

INTERNATIONAL FACTOR MOBILITY

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Summary

International mobility of labor and capital is very important in international economic relations and its integration into international trade models increased substantially over the last three decades of the twentieth century. Since labor mobility involves the movement of humans and human capital, it has both economic and non-economic consequences. Debates over migration policies of a country are thus sometimes more visible than those over movements of capital across national borders. In addition, policy makers are always trying to evaluate the consequences of labor mobility vis-à-vis capital mobility under different circumstances. This article provides an overview of the importance of these international factor movements across national borders.

1. Introduction

International factor mobility is actually a trade in factors and another form of international integration. International factor movement involves movements of labor and capital across national boundaries.

Although there is a fundamental economic similarity between trade in goods and international factor movements, there are major differences, some of which are economic and some political. For example, a labor-abundant country may sometimes import capital-intensive goods (as free trade in goods suggests), but in other circumstances it might borrow capital from other countries when free factor mobility is allowed. These alternatives might have similar economic consequences, but their political effects are radically different.

Mostly because of the political effects, factor movements tend to be more restricted than trade in goods. Even though some parts of the world could benefit from free international movement of capital, investment by foreign-based multinationals is usually regarded with suspicion and is tightly regulated throughout much of the world. It is important, however, to analyze the distinct economic and political consequence of factor movements. This article will focus on movement of labor and capital. It is important to point out that movement of labor must be distinguished from the movement of capital since owners of capital do not need to move, but with labor migration, it is not just labor services that move but also the owners who provide these services.

2. Labor Mobility

The special nature of labor movement demands that we focus on different types of migration: permanent migration, temporary migration, brain drain, and illegal migration. A crucial question in looking at the effects of labor migration on the origin country or the host country is deciding whether the gains or losses of the migrants should be added to the host country or to the source country. That is why the effects of migration have been divided into a) effects on migrants; b) effects on non-migrant residents, and c) effects on residents of the host country.

2.1. Different Types of Migration

The migration of individuals is permanent if they do not intend to return to their source country during their lifetime. When this occurs, the source country loses not only the labor services provided by the individual migrant, but also loses those people and their offspring. Our objective is to determine the effects of this permanent migration. It is safe to say that migrants intend to improve their conditions otherwise they would not be moving, so we need to focus on the effects of migration on the welfare of the host and the source country.

If the host country considers the welfare of migrants part of its national welfare, then we can say migration usually improves the host country's welfare; otherwise the immigration would not be approved. If the host country does not consider the welfare of immigrants part of the country's welfare, then this migration is equivalent to the

purchase of labor services from a foreign country and, like trade in goods, this trade of labor or services would be better than no trade.

If the source country considers emigrants part of the national welfare, their national welfare rises, since emigration improves emigrants' welfare. Although they are selling their labor services outside the country and buying goods from a different place, the emigrants are improving their position. If the emigrants are not considered part of the national welfare then the source country is mainly concerned with the non-emigrant population. In this case, we need to analyze *how voluntary permanent migration affects the remaining groups in the source country*.

Temporary migration raises different issues. Temporary migration is defined as a move with the knowledge that there is a positive probability of return migration. Temporary migration could be voluntary or involuntary. Involuntary migration occurs when the host country imposes a time constraint on migrants. Migrants are fully aware of this constraint at the time of migration. A good example of temporary migration is the guest workers system in Germany and other European countries. Voluntary temporary migration is a planned move, but it is sometimes state contingent. For example, migrants will return under certain circumstances and will choose to stay in others. If temporary migration is allowed, then it can be used as an important commercial policy instrument. A host country can use this commercial policy either to meet the increased demand for labor in a time of good economic conditions or to import labor during high levels of import competition.

The migration of skilled workers is termed the "brain drain." These migrants receive their education in the source country and then move to another country. This is a loss of human labor and human capital. In this situation, we need to look at the non-emigrating residents of the source country. Sometime migrants move to another country after completing certain stages of their education in the source country. They usually receive the higher-level education (say, graduate) from the host country after finishing part of their education at home. It is also important to discuss the effects of this on the non-migrating residents of both the source and the host country.

Illegal migration has different consequences. Almost all the countries have restrictions on immigration. As long as there are significant incentives to migrate there will be illegal migration. Illegal migration is usually considered a problem for the host country because a) it violates its restrictive migration policy and b) illegal migrants face social, political, and economic problems in the host country.

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Biographical Sketch

Bharati Basu received her Ph.D. from the University of Rochester in New York, USA. She specialized in the areas of international trade and economic development. She has published various works in these fields in reputable journals and books. She is on the editorial board and associate editor of the journal *Feminist Economics*.