



MARCH 2017

Enhancing labour mobility in the APEC region

By Alberto Posso, Associate Professor and Principal Research Fellow, The Australian APEC Study Centre

In November 2014, APEC leaders declared that “much work needs to be done to ease existing barriers to interaction and mobility and to develop joint endeavours that will support seamless flows of people”. This necessity stems from the premise that a well-functioning international labour market produces strong economic gains and job opportunities.

A recent report¹ commissioned by the Australian Government Department of Employment as an APEC-endorsed project, argues that to formulate a comprehensive set of policies governing labour mobility within the APEC region and the rest of the world further research is needed. Currently, limited data availability coupled with misconceived political conceptions undermine appropriate policy responses in the region. Governments must therefore accelerate efforts to collect data on international (and domestic) movement patterns of workers.

APEC economies are committed to developing an effective framework to manage and enhance international labour mobility. Economists argue that free international labour mobility allows workers to move to areas where the returns to their specific type of labour are higher. This phenomenon is owed to workers being able to match their skill set to existing resources, capital and skills wherever they are needed. As result, labour is used most efficiently, which increases productivity and output globally. Estimates from theoretical general equilibrium models of the potential gains from free labour movements are in the trillions of dollars with orders of magnitude larger than those from freeing merchandise trade or capital flows alone.

The potential opportunities for the APEC region are therefore enormous. The APEC region encompasses some of the world’s key labour mobility origin (Mexico and the Philippines) and destination (United States, Canada and Australia) economies. However, apprehension about labour movements across international borders remains. Concerns about the loss of skills (‘brain drain’) from developing economies, as well as about poor conditions of work, recognition of qualifications, impacts on employment and wages in receiving economies tend to fuel negative sentiments on international labour flows.



Within receiving economies, widespread concerns about the possible negative effect of labour inflows on domestic wages is fuelling protectionist sentiment across the globe. While a handful of case-studies refute this hypothesis, international evidence for or against this notion is limited due to data availability. Furthermore, the limited empirical evidence focuses on the United States or Europe, which ignores important labour mobility patterns across the developing world.

The “Report on Enhancing Labour Mobility in the APEC Region” aimed to reach policy conclusions by, first, highlighting general trends and patterns, and then uncovering the determinants of international labour flows using both macroeconomic and microeconomic indicators. Below I summarise some of the key findings.

The analysis reveals that approximately half of all foreign workers from developing economies go to other developing economies (South-South flows) and over 70 per cent of those from developed APEC economies live in other developed economies. Since almost all policy attention has been focused on enhancing labour mobility from developing to developed economies, this analysis provides new insights for consideration. It highlights, for example, that poverty and the cost of relocation can constrain mobility and concentrate the circulation of low skill labour within developing economies.

One reason behind this concentration may be owed to several unquantified characteristics that limit labour mobility between the south and the north. One possibility is that these characteristics are institutional constraints, such as limited skills recognition and difficulties in integration of migrant workers. APEC economies could consider several measures to ease such constraints. For example, establishing mutual, multilateral and regional skills and qualifications recognition frameworks could facilitate movements of semiskilled and high skill labour. Promoting and developing effective labour market integration systems could facilitate all forms of labour. APEC economies are encouraged to consider the experiences of other regional organisations, such as Mercosur and the European Union, that have successfully adopted labour market integration policies.

Another major institutional constraint is skilled-biased migration policies in developed nations. There is only very limited empirical evidence on the nexus between the skill intensity of foreign labour and wider economic benefits. This evidence is riddled by mixed and inclusive results. The reason is that native-born and foreign-born labour can be substitutes or complements, and this can easily vary by the skill composition of foreign and domestic labour as well as within various communities in different countries. Thus, skilled-biased migration policies do not just lead to the concentration of low-skilled labour within some developing economies, but they could also be depleting richer economies from labour inflows that enhance the productivity of



domestic labour. Indeed, economies facing low female labour market participation rates could potentially benefit from inflows of low skill labour.

Therefore, to formulate better policies, APEC and member economies should comprehensively analyse the costs and benefits of skilled and unskilled labour mobility policies. With appropriate adjustment policies, developed economies can benefit more from inflows of low-skill workers. There are ample examples within APEC economies that could be used as beneficial case-studies to better understand the labour market implications of international labour flows.

In the absence of better data, the report uses macroeconomic data coupled with two household surveys that include migration questions to uncover key push and pull factors. The analysis of labour flows finds that, as predicted by theory, income differential between host and origin economies drive a significant proportion of international labour movements. That is, workers leave nations searching for better earning opportunities abroad.

However, other factors, such as educational opportunities, health services, political stability and the availability of social protection programs are also important pull or push factors for mobile workers. In this sense, economies aiming to attract more workers can look beyond the labour market for policy responses.

For example, establishing generalised social protection programs, including health and income insurance, for both domestic and foreign workers may both retain and attract labour, all things equal. However, considering evidence that some social protection programs can increase hiring costs and therefore reduce demand for certain type of labour, further work is needed to understand which programs are more beneficial to retain and attract labour. Again, better data can help researchers breach this gap.

Overall, assessment of current schemes and the experiences of international workers and their destination and origin communities could merit further analysis focusing at both the individual and household-levels. This requires significant commitment to funding, but also to transparency. Better data on labour mobility, and better policy analysis based on that data and along the lines suggested here, will benefit both mobile workers in APEC and its less mobile residents.

¹ Brooks, D., Posso, A., & Abdullaev, B. (2016). *A Report on Enhancing Labour Mobility in the APEC Region*. Singapore. Retrieved from http://publications.apec.org/publication-detail.php?pub_id=1745