Relaxing the Restrictions on the Temporary Movement of Natural Persons

By

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Background

- Hamilton and Whalley (1984) found that the liberalisation of labour markets could double world income
- Restrictions on the movement of labour impose a cost on developing and developed economies that may far exceed the cost of trade restrictions.
- Mode 4 of GATS - Temporary Movement of Natural Persons (TMNP) has brought labour onto the global agenda.
- Mode 4 related to restriction on labour as a barrier to export

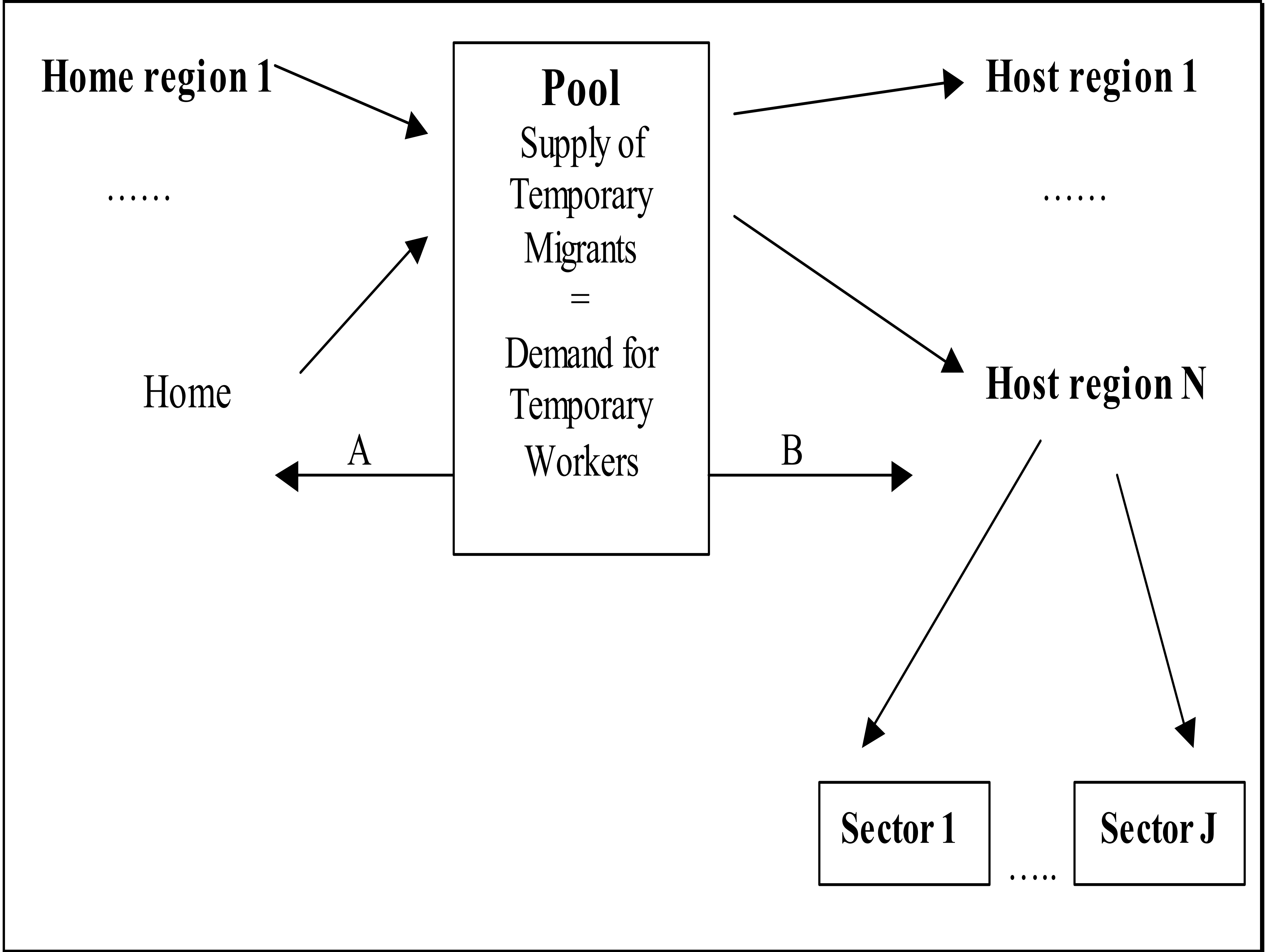
Experiment

- Export of Labour not as a barrier to services
  - Productivity, consumption , income
  - Compare skilled and unskilled
  - Continuous replacement of temporary labour
- Labour importers increase quotas for skilled and unskilled labour of 3% of their labour force.
- Why 3%? Politically feasible?
- Sensitivity Analysis

Modelling

- The GTAP model is used to investigate the extent of these costs.
- Adjusted to take account of:
  - Data on current labour flows and remittances (ILO Migration Data Base)
  - Model
    - Labour flows
    - Remittance flows
    - Welfare and income
    - Method of allocation: Labour exporters supply labour in proportion to their labour forces.
    - Sector allocation
    - Difference in productivity

$$ATL_{i,r} = ATM^{Av}_{i} + \beta \times (A_{i,r} - ATM^{Av}_{i})$$


Home region 1
......
Home
Pool
Supply of Temporary Migrants
=
Demand for Temporary Workers
A
B
Host region 1
......
Host region N
Sector 1
.....
Sector J

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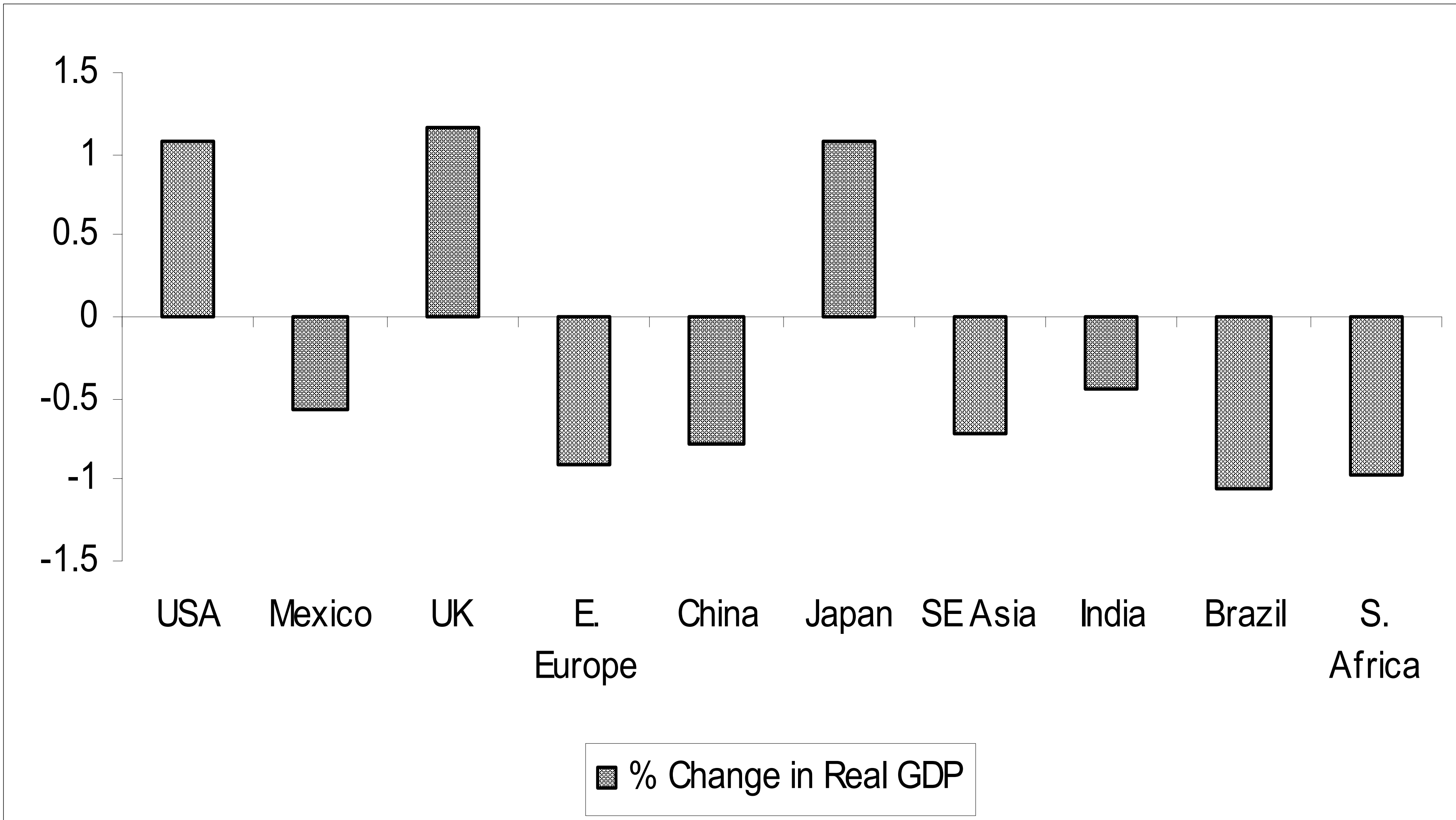
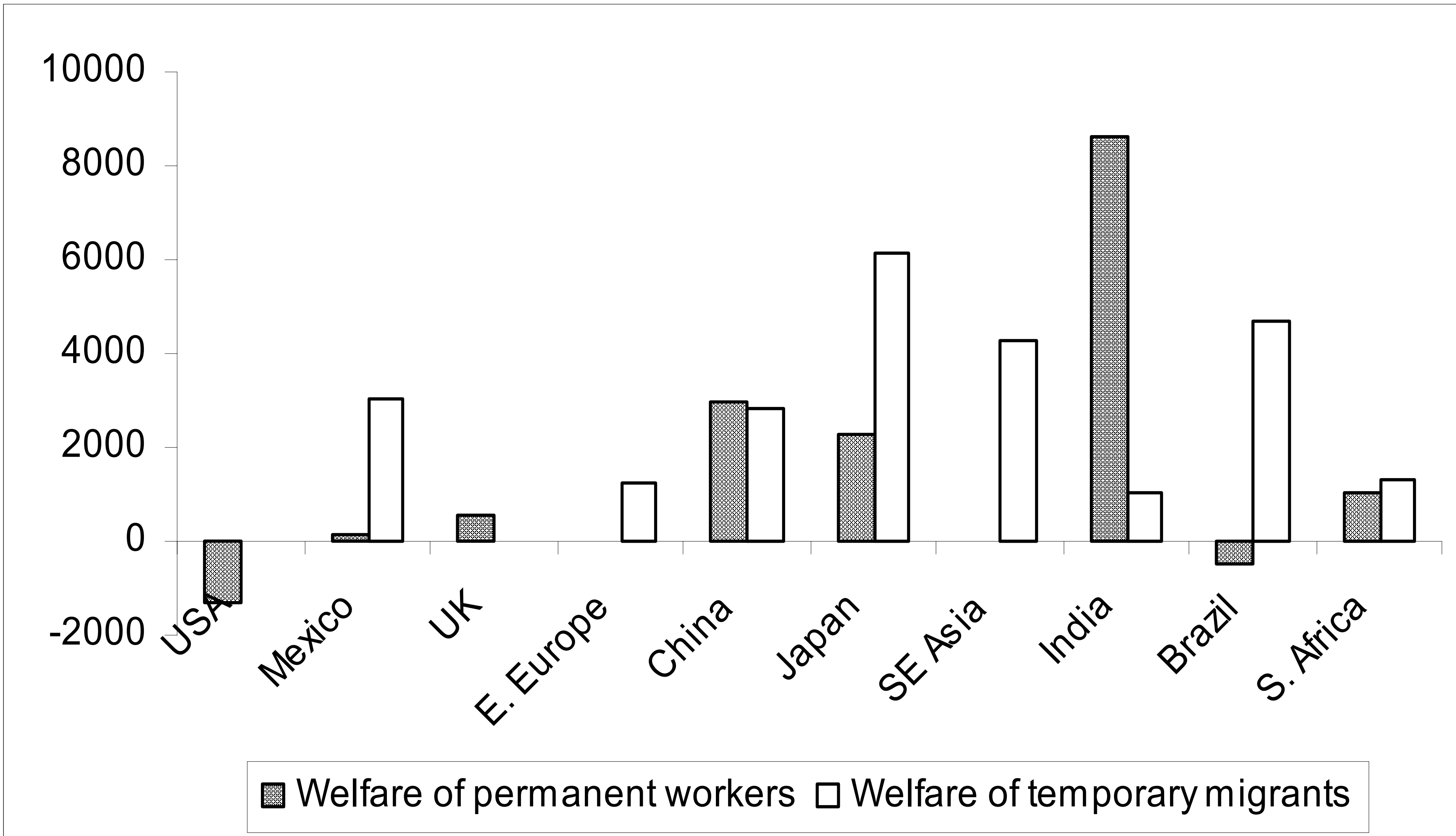
I Region	II Increase in quotas of Unskilled Labour ('000s people) [a]	III Increase in quotas of Skilled Labour ('000s people) [a]	IV Temporary Unskilled workers by Home region ('000s people)	V Temporary Skilled workers by Home region ('000s people)
USA	2763.14	2402.22	0	0
Canada	306.3	266.7	0	0
Mexico	0	0	151.78	224.12
UK	575.1	558.9	0	0
Germany	844.39	820.61	0	0
Rest of EU	2399.27	2313.83	0	0
Rest of Europe	118.73	115.39	0	0
Eastern Europe	0	0	177.69	360.68
Former Soviet Union	0	0	516.09	1047.56
Australia and New Zealand	212.89	223.01	0	0
China	0	0	2426.44	490.21
Japan	1304.06	1305.94	0	0
Rest of East Asia	0	0	117.82	391.98
South East Asia	0	0	719.51	989.51
India	0	0	1628.08	1216.64
Rest of South Asia	0	0	481.69	180.15
Brazil	0	0	284.79	369.67
Rest of Latin America	0	0	362.72	776.78
Middle East and Northern Africa	0	0	539.04	720.65
Southern Africa	0	0	869.53	940.75
Rest of World	0	0	248.71	297.9
Total	8523.88	8006.6	8523.89	8006.6

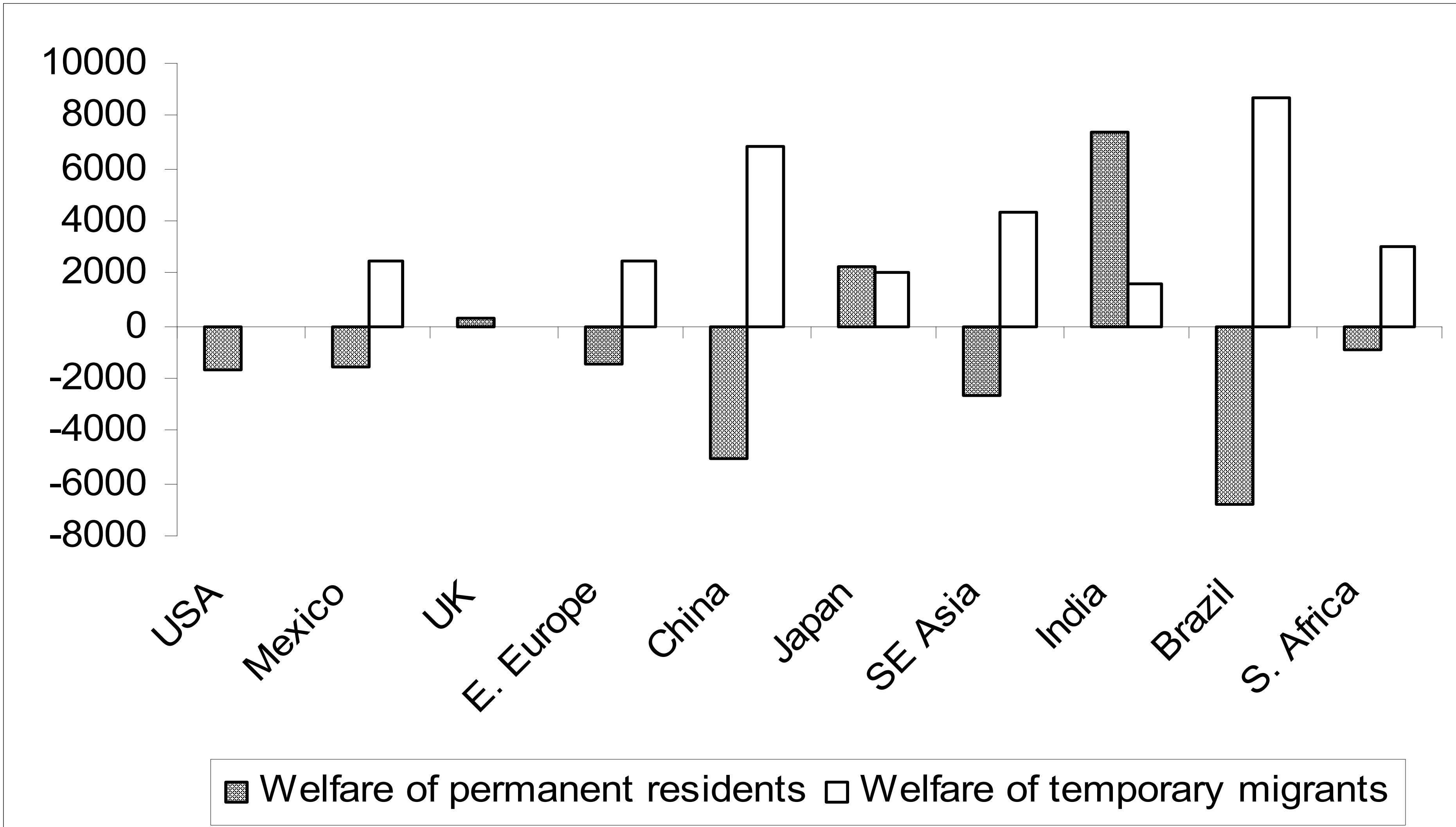
Real GDP


1.5
1
0.5
0
-0.5
-1
-1.5
USA
Mexico
UK
E. Europe
China
Japan
SE Asia
India
Brazil
S. Africa
% Change in Real GDP

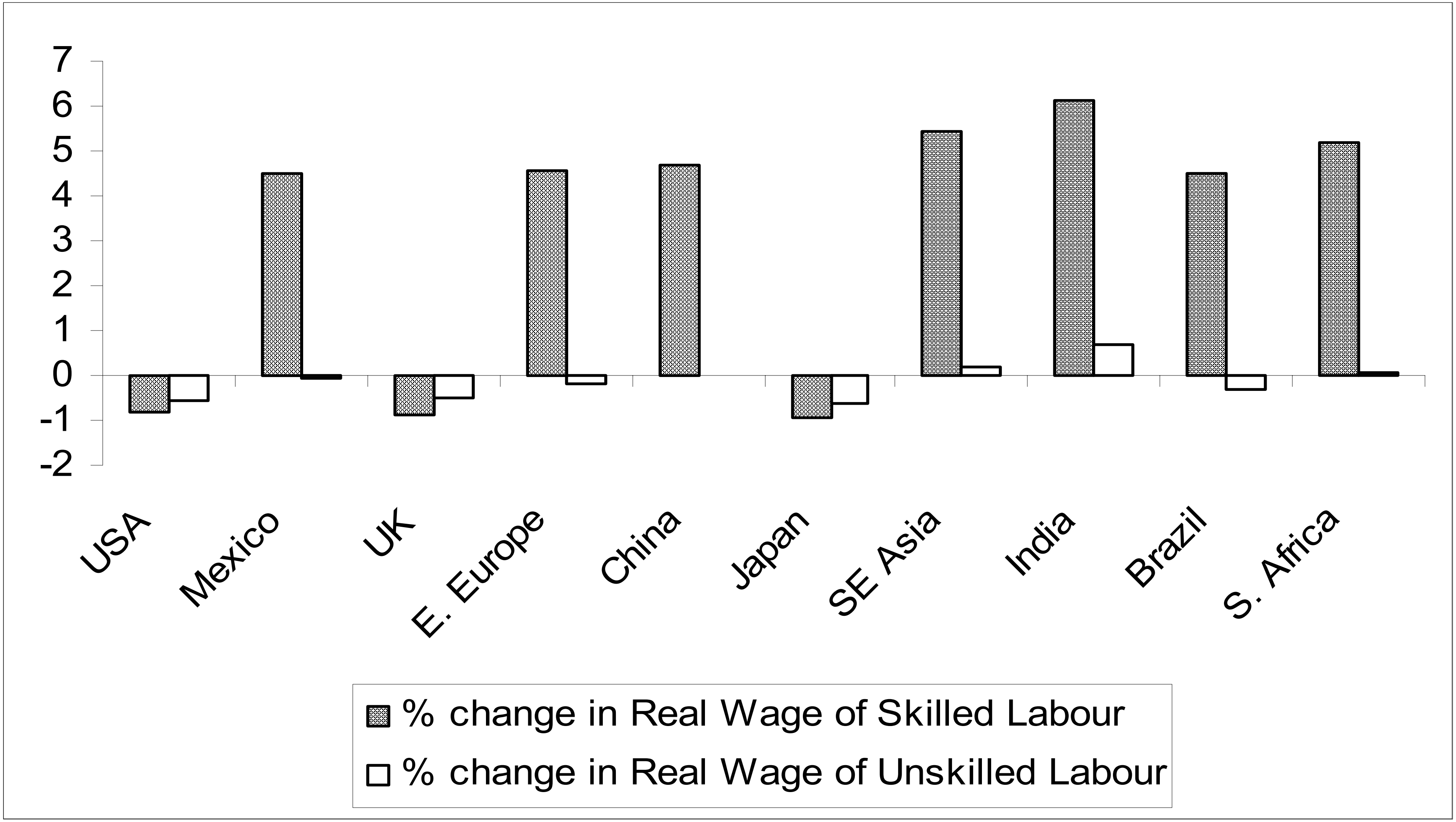
Welfare due to removal of Quotas on Unskilled



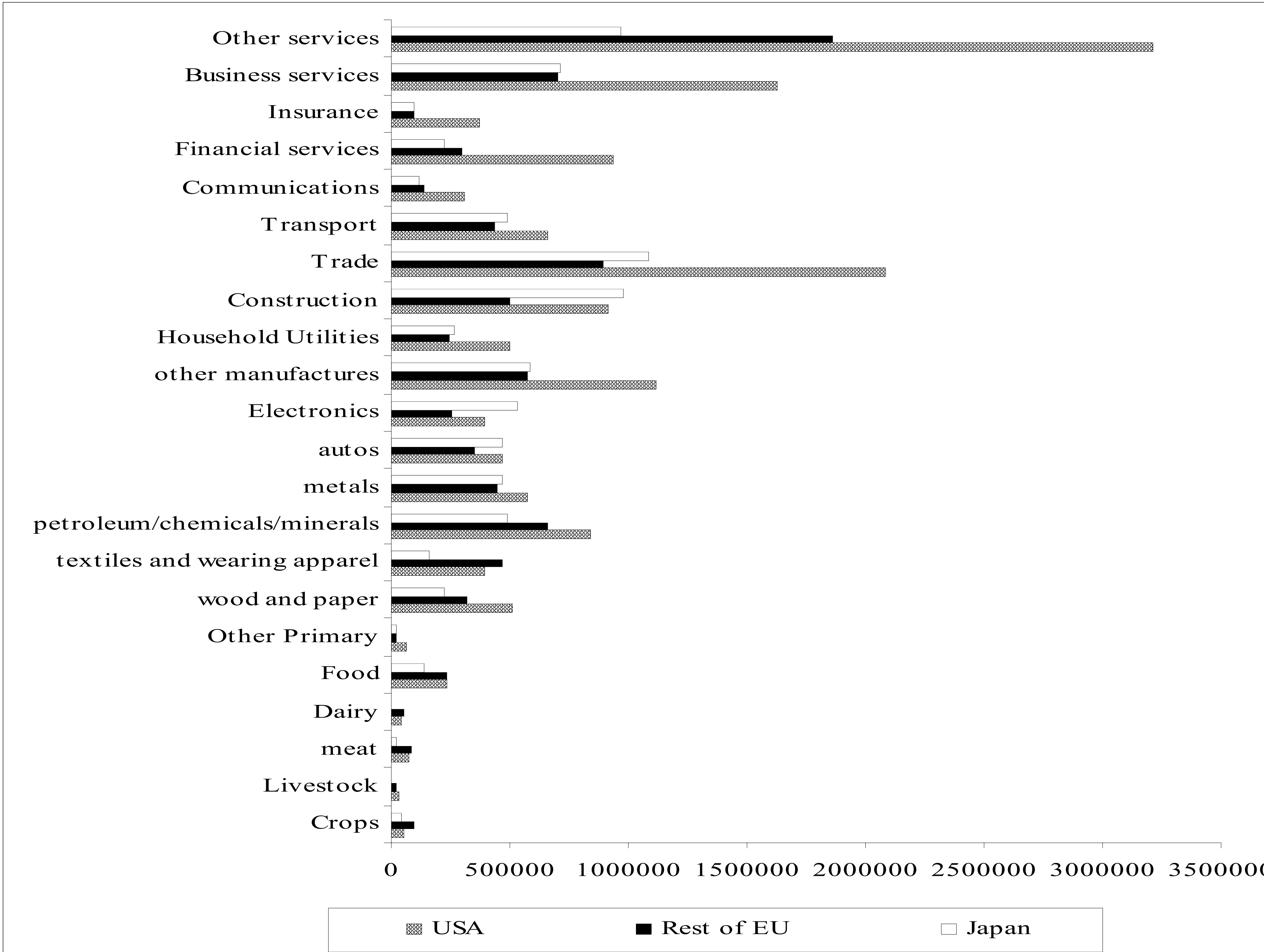
Welfare due to removal of Quotas on Skilled



Wages



7
6
5
4
3
2
1
0
-1
-2
USA
Mexico
UK
E. Europe
China
Japan
SE Asia
India
Brazil
S. Africa
% change in Real Wage of Skilled Labour
% change in Real Wage of Unskilled Labour


Other services
Business services
Insurance
Financial services
Communications
Transport
Trade
Construction
Household Utilities
other manufactures
Electronics
autos
metals
petroleum/chemicals/minerals
textiles and wearing apparel
wood and paper
Other Primary
Food
Dairy
meat
Livestock
Crops
0
500000
1000000
1500000
2000000
2500000
3000000
3500000
USA
Rest of EU
Japan

Conclusions

- **Welfare**
  - Benefit to world economy 156b
  - Welfare of both labour importers (host) and exporters (home) rises.
  - Both benefit more from removing restrictions on unskilled labour.
  - Permanent residents labour importers lose but temporary migrants gain – leading to an overall gain. Exception India.
- **Wages**
  - in the labour exporting economies wages fall.
  - in the labour importing economies wages rise – particularly for skilled labour
- **Sectors**
  - Temporary labour move into services sectors

Future Directions

- Improved tax data
- Improved migration and remittance data
- Bilateral migration flows
- Link to services liberalisation
- Base Line