LABOUR MOBILITY, PRODUCTIVITY AND FDI

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DES POLITIQUES MEILLEURES
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International movement of labour

- International Trade: movement of goods and services
  - The easiest way of economic integration

- Other ways of integration: mobility of factors of production:
  - Labour mobility
  - International borrowing and lending
  - FDI and multinational firms

Why labour mobility?

- Most international labor migration has been motivated by the prospect of earning higher real wages and income abroad.

- The decision to migrate for economic reasons can be analysed in the same manner and with the same tools as any other investment decision.
  - Cost vs. benefits

- Potential gain:
  - relocation of labour from regions with a surplus of workers to regions with labour shortages
  - more efficient allocation of labour to activities and regions where it is (presumably) more productive and can generate more income.

FDI and Labour Mobility

- FDI is vital to promote sustained economic development in the relatively small and open CEFTA economies
- Labour shortages and rising wage levels may induce FDI to locate to countries with more abundant labour supplies, this is more problematic for relatively small economies
- To attract FDI, those countries have to liberalise the environment for labour inflows to allow easy access to a large pool of skilled, semi-skilled and unskilled labour
- In the short term, this is particularly the case for highly-skilled professionals as well as sector-specific and occupation-specific skills

Foreign direct investment, net inflows

6,000,000,000
5,000,000,000
4,000,000,000
3,000,000,000
2,000,000,000
1,000,000,000
0

2005 2006 2007 2008 2009 2010 2011 2012

Albania, BiH, Macedonia, Moldova, Montenegro, Serbia, Kosovo

Inward FDI stock per capita, 2010 and 2011

8000
7000
6000
5000
4000
3000
2000
1000
0

Albania BiH Macedonia Montenegro Serbia

2010 2011

A model for labour mobility (Krugman and Obstfeld, 2006)

- A simple model of international labor mobility predicts that labor will migrate to countries with higher labor productivity and higher wage rates.
  - Real wages are predicted to fall due to immigration
  - Real wages are predicted to rise due to emigration

- Technological developments, differences in relative productivity and barriers to immigration explain why real wages across countries do not converge, so economic incentives to emigrate persist.

Additional considerations

- Public policy on labor mobility is not symmetrical. Countries may control inflows, but not outflows.
- This is more relevant for the young and skilled, therefore the risk of brain drain.
- But labor mobility is not exclusively detrimental for the sending country. Beside remittances, there are benefits related to the acquisition of skills, spillovers through networks and changes in relative salaries for the qualified workers who stay in the country.

The way forward (1/2)

- As long as the wage gap between the CEFTA economies and the EU will remain relatively large the incentives to migrate into the EU will persists.
- The relative shortage of qualified labour in an a number of EU member states (Germany, Austria) will open opportunities for qualified migration.
- Mobility within the CEFTA region generally implies lower adjustment costs, therefore small wage gap may still make moving into a neighbouring CEFTA economy attractive.

The way forward (2/2)

- The economic reasoning leads to the conclusion that relatively small inflows and outflows of qualified staff within the CEFTA region should not distort the domestic labour market, but contribute to make the region more attractive for private domestic and foreign investment.

THANK YOU!