



A Stake in the Internal Market: Trade in Services as a Partial Substitute for Migration?

Bernard Hoekman

Development Economics Research Group

The World Bank

Main Points



- A high propensity to migrate, both intra-MENA and North-South – both push and pull factors
- Labor movement is inevitable given demographics
- Migrants are more educated than the population in home countries: possible “**brain drain**”
- Implication: potential gains from cooperation on temporary movement– unilateral policies not efficient
- Address “time inconsistency” problems in ENP
 - Negotiating more access is not sufficient, although in itself already hard enough to get
- Services liberalization can promote movement of people/workers in a way that is “win-win”

EU demographics



- Projected population decline – fertility below replacement levels
- Number of people aged 20-40 will fall by 15%
- While those 60+ will increase by one-third
- UN estimates need some 1½ million migrants per year to 2050 to maintain current working age population in EU-15
- Demographics in recent accession states similar

MENA demographics



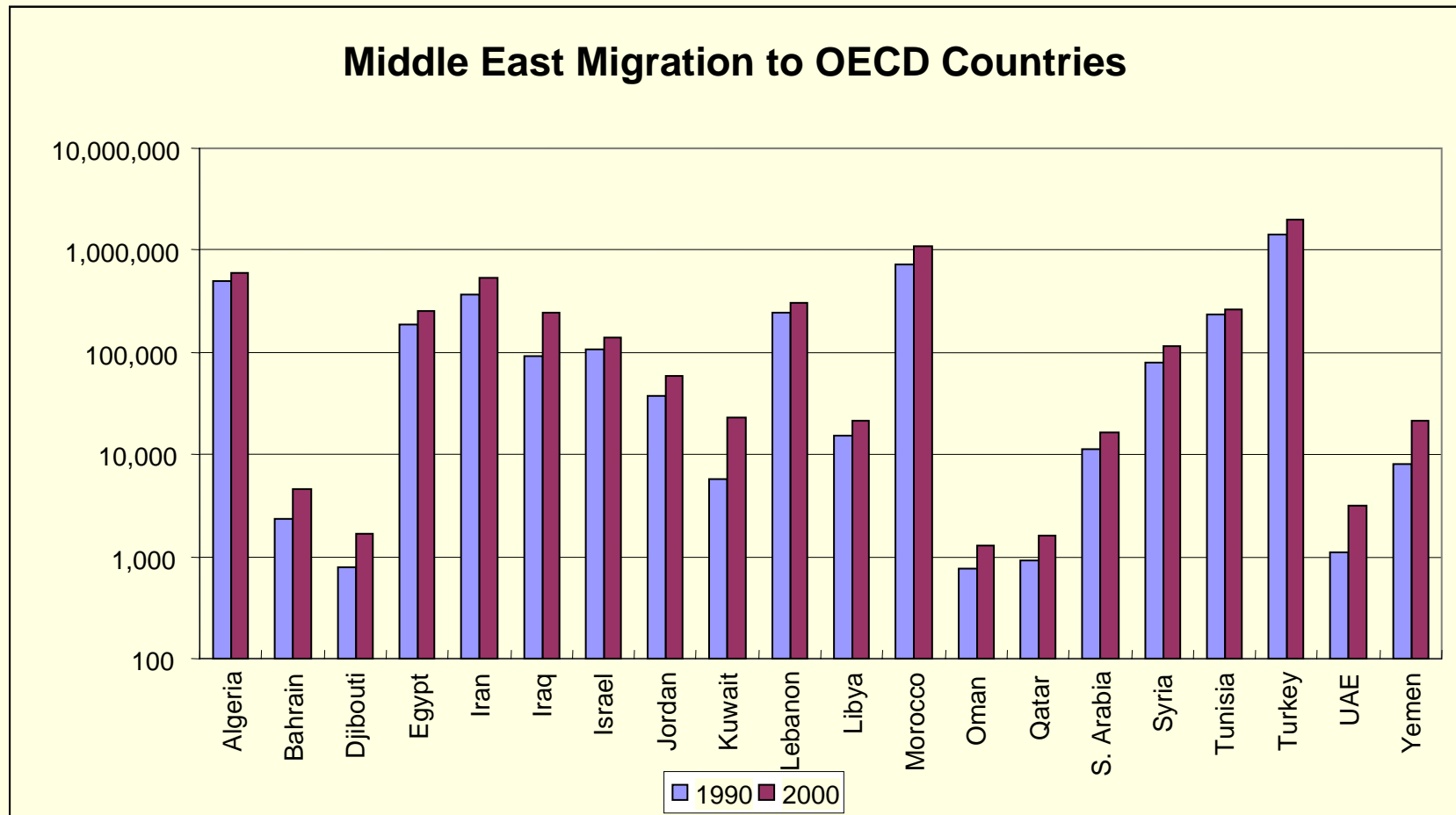
- Declining fertility as well, starting in 1980s
- Population aged 20-29 will increase by some 4-5 million in coming years and plateau around 2015
- High unemployment and limited opportunities, including for the educated
- Need to create 75 million jobs by 2020
- Younger cohort is relatively mobile due to limited family obligations – parents also young

MENA migration



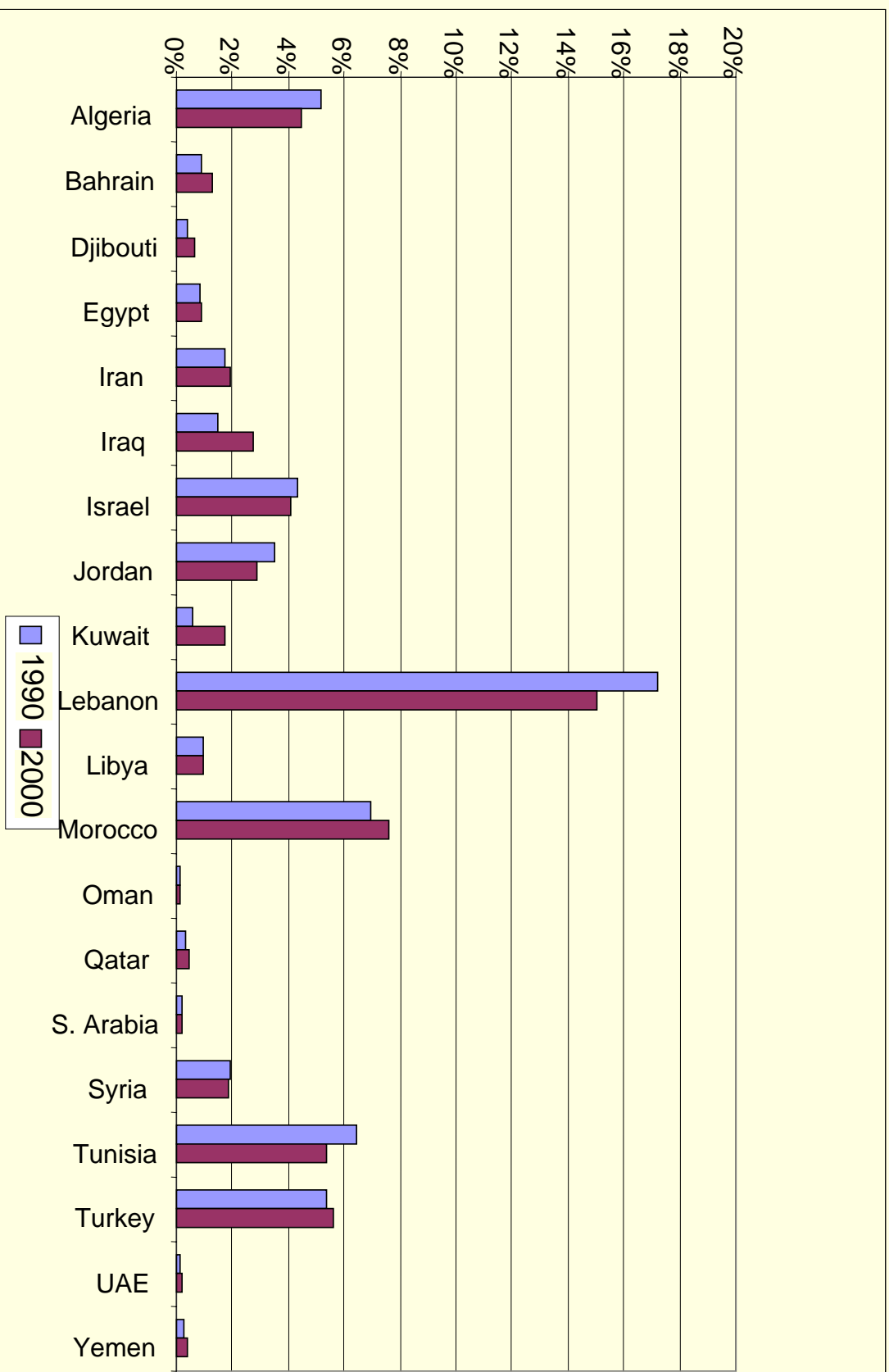
- Half of all migrants go to EU
- North America is a major destination, especially for the more skilled
- Intra-MENA flows: historically large, but volatile
 - Linked to oil boom and labor shortage in exporters
 - Did more for Arab integration than trade; remittances implied non-oil states also benefited
 - But now much smaller; political/national factors post-conflicts; oil price collapse; unemployment
- Regional migration prospects limited

The North-South numbers

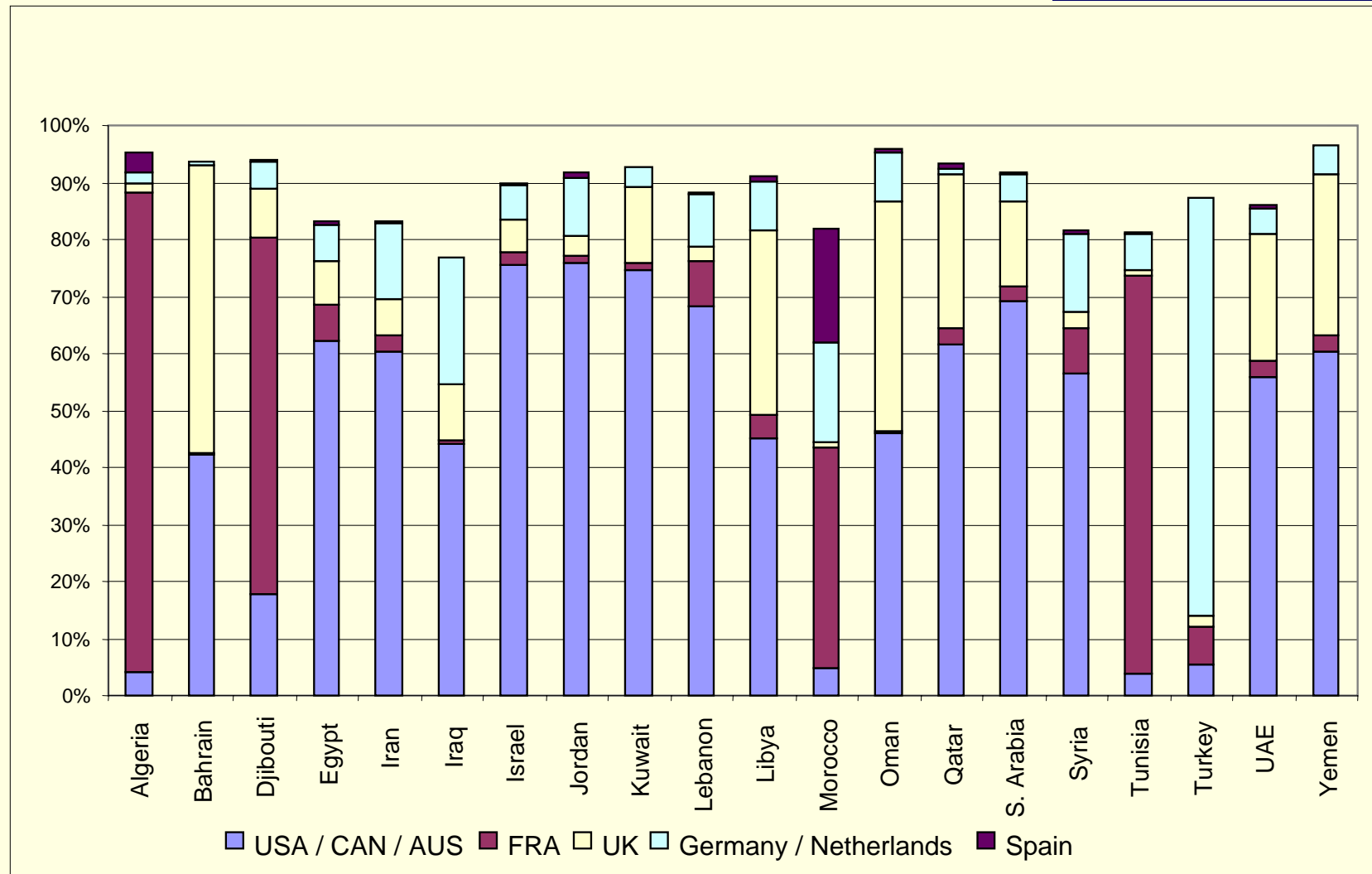


Note: This is a logarithmic scale!

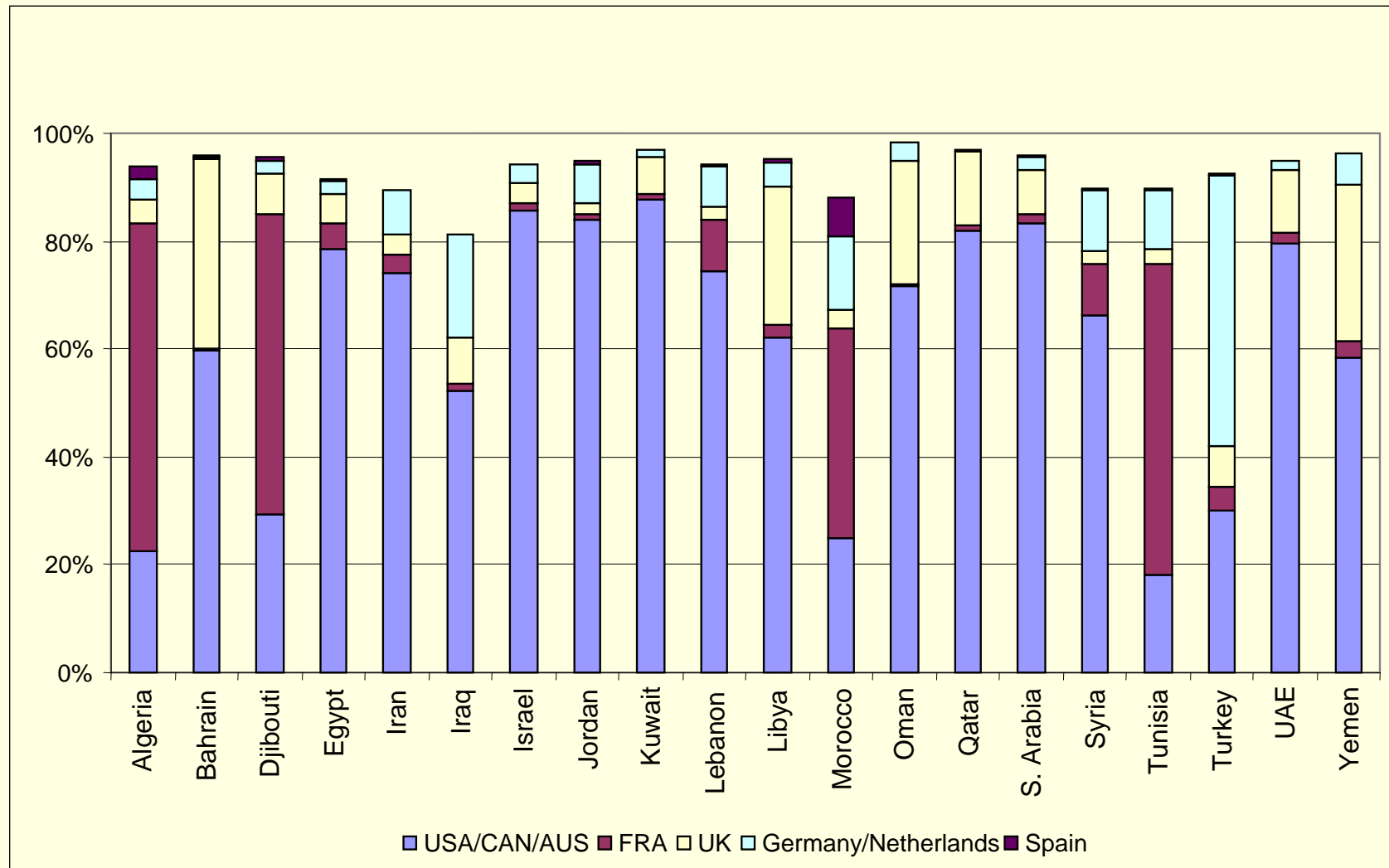
Migrants' Share in Labor Force



Migrants' Destinations, 2000



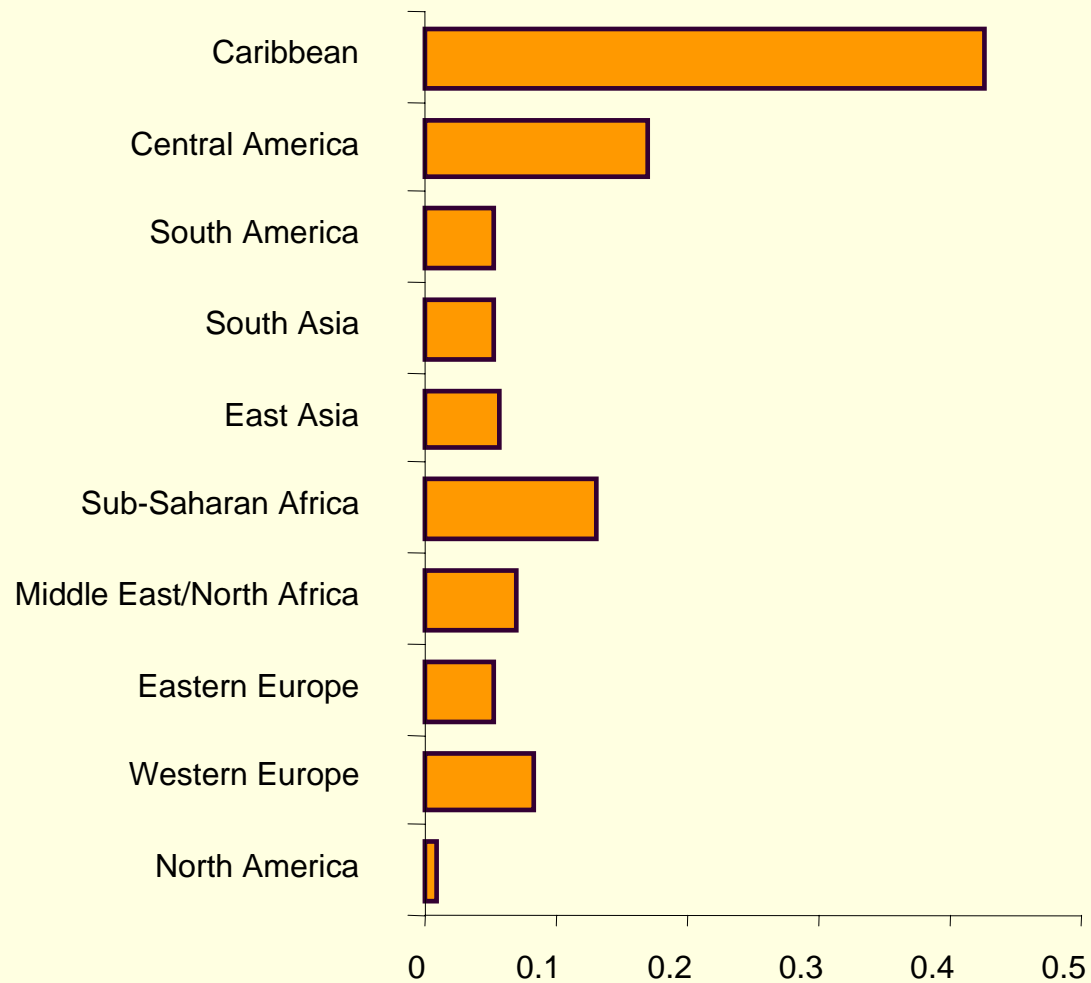
Educated Migrants' Destinations, 2000



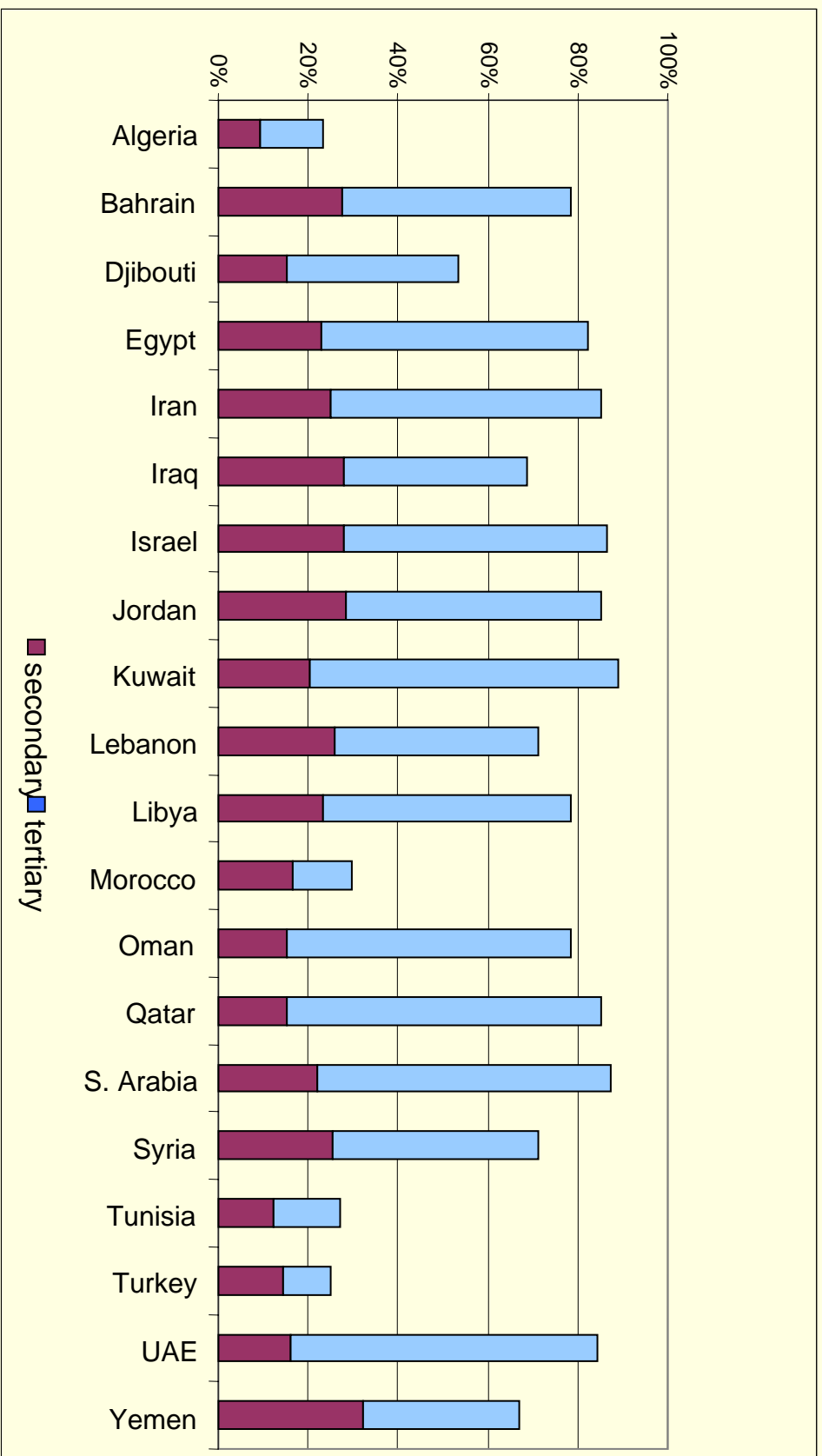
Brain Drain



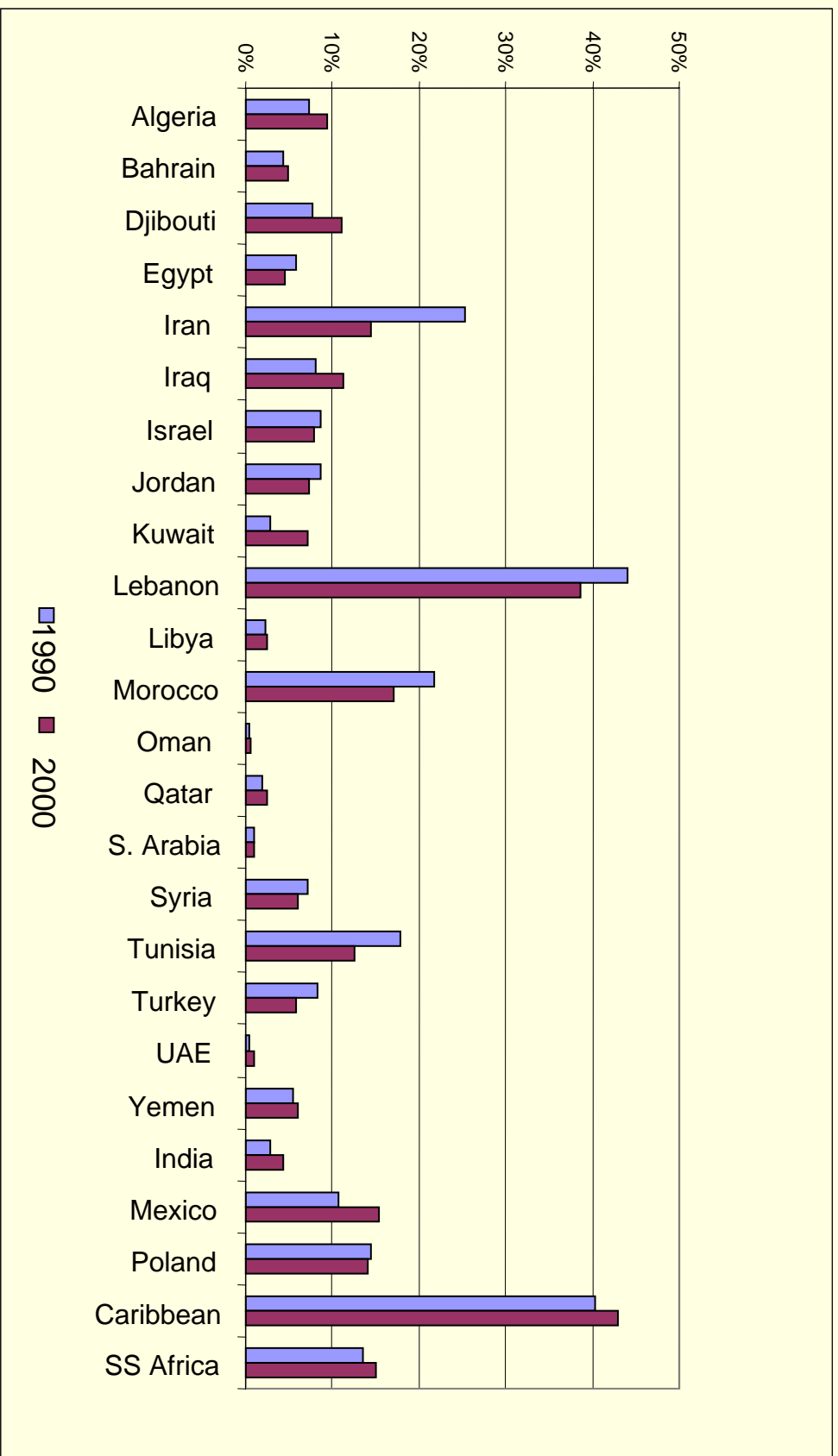
Share of Educated Population Living Abroad



Educational Distribution of Migrants, 2000



Brain Drain – Share of Migrants among the Educated



Implications



- Have a large stock already, one result of which is rising resistance to migration
- There is brain drain, although more “non-EU”
 - Proximity effects – lower hurdle for less skilled
- “Obvious” solution: temporary movement?
- If truly temporary, will have little impact on demography of EU, while addressing labor force decline and attenuating brain drain
- NB: differs from Internal Market model in that this is not free movement – come back to this later

Public attitudes



EU consultation on development policy: what should be the objective of migration policy?

- 56% of view that migration should benefit source countries
- 38% worry about negative effects of brain drain
- 27% of view that temporary movement possibilities need to be enhanced
- 19% agree objective should be EU labor market needs

EU Public Consultation Report, 2005:

http://ec.europa.eu/comm/development/body/theme/consultation/doc/Stat_IPM_EN.pdf

Social preferences: 4 cases



1. Net social cost of migration in host is high; source prefers temporary movement, but either type over no movement
 - Result: temporary movement. First best for both.
2. Net social cost of migration in hosts is “intermediate” in that host firms may prefer permanence ex post given turnover costs; source has same preference as before
 - Result: permanence. First best for neither host or source.
3. Net social cost of migration in host is low; source prefers temporary movement, but either type over no movement
 - Result: permanence. First best for host, not for source.
4. Net social cost of migration in host is low; source prefers to ban movement if temporariness cannot be attained
 - Result: Limited trade. First best for neither host or source.

Gains from cooperation



- EU-MENA: the ‘intermediate’ cost case applies?
 - Problem 1: “time inconsistency” – host firms confront significant costs of worker turnover
 - Problem 2: migrant has financial incentive to stay
- How to design self-enforcing cooperation to make temporary entry feasible ex post?
 - Increase the cost to host firms to retain workers by taxing them; require lump-sum payments into an escrow account that is refunded on return of workers;
 - Increase worker’s incentives to return by refunding social security taxes; defer share of wages

Gains from cooperation (2)



- Negotiating better access necessary, not sufficient
 - Needs to be complemented by actions to ensure more temporary movement
- Problem: how do source countries ensure this is done? Collective approach to enforcement?
- Status quo is different – focus on visa agreements for specific categories of people plus readmission agreements/cooperation

Illegal movement



- In addition to time inconsistency problems in hosts, have problem of illegal movement
- Here again cooperation needed, with actions on part of both host and source
- Guest worker programs by themselves not an efficient tool to combat illegal migration
 - While beneficial to source, not enough to induce adequate action to control illegal movement
- Enhance incentives of source/transit countries to control such flows
 - Through financial or other transfers

Services a partial solution?



- Labor movement and other types of trade can be substitutes
 - Rationale for trade agreements – increase demand for labor and real incomes
- Do see some trade/FDI growth in major migration source countries
- But, not enough in short/medium term given demographics in EU *and* MENA
- Option: focus on services trade – incl. mode 4
- Can both allow greater MENA employment in EU services *and* improve services in source nations

No panacea, but feasible



- By definition mode 4 spans only a subset of economic activity – but it is a large part
 - Including major ones where there is excess demand in EU – e.g. nursing and related services
- Can do this in a targeted, sector-specific way
- Issue: does EU have a common regime?
 - Status quo is mostly bilateral, by individual Member States (e.g., UK deal with South Africa)
- Will still have visa requirements—towards an ENP visa regime? With sector-specific quotas?

Conclusions



- Movement of people needed for both North and South
- Trade and capital integration not enough in short run
- Both have reasons to prefer more temporary movement
- Negotiating additional access (“visa quotas”) not enough
 - Need incentives in North to make temporariness feasible
 - And transfers to induce South to manage migration
- Consider “mode 4” agreements as a half-way house –
I.e., push the services agenda in negotiations
 - Including acceptance of deep reform commitments,
supported by ODA (“aid for trade”) – this is what is critical
for job creation and competitiveness in MENA
- Not just an EU matter: need multilateral cooperation to
deal with brain drain problem and discrimination