

Global Economy

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Lecture 8

International Factor Movements

International Labour Migration

Foreign Direct Investment

International Labour Migration

Migrants can be divided into five main categories

- **Settlers**
- **Contract workers**
- **Professionals**
- **Irregular workers**
- **Asylum seekers and refugees**

International migration

- **Settlers** – people who intend to live permanently in their new country.
- **Contract workers** – people who are admitted to other countries on the understanding that they will stay only for a specific period: the length of their contract.
- **Professionals** – these include employees of transnational corporations who are moved around from one country to another.

International migration

- **Irregular workers** – undocumented or illegal immigrants.
- **Asylum seekers and refugees** – asylum seekers have left their homes to escape danger.
- If their claims for asylum have been accepted they are then classified as ‘refugees’.

Motivations for migration

	Push factors	Pull factors
Economic and demographic	Poverty, unemployment, low wages, high fertility rates, lack of basic health and education	Prospects for higher wages, personal or professional development, potential for improved standard of living,
Political	Conflict, insecurity, violence, poor governance, corruption, human rights abuses,	Safety and security, political freedom,
Social and cultural	Discrimination based on ethnicity, gender, religion	Family reunification, ethnic homeland, freedom from discrimination

Fertility rate, 2019

source: <http://worldpopulationreview.com/countries/total-fertility-rate>

Country	Fertility rate	Country	Fertility rate
Azerbaijan	2.036	Poland	1.29
China	1.635	Portugal	1.241
France	1.973	Spain	1.391
India	2.303	Turkey	2.024
Italy	1.491	Ukraine	1.557
Japan	1.478	Uzbekistan	2.244
Korea	1.323	US	1.886
Niger	7.153	Taiwan	1.218
Somalia	6.123	Moldova	1.23

Worldwide Governance Indicators

- **Voice and Accountability** - Reflects perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media.
- **Political Stability and Absence of Violence/Terrorism** - Political Stability and Absence of Violence/Terrorism measures perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism.
- **Government Effectiveness** - Reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.
- **Regulatory Quality** - Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.
- **Rule of Law** - Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.

Score
(-2.5 to +2.5)

Country	Voice and Accountability, 2018	Political Stability and Absence of Violence/Terrorism	Government Effectiveness, 2018
Azerbaijan	-1.50	-0.70	-0.10
China	-1.45	-0.26	0.48
France	1.18	0.11	1.48
India	0.38	-0.96	0.28
Italy	1.05	0.31	0.41
Japan	1.02	1.06	1.68
Korea	0.80	0.54	1.18
Poland	0.72	0.55	0.66
Portugal	1.20	1.14	1.21
Spain	1.06	0.25	1.00
Turkey	-0.83	-1.33	0.01
Ukraine	-0.01	-1.83	-0.42
US	1.04	0.48	1.58
Uzbekistan	-1.62	-0.28	-0.55

Country	Regulatory Quality	Rule of Law	Control of Corruption
Azerbaijan	-0.38	-0.60	-0.83
China	-0.14	-0.20	-0.27
France	1.17	1.44	1.32
India	-0.18	0.03	-0.19
Italy	0.67	0.25	0.24
Japan	1.33	1.53	1.42
Korea	1.09	1.24	0.60
Poland	0.88	0.43	0.64
Portugal	0.89	1.14	0.85
Spain	0.95	0.97	0.61
Turkey	-0.05	-0.32	-0.34
Ukraine	-0.22	-0.72	-0.87
US	1.58	1.45	1.32
Uzbekistan	-1.10	-1.07	-1.07

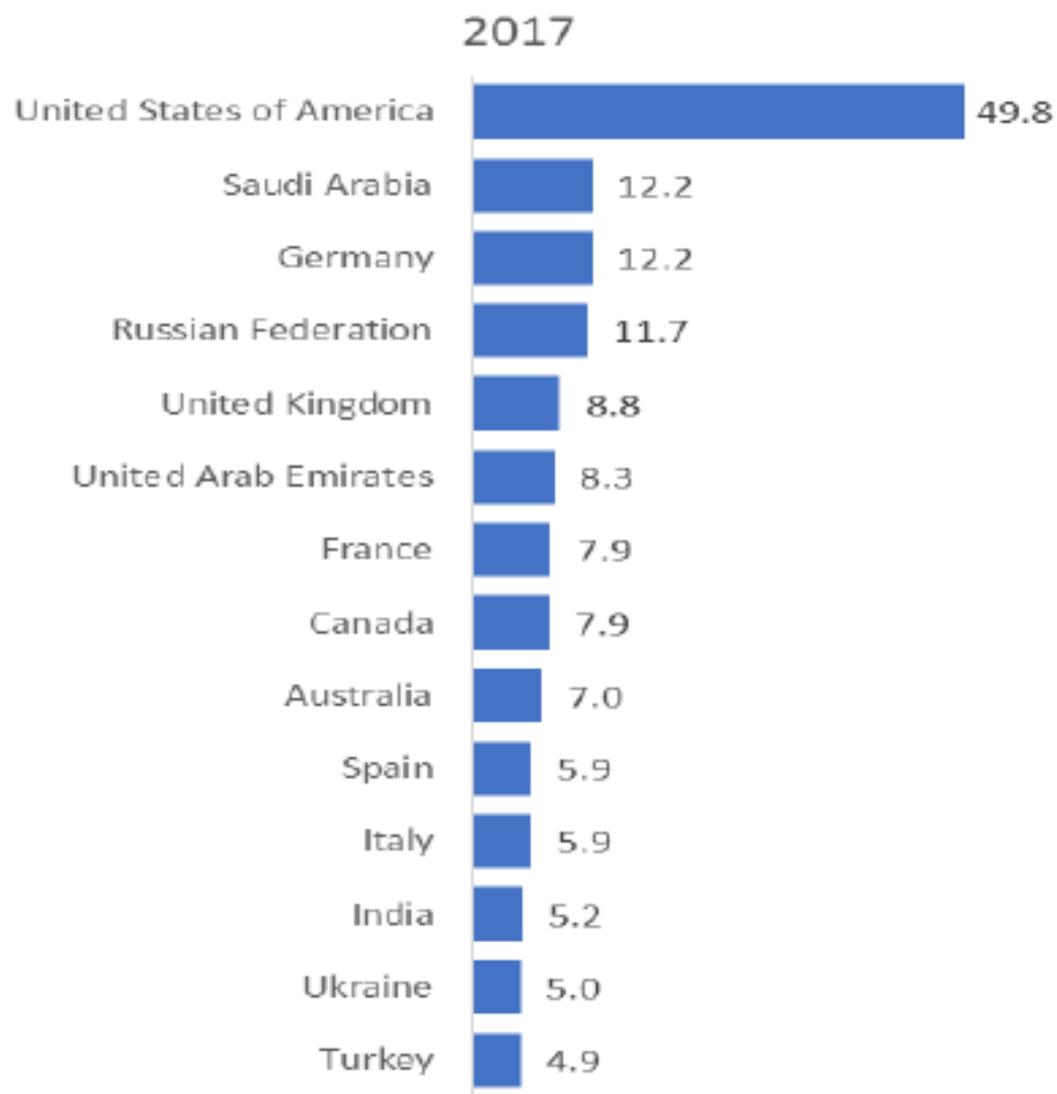
International migrants, 1970–2015

Year	Number of migrants	Migrants as a % of world's population
1970	84,460,125	2.3%
1975	90,368,010	2.2%
1980	101,983,149	2.3%
1985	113,206,691	2.3%
1990	152,563,212	2.9%
1995	160,801,752	2.8%
2000	172,703,309	2.8%
2005	191,269,100	2.9%
2010	221,714,243	3.2%
2015	243,700,236	3.3%

Source: UN, International Migration Report 2018

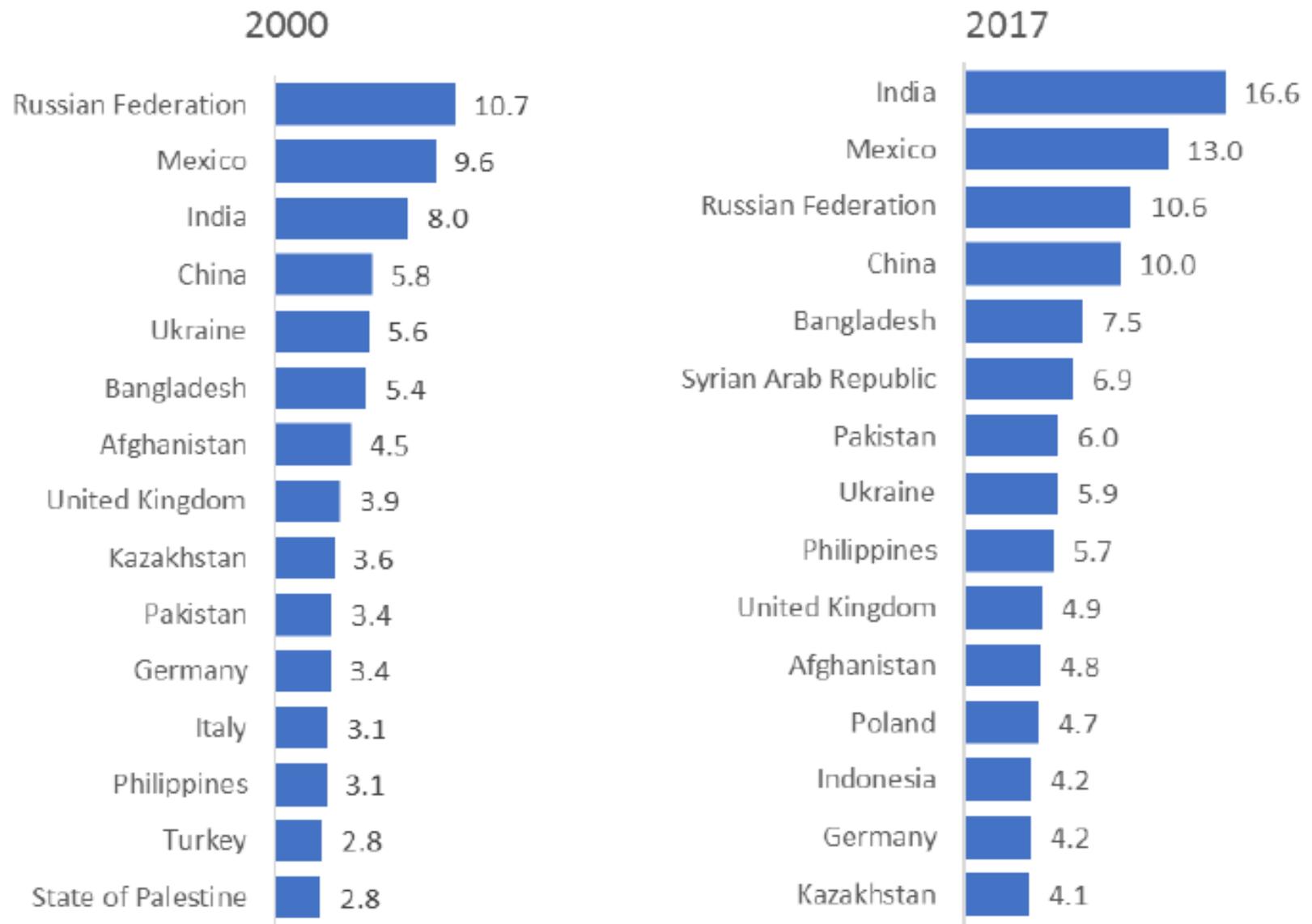
- Target regions with currently high immigration rates are: North America, Australia and Europe except Eastern Europe.
- Countries of origin with high emigration rates are in: Africa, Eastern Europe, Central Asia, South and Central America.

14 countries hosting the largest numbers of international migrants, 2017 (millions)

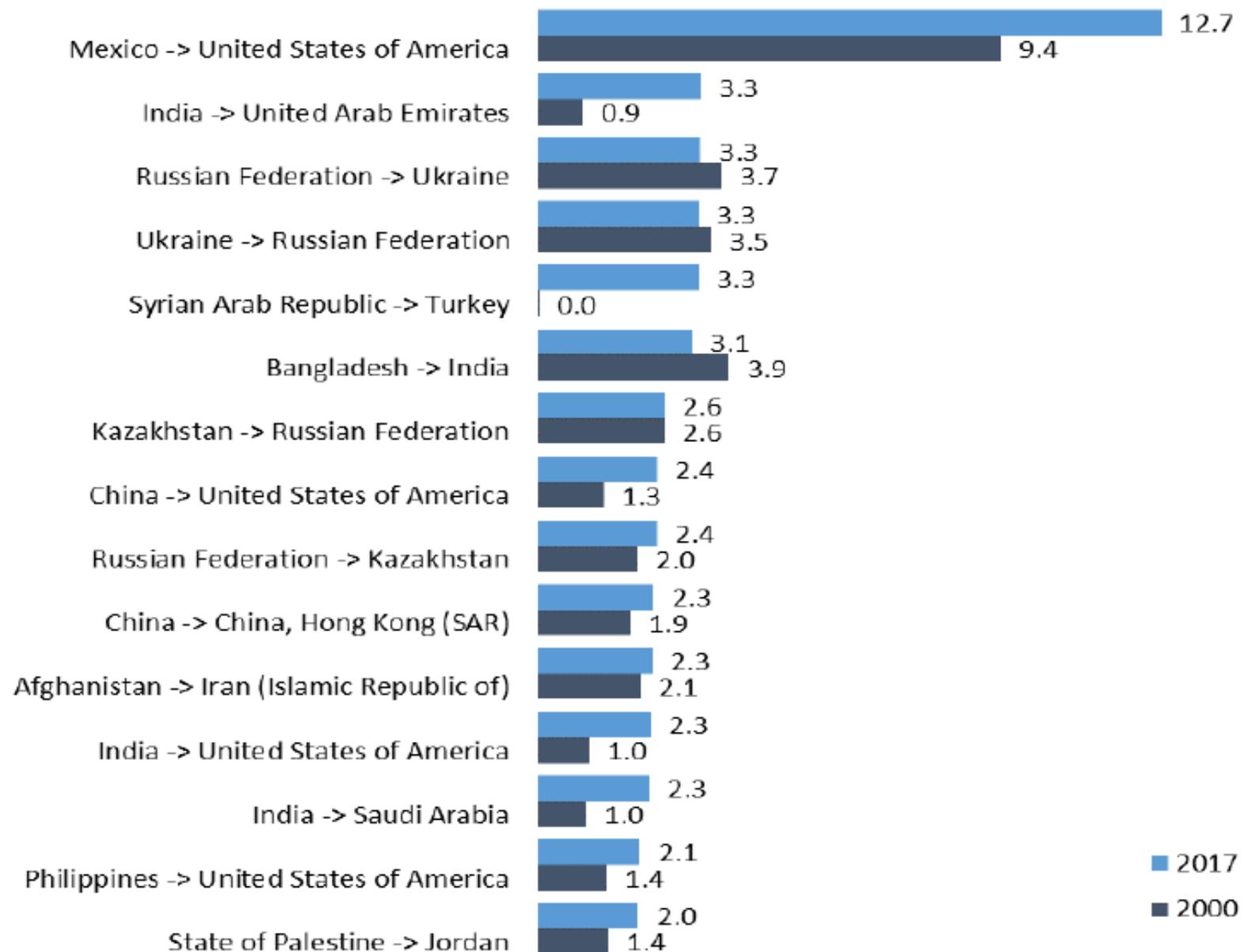


Source: UN, International Migration Report 2017

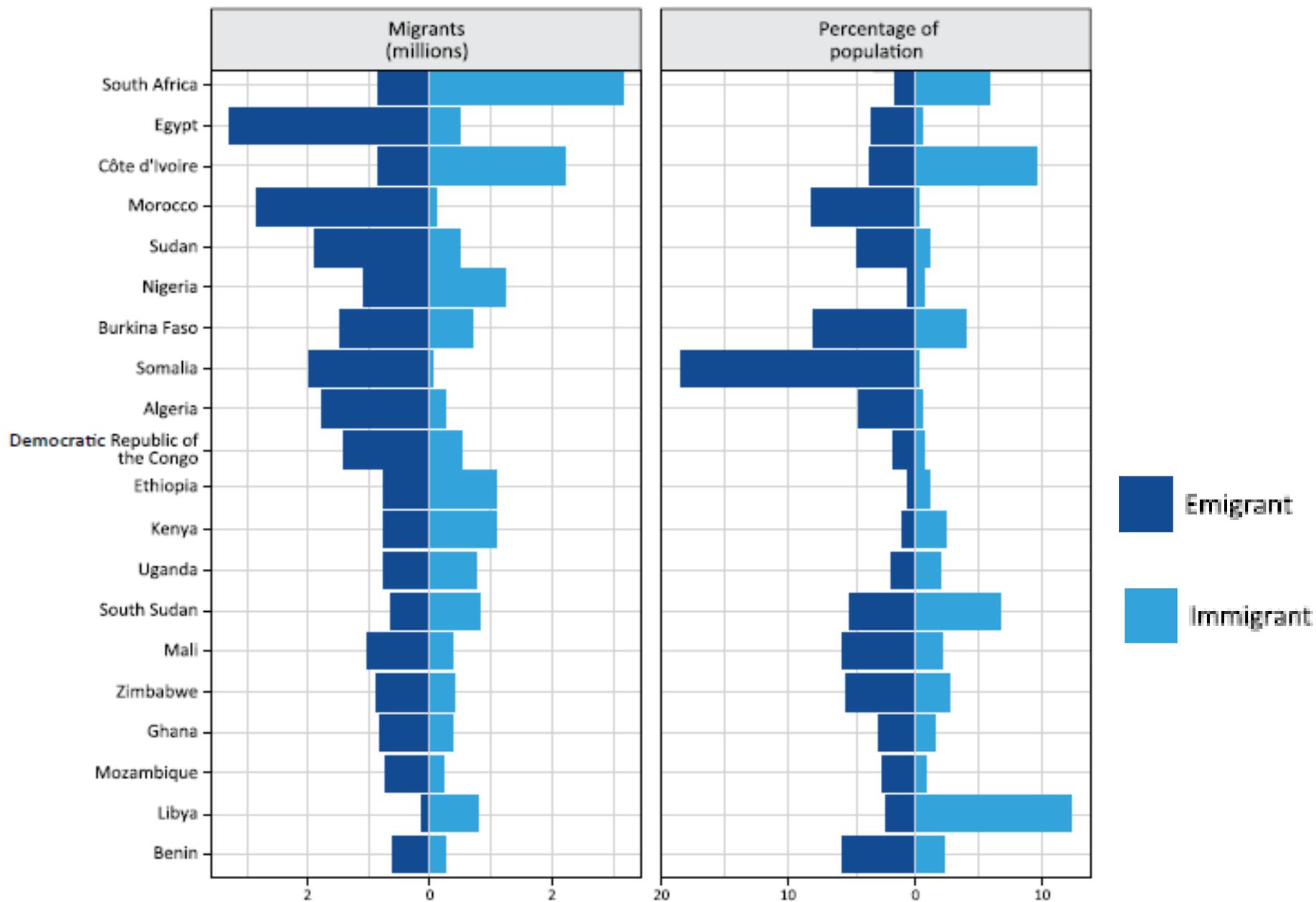
15 largest countries or areas of origin of international migrants, 2000 and 2017, number of migrants (millions)



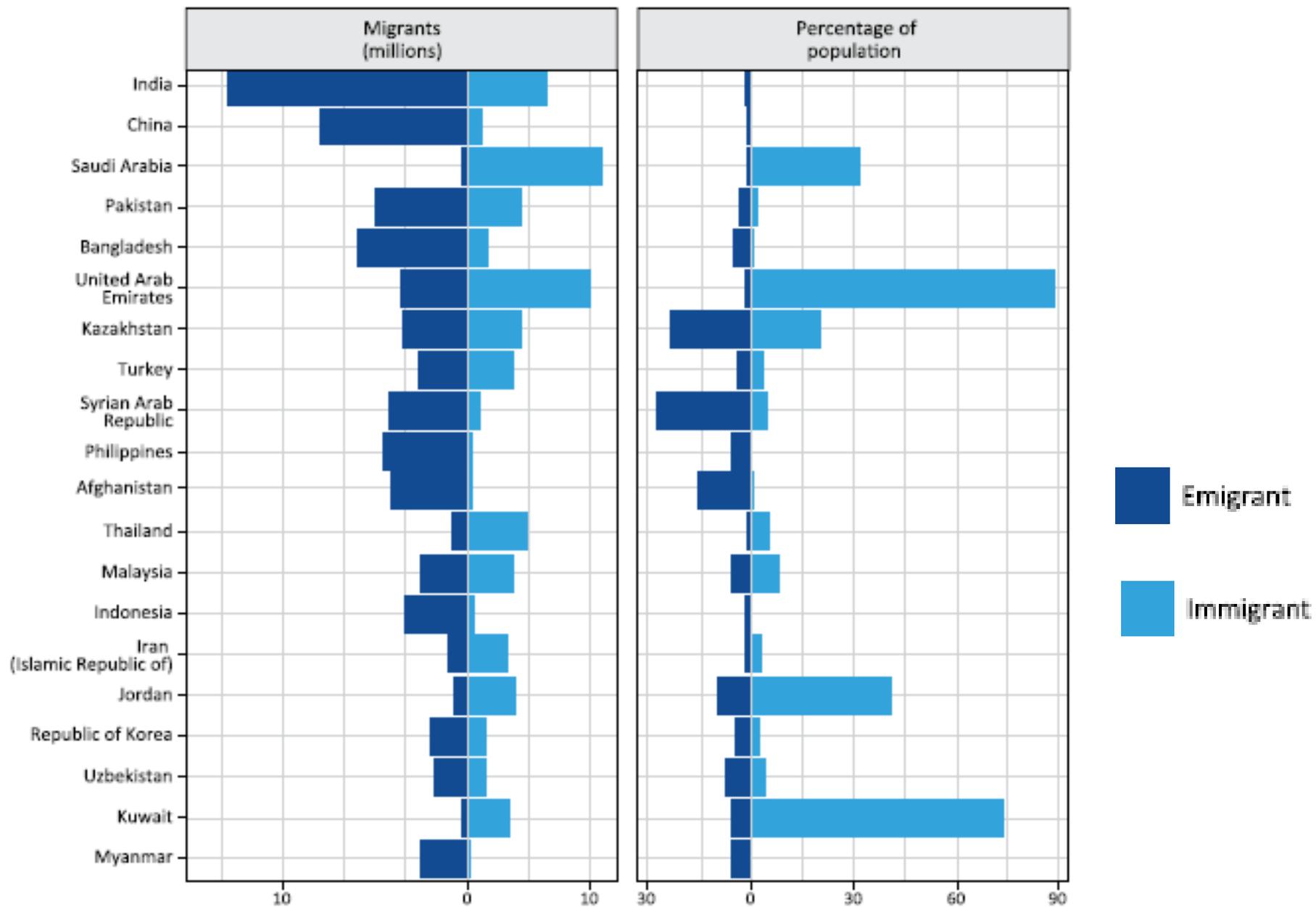
Fifteen largest populations of international migrants from a single country or area of origin living in a single country or area of destination, 2000 and 2017 (in millions)



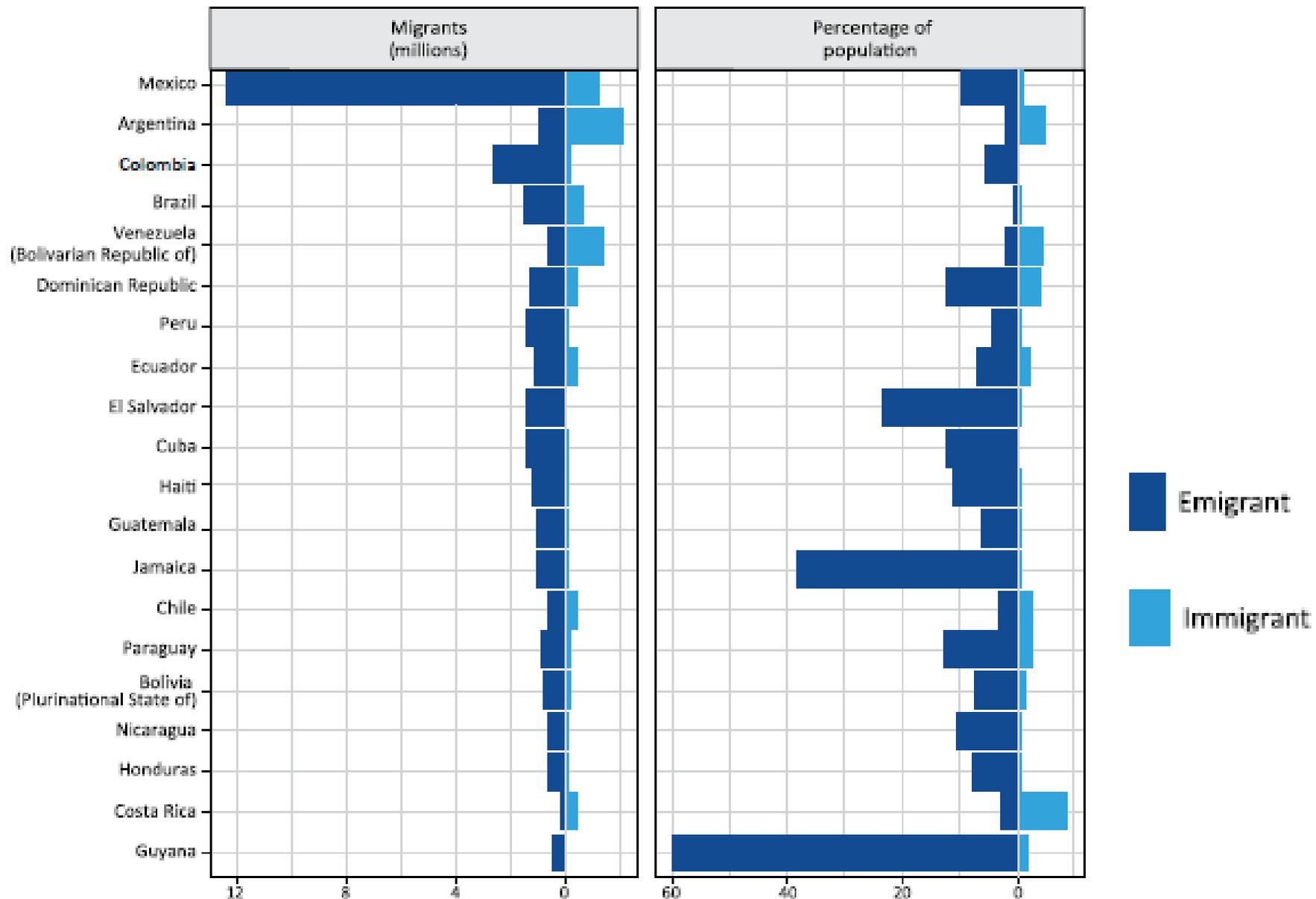
Top 20 African migrant countries in 2015



Top 20 Asian migrant countries in 2015

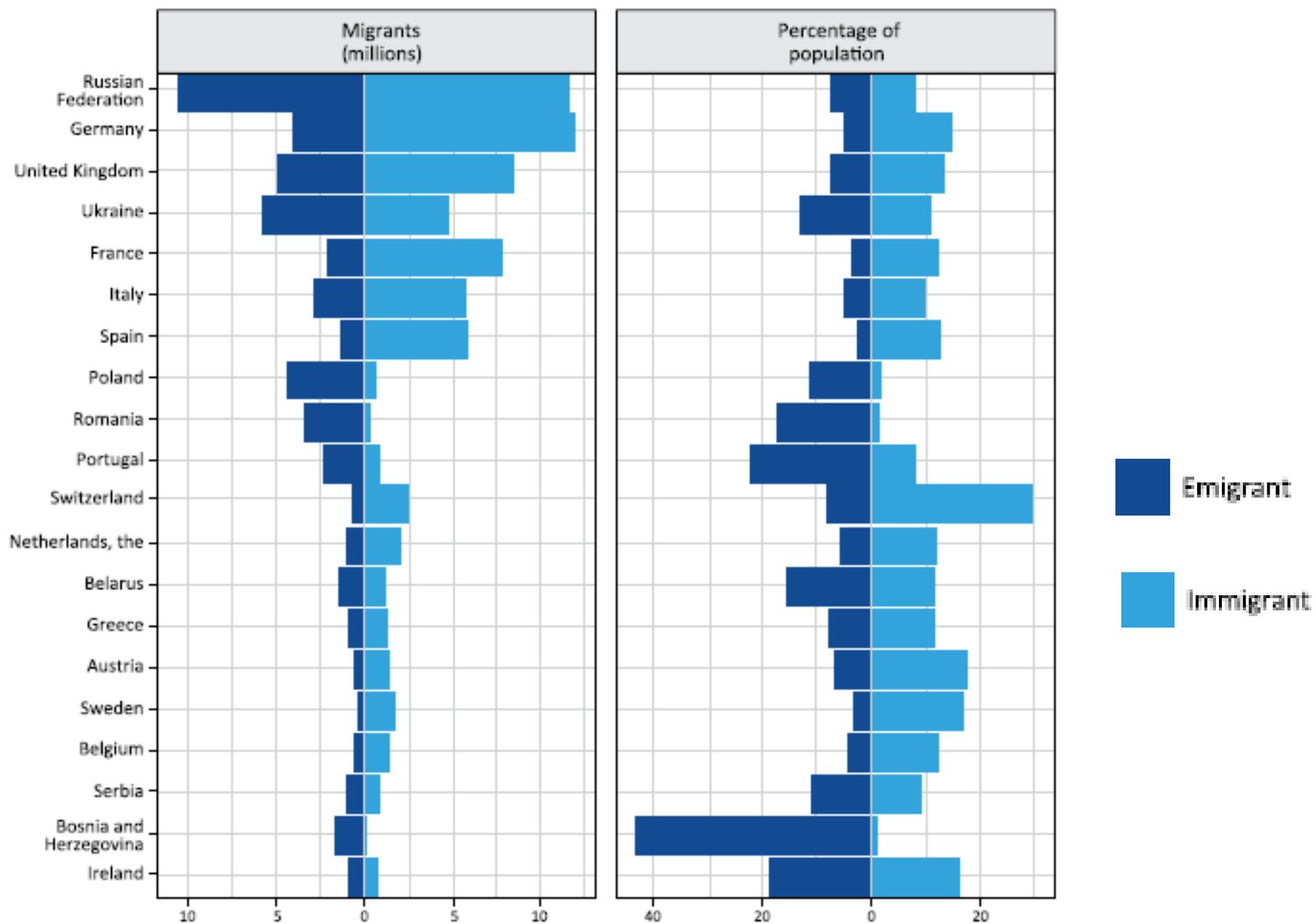


Top 20 Latin America and the Caribbean migrant countries in 2015



Source: UN, International Migration Report 2018

Top 20 European migrant countries in 2015



Labour migration

- *Permanent migration*: this includes mostly highly skilled migrants and migrants entering under family reunification and refugee programs.
- *Temporary migration for all types of employment*: this includes migrants entering for a specific type of job where there are vacancies, often referred to as ‘guest workers’.
- *Temporary migration for time-bound employment*: this includes migrants entering to fill seasonal jobs that will end with the completion of a project such as a construction project, service providers, trainees and students.

Economic benefits of migration

Migrant workers are of economic importance to their country of **origin**

- Major source of income to families via remittance of wages, which can be used for daily living, investment and job creation.
- Migrant workers can benefit from better employment opportunities, higher wages, skill development, learning new technologies and ideas, higher living standards.
- Migrants who return are a source of new technologies and ideas.

Top countries receiving remittances (2000–2015) (current USD billions)

Top countries receiving remittances							
2000		2005		2010		2015	
India	12.84	China	23.63	India	53.48	India	68.91
France	8.61	Mexico	22.74	China	52.46	China	63.94
Mexico	7.52	India	22.13	Mexico	22.08	Philippines, the	28.48
Philippines	6.96	Nigeria	14.64	Philippines, the	20.56	Mexico	26.23
Republic of Korea	4.86	France	14.21	France	19.90	France	23.35
Spain	4.86	Philippines, the	13.73	Nigeria	19.75	Nigeria	18.96
Turkey	4.56	Belgium	6.89	Germany	12.79	Pakistan	19.85
United States of America	4.40	Germany	6.87	Egypt	12.45	Egypt	16.58
Germany	3.64	Spain	6.66	Bangladesh	10.85	Bangladesh	15.38
United Kingdom	3.61	Poland	6.47	Belgium	10.35	Germany	15.36

Source: Migration and Remittances Factbook, 2018

Top countries sending remittances							
2000		2005		2010		2015	
United States of America	34.40	United States of America	47.25	United States of America	50.78	United States of America	61.38
Saudi Arabia	15.40	Saudi Arabia	14.32	Saudi Arabia	27.07	Saudi Arabia	38.79
Germany	9.04	Germany	12.71	Russian Federation	21.45	Switzerland	24.38
Switzerland	7.59	Switzerland	9.99	Switzerland	16.88	China	20.42
France	3.77	United Kingdom	9.64	Germany	14.68	Russian Federation	19.70
United Arab Emirates	3.68	France	9.48	Italy	12.89	Germany	18.56
Republic of Korea	3.65	Italy	7.55	France	12.03	Kuwait	15.20
Israel	3.26	Russian Federation	6.83	Kuwait	11.86	France	12.68
Japan	3.17	Luxembourg	6.70	Luxembourg	10.64	Qatar	12.19
Netherlands, the	3.13	Republic of Korea	6.67	United Arab Emirates	10.57	Luxembourg	11.35

Source: Migration and Remittances Factbook, 2018

Economic benefits of migration

Migrant workers are of economic importance to their **host** country

- They produce goods and services.
- They often have great ambition and drive, working hard to succeed, which improves productivity and stimulates economic growth.
- They bring new ideas, improving technology and business and work practices.

Economic benefits of migration

Migrant workers are of economic importance to their **host** country

- They introduce new industries, such as food and restaurants, expanding the range of goods and services for the population and improving quality of life.
- They spend money in the economy leading to an increase in aggregate demand.
- They pay taxes, contributing to government revenue.
- They perform jobs that nationals do not want to do.

Problems and challenges associated with labour migration

- Temporary workers often have restricted legal rights and most can only access employment in low wage industries and are often unable to access assistance if they lose their jobs.
- People who do not speak the language of the host country would find it difficult to negotiate an individual employment contract.
- Migrant women face gender discrimination. They are often working in gender-segregated and unregulated industries.

Labour migration - characteristics and trends

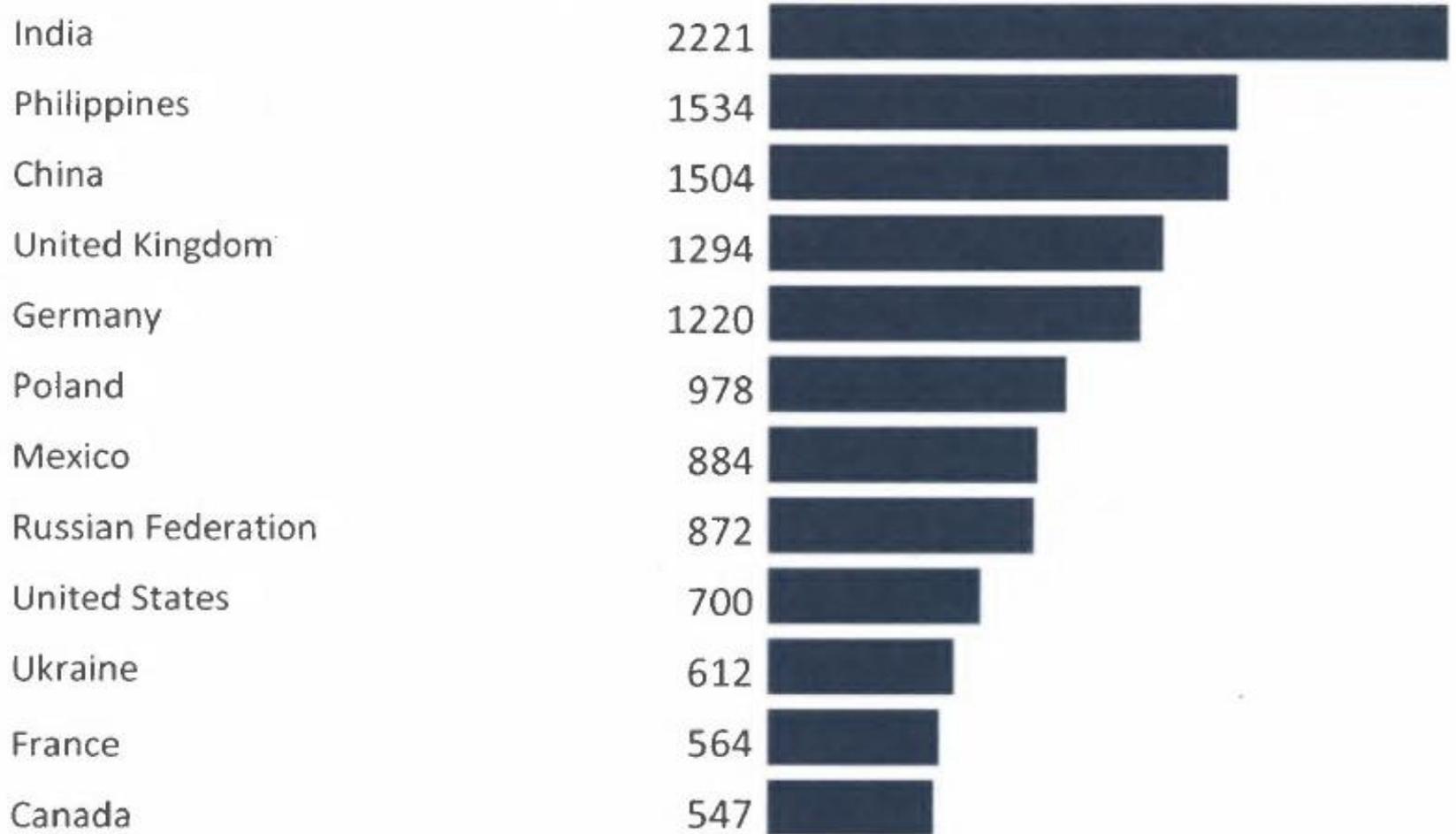
- **Migrants from developing countries** are found in most types of jobs, are typically found at the bottom and top end of the labour market, but the **majority are found at the bottom end**, performing jobs that are often dangerous, ‘dirty’ and low paid.
- The **majority of migrant professionals move between industrialised countries** and are usually transferees within transnational corporations (TNCs).
- A significant number of professional migrants move to poor countries along with foreign investment, contributing their knowledge and skills and so enhancing economic development.

Labour migration - characteristics and trends

- **Migration from developing countries to industrialised countries has been rising**, although still a small % of industrialised countries' workforces, on average.
- **Almost half of all migrants move from one developing country to another** where wage differentials are not large, e.g. from Haiti to the Dominican Republic.
- **Many countries are both sources and destinations** for migrants, e.g. Australia receives migrants from all over the world, but Australians also migrate to other countries.

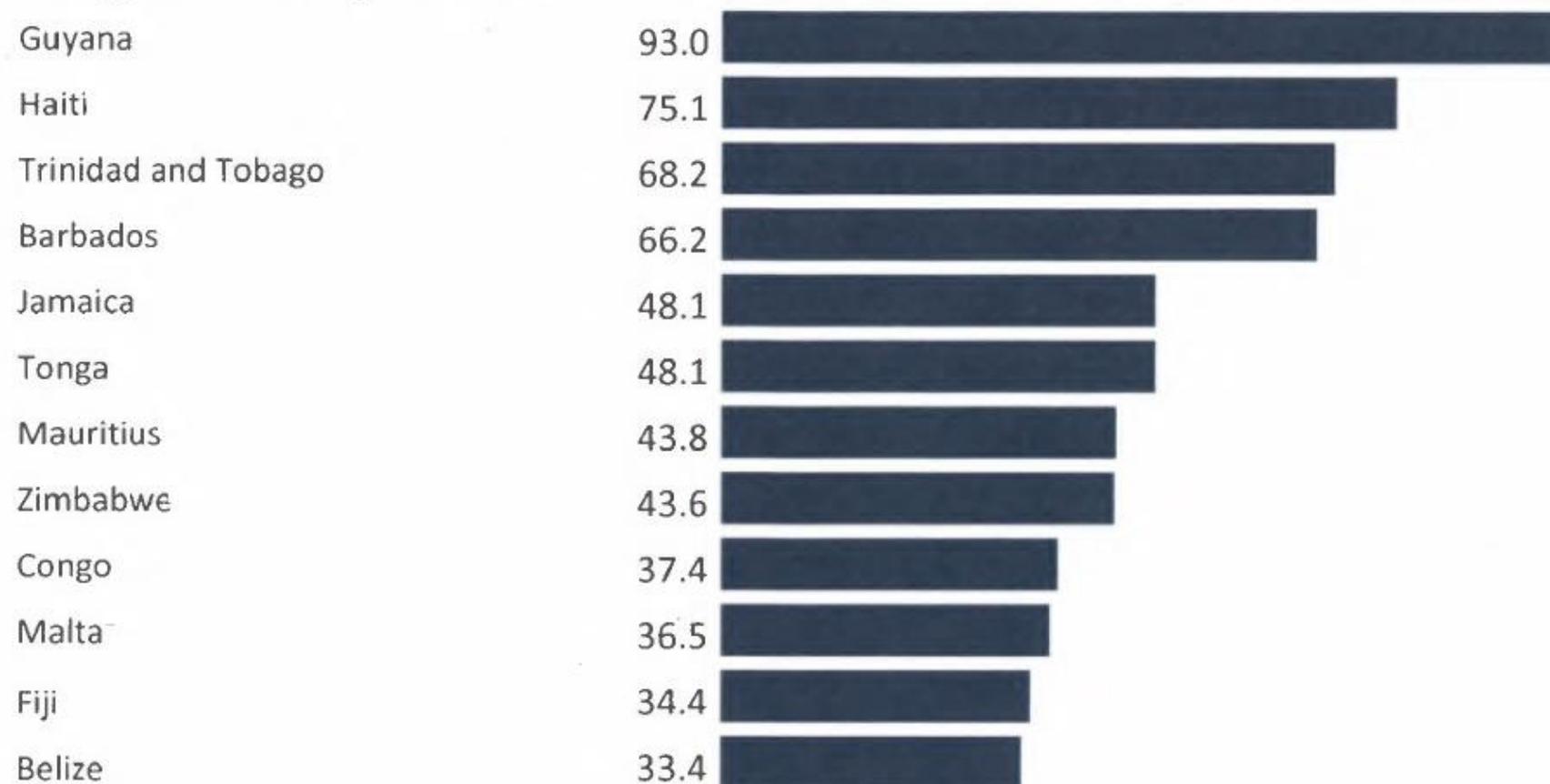
Top Emigration Countries of Tertiary-Educated, 2010/11

number of migrants, thousands



Source: Migration and Remittances Factbook, 2016

Top Emigration Countries of Tertiary-Educated, 2010/11 emigration rate, % of total



Source: Migration and Remittances Factbook, 2016

Brain-drain

- Is the large-scale emigration of individuals with technical skills or knowledge.
- Is regarded as economic cost, since emigrants usually take with them the fraction of value of their training sponsored by the government or other organizations.
- Is often associated with de-skilling of emigrants in their country of destination, while their country of emigration experiences the draining of skilled individuals.

Brain-drain

- **Portugal** is suffering the largest drain in West Europe. Skilled workers have migrated to Australia, Canada, Switzerland, Germany and Austria.
- In the first year of **Poland** EU membership 100,000 Poles registered to work in England (63% of Polish immigrants to the UK are aged between 24 and 35 with 40% possessing a university degree).
- The UNDP (United Nations Development Programme) estimates that **India** loses \$2 billion a year because of the emigration of computer experts to the US.

Brain-drain

- In **China** the brain drain usually happens in two ways, including that the skilled intellectuals migrate to other countries, and students study overseas and then stay abroad.
- Seven out of every 10 students who enroll in an overseas university never return to live in their homeland.
- There are currently more African scientists and engineers working in the United States than there are in Africa.

The global financial crisis and subsequent recession had a significant impact on migrants around the world

- Remittances to developing countries fell by around 10%.
- Migrant workers suffer racial abuse – they are blamed for unemployment.
- Migrant workers are concentrated in vulnerable industries hit hardest by global recession, such as construction – more likely to lose their jobs.

The global financial crisis and subsequent recession had a significant impact on migrants around the world

- Migrant workers often have less rights as workers, for example lack of access to safety nets such as unemployment benefits.
- Many countries have tightened immigration policies including greater restrictions on irregular migrants such as refugees: this has reduced global movement of unskilled labour in particular, and can also make existing migrant labour more vulnerable to racial abuse and discrimination.

International Factor Movements

International capital flows

Capital flow types

- **Foreign investment** is an investment made by a firm (or individual) in one country into business interests located in another country.
- **Foreign direct investment (FDI)** takes place when an investor establishes foreign business operations or acquires foreign business assets, including establishing ownership or controlling interest in a foreign company.
- **Portfolio investment** in ownership of firms
 - Purchasing shares of stock in foreign firms

FDI has three components:

Equity capital

Reinvested earnings

Intra-company loans

- **Equity capital** is the foreign direct investor's purchase of shares of an enterprise in a country other than its own.
- **Reinvested earnings** comprise the direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends by affiliates, or earnings not remitted to the direct investor. Such retained profits by affiliates are reinvested.
- **Intra-company loans** or intra-company debt transactions refer to short- or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises.

Types of FDI

Greenfield investment

Mergers and acquisitions (M&As)

Greenfield investment

- Greenfield investment – direct investment in new facilities.
- Greenfield investments create new production capacity and jobs, transfer technology and know-how, and can lead to linkages to the global marketplace.
- Main benefits of greenfield investments: an increased employment, investments in research and development, and additional capital investments.

Greenfield investment

- Criticism of the efficiencies obtained from greenfield investments includes the loss of market share for competing domestic firms.
- Another criticism of greenfield investment is that profits are perceived to bypass local economies, and instead flow back entirely to the multinational's home economy.

Mergers and acquisitions (M&As)

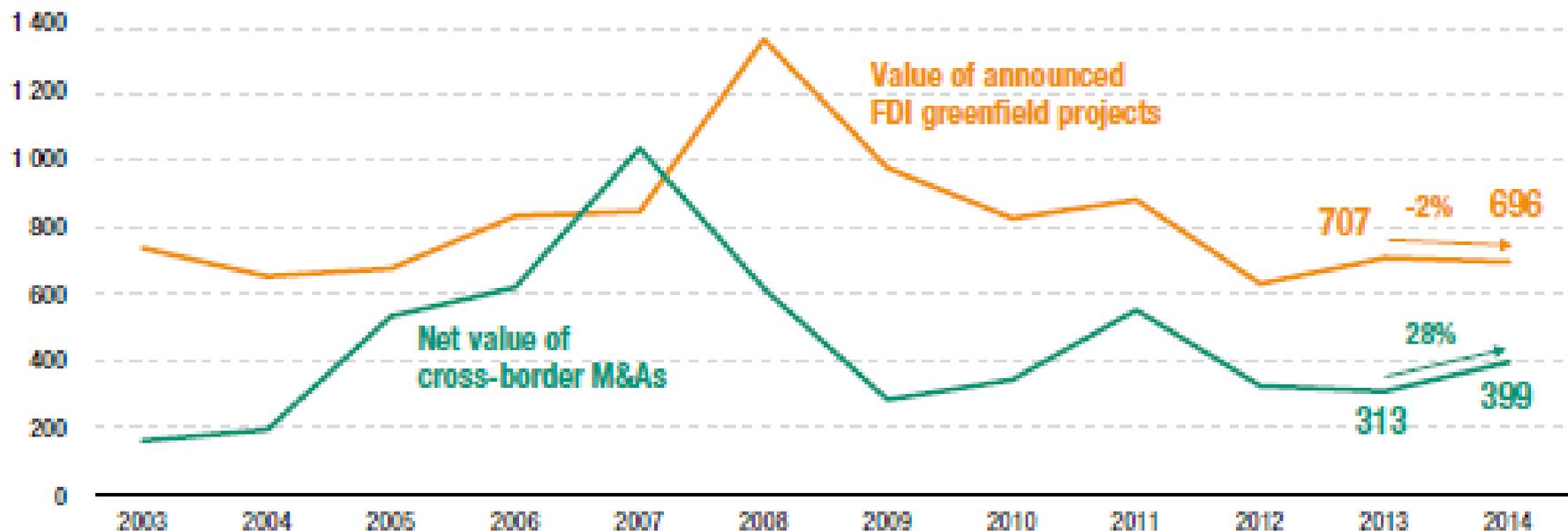
- **A merger** happens when two firms, agree to go forward as a single new company rather than remain separately owned and operated.
- When one company takes over another and clearly established itself as the new owner, the purchase is called **an acquisition**.
- From a legal point of view, the target company ceases to exist, the buyer "swallows" the business and the buyer's stock continues to be traded.

Mergers and acquisitions (M&As)

- Whether a purchase is considered a merger or an acquisition really depends on whether the purchase is friendly or hostile and how it is announced.
- The real difference lies in how the purchase is communicated to and received by the target company's board of directors, employees and shareholders.

Value of cross-border M&As and announced greenfield FDI projects worldwide (USD Billion), 2003–2014

Source: UNCTAD, World Investment Report, 2015 (<http://www.unctad.org/en>)



Host country effects of FDI, Advantages

- FDI can stimulate the host/target country's economic development
- FDI creates new jobs, as investors build new companies in the host economies
- FDI develops human capital resources
- FDI allows resource transfer and exchanges of knowledge (expertise, technology, new products)
- FDI increases a labour productivity,
- FDI increases host countries' income, salaries

Host country effects of FDI, Costs

- Adverse effects on competition
- Adverse effects on the BOP
 - After the initial capital inflow there is normally a subsequent outflow of earnings
 - Foreign subsidiaries could import a substantial number of inputs
- Threat to national sovereignty and autonomy
 - Loss of economic independence
 - Sweatshops and labour exploitations
 - Environmental degradation

The influence of FDI on economic growth

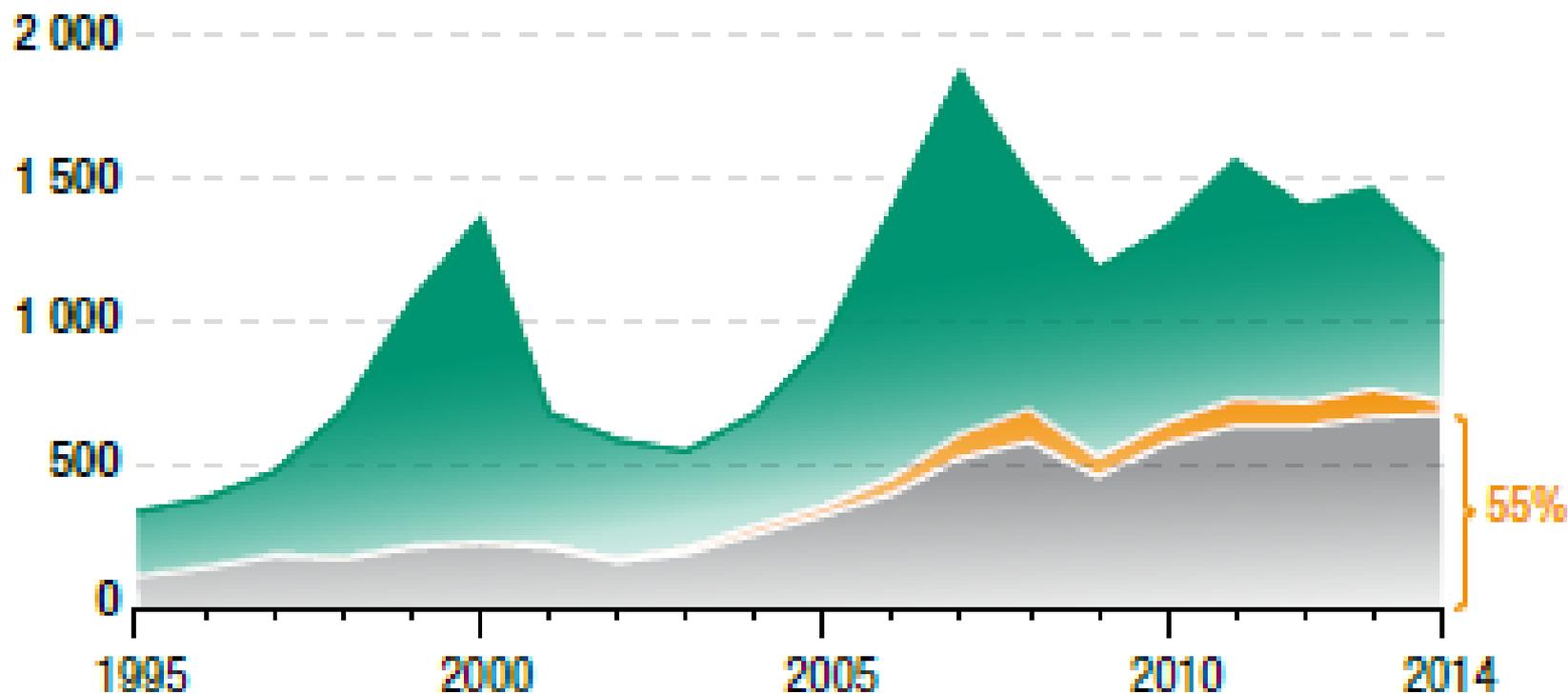
- Ozawa (1992) stressed that FDI ensures competition and reduces market distortions, improving knowledge exchange between the host country and international firms.
- De Mello (1997) concluded that the effect of FDI on economic growth depends on economic and technological conditions in the host country, mainly on the level of education and infrastructure.

The influence of FDI on economic growth

- Hermes and Lensink (2003) argued that financial system development in the host country is an essential precondition for the positive impact of FDI on economic growth, concluding that a more developed financial system contributes positively to the process of technological diffusion associated with FDI, causing, in turn, more economic growth.
- Ang (2009) reported that the level of financial development in the host country affects its ability to absorb the advantages of FDI flow.

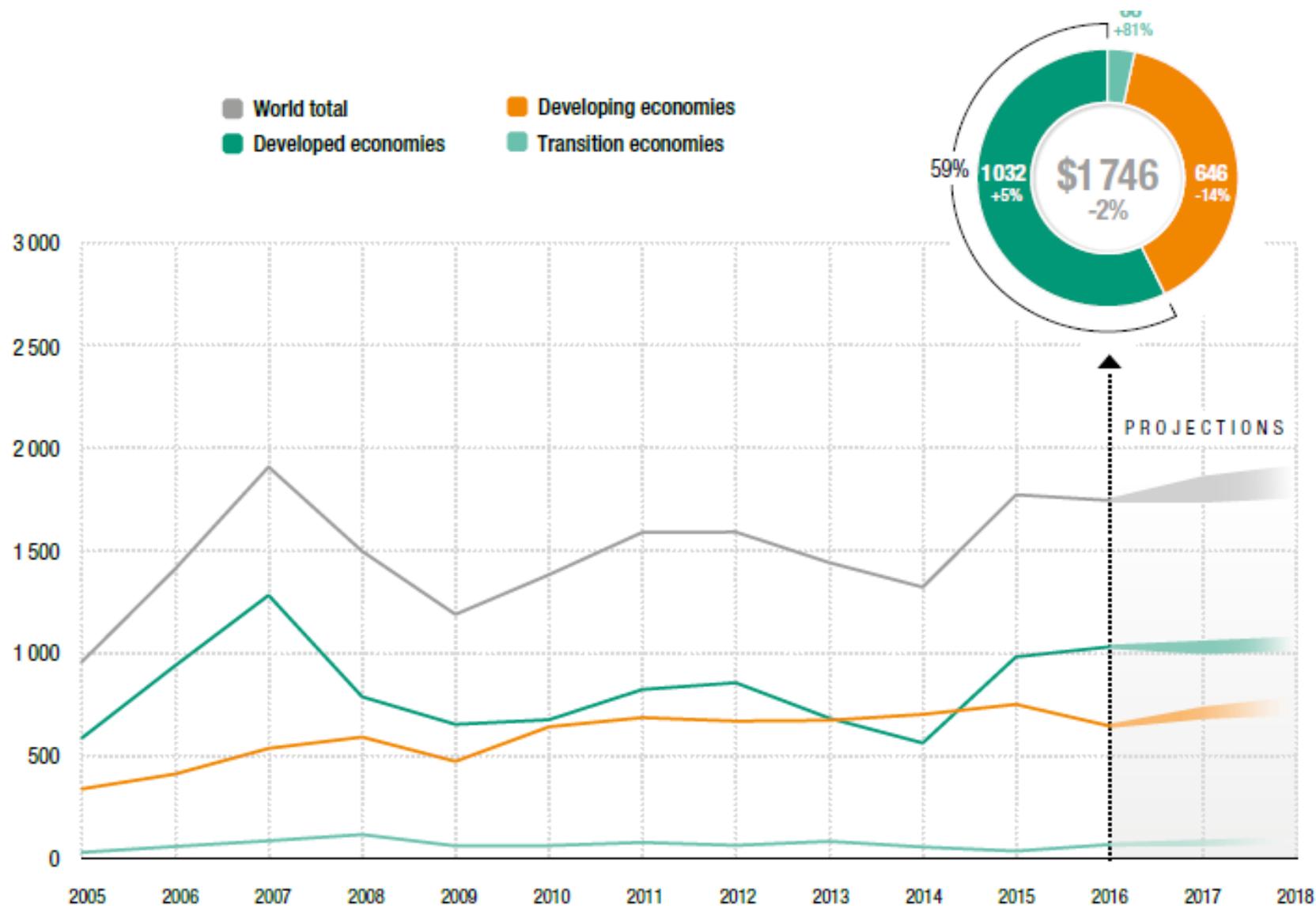
Global FDI flows, 1995-2014 (Billions of dollars)

Source: UNCTAD, World Investment Report, 2015 (<http://www.unctad.org/en>)



FDI inflows, global and by group of economies, 2005–2016, and projections, 2017–2018

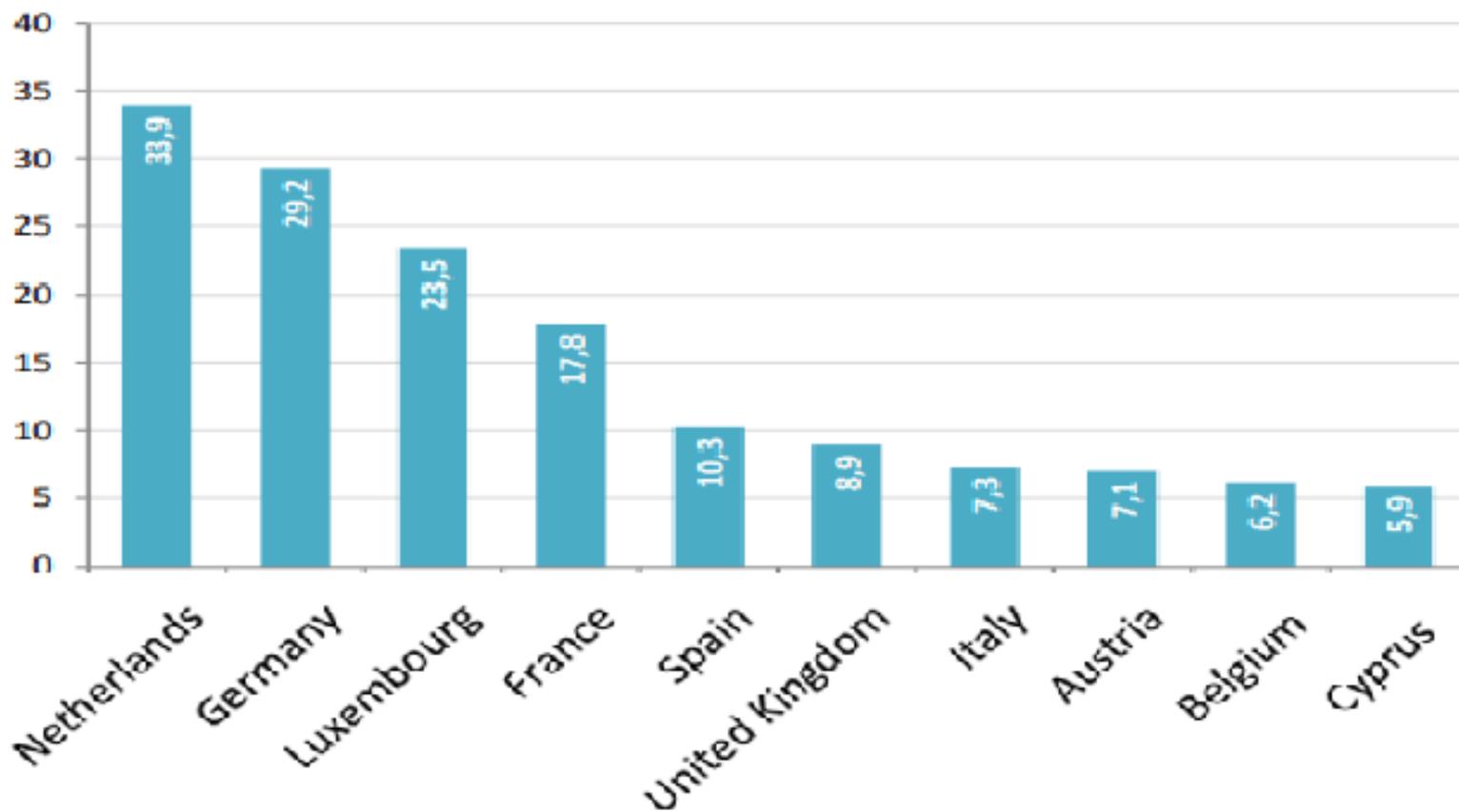
(Billions of dollars and per cent)



Source: UNCTAD, World Investment Report, 2018

Foreign direct investments in Poland, stock at the end of 2016, bln EUR

Source: www.paiz.gov.pl (Polish Information and Foreign Investment Agency)



The main foreign investors in Poland at the end of 2016, mln EUR

Source: www.paiz.gov.pl (Polish Information and Foreign Investment Agency)

