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by

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SUMMARY

Trade, foreign direct investment and technology are important elements to consider in strategies aiming to reduce the incentive to migrate. Trade expansion through export development can lead to employment creation. In order for this to take place, policy measures must aim to: develop human resources and infrastructure as well as improve access to technology; introduce export promotion programmes, incentives and tariff structures; create a conducive macro-economic framework; provide support for the agricultural and informal sectors and support for labour-intensive small enterprises (i.e. through credit and training programmes).

In recognition of the growth and employment potential of trade, some developing countries have adopted liberalization programmes. However they have not been able to derive advantages from this, in great part due to protective trade policies in the industrialized countries, often in labour-intensive sectors in which developing countries enjoy a comparative advantage, such as agriculture, textile and clothing, steel and steel products, electronics, and footwear. In the face of such import barriers, developing countries suffer declining incomes and employment which increase migration pressures. The US Caribbean Basin Initiative in 1983, the EEC Common Agricultural Policy, and the Multifibre Agreement have all had negative repercussions on developing countries’ export earnings. The association agreements between the EEC, and Poland, Hungary and the former Czech and Slovak Federal Republic, grant less favourable access to steel, coal, textiles and agricultural products, all products in which these countries are most competitive.

Foreign investment through transnational corporations has the potential to generate sustainable employment by: increasing the demand for exports; modifying production structures through technological upgrading; creating linkages with local producers and diffusing skills and technology; promoting trade through creation of international distribution networks and marketing services; and facilitating imports of critical inputs such as intermediate and capital goods, thus relieving domestic supply constraints.

The least developed countries face serious domestic and external funding and debt problems, reinforced by the decline in commodity prices during the 1980s. These countries would benefit from multilateral assistance including support measures such as improved market access for the products of LDCs, support in the diversification of exports, and support for the development and diversification of agriculture and industry.

A combination of both domestic and multilateral policies, which takes into account trade, foreign investment and technology needs to be explored in order to devise coherent strategies for economic growth and employment creation which would reduce the incentive to migrate.
1. General Considerations

The current debate on international migration revolves around the
endeavour to identify and relieve the pressures that could lead to abrupt and
disruptive migration flows. The changing perception of migration over time
indicates the ambivalence of the phenomenon. Migration can be perceived as
desirable and sought after, as in the European migration to the United States
during the 19th and early 20th century, the migration from the former colonies
to France and the United Kingdom during the boom years of the late 1950s and
early 1960s, and the movement of "guest workers" to the Federal Republic of
Germany at the time of the "economic miracle." The common element in these
episodes of desired migration is that the recipient countries experienced a
period of substantial and sustained growth, accompanied by a relative shortage
of mostly unskilled manpower. In these instances, migration is perceived as
serving a double, beneficial purpose:

(i) it helps to ease labour shortage; and
(ii) it exerts a downward pressure on wages, thereby contributing to
keeping production costs low.

Migration becomes a pressing issue when recipient economies experience
slow growth or recession. This is the case at present. The economies of
industrial countries, which are the major recipient countries, are experiencing
slow growth and high rates of unemployment, which have resulted in:

(i) a severe reduction of their capacity to absorb foreign manpower; and
(ii) a slow-down in world economic activity and the ensuing reduction of
export possibilities for migrant-sending countries, including
developing countries and countries in transition. These factors, in
turn, affect living conditions in the latter, thus acting as a
further incentive to migration. At the same time, technological
progress has been labour-saving to a large extent, further limiting
the manpower absorption capacity.

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on Foreign Direct Investment, Trade and International Migration.
These considerations would suggest that migration, in itself, is neither a positive nor a negative event. The role it plays, whether beneficial or disruptive, largely depends on the state of the world economy and that of the receiving and sending countries. Therefore, a strategy which addresses migration and attempts to prevent its disruptive effects needs to tackle the root causes of the phenomenon. In fact, such effort is tantamount to devising strategies aiming at world economic recovery and sustainable development in industrial and developing countries as well as in economies in transition.

In the pursuit of strategies aimed at growth, the interrelation between economic aspects of development, including trade and technology on the one hand, and migration on the other, require careful consideration. The proper mix of policies -- domestic and multilateral -- related to trade, foreign direct investment and technology needs to be explored for its potential of improving levels of growth and income, the assumption being that economic growth and rising levels of income, expanding employment, a more equitable income distribution and growth, as well as improved prospects for future growth and stability reduce the pressure for unmanageable and disruptive migration. Moreover, the process of policy formulation needs to take into account the different types of migration and its determinants. Rather than providing answers and policy recommendations, this discussion note aims at raising questions and issues that need to be taken into account in analyzing the phenomenon of migration and in devising relevant policies.

2. Types of Migration and Their Determinants

Poverty and the search for economic survival, as well as better perspectives for improvement of personal economic welfare elsewhere, are among the major economic motives which impel people to migrate. In fact, a number of political and environmental factors, such as military conflicts, political upheaval, inappropriate human rights conditions, famine, natural disasters, and environmental degradation often interact with economic causes. Therefore, an adequate policy framework designed to alleviate migration pressures needs to address both economic and extra-economic factors. In this note however, economic concerns alone are under consideration.

Two principal groups of economic migrants can be distinguished. One group comprises those migrants who are forced to move by extreme poverty ("survival migrants") and who usually belong to the agricultural subsistence sector or the urban informal sector in their countries of origin. In the immigration country, their status is often irregular or they hold marginal jobs. The ranks of these migrants are expected to swell in the years ahead and, unlike in the past, their movement is increasingly affecting the industrial countries.

The second group, the "mobility migrants", tends to be less motivated by sheer poverty. Rather, their choice to migrate is largely a reaction to labour-market signals, and to differentials of income and economic opportunities between countries. These migrants are the traditional labour migrants, for instance guest workers in Western European and the contract workers in the Gulf States. This group also includes professional and technical personnel. An oversupply of certain categories of skills in
countries of origin, coupled with a lack of adequate infrastructure, adds to the pressure of skilled personnel to migrate. 

See UNCTAD 1987

While the distinction between survival and mobility migrants may be blurred in some cases, such as in the European migration movements to the Americas, Australia, and New Zealand during the 19th and early 20th centuries, it is important for purposes of policy formulation to distinguish between migration as a response to hardship and despair, and opportunity-seeking migration.

3. Recent Experience of Developing Countries

A conducive domestic policy environment is essential to the development process. An important consideration in the domestic policy of a labour-surplus country with high rates of out-migration is the compatibility of the growth strategy with the objective of employment generation, since expanding income and employment, as well as expectations of future growth and stability, contribute to reducing pressure for economically motivated migration. In this context, the roles of trade liberalisation, foreign direct investment and technology require examination.

A number of economies in East Asia have demonstrated how a shift in the development strategy from an import substitution regime to an outward-oriented trade regime can lead to impressive growth of income and employment, mitigating migration pressures as a result. The Republic of Korea, Singapore and Taiwan, Province of China, witnessed a rapid expansion of employment after their economies opened up in the early 1960s. By the 1970s, all three economies had achieved full employment, and emigration pressure was brought under control. In Singapore, the labour market had become so narrow that unskilled foreign labour was admitted to avoid further wage rises. More recently, Malaysian’s export development effort, which has relied to a large extent on bonded warehouses and export processing zones, has also contributed to the significant rise in the country’s employment level. Today, Malaysian industry employs a large number of immigrant workers from neighbouring countries.

The experience of these countries shows that, in order to ensure the full realisation of the employment-creating potential of trade expansion, export development needs to be accompanied by programmes aimed at developing human resources, infrastructure, as well as improving access to technology. Secondly, export promotion policies and incentives, tariff structures, and the macro-economic framework need to be appropriately designed to sustain growth and the creation of employment. Finally, given the importance of the agricultural and informal sectors in most developing countries, it is essential that the trade regime does not discriminate against these sectors which need to be included in the overall drive to create employment-oriented growth. In most of the above-mentioned economies, for instance, agricultural reforms have preceded export promotion drives. Finally, an active support for labour-intensive small enterprises, including those of the informal sector, with credit and training programmes would facilitate forging backward and forward linkages and help improve their productivity.

In many developing countries, protracted import-substitution phases often neglected the export sector, and emphasized the concentration of scarce
capital and technology in the industrial sector using capital-intensive methods and high-wage labour. This strategy tended to inhibit a dynamic use of the comparative advantage of low-cost labour, discouraged the inflow of foreign investment, and aggravated foreign debt. Low levels of employment in the formal sector and low productivity and earnings in the capital-scarce agricultural and informal sectors thus encouraged rural-urban and external migration. The neglect of the export sector and inadequate access to foreign investment and technology have often circumscribed the possibility of increasing employment and growth in manufacturing and services through economies of scale and enhanced competitiveness. Some countries have ventured on paths to competitiveness which emphasized reducing real wages rather than increasing productivity. This strategy tends to stimulate out-migration, particularly if wage differentials with neighbouring countries are substantial, as in the Mexican case.

4. Can Trade Encourage Migration?

A central question in the debate on trade-migration linkages is whether trade is able to stem migration, or whether it may encourage out-migration in the short-term. Some studies assert that trade expansion may encourage new flows of migration from labour-surplus developing countries as a result of new economic and cultural links with more prosperous industrial countries, the incorporation of new segments of the population into the wage labour by foreign enterprises and the associated disruption of traditional work structures, the recruitment of predominantly young women in the new industrial work force and the lack of opportunities for men.

While these phenomena may accompany trade expansion, empirical studies establish an overall inverse relationship between capital mobility and trade on the one hand, and labour mobility on the other. In the Trans-Atlantic migration, between the 1840s and World War I, emigration to the United States picked up during periods of economic downturn and declining commodity exports in Europe. In recent years, most analysts have agreed that increased trade and capital mobility within the European Economic Community (EEC) played an important part in replacing labour migration. Moreover, the experience of economies like Singapore, the Republic of Korea and, more recently, Malaysia and Thailand, reveal that trade, particularly when supported by foreign direct investment, has contributed to transforming several migrant-sending countries into countries of immigration or to bringing emigration under control within a relatively short period of time. As a partial exception, skilled migration seems to be less sensitive to fluctuations in the business cycle than other categories of economic migration.

5. Protectionism and Migration

The link between growing protectionism in industrial countries and increasing migration flows from developing countries, needs to be explored. Recognizing the growth and employment potential of trade, a significant number of developing countries have unilaterally implemented a liberalisation of trade policies during the past decade. However, many of these countries have not been able to draw sufficient benefits from liberalisation since protectionism has been increasing. While industrial countries have recognized the importance
of policies aimed at the general improvement of trade and development prospects in an effort to curb migration, measures taken were ambivalent. Indeed, while anxious to curb immigration, many industrial countries seek to protect domestic labour-intensive industries at the same time. With the sharp rise in oil prices, and mounting recession and unemployment in the industrial countries during the early 1970s, foreign labour recruitment came to a halt and protectionism was on the rise. Even though world trade and output picked up in the mid-1980s, managed trade persisted in the industrial countries. These measures included non-tariff barriers, quotas, and voluntary export restraint agreements, many of which cover labour-intensive sectors in which developing countries enjoy a comparative advantage, such as agriculture, textile and clothing, steel and steel products, electronics, and footwear. Moreover, as countries have undertaken efforts to diversify their export-production in order to offset declining incomes resulting from the sharp declines and wide fluctuations in prices for commodities, they have been faced with tariffs escalating with the degree of product processing as well as with a steadily growing number of anti-dumping actions.\footnote{See UNCTAD 1991 (1), Part I, Chapter 3.}

Examples of ambivalent trade measures which tend to encourage migratory flows are numerous. For instance, the United States Government introduced the Caribbean Basin Initiative in 1983 to accelerate economic development in the region by offering the signatories improved access to the its market through tariff preferences. At the same time, however, regulations were adopted which required a reduction of sugar imports from the Caribbean Basin by 75 per cent. Between 1982 and 1988, the region lost 400 000 jobs, which in some economies led to increased emigration pressure.\footnote{See U.S. Commission for the Study of International Migration and Co-operative Economic Development, 1990.}

\footnote{The effects of these trade-related developments are declining income and employment, economic pessimism, rural-urban and external migration.}

In a recent case, the EEC announced plans for the imposition of quotas for imports of bananas from Latin America, thus favouring imports from ACP countries. This measure may have been designed in part with a view to reducing pressures for increased migration from certain ACP countries to the EEC following possible losses of market shares after the establishment of the European Single Market. Such measure would, in fact, only transfer the problem to Latin American producers who, although more competitive, have to face import barriers, declining incomes and, as one result, growing migration pressures. Similar negative effects on developing countries’ earnings from exports of agricultural products and textiles and clothing, have resulted from the Common Agricultural Policy of the EEC, and the Multifibre Agreement.

Even under preferential arrangements, such as the Caribbean Basin Initiative and the Lomé Convention, market access is often effectively limited for labour-intensive products. Under the Lomé Agreement, for instance, stringent rules of origin hinder producers in ACP countries from purchasing inputs from the cheapest source and, thus, being more competitive. The Association Agreements between the EEC and Poland, Hungary, and the former Czech and Slovak Federal Republic grant less favourable access to steel, coal, textiles, and agricultural products, all products in which these countries are most competitive.

6. **Trade in Services**

The service sector is gaining increasing importance among exports of developing countries. Since the delivery of a number of services requires the
proximity between the service user and supplier, it often entails the temporary presence of the supplier in the importing country. Hence the migration of professionals and skilled personnel, particularly contract migration in connection with the export of engineering design and construction services, has recently emerged as a significant feature of international migration.\footnote{See UNCTAD 1987, p. 11.}

However, the movement of transient professionals delivering such services is, by definition, of a temporary nature and thus differs from other skill-migration, or brain-drain, which, for developing countries, often leads to a permanent loss of scarce human resources.

In the context of the Uruguay Round, the draft framework of a General Agreement on Trade in Services (GATS) opens up possibilities for temporary, cross-border movements of skilled workers and professionals related directly to the delivery of services, thus providing equal treatment for capital and labour factors. As permanent migration and long-term employment for migrants have become more strictly controlled in the countries of immigration, and as the success of service sector firms from developing countries in entering the international market depends essentially on their ability to move skilled and unskilled labour from their home-base, or a third low-wage country, to the importing country, such an agreement could make a significant contribution to facilitating temporary migration and to increasing the mobility of skilled and unskilled labour to the benefit of both industrial and developing countries.\footnote{See Ghosh 1992, p.9-10 and Soubra 1989, pp. 185-214.}

7. Foreign Investment, Technology and Migration

An important question with regard to migration and the creation of employment is how the comparative advantage of labour-surplus countries is employed by transnational corporations (TNCs). Foreign direct investment has the potential to generate sustainable employment and stabilize migration, if it exploits existing and prospective comparative advantages of the host economy, while at the same time developing linkages with it and, thus, generating a process of technological upgrading.

Trade and foreign direct investment have become increasingly interlinked as TNCs, which, generally, have a higher export propensity than local enterprises, have become more active in export-production in developing countries. Transnationals have contributed to economic growth and overall development (i) by raising the demand for host country exports, facilitating the dynamic use of comparative advantage, and modifying the structure of production and the composition of exports through technological upgrading; (ii) through spill-over effects, e.g. learning processes through interactive links with the host country economy, backward linkages through subcontracting arrangements with local producers, and diffusion of skills and technology; (iii) by providing organisational support in promoting trade through international distribution networks and marketing services; (iv) by facilitating imports of critical inputs such as intermediate and capital goods, thus relieving domestic supply constraints.

In the past, TNCs have transferred labour-intensive production processes to developing countries to take advantage of low labour costs. Off-shore production and subcontracting arrangements enabled these corporations to combine low-cost sourcing of production with existing marketing and distribution systems. Tendencies in the recent past indicate that, owing to
changes in product-design and production-technology, the scope for highly labour-intensive production has been reduced. To some extent, the recent preference by TNCs for more capital-intensive technologies and the endeavour to keep local labour requirements at a lower level, reflect an effort to avoid risks of exposure to local conflicts and labour unrest. Moreover, increasing sophistication of production-processes and highly competitive market-conditions require a more highly-skilled workforce than traditional labour-intensive assembly work. This tendency could aggravate migration pressures for unskilled labour while probably relieving some pressures for skilled personnel. Policy discussions need to tackle the predicament of the need to upgrade technological and human resource capacities on the one hand, and the ability to use the comparative advantage of low-cost labour in order to reduce migration pressures on the other.

In order to promote economic development, sustainable employment and competitiveness accompanied by lowering the pressure on migration, countries need to aim at a dynamic use of the comparative advantage of low-cost labour, combining this use with the technological upgrading of the economy and improvements in labour productivity. A number of economies, including Singapore, the Republic of Korea, and Taiwan, Province of China, which, in the past, have benefitted from off-shore relocation and subcontracting arrangements of downstream segments of labour-intensive industries of TNCs, have depended exclusively on low-wages and low productivity sectors. Singapore, in particular, embarked on a systematic training programme for workers, technicians, and engineers, and developed research centres. Starting in 1979, the production of higher value-added goods, the upgrading of existing product-lines, and the installation of skill and research-intensive industries were encouraged. In this process, wages rose alongside labour productivity, and technology was continuously upgraded. Strategic positions were built up both in technology and labour-intensive product-lines of high-income elasticity, such as watches, cameras, computers and electronic consumer goods.

Hence, employment in these countries remained unaffected by the erosion of the comparative advantage of low-cost labour following the automation of labour-intensive industries. The use of modern technologies led to improvement of labour-productivity and enabled them to remain competitive in certain branches of industry despite rising domestic labour and non-labour costs.

8. Least Developed Countries and Migration

The success stories of the Asian NICs are relatively well known. However, in drawing lessons from their experience it is important to take into consideration the problems of least developed countries (LDCs). Many of these countries have experienced a deterioration in their socio-economic situation during the past decade, accompanied by growing out-migration. The economies of the LDCs face severe domestic and external-resource constraints and serious debt problems. Commodity exports play a key role in their economies, as they represent important contributions to investment and export earnings. Thus, the decline in commodity prices during the 1980s has created significant additional difficulties for them. In order to reactivate and accelerate growth and development, which could alleviate migration pressures, LDCs would need to depend on a concerted and multilateral effort more than other countries, as has
already been recognized in the Programme of Action for Least Developed
Countries.\footnote{See UNCTAD 1991 (2), pp. AI-1 – AI-27.}

\footnote{Support measures, which would help create growth and employment,
would include enhanced market-access for products of LDCs, support in the
deriversification of exports, accompanied in the short-term by compensatory
financing to help absorb commodity price-volatility. Moreover, a simultaneous
development and diversification of the agricultural and industrial base inter
alia needs to emphasize food security, incentives for small-holders and micro-
enterprises, the rehabilitation and upgrading of existing production
facilities, the establishment of backward linkages, the expansion of production
in line with dynamic comparative advantages, as well as enhancing the
endogenous capacities to deal with the development and application of science
and technology, particularly by strengthening the infrastructure in this area
as well as developing human resources.}
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