Bachelor Thesis

Liberalising Labor Migration

– Forms, Constraints and Effects on Development

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1 Introduction

Trade is mostly considered as trade in goods and the discussions made are about how to make as much welfare as possible out of the trade. An often overlooked area of another kind of trade is the trade in services provided by natural persons: labor migration. All labor migration can hardly be considered as trade but the shorter the duration the more trade related it will become since a laborer migrating for only a short time will after the work is done go back to his country of origin and take most of the money earned with him, a service has then been provided by another country through the presence of a natural person. Where the line is to be drawn between trade in services and migration of a more permanent kind is not easy to tell as will be seen further on. Just like in the case of trade in goods, welfare gains can be made by liberalisation of labor migration.

This paper is about labour migration in general thus not only focusing on the temporary kind. However, the difference between temporary and permanent migration from an economic perspective are not big and in most of the models and theories presented the duration of the stay of an individual migrant in the foreign country is not of any importance.

The following questions will be treated:

- What effects does labor migration have on the sending and receiving countries and on the world as a whole?
- How is labor migration treated in the GATS?
- How do the historical and present flows of migrating workers look?

Following this introduction comes a first section presenting economic theories and models of migration The second section is treating the GATS rules concerning labor migration and the last section describes the global flows of immigrants and analyses the effects of development. The paper ends in a conclusion and discussion in the last section.

2 The economic arguments for a liberalisation of international work migration

2.1 Potential welfare gains

The world has in the late part of the 20th century seen a liberalisation of goods and capital markets and an ever increasing movement of people and information as the costs of travelling have been falling and different types of telecommunication have improved. These processes of globalisation have not been matched by a liberalisation of the movement of workers across borders. This is one of the reasons why it is in this area that the largest potential economic gains for a continuing global integration are to be found (Ranis 2006:1).

There are good reasons to believe that a liberalisation of the international movement of workers would have stronger positive effects on the world economy than further trade liberalisation. First, there is not much trade in services, of which the movement of workforce is one type, relative to the trade in goods. This is due to the generally higher barriers towards trade in services than towards trade in goods. Second, the existing barriers towards trade in services reduce the competition in the provision of services and have an impact on other non-service parts of the economy as well since important industrial sectors such as for example transports and communications are heavy users of services. Third, services account for a larger share of the economy than goods in most developed countries and the quantitative gains from higher efficiency in the service sector would thus be larger (Winters 2002:4).

According to Winters, a liberalisation of the temporary movement of natural persons (TMNP) could result in huge welfare gains in the world economy, gains that would be fairly evenly distributed among the poor and rich parts of the world. Winters estimates that a modest 3% increase in the TMNP would make the total economy of the world grow by around 150 billion dollars (Winters 2002:14).Another calculation done by Hamilton & Whalley as early as 1984 used a model where all restrictions on mobility of labor were eliminated and arrived at the stunning conclusion that a doubling or more of the world GDP was a possible result as the combined work force of the world without restrictions on mobility would be used in a more efficient way (Hamilton & Whalley 1984:74).

2.2 The theory behind

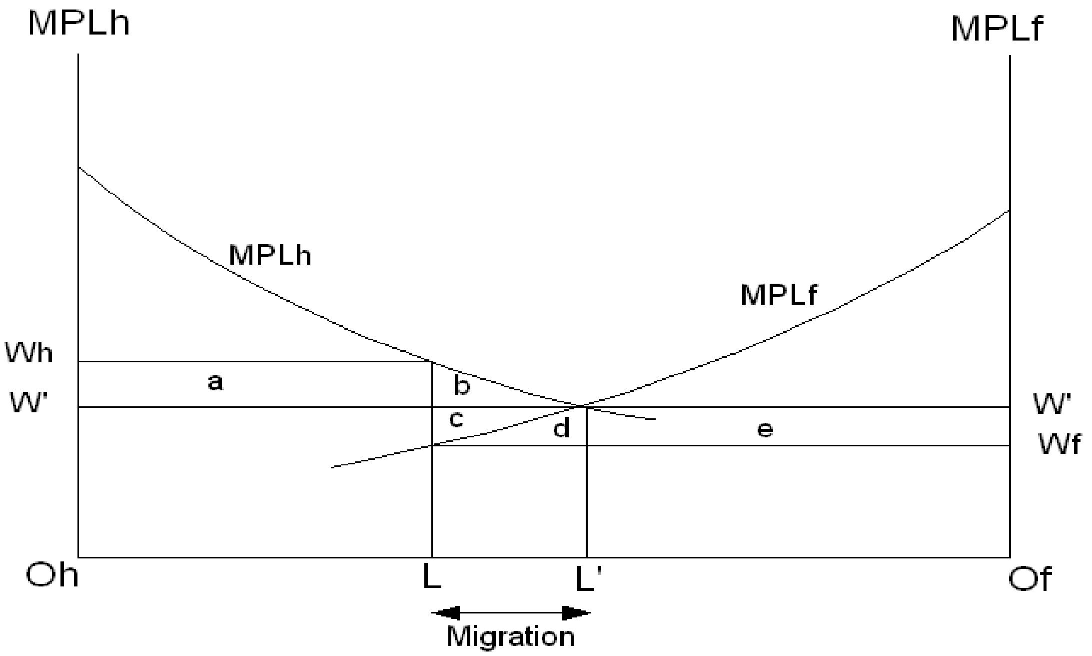
Just like in the case of normal trade in goods the suggested gains all arise because of differences in relative production costs in the trading countries. A complete abolition of the barriers for immigration and supply of workforce between countries would in a normal equilibrium model lead to factor price equalisation, just like in the case of trade in goods and similarly give rise to the same kind of redistribution of wealth as in the theoretical case of total liberalisation of trade in goods. Hence there are winners and losers and the concept of liberalizing the movement of workers is a politically sensitive one, not only because of the redistributional effects but also because of the social and cultural effects that large scale migration of groups of people would have in all countries around the world.

2.2.1 The basic model

For a deeper understanding of how migration could equalize the price of labour in two trading countries, consider figure one (from Senior Nello, 2005:145): There are two countries, Home and Foreign. The total quantity of labour in the two countries is shown by the distance OhOf. Before a fully free migration is allowed the distribution of labor is OhL in Home and OfL in Foreign. The marginal product of labour is higher in Home than in foreign because the capital/labor ratio is higher in Home. This is shown in the figure by the higher position of the MPLh curve compared to the MPLf curve. Because of this the wage is higher in Home, at Wh compared with the wage in Foreign at Wf. In short: Home symbolizes a developed country with high automatization and high wages and Foreign a less developed country with abundant supply of labour, low automatization and low wages. If migration is fully free between the two countries and the workers are identical workers will migrate from Foreign to Home in pursuit of higher wages. The migration will finally result in an equalized capital/labor ratio in the two countries and thus equal marginal products of labor and equal wages, illustrated in the figure by the wage level W' which could be seen as the world market price of labor as the world only consists of the two countries Home and Foreign. The migration is illustrated in the figure by the distance LL' which is the amount of workers that will move from Foreign to Home so that the new distribution of labour becomes OhL' in Home and L'Of in Foreign.

Wages will thus decrease in Home and increase in Foreign resulting in a loss for the indigenous workers in Home illustrated in the figure by the area **a** but a gain for the capital owners of the areas **a+b**. In Foreign the workers get an increased income of areas **c+d+e** while the capital owners lose areas **d+e**. The result in total is a net gain for the two countries by areas **b+c** which is a gain resulting from higher efficiency in the use of the total resources of the two countries. This simplified model of reality shows not only that there is a net gain but also that the migration has clear redistributional effects, something that will be discussed below.

Figure 1: The effects of migration



2.2.2 Migration of workers as a substitute or a complement to trade?

According to the classic theory of factor price equalisation, no movement of factors is needed to equalize the prices of factors between different countries, the only thing needed for this is free trade in the goods employing the factors. The concept of factor price equalisation only through trade in goods has, however, proven to be highly theoretical. Not even in fully economically integrated areas such as the EU are factor prices completely equalised. The reasons for this observed limitation of trade when it comes to the equalisation of factor prices could have many causes, such as differences in technology and human capital, legal environment and also of course the cost of distance that is not taken into account in the original factor price equalisation model. A liberalisation of the international labor migration as a way to increase factor mobility between countries can therefore be seen as a complement rather than a substitute to trade in goods (Winters et al, 2003:1140).

Another dimension to be taken into account when analysing whether trade and movement of factors of production are to be seen as substitutes or complements is time. Martin presents a theory suggesting that the migration after the introduction of a FTA will describe a hump like curve, meaning that it will increase in the beginning as the FTA creates more contacts and exchange of information between the countries within the FTA and then decline as a result of the factor price equalisation effect of the FTA (Martin 2006:20). In this way the labor migration becomes first a complement and later a substitute to trade in goods. Martin compares two different FTA:s, the EU and the NAFTA and comes to the conclusion that the migration is higher in NAFTA (between the US and Mexico) than in the EU because the EU has aimed at developing the economies of new members before granting full freedom of movement (Martin 2006:17). This is suggesting that the EU is in the stage of trade as a substitute to migration while the US-Mexico migration is still in the earlier stage of the two being complements, this because the income gap between the EU countries are smaller than the income gap between the US and Mexico.

A factor aside from the income gap that can be part of the explanation to the great migration pressures from Mexico to the US and similar situations is that trade liberalisation tends to restructure the production of a country, leaving workers from formerly protected sectors (e. g. farming) unemployed as a consequence and thus temporarily increasing the number of potential migrants from that country (Taylor, 2006:5).

2.2.3 Developments of the basic model of migration

The main incentive for a person to migrate and work in another country is of course the difference in wages. The wage is more or less equal to the average marginal productivity in the specific industry in question. In a very basic model, like the one used above, all workers are identical and there is thus nothing but the location of the industry determining the productivity of a worker. Such a model leads to the already mentioned enormous gain of a doubling of the GDP of the world or more by letting free the migration of workers.

A more realistic model takes into account that there can be differences in level of skills and other factors affecting the productivity of an “imported worker” such as language and corporate culture, factors that thus decreases the productivity of the migrating worker. However, even if such factors are taken into account, there are still huge gains to be made. For example Winters makes his calculation already mentioned in the first part of this section based on the conservative assumption that a migrating worker can only have a productivity of the average worker of the home country plus half the difference in productivity between the home and host country workers, and still reaches to the conclusion that a 3% increase in the movement of workers over all sectors would increase the output of the world with more than 150 billion dollars or 0,6% of the world GDP. This result could be compared to an estimated welfare gain of only about 100 billion dollars for reducing all remaining trade barriers in the goods trade, and this just from the relatively small increase of only 3% of the migrating workers. In the model used by Winters the world economy would benefit more from liberalising the movement of unskilled workers than skilled ones, since the movement of skilled workers negatively affects the productivity of developing countries (Winters 2002:20).

3 The potential of GATS for liberalising international labor migration

3.1 Background of the GATS

Services were long considered non-tradable on a global scale and were therefore not treated in early global trade rounds under the GATT. The perception of services as non-tradable was based on the fact that a service demands that the supplier is present in the place where the service is provided. Technology changes like the Internet and better phone connections combined with easier and cheaper ways to travel has changed this view and from 1980 the trade in services on a global scale has grown faster than the trade in goods (WTO 2006:2). In the Uruguay round the subject of trade in services was treated and the outcome was the General Agreement on Trade in Services (GATS). The agreement was preceded by lengthy debates, mostly about the tradeability of services.

The GATS aims at liberalizing trade in services under conditions of transparency and progressiveness. Members are making commitments in country schedules specific to each member. This means that there is a possibility for the members to adjust their commitments according to their domestic policies and political possibilities (WTO 2002:1). Through GATS, the member countries can assume legally binding commitments. In article I of the GATS, it is stated that the agreement covers four modes of supply of a service, the division into the different modes is made (see table 1).

As mentioned above the trade in services is small relative to the trade in goods and if the four modes of supply (table 1) are compared to each other the fourth mode, supply of a service through the presence of a natural person, is the smallest one, accounting for only 1% of the trade value of all four modes of supply (Martin 2004:27). It is this last and smallest mode that will be of interest throughout this paper since it is the mode of supply covering the presence of a service supplier as a natural person, i. e. a migrating worker. It has to be noted that the fourth mode of GATS is only dealing with temporary migration while in this paper migration in general is considered. Hence, mode four of the GATS can not be used as a framework for liberalisation of migration in general but only for migration of temporary nature. Anyhow, the models and theories described in the first section of the paper are not depending of the duration of the stay of the foreign worker and can thus be applied on temporary as well as permanent migration.

Table 1, the four modes of supply

<table>
<tr><td></td><td>Criteria</td><td>Supplier Presence</td></tr>
<tr><td>Mode 1: Cross-border supply</td><td>Service delivered within the territory of the Member, from the territory of another Member</td><td rowspan="2">Service supplier not present within the territory of the member</td></tr>
<tr><td>Mode 2: Consumption abroad</td><td>Service delivered outside the territory of the Member, in the territory of another Member, to a service consumer of the Member</td></tr>
<tr><td>Mode 3: Commercial presence</td><td>Service delivered within the territory of the Member, through the commercial presence of the supplier</td><td rowspan="2">Service supplier present within the territory of the Member</td></tr>
<tr><td>Mode 4: Presence of a natural person</td><td>Service delivered within the territory of the Member, with supplier present as a natural person</td></tr>
<tr><td colspan="3">Note: From the document MTN.GNS/W/124</td></tr>
</table>

3.2 Sectors of services in the GATS

The GATS combines horizontal agreements where all sectors are included and vertical agreements that are sector specific. The WTO is using a system with 12 core service categories:

- Business services (including professional services and computer services)
- Communication services
- Construction and related engineering services
- Distribution services
- Educational services
- Environmental services
- Financial services (including insurance and banking)
- Health-related and social services
- Tourism and travel-related services

- Recreational, cultural and sporting services
- Transport services
- Other services not included elsewhere

These 12 sectors are in their turn divided into 160 sub sectors. Each member has a country specific schedule with a possibility to make commitments in each of the sectors or sub sectors (WTO, 2006:4-5).

3.3 How commitments are made in the GATS

The nature of GATS is very flexible, The member states can make commitments, attach limitations to those and set up their own time frames for the implementation. The commitments are made in two areas: *national treatment* and *market access* (WTO, 2006:6).

National treatment are the principles agreed on in the article XVII of the GATS, stating that national and foreign service suppliers should be treated equally under the rules and legislation in each member state.

The market access condition is described in article XVI of the GATS where it is written that the member states are not allowed to restrict the number of service suppliers, the number of transactions and quantity of output, the number of natural persons supplying services or the proportion of foreign capital used in the supply of services.

Limitations to these two principles are to be inscribed in the concessions and can be made to make the trade agreement comply with the domestic policies of each member state.

However, the member states have to accept some basic conditions, regardless of other commitments made, as is stated by WTO, these include ” *MFN treatment (Article II), some basic transparency provisions (Article III), the availability of legal remedies (Article VI:2), compliance of monopolies and exclusive providers with the MFN obligation (Article VIII:1), consultations on business practices (Article IX), and consultations on subsidies that affect trade (Article XV:2).”* (WTO, 2006:7) To be noted is that many of these articles, apart from the unconditional obligations also in some parts contain obligations that can be limited in the specific country schedules.

The scope of the condition of national treatment is more limited in GATS than in GATT, as it only applies to the service sectors in the specific schedule of commitments of each member, but applies across the board in GATT, for all goods. This depends of the nature of services compared to goods. Unlike in the case of goods, it is not possible to control the trade in services with tariffs at the borders. This means that national treatment of foreign services in practice would be the same as free access of foreign service suppliers to the home markets in a member country and would thus have much larger political implications than the national treatment of goods under the GATT.

Even if not making any limitations in their country schedules as described above, the member states are allowed according to article XIV to make limitations to meet public policy concerns, the limitations should, however, not be of such a nature that they lead to unjustifiable restrictions of trade. There is also the article XII that allows member states to take temporary trade restrictive measures to cope with balance-of-payment problems (WTO 2006:9).

Members can also make additional commitments outside the area of market access and national treatment according to article XVIII, that treats the use of standards, qualifications and licenses (WTO, 2006:10).

Commitments made can be modified or withdrawn after three years but are then subject to compensation and a notice time of three months must be given before modifying or withdrawing commitments (WTO 2006:10-11).

A schedule of commitments contains eight entries per sector, one for each mode of supply in the two areas of market access and national treatment. The commitments range from ”none” which means full commitments without limitations to ”unbound” which means that the country has the full discretion to apply measures that are not against the basic conditions as stated above.

3.4 The supply of a service through the movement of natural persons; mode four

As already mentioned, migrating workers are treated under mode four in the GATS (see table 1) and it is thus this mode of supply that will be analysed hereafter. Mode four is defined in Article I:2(d) of GATS as *"the supply of a service…. by a service supplier of one Member, through the presence of natural persons of a Member in the territory of any other Member"* . In the annex on Movement of Natural Persons Supplying Services (MONP) of the agreement it is further specified that two types of measures are covered: Those affecting natural persons from a member country who are supplying a service through self employment and those that affect workers from a sending country who are employed by a service provider in the host country or in another member country.

It is also specified that the agreement does not cover persons seeking citizenship or permanent access to the employment market of a member country (permanent migration). The agreement is thus on temporary migration of workers even if there is no clear definition made on what separates temporary movement from permanent (WTO 2002:2). The annex leaves the member countries with full discretion in regulating the entry and stay of natural persons as service providers, provided that the regulation in itself does not nullify or impair the concessions made under mode four (Chanda 1999:19).

The framework of mode 4 in GATS thus not covers access to foreign labor markets, it is only about the *supply of services by natural persons*. This creates a problem of definitions as the term service supplier is ambiguous. The annex does not make a clear distinction when a person is going to be considered a temporary service supplier and when to be considered a permanent employee of a firm in the host country. A part of this problem is that there is no specification of the duration of the supply of a service. It was argued during the negotiations that a time limit would make the framework unnecessary rigid since each kind of service would demand its own time limits (Self 2002:8).

3.5 GATS articles important to mode four

There are, except from the specific rules stated in the MONP, several provisions made in the general framework of the GATS that are important for the supply of services through the movement of natural persons. These include article III on transparency, article VI on domestic regulation and article VII on mutual recognition (Self 2002:9).

Article III states that member countries should publish all domestic measures that pertain to or affect things agreed on in commitments made under the GATS.

Article VI requires that the domestic regulation affecting the functioning of the provision of services as agreed on in the GATS is objective and transparent, that the rules are not more burdensome than necessary and do not by them self hinder the provision of services from other member countries. It also obliges the members to make reviews of regulation affecting trade in services.

Article VII recognizes the right of members to set their criteria for recognition of foreign education, experience, licensing and certification of service providers but it prohibits the use of recognition as a disguised restriction on trade and it also prohibits the discrimination between service suppliers from different member countries. The article also obliges a member to provide opportunities for other members to demonstrate that diplomas and certificates should be recognized. It also emphasizes the need for common standards for recognition

3.6 Outcome of the Uruguay round of negotiations

The Uruguay round lasted for seven years (1986-1993) and only during the two last years of the round specific commitments from the member states were made. This was a relatively short time for making commitments in the GATS, since it was an entirely new part of GATT/WTO. Reliable data and statistics were lacking and it was therefore not possible for the negotiating parties to calculate the impact of concessions to a satisfactory extent. Mode four remained the most sensitive area throughout the negotiations. Due to difficulties to agree on substantial liberalization of the trade in services until the end of the Uruguay round, the negotiating parties agreed on an extension of the negotiations of 18 months but after the termination of the extended negotiations much further progress had not been made in mode four where only a handful of countries offered limited concessions, apparently only to increase their negotiating power in other areas of the GATS (Self 2002:10).

Even though a framework was established under the Uruguay round on how to trade in services, the actual liberalization undertaken was very limited even if some progress was made in the telecommunication and financial markets. Comparing the four modes of supply, the progress that was made was in the first three modes and almost nothing was achieved in the area of temporary movement of natural persons, mode four. The rules for issuing visas for temporary workers remained unchanged, mutual recognition of qualifications of service providers was poorly implemented and the issue of how to deal with foreigners seeking access to the welfare system of a host country was left unresolved throughout the whole negotiating round (Self 2002:2).

During the negotiations there was a clear polarization observed between the developed and developing countries of the world. The developed countries pushed for greater liberalization in mode three, pertaining to commercial presence, while the developing countries were of the opinion that commitments made in that mode should be roughly balanced with an opening of the rich world's service markets in mode four. The developed world was in its turn unwilling to make any great moves by making commitments in mode four since this is a politically sensitive area, closely related to the domestic labor markets of rich world countries (Self 2002:16). The result of all this was that negotiations under the GATS went slowly and were to a large extent unsuccessful.

3.6.1 Concessions made in mode four

As mentioned above, concessions could be made horizontally, pertaining to all sectors or vertically, pertaining to one specific sector. Each country made its own vertical country schedule, where the sectors of services open to concessions for each specific country were inscribed. Developed countries made on average vertical concessions in mode four in 50% of their domestic service sectors, while the corresponding number for the developing countries was 11%. There was a clear bias towards services that require high skills; the majority (94%) of entries made were limited to highly qualified service workers (senior managers, business visitors e t c) and only 6% of the entries were made in categories of other workers. Most countries made concessions but the majority of these were made horizontally and were limited in their scope (Self 2002:11).

Hence most of the vertical concessions made in mode four are pertaining to the movement of highly skilled labor, a sector where developing countries tend to be net importers due to the fact that these countries are relatively abundant in low skilled labor. In that way it could be argued that the concessions made benefit the developed world more than the developing. However, there exists no big differences in the commitments made by developing and developed countries, both groups have shown very hesitant in liberalizing the movement of natural persons and are very restrictive when making commitments in mode four. The same is true for members who have acceded to the WTO after the agreement of the Uruguay round was signed in 1995. This contrasts with the commitments in the other three modes for new members, where they have tended to make deeper commitments before acceding (WTO 2002:5).

The tendency to be hesitant in making substantial commitments in mode four becomes even more evident if the commitments made in mode four are compared with the existing legislation of the member states. There was no commitments made that required any changes in the already existing laws of any country, which means that the only thing obtained by making the commitments was a freezing of the existing conditions. Moreover, in many cases the negotiating parties did not even in their commitments grant what was in fact already granted by their present legislation (Self 2002:12).

Commitments have not been made in some of the sectors where the largest potential gains to be made from liberalization exists, sectors like health care, legal services and accounting. This means that the scope of the commitments made is even more limited, compared to what could have been achieved, since these important sectors have been excluded. Another problem is that even when there has been commitments made, these are often subject to limitations such as immigration and recognition rules (which are policies favoring domestic service suppliers) and limitations on investment (Chanda 1999:21).

The progress made during the Uruguay round was mainly in establishing the completely new system of disciplines and rules that forms the GATS. As the liberalizations made were limited in all the four modes of supply the Uruguay round should be seen only as a first step from where further liberalization could be achieved. A new round of negotiations on services was launched in 2000, with the objective of reaching substantially higher levels of liberalization. The question facing the negotiating parties was no longer whether, but how to further liberalize the trade in services. Up to date, the outcome of the negations on trade in services have been limited despite several attempts by members to modify the agenda to gain new leverage in the negotiations (WTO, 2006:15-16).

3.7 Problems existing after the establishment of the GATS framework and the liberalisations achieved in the Uruguay round

3.7.1 Government procurement and subsidies

One of the main gaps of the GATS framework pertinent to movement of natural persons is in the areas of government procurement and subsidies. The article XIII of the GATS states that government procurement is not covered by the MFN principle, which means that this area is not part of the GATS agreement. Article XV recognizes the distortionary effects of government subsidies and recommends the member countries to provide each other with information on subsidies and to develop multinational disciplines for subsidies (Chanda 1999:19). It is thus not a rule in any sense but just a recommendation of what could be done to diminish the negative effects of subsidies.

3.7.2 Constraints on the movement of natural persons as service providers

As the main constraints facing natural persons who want to work in a foreign country are not, as in the case of goods, at the border as tariffs or import restrictions, the liberalization of the movement of natural persons is dependent mainly of the domestic regulation and administrative procedures of the member countries. The constraints facing the provision of services through the movement of natural persons can be grouped into four categories (Chanda 1999:10):

- *Immigration procedures:* Many countries do not have schemes for visas for temporary workers and there is yet no agreement on global rules in this area included in the framework of the GATS. In most countries there is a wage parity condition, foreign workers should be paid the same wage as a citizen of that county would have been paid. This not only undermines the possibility of low cost workers from developing countries to use their comparative advantage, which is low wages, to compete in the market but also negates the extra cost of recruiting workers abroad. There is moreover a bias in the legislation of many developed countries that makes it easier to obtain visas and work permits for more skilled workers than for less skilled. This disfavors many developing countries that have a comparative advantage in low skilled work and undermines the popularity of liberalization in mode four since it worsens the fear of developing countries of a brain draining worker migration. Many countries in the developed world have schemes for visas and work permits that are based on a quota, this is hurting industries who are in need of services from abroad.
- *Recognition of skills and diplomas:* In many cases temporary workers face arguably discriminating rules of recognition of their skills. Article VII in the GATS deals with this problem but it gives the member states discretion in making their rules and much can still be done to achieve fair standards of recognition.
- *Differential treatment of foreign service personnel:* Many countries apply strict rules of eligibility for foreign workers, such as residence requirements and economic needs tests, which naturally results in discrimination against foreign service providers. Another example of discrimination is in the area of government procurement, where domestic firms are often treated favorably compared to foreigners. Subsidies to domestic service providers are common in some service areas and gives the domestic firms an arguably unfair advantage. A lot of laws and rules in the recipient countries that are intended for

public security indirectly hurt foreign service providers. Examples are requirements of certain accounting procedures, restrictions for the use of foreign firm names and restrictions on provision of legal services by foreign firms.

- *Domestic regulation covering other modes of supply that indirectly have an effect on the supply of services through the movement of natural persons:* Restrictions in mode three of the GATS, the provision of services through commercial presence, often affect mode four since the two modes are complementary, the provision of a service through movement of natural persons often requires commercial presence by a foreign service firm in the recipient country.

The assessment made above is not for arguing that all the rules mentioned are only made to hinder the movement of natural persons. Often they are applied to protect the consumers in the specific country or to protect the labor markets from disruptions, but nonetheless they also act like barriers to movement of foreign service providers. Further agreements on how to deal with these imperfections have to be made if the GATS framework is to be an efficient and unambiguous tool for liberalising international labor migration.

Another constraint for the GATS as a tool for liberalisation of labor migration is that it is only dealing with temporary migration, leaving permanent migration totally out of the scope of negotiations. How big a problem this is depends of the rigidity employed when using the definition of a temporary service provider. It is not hard to imagine a situation where a substantial liberalisation is reached in theory but foreign workers are discriminated because the work they are doing is deemed as too long term to be covered by the agreement. Such a situation would of course decrease the welfare gains but as the situation looks today with very little liberalisation achieved any substantial liberalisation reached through negotiations under the GATS could still be seen as a step forward.

4 Migration flows at present and the probable effects of a future liberalisation

Despite any success in creating a liberal multilateral regulation of migration of workers in the resent trade agreements there are substantial and increasing flows of migrating workers at the present day. These are both in the form of legal and illegal, permanent and temporary movements. Between the years 1965 and 1990 the global migrant population doubled, from 75 to 150 million people (Ramamurthy, 2003:49). The increasing numbers of migrating workers can be explained mostly as an effect of an increasing global population (the increase of migrant population and global population were during these years 1,9 and 1,8 percent respectively). The slightly higher increase in migrant population is probably due to improved possibilities of communication rather than a more liberal regulation of migration. If these numbers are compared to other factors of globalisation like for example trade in goods and international tourism the increase is relatively small suggesting that there is a need for further liberalisation before the migrating workers and their potential employers can fully exploit the possibilities that the improvements in communication has created.

Something that has changed more than the volume is the pattern of migration. With cheaper travel, easier ways to send money around the world and lower telecommunication costs it has become easier for migrating workers to go to more remote countries than before (ibid). The number of potential host countries has also increased since a substantial number of countries has climbed the economic ladder from a status as poor countries to middle income countries.

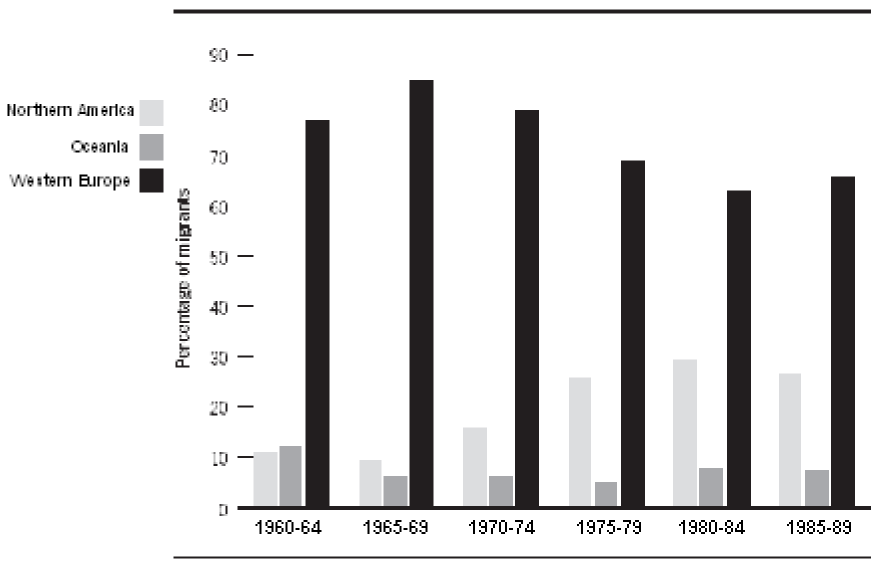
Another factor that could have contributed to the increase of the migrating population is the widening income gap between the high, medium, and low income countries. In 1970 the average income in the high income group of countries was 8 times bigger than in the medium income countries and 44 times bigger than in the low income countries. In 2000 the income gap had increased so that the average income in the high income group of countries was now 14 times that of the middle income country and 66 times that of the low income country (Martin 2004:12). These numbers are not adjusted to purchase power but since a large proportion of the income received by a migrating worker is sent back home as remittances the exchange rate is arguably of as great importance to the migrating worker as is the purchasing power in the host country.

4.1 Migration statistics by region

To understand the changes of migration patterns it is helpful to study the outflows of migrants by region as will be done briefly hereunder. The data cover the years 1960 to 1990 and are taken from a report on migration by the Swedish aid agency, SIDA (Ramamurthy, 2003). As this data is not fully up to date, the analysis is not meant to be a perfect description of the actual situation today but a study of long term trends existing in the migrational patterns of the different regions studied.

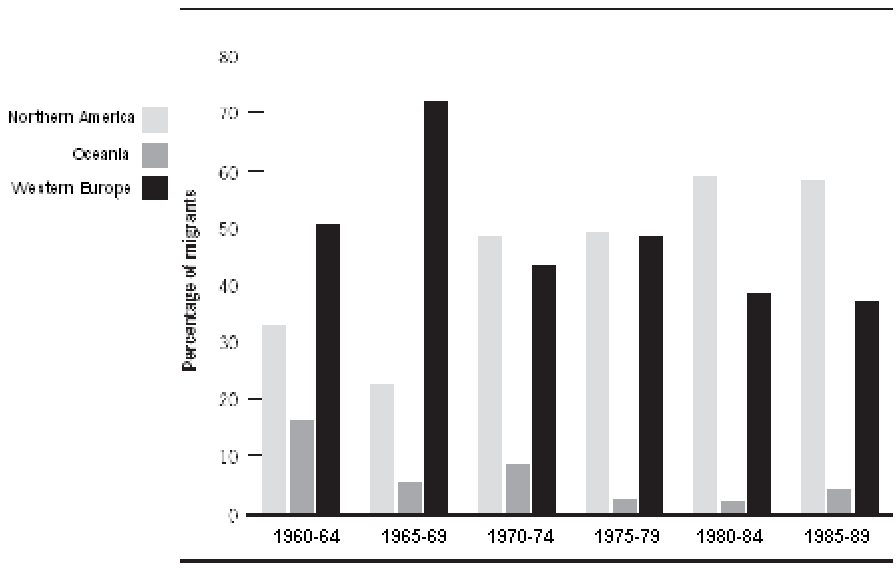
Africa has had an internal flow of migrants from poorer countries of the continent to the richer South Africa and also to temporarily booming natural resource rich countries. The external flows have gone mainly to Western Europe and has continued to do so. Except from these flows, that are work related, there has been a substantial flow of refugees between different African countries as a result of the numerous conflicts on the continent.

Figure 2. Migration from Sub-Saharan Africa by destination continent. 1960-89.Percent (Ramamurthy 2003)



In *Asia* an important change can be seen during the thirty years that the statistics available here are covering. First, North America was replacing Western Europe as the most important region to migrate to. This happened during the 1970's. Second, perhaps more interestingly, the number of internal regional working migrants increased. The major host countries were the Persian Gulf countries and the newly industrialised countries in South East Asia. An interesting feature of this internal migration was that many countries were acting both as senders and receivers of migrating workers. Working migrants tended to go from the poorest countries such as Myanmar and Vietnam to relatively richer countries such as Thailand while many Thai workers were emigrating themselves to even richer countries like Taiwan and Korea.

Figure 3. Migration from Southern Asia by destination continent. Percent. (Ramamurthy 2003)

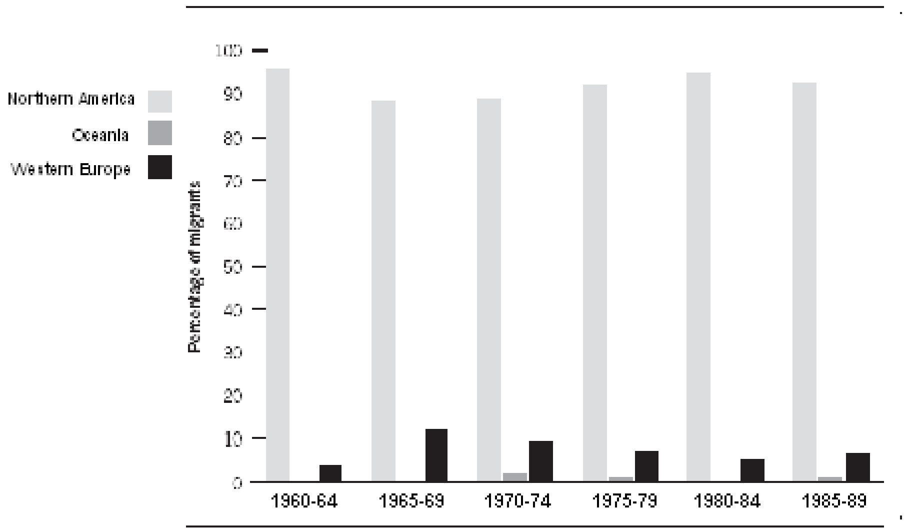


Europe has seen mostly an internal flow of migrants, first from south to north and later from east to west. Most of this flow is of migrants seeking work in other countries than their own as a result of differences in wages. During the 1960's many North European countries were actively recruiting work force in South Europe, a process that slowed down in the ensuing crises in the recipient countries during the 1970's. The later flow of working migrants from the East to the West was a result of the collapse of the Soviet Union and the following social and economic upheavals in the former sphere of interest of Moscow. The integration of the former Central and Eastern European countries in the EU will probably have the long term effect of slowing and even reversing the flow of migrants as has happened with the countries in Southern Europe as they have joined the EU.

In *Latin America and the Caribbean* the internal migration has been from poorer unstable countries to countries with relatively strong economies and large markets such as Brazil and Argentina. The external flows have gone mainly to North America, USA in particular, a trend that has been unchanged during the years. In this region a trend similar to the one described for

Asia can be seen; Mexico is an example of a country that has been and is both an important sender and receiver of migrants. Mexicans leave for the USA while people from poorer Central American countries are attracted by higher salaries in Mexico, mainly in agriculture.

Figure 4. Migration from Latin America by destination continent 1960-89. Percent. (Ramamurthy 2003)



In the *Pacific* region with its small population, many countries are largely dependent of remittances from migrants abroad, mainly working in Australia and North America. For the domestic economies of these small states the migration is often delaying the development at the same time as it is generating income in the form of remittances as inhabitants tend to seek opportunities abroad instead of working at home.

The remaining regions, *North America and Australia/New Zeeland* are the main immigration countries of the world. The largest number of immigrants is found in the USA while the proportion of immigrants is the largest in Australia and New Zeeland where about 20 percent of the population are immigrants. In the USA the Mexicans are the largest group of immigrants, followed by the Filipinos. The immigrant population in Australia and New Zeeland has turned from being of mostly European descent to being mostly Asian as a result of a changes in the immigrant policies of these countries.

4.2 Winners and losers of a liberalisation of migration

As already mentioned the liberalisation of work migration has the same effects as other kinds of trade liberalisation in the way that it generates gains for the society as a whole but also has redistributive effects. This means that some individuals are, at least in the short run, almost sure to be worse off after the liberalisation than before.

In this sense the liberalisation of international labor migration would may have a larger impact on the welfare of the least skilled workers in the developed world than a liberalisation of the trade in goods. This is because under the liberalisation of trade in goods, unskilled workers in developed countries has in the passed been able to move to the service sector and retain most of their income. With this sector also open to competition from low wage countries these unskilled workers will not have this alternative to the same extent since the wages may be pressed down in the service sector too as foreign service providers are using their comparative advantage; low wages. During the years 1980-2000 an 11% rise of the work force by immigration in the US led to an estimated 3,2% decrease of the average wage of the native worker but almost 9% decrease for the least skilled (Borjas 2003:1368). Similar studies in Europe do however not show the same negative correlation between immigration and wages of natives but finds only small negative and sometimes even small positive impacts (Bauer & Zimmermann 1999:59). This difference might be due to a more liberal work legislation and thus a more competitive job market in the US.

Since the trade in itself brings about gains to every country engaging in it, it is theoretically possible to compensate the losers of a freer trade. In reality, however, this could be difficult. Extended social insurance or direct payments could arguably be a solution to the economic difficulties that displaced domestic workers might face but that kind of redistribution has to be wisely designed so that it does not destroy the incentives to find alternative jobs.

Another way to reduce the negative effects of redistribution that may be more beneficial is to increase governmental spending on education and training specially aimed at less skilled workers. In that way losers could ideally be moved up the rungs of the income ladder at the same rate as their jobs are taken over by people from lower income countries (Winters 2002:21).

There is, however, some evidence suggesting that the impact of earnings of the indigenous workers in the receiving countries could be smaller than has generally been the assumption so far. This is particularly true in the case of low skilled indigenous workers competing with other low skilled migrating workers, interestingly the area where the protectionist barriers are the greatest and where the opposition to liberalisation is the strongest among politicians and the general public. The reason to believe that the effect on the income would be smaller than is usually expected is that the migrating workers could in many cases be seen as a substitute to capital if the migrating workers for example are taking up jobs in agriculture and in other work intensive industries that the indigenous workers are not willing to take, thus substituting for investment in expensive machinery by working by hand. In that way the immigrant is not so much competing with the indigenous workers but instead boosting the productivity in the industry. An effect of this could be the survival of industries facing increasing competition from low cost countries as an effect of trade liberalisation, the so called "sunset industries". The migrating workers will demand lower wages, making the production costs decrease, thus making the industry in question more competitive. In this way the migrating workers would save the struggling industries, at least temporary and also keeping some indigenous workers employed in these industries if we assume these indigenous workers have some qualities such as language, culture and other skills that makes them not fully substitutable with workers from another country (Ranis, 2006:8).

If there are institutional constraints in the market such as very strong labor unions and high unemployment, arriving immigrants willing to work for lower wages could make the market more competitive and thus press the average wage downwards (if the legislation so permits). This would then have the effect of creating more jobs in the market in question since the wage paid would be closer to the equilibrium than before (Zimmermann 2005:420). If this effect is positive or negative for the indigenous workers is hard to tell since it depends of the unemployment rate and the elasticity of the demand for workers. If the demand for workers is elastic and there is high unemployment a small decrease of the wage will create many new jobs and thus be arguably positive but if the situation is the contrary, so will the effect be.

4.3 Mitigating negative social effects

When studying winners and losers of work migration the sentiments of the general public is an important factor to take into account since it is these people who are electing the politicians who will take the economic decisions and do the trade negotiating. If there is a generally suspicious view of migrating workers among trade negotiators it is partly because they reflect the general negative views of migrating workers and other immigrants in their countries.

As we could see from the discussion in the previous section it is often that workers in the receiving country will perceive themselves as losers from increased labor migration even if they in fact are not. Hence, the negative view of immigrants in many countries is likely to stem not only from rational economic thinking in terms of winners and losers but also from other factors such as fear of losing national cultural and social values.

To create a more positive view of migrating workers in the receiving countries politicians could convince their voters that the migrating workers are not permanent migrants by using a guest worker scheme with time limits for staying or they could use a point system or demand based system to convince voters that the immigrants are really needed. In a point system points are given to the potential migrant for qualities such as language skills, university diplomas or specific professional skills and in a demand based system only migrants who are already employed before entering the country are allowed to pass the border (Martin 2004:17).

Such actions would probably be efficient to create a more positive view of immigrants in a country but whether they are desirable is another matter since they could also be used for making it harder to migrate as a worker and thus decrease healthy competition in the internal jobs market of the receiving country.

4.4 Effects of a liberalisation on the flows of migrant workers between rich and poor countries

With a liberalisation of the movement of natural persons the flows of emigrating workers can be roughly divided into three categories, each of them giving different effects and different redistributional effects; that is different winners and losers (Winters et al, 2003:1141).

- *The flow of skilled workers from developed to developing countries:* This flow takes mainly the form of companies from developed countries operating abroad sending highly skilled professionals to train personnel or implement new technologies. This flow has the effect of increasing the productivity in the receiving country and is therefore increasing the income of the local workers. It thus narrows the productivity gap between developed and developing countries. The less skilled workers in the sending (developed) country loses because they will have less skilled workers to work with (hence lower productivity) and because of the increased competition from the workers in the receiving (developing) country.

- *The flow of skilled workers from the developing to developed countries:* This flow results in a clear gain for the receiving (developed) country since the supply of skilled workers is increasing and resulting in higher productivity. The effects for the sending (developing) country are less clear; clearly the workers in the sending country lose from this flow since they will have less skilled workers to work with and hence are less productive but the sending country will also gain since they receive remittances from the workers abroad and since these workers might come back and bring new knowledge into the economy, hence increasing the productivity. The last effect is stronger if the work done abroad is of shorter duration, as is the case with temporary migrating workers. Another potential gain for the sending country emerges if the possibility to work abroad is increasing the returns to education and thus raising the overall level of education in the country.

- *The flow of less skilled workers from developing to developed countries:* This flow results in a net gain for the sending country since the earnings of the migrating workers increase and some of this increase will be sent back in the form of remittances. For the receiving country the gain is also the biggest with this flow since this is where the differences in wages are the biggest. It is also this flow that is the most politically sensitive since it has the largest and most obvious redistribution effects. The less skilled workers in the receiving (developed) country will face the competition of workers from abroad demanding much lower wages (if the migrating workers are not substitutes for capital as described in the section above). In the case of permanent migration this flow could also cause social tensions and result in a draining of the governmental purse. In the case of workers in a functioning guest worker program this will not happen since the flow is of a clearly temporary nature.

4.5 Economic development effects of labor migration, in the short and in the long run

The *desire* by a worker to migrate is a function of available information, geographic distance, income gap between the sending and receiving country and the perceived probability of the migrating worker of finding a job in the receiving country while the *ability* to migrate is affected by the income level of the worker, government and credit support, the existence of other diaspora communities from the sending country in the receiving country and the barriers to migration in the receiving country (Ranis, 2006:2). Since the ability of workers to migrate in many cases is higher than the legal possibility there will be illegal immigration. This situation often appears in the context of two neighbouring countries or regions with great differences in income as in the case of the US and Mexico or the EU and North Africa.

Historically migration has been a strong factor in leveling incomes of workers in sending and receiving countries. During the 19th century migration between Europe and the new world migration was responsible for the lion's share of the wage convergence between these two regions (Williamson 2002:25). Hence, from a poverty reduction perspective liberalising migration of workers can indeed be a useful policy of decision makers in the rich world, if generous enough it could be many times more efficient than foreign aid initiatives.

4.5.1 Remittances

The direct positive effects of labour migration for the sending country are the remittances, increasing the income of the family staying in the sending country, and increasing the capital/labour ratio, leading to higher productivity per worker in the sending country. Longer term positive effects for the sending country are the additional investments that can be made as a consequence of the increased income of the family in the sending country and the increase in human capital as migrants return home with new skills (Ranis 2006:4).

Remittances from migrating workers have been increasing fast in the years around the turn of the millennium and continue to do so. Interestingly, the proportional increase in remittances have been larger than the increase in migration, meaning that each migrating worker today sends back more money than before, at least according to the official statistics. There is no clear explanation to this fact but part of it could be because more of the remittances are registered as a consequence of migrating workers using formal channels to transfer the money to an increasing extent. 70% of all remittances goes to least developed countries and are in some smaller countries the major “export income” of the country. For a substantial number of developing countries remittances are becoming more important as a share of the national income (Taylor, 2006:2).

As is the case with all forms of incomes, remittances are either spent on consumption, saved or invested. There are however some qualities in the nature of remittances that suggests that the investment made as a consequence of remittances are likely to be more productive than in other similar situations when poorer countries are receiving increasing incomes from abroad for example by getting more foreign aid or by increasing their export of natural resources. Income from these latter sources tend to go to the government in the poor country or to a limited number of individuals who are already well off, thus increasing the governmental spending or increasing the spending on luxury consumption. When, on the contrary, the income is more evenly spread as in the case of remittances it is likely to be invested in such things as small scale production facilities or improved farming methods and therefore generally having a larger positive effect on the output in the country. Another reason to why remittances have a stronger positive effect on the economy of the country than for example income from natural resources is that they are much less likely to create inflation and in that way be negative for the export industry of the country (Ranis, 2006:6). However, the extent of the inflation created by increasing remittances is highly dependent of the labor market in the receiving country. If this market is in some way rigid due to inappropriate regulation from the government the increase in demand could result in higher prices rather than increased output and thus increasing the inflation (World Bank 2006:124).

The propensity to invest the remittances received differs hugely between different recipients. The most likely investments made due to remittances are in human capital and health. Children in receiving families will have better schooling and more access to health care than children from other families. The proportion of the money received that is invested instead of consumed depends on whether the remittances are seen as a temporary or a permanent flow of money. If the flow is of temporary nature the remittances are more likely to be invested than if it is seen as a permanent part of the total income of the receiving family. Investment is also less likely when the receiving family is struggling to meet subsistence needs or is coping with adverse shocks for example from drought or an economic downturn (World Bank 2006:125-127).

Overall, most remittances received by the sending countries are spent on consumption. Sound domestic economic policies would be a way to increase the portion of remittances saved and invested. In a country that has a stable currency and strong property rights, more of the remittances are likely to be invested in activities that increases productivity and enhances economic growth and development. This is primarily a domestic issue in the countries receiving the remittances but it could also be an objective for international public finance institutions such as the IMF and the World Bank to promote such an economic climate and to simplify the transfers of remittances as a way to fight poverty in developing countries (Martin, 2006:14). This is not to say that spending remittances on consumption is necessarily a bad thing, on the contrary it has the effect of boosting demand in the receiving country, often for goods that were not affordable before and it therefore creates jobs in other sectors such as for example construction and entertainment (if these sectors do not suffer from too many regulatory constraints). In this way the remittances will have the effect of an “income multiplier” as the money spent by the person receiving the remittances will in its turn be spent on something else by the person receiving them and so on (Taylor, 2006:8).

4.5.2 Human capital

There are two effects, which are likely but not certain, that will in the long run increase the human capital in the sending country.

The first effect is increased human capital because of migrating workers are returning with skills acquired while working in the receiving country. When migrating workers are returning they have a good chance of boosting the economy by introducing new technologies and by setting up new productive firms often in the export industry, relying on the contacts and networks they have been creating while living abroad (example of this is the high tech industries created in several Asian countries by emigrants returning from the US). This effect is however not a necessary outcome of migration since it can not be taken for granted that a substantial number of the emigrating workers return. As for example the exodus of African health care workers to the developed world has not resulted in any positive effect of this kind since the workers migrating have not returned. The result has instead been negative as the domestic health care systems has suffered from a lack of human resources and the money spent educating the health care workers has not given any benefit to the sending country, the classical situation of “brain drain” (Martin, 2006:5).

The second effect is increased human capital in the sending country because the pay-off from education will increase as a result of the possibility to work abroad. Hence, more individuals going into education will lead to increasing average skills and thus higher potential productivity. It is far from certain that all these educated will go abroad, this off course depending on the economic situation in the country (Martin 2004:22). If for example a country is starting to experience large economic growth, one effect will be to make it possible for a lot of workers to go abroad since the per capita income is increasing. The ones going abroad, if they are educated, will inspire others to go through higher education since a possibility of a better paid work abroad now exists. If the economic development continues it is probable that instead of going abroad, the persons going through education will find work at home and in that way increase the ratio of skilled/unskilled and thus increase the productivity in their own country and make the high growth sustainable.

These two effects taken together will increase the income levels in the sending country and hence decrease the income gap between the sending and receiving country. The increased income will have two opposing effects of the migration pressures between the sending and the receiving country. First, it will increase the ability to migrate as more low skilled workers will be able to afford the traveling costs and to take the risks of seeking employment in the receiving country. Second, it will decrease the desire to migrate since the additional income from working abroad compared to work in the home country will be smaller. If at first the sending country has a large income gap and is poor the desire to emigrate will be higher than the ability, a decreasing income gap between the sending and the receiving country will finally result in an ability that is higher than the desire (Ranis,2006:5).

Traditionally the substitutes to labor migration are considered to be trade and FDI, but with the argument above it is clear that also the migration in itself has long term effects that are acting as substitutes to migration. To summarize; labor migration has a good chance of enhancing the growth in the sending country and in that way decrease the income gap between the sending and the receiving country, which in its turn decreases the desire to migrate.

5 Concluding remarks

There are substantial benefits for all countries of the world to make by liberalising international labor migration. A framework exists in the form of mode four of the GATS but very few concessions have been made under this mode in the past and current trade negotiation rounds. This is partly because the subject is relatively new in the context of international trade negotiations, partly because migration is a politically sensitive issue having social and cultural implications and partly because trade in services provided by natural persons will, like all other trade, in the short run create winners and losers.

This paper has treated:

- The theoretical arguments for a liberalisation of the labor migration
- The actual situation of the existing international rules and frameworks for negotiations pertaining to labor migration
- The present and potential flows of migrating labor and potential effects on development from an increased labor migration

Theoretically the economic gains of an increased labor migration are evident, the positive effects are a lot greater than the negative ones and if treated in the right way, labor migration can have strong positive effects on development and poverty reduction. The framework and regulation set up in the Uruguay round and the ensuing concessions made do not take advantage of these opportunities. Most of the existing labor migration between rich and poor countries today is through national programs and often masked as asylum migration or is happening illegally.

Partly to be blamed for the lack of progress in the liberalisation is the negative view of immigrants that is dominating in many countries, developed or developing. Democratically elected leaders will, intentionally or not, reflect these negative views in dealings with foreign countries. When making the choice whether to further liberalise trade in goods or in the migration of workers, the liberalisation of trade in goods will be seen as the less bad alternative even as the potential gains are much larger in the area of labor migration.

Another reason why trade in services in general and trade in mode four in particular has been given so little energy in the present and passed negotiation rounds is probably that it is a new area in international trade that has not been around in the policy debates of the participating countries long enough to be something to care seriously about. During the time since the start of the Uruguay round a framework has been created but very little progress made in the liberalisation itself because a lack of knowledge of the potential gains and of the possible unintended consequences that more far reaching agreements could have. Perhaps as the time passes and more information is spread and the subject is more debated, the progress in liberalisation will accelerate just as it has done with trade in goods, an area that it took half a century to liberalise to the present extent.

One reason to be optimistic about future possibilities for liberalisation is the demographic situation in developed countries where the population in the coming decades will get older and less able to fill the demand for workers. This will happen at the same time as the working-age population in the least developed countries will rapidly increase (Martin 2004). Hence, taken only these two factors into account the solution should be obvious to decision makers; make it easier for workers from the developing countries to migrate to fill the gap of worker in the developed countries. Most probably the change will not be swift and easy as since there are more factors playing a part but the pressure on elected politicians in the rich world to actually do something about the problem will increase as the problem only grows bigger as the time passes by. One example of a changing attitude is the recent proposal by the Swedish government to make it easier for non-European migrant workers to get in to the country, signalling a new view of the immigrant not as a problem but as the solution to the demographic problem (Silberstein 2007).

The only way for multilateral liberalisation of work migration that has been considered in this paper is the one through the framework set up by the GATS. There is of course the somehow more straightforward way of unilateral liberalisation that would have the same benefits to the single country as it would have for the whole world if liberalisation was achieved through the framework of the GATS but since this possibility of unilateral liberalisation is existing in goods trade as well and not used often it is not much to hope for in labor migration either since this area is even more politically sensitive than the area of trade in goods. Thus, the best bet for liberalisation is through an international regime of some kind.

If, as it seems right now, the Doha development round stalls completely an alternative approach for boosting the world economy and reducing poverty in the third world could be a separate international scheme to expand temporary immigration from the poor to the rich world, including also more permanent forms of labor migration than under the GATS. Anderson et. al. estimates that an immigration policy increasing the labor force of the rich world with 0.5% by 2025 would have the same effect on the incomes of poor countries as a fair outcome of the Doha round (Anderson et al 2008:23).

Hence, there are many possible ways ahead leading to a liberalisation of labor migration benefiting the whole world. What is needed to move ahead along one or several of them is the political will.

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