940.5 (1987)	782.9[i]
Western Asia				
Jordan	24.5	(2.4)	..	..
Syrian Arab Republic	67.3	..	..	1 597.6[b]

Source: TCMD, *World Investment Directory*, various volumes; United Nations, 1978, 1986 and 1990.

[a] Cumulative flows of short- and long-term emigrants during 1977-1988 as reported by migrant-sending countries.

[b] Long-term emigration data cover 1977, 1980, 1981; short-term emigration data cover 1980, 1981.

[c] Long-term emigration; data cover 1983-1988.

[d] Long-term emigration; data cover 1970, 1972-1973, 1975-1976, 1983, 1986-1988.

[e] Long-term emigration; data cover only 1970-1973 and 1980.

[f] Long-term emigration; data cover 1980 and 1981.

[g] Long-term and short-term emigration; data cover 1979-1988.

[h] Long-term emigration; data cover only 1979-1982 and 1984.

[i] Long-term emigration data cover 1970-1973, 1976-1985; short-term emigration data cover 1976-1985.

[j] Long-term emigration.

[k] Long-term emigration.

[l] Long-term emigration.

[m] Data are for the Commonwealth of Independent States.

businesses, the establishment of programmes to provide training in business skills and greater scope for TNCs operating in special enterprise zones to purchase locally. Such policies can stimulate local investment through linkages as suppliers to TNCs.

- Policies to create an adequate human-resources base through education and training and appropriate incentives, in order to maximize the contributions of FDI and other forms of TNC participation to the transfer and development of technology and to human resource development.

- Improved coordination between trade and investment policies. An export-oriented trade strategy, for example, is likely to be more effective if it is supplemented by an open policy with respect to FDI, so that the latter may contribute directly to trade. In a competitive environment, trade and FDI policies should be aimed at providing incentives for both domestic and foreign firms to develop new areas of comparative advantage.

- Policies to strengthen the operation of markets and ensure competition, so that domestic consumers, producers and factors of production can benefit from competition and linkages with TNCs. This is particularly important if the efficiency benefits from the entry of FDI are to be achieved.

Home country policies to facilitate FDI by their firms in developing countries with high migratory pressures could also contribute to the growth of those countries and to a reduction of potential migration. Such measures include fiscal and financial incentives, including development finance at the bilateral level, bilateral investment treaties and investment-guarantee schemes (UNCTC, 1990b, pp. 29-35). There are also a number of trade-related measures providing preferential access to developing country exports that are also conducive for encouraging FDI in developing countries. For example, under the Caribbean Basin Initiative, the United States encourages her firms to enter into manufacturing arrangements with Caribbean Basin firms, guaranteeing duty-free access to the products manufactured in the region. Additional policy areas to encourage investment by TNCs in migrant-producing developing countries that deserve the attention of home countries include the removal or relaxation of all forms of restrictions on outward investment; tax exemptions or higher tax concessions; financial assistance for investments; strengthened information and promotion services; and additional or improved preferences and the removal of impediments to exports from the countries concerned.

Regional and multilateral measures to promote FDI in developing countries include financial assistance schemes or funds (such as, for example, the NORSAD Fund between the Nordic countries and the South African

Development Co-ordination Conference member States); multilateral information and promotion services (such as the Centre for the Development of Industry created by the first Lomé Convention between the members of the European Community and the African-Caribbean-Pacific (ACP) States); and multilateral investment arrangements such as the ICSID and MIGA. Regional and multilateral trade arrangements also give preferences to developing country exports, and therefore encourage export-oriented investments. Many of these measures could also be examined with a view to further encouraging FDI in developing countries with significant potential for outward migration.

Finally, it has been proposed that, given the highly uneven distribution of FDI among countries despite bold policy changes in many developing countries to attract FDI, serious consideration should be given to the establishment of a multilateral FDI facility, as a tri-partite venture between host and home countries and TNCs, with a view to providing loans to developing countries to promote development through FDI and alleviating the persistent imbalance in FDI flows (UN, TCMD, 1992, chapter 11). Such a facility could contain a special window for assisting countries in which hardship or severe lack of economic opportunities leads to significant pressures for outward migration.

Policies to promote employment and upward mobility through transnational corporations

Policies to enhance economic growth by encouraging FDI inflows can be expected to contribute to employment-generation in host countries as well, although the extent of employment generation depends upon the nature of the investments. Policies may also, however, focus directly on maximizing the employment impact of FDI by encouraging investment in labour-intensive industries. Such policies include, among others, the establishment of export-processing zones and other export-oriented activities, such as offshore assembly operations. They also include incentives and facilities for the establishment of affiliates in labour-intensive services, such as data processing and tourism. Such policies are likely to impact directly on employment opportunities. However, policy makers should recognize the limitations of labour-intensive investment for promoting long-term growth and attempt to maintain a balance between employment and development objectives in the formulation of policies.

In addition to policies for increasing employment opportunities, countries also need to implement policies to encourage human resource development, professional development and the advancement of local personnel in foreign affiliates. Fiscal and financial incentives to foreign investors could encourage such development. Policies to strengthen the education and skills of local staff through education or training programmes implemented by host countries are relevant to attract FDI in labour-intensive activities, as well as to encourage professional development and advancement. Host countries, as well as home countries, could encourage training abroad by facilitating exit and entry regulations and visas.

Countries ought to consider targeting specific functions of TNCs for attracting jobs suited to their specific labour and skill endowments. In targeting investments for specific activities, special attention should be paid to FDI in services. The growing tradability of information-intensive services because of the increased use of computer-communication links has increased the prospects for foreign production and outsourcing of services involving data processing as well as professional skills. Data entry, transaction processing, data-base creation or updating as well as software and accounting services are examples of activities that are gradually moving to countries with relatively low-cost educated and skilled labour. Policies could be formulated to promote FDI in such activities and exploit the potential of services tradability. To encourage these as well as other investments, it may be necessary for host countries to strengthen the infrastructure that is needed for the location of certain jobs; for example, the establishment of accounting or software affiliates or regional headquarters may require an upgrading of telecommunication facilities.

If finally enacted, the General Agreement on Trade in Services (GATS) could stimulate both FDI and the movement of skilled services personnel, potentially creating job opportunities for workers in service industries as well as facilitating intra-firm mobility of services personnel. The draft final text of GATS (contained in Sauvant and Weber, 1992) imposes a general obligation of most-favoured-nation treatment (or non-discrimination across foreign services or service suppliers) and specific obligations (or obligations applicable only to services included in the schedules of contracting parties, subject to whatever conditions are listed) of market access and national treatment upon all signatories as regards services supplied through four modes of supply, namely, cross-border supply of a service; provision implying movement of the consumer to the location of the supplier; services sold by legal entities that establish a presence in the territory of one party, but originate in the territory of another party; and provision of services requiring the temporary movement of natural persons. Thus, affiliates of TNCs in services as well as service suppliers or persons employed by suppliers who are nationals of a country that is party to the agreement are covered by the obligations, although the extent to which specific modes are covered will depend upon the activities included in a country's list of commitments.

Regional cooperation and integration arrangements could have similar impacts by generating employment and career opportunities for workers and professionals by stimulating investment in export-oriented manufacturing industries, or directly by including investment liberalization in their provisions. At present, the only such arrangement that includes both developed and developing countries, thus holding out the prospects for significant flows of FDI, is the North American Free Trade Agreement (NAFTA). NAFTA also makes allowance for the reciprocal temporary entry of business persons (business visitors, traders and investors, intra-company transferees and professionals), easing some of the restrictions in their cross-border movement. Apart from formal regional cooperation or integration arrangements, the increasing regionalization of the world economy into trade and investment blocks, and the regional core strategies of TNCs associated with such blocks, are factors that must be taken into account in the formulation of policies.

Cooperation between migration-receiving and migration-sending countries

Policies to strengthen the contribution of FDI to migration management through economic growth, employment generation and the creation of enhanced opportunities for professional development could be supported by cooperation between migrant-receiving and migrant-sending countries to monitor trends in FDI, trade and development as they relate to migration. Such cooperation could be implemented through the establishment of informal bilateral committees comprising representatives from the two groups of countries, as well as representatives of TNCs and the private sector and trade unions from each of the countries. These committees could periodically review matters relating to migration, FDI, trade and development, in light of current trends, and propose appropriate measures and actions to sustain FDI flows and their contribution to the development of the migrant-sending countries. Such measures could include not only support for the policies discussed earlier, but also greater coordination between investment and trade policies and regional cooperation on matters relating to FDI, trade, development and migration.

Conclusion

Foreign direct investment by TNCs has a role to play in reducing economically motivated emigration pressures. But two caveats have to be made. One, the effect of FDI is (a) long-term and indirect; (b) small as regards the creation of employment in the short term; and (c) partly based on the expectations generated regarding the future. Second, FDI needs to be seen in the broader context of development. Furthermore, it should be kept in mind that migration *per se* is not an undesirable phenomenon but rather has an important part to play in increasing global economic efficiency.

The principal manner in which FDI helps to reduce emigration is by contributing to growth, assuming that growth is translated into a reduction of poverty and inequality. Foreign direct investment can play this role not only by providing capital, but, perhaps more importantly, through technology transfer, human resource development, providing access to markets and creating various backward and forward linkages with the economies in which foreign affiliates are established. At the same time, the onset or acceleration of growth may well be accompanied by an increase in outward migration. But, on balance, and over time, to the extent that TNCs contribute to economic growth, emigration pressures — especially of the kind that are more poverty-related — should be reduced.

In the short term, furthermore, FDI can alleviate migratory pressures by creating employment. However, while the employment-creating effect is important in some countries and industries, overall it is small. At the same time, employment in foreign affiliates is often associated with higher wages, better training and favourable career prospects (including postings in other countries). In brief, employment in foreign affiliates is associated with upward mobility and higher status and, therefore, can become a factor in the decision-making process especially of opportunity-seeking potential migrants.

Finally, both the growth- and opportunity-enhancing effects of FDI can create positive perspectives about development which may influence the attitudes of potential migrants and induce them to stay. Thus, it is not only the concrete impact on growth and employment of FDI, but also its role in engendering optimistic expectations regarding the development and career prospects that need to be taken into account.

For these reasons, it would be desirable, when formulating FDI policies, to pay attention to the effects that such investment can have on migratory pressures. This should be done not only in terms of increasing flows of FDI to countries with large emigration potential due to economic factors, but also in terms of trying to target policies in such a manner that makes them particularly relevant from a migration perspective. Perhaps it would be useful for this purpose to strengthen cooperation between migration-receiving and migration-sending countries, including through the creation of informal bilateral mechanisms comprising representatives from the two groups of countries, as well as representatives of TNCs and trade unions, to monitor matters relating to FDI, trade, development and migration.

This last observation leads to the second caveat, namely, that the relationship between FDI and migration needs to be seen in the broader context of development. Neither in the long term nor in the short term can FDI *alone* play a lead role in reducing economically motivated migratory pressures; in fact, FDI can even lead to some migration. Foreign direct investment is only *one* mechanism, and an indirect one at that, affecting migratory pressures; its role is of a contributory nature. This draws attention to the need to pursue proper development strategies (including proper FDI, trade and technology policies), and the need to create the proper national and international frameworks within which such strategies can be implemented optimally. Only when the root cause of economically motivated migration — poverty and the associated lack of options — is reduced substantially, can one expect large-scale migratory pressures to ease.

Of necessity, these conclusions are of a general and tentative nature because, as noted earlier, little research has been done on the relationship between development and migration, and even less has been done on that between FDI and migration. The agenda for research needed is, therefore, long indeed. Such research might begin with the development of a methodological framework for analyzing the reasons determining the decision of individuals to migrate and the way in which FDI impacts that decision. This implies combining what is essentially a decision-making process based on household behaviour with the perceived impact of TNCs on the domestic economy. Other areas for research include distinguishing between different types of FDI (mergers and acquisitions versus greenfield investment), different industries and different motivations for investing abroad (efficiency-seeking, market-seeking, export-oriented investments) and how these relate to migration. In terms of the employment-creating impact of TNCs, for example, most FDI in developing countries tends to be greenfield investment which adds to the stock of capital and to the availability of employment opportunities. On the other hand, the size of chronic unemployment or underemployment in some countries may be too large to be considerably reduced by any type of FDI. Related to that, and given the changing strategies and structures of TNCs, what is the employment-generating effect of foreign affiliates likely to be in the future? Also, since TNCs internalize, at least to a certain extent, part of the international labour market, especially as regards skilled personnel, the question arises as to the extent of this internalization, and whether it is likely to grow in the future. Finally, what FDI-related policies could be developed that are targeted to reduce migratory pressures? These are just a few of the areas that need further research — preferably as part of a broader inquiry into the relationship between migration and development. ■

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