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TRANSPACIFIC ECONOMIC RELATIONS**

**THE ECONOMIC AND SECURITY IMPLICATIONS OF
MIGRATION AND SOURCING: A
TRANSNATIONAL CHALLENGE**

DISCUSSION REPORT

**REPORT BY THE UNITED KINGDOM
AND THE UNITED STATES
COMMITTEES***

International Secretariat

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* Until this document is approved by the Economics and Security Committee, it represents only the views of the Committee.

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I. INTRODUCTION

1. Trade theory is generally understood as the study of the movement of goods and services across national borders. It examines the mutual gains that trading partners can achieve as a result of trade and considers the varied impacts of government erected trade barriers. Classical trade analysis has become a powerful policy tool for advocates of free trade, and its assumptions have been vindicated in countless empirical studies exploring the benefits of trade and the costs of trade restrictions.

2. Yet there is a dimension of trade theory which policy-makers are less willing to consider on economic merits alone because of its potentially explosive political implications: the movement of labour and jobs across borders. That this topic is often stripped out of the realm of trade policy and trade negotiation is hardly surprising. Immigration policy, for example, certainly poses one of the more formidable and politically sensitive challenges to government policymakers and since September 11 it is also increasingly seen in security terms as well. It is a topic around which many mainstream politicians tread with great caution, although it is also susceptible to the worst kinds of demagoguery. Simply put, immigration policy is rarely ever premised on the analysis of economists alone. Too many other issues are at stake.

3. Yet, the economic returns on labour as a result of trade and the movement of labour is generating a great deal of interest both in America and in Europe. The UN estimates that roughly 175 million people were living outside their country of birth or citizenship in 2000, up from 154 million in 1990. Labour mobility has been a sticking point in EU accession talks and is a key issue in the WTO negotiations as well. It looms over deliberations on a range of matters including economic development of the poorer parts of the world, demographic trends in the West, the ageing of western societies and the related need for new workers, competitiveness and corporate strategy, border security, financial security and even terrorism and terrorist financing. Meanwhile, the movement of jobs across borders in the service sector, a process that has become known as outsourcing, has emerged as one of the hottest political issues in the current American presidential race and it is generating heated discussion in Europe as well.

4. Demographic trends are also fuelling the debate. Declining work forces and a mounting number of retirees in many Western countries have led some to conclude that immigration may provide the best means to replenish the stock of workers needed to sustain prosperity. Supporters of immigration also see it as a means of enriching and invigorating national cultures and societies. In a global era, immigration imbues Western societies with new international perspectives that potentially, at least, help host societies operate in global settings. Others worry, however, that mass immigration is eroding historic national identities and giving rise to more divided, inchoate and uncertain societies which, if anything, are likely to find it ever more difficult to act with confidence on the global stage. The recent decision in France to proscribe the wearing of veils and other emblems of faith in public schools and workplaces is seen by some as another manifestation of unease with migration and the potential it has to undermine national identity, consensus and social harmony. (Wildman) (Ferrer) The United States and Canada, two so called "settlement countries" characterise themselves as countries of immigration and often seem to be among the most comfortable accepting large numbers of new workers and their families into society. But this hardly spares either of them some of the very same tensions evident in Europe. The well-known Harvard professor Samuel Huntington, for example, recently published a much discussed and much criticized article suggesting that the continued influx of Mexicans and Cubans into regions of America where the concentration of Spanish speaking immigrants is already very high, threatens to undermine the very essence of America's integrationist model. He warns of the imminent creation of a country divided by language and culture. (Huntington) It is an argument with important political resonance in the United States and suggests underlying uncertainties about immigration in the American psyche as well. But it also ignores the vital contribution of these immigrants to the American economy and the demand for their labour.

II. CLASSICAL AND NEOCLASSICAL TRADE THEORY: THE RETURN ON LABOUR

5. According to the simplified classical trade theory (first postulated by David Ricardo two centuries ago and elaborated by an array of economists such as Heckscher, Ohlin and Samuelson), by engaging in trade and exploiting their comparative advantages in producing particular goods, countries can achieve a greater level of welfare than by not trading. The theory suggests, moreover, that countries with a relatively greater endowment of labour will tend to produce labour-intensive goods and trade them on world markets, whereas countries with a relatively greater endowment of capital goods will trade in goods that are manufactured in a capital-intensive fashion. In labour intensive societies, unhindered trade will bestow on labour relatively greater gains than those accruing to capital. (Kindleberger)

6. In classical trade theory, whether labour-intensive goods are shipped abroad or whether workers emigrate in order to help produce such goods abroad, eventually factor-prices (return on capital and labour) as well as goods prices will equalize across countries provided the products are the same and freely-traded. This is because if workers emigrate, labour theoretically will become scarcer in the country of emigration, and wages will increase there as a result. In the immigration country, labour will grow more abundant and downward pressure will be exerted on wages. The same effect can be seen when workers in a developing country, for example, produce goods at home for export. If a good is cheaper abroad, demand for the more expensive domestic good will decrease while demand for the foreign good will increase. Domestic producers will then confront pressures to slash prices in order to remain competitive. At the same time, mounting demand for the foreign good will generate price rises abroad. Theoretically this process will go on until prices have equalized across countries.

7. Yet, this simple and elegant theory rests on the assumptions that factor mobility across sectors is perfect, that technologies are identical, that goods are the same, that there are no barriers to trade such as tariffs or regulations, and that transport costs are negligible. The theory does not account for the role of trade unions and the fact that wages may not be able to fall because of minimum wage legislation or social choices made by that society. It also fails to recognise that capital can be embedded in labour, not only in terms of the technology at its disposal but also more importantly in terms of the education and specialized training labour has received. A highly skilled software writer is a unique combination of capital and labour. Needless to say, therefore, there is a large discrepancy between classical trade theory and its clear distinctions between capital and labour and real-world trade where such distinctions are not apparent. There is an international market for labour, but ultimately this market is imperfect and the return on labour (wages) is hardly equalized across borders. That said, wage disparities however, create an often-compelling economic incentive for labour to migrate.

8. The potential gains for the emigration country are many. First, emigration can relieve pressure on local labour markets (this aspect is particularly striking when workers emigrate to escape unemployment in their own country). This has a second indirect effect. In situations characterized by labour abundance, there tends to be less investment in capital because cheap labour can compensate for capital goods scarcities. Yet, when the labour pools are reduced by emigration, and with other things being equal, the marginal productivity of labour will rise, as will wages. This, in turn, can help stimulate investment, technological advance and growth as firms respond to the change in relative production input prices.

9. Migration can also spread knowledge and technology. Emigrants learn skills abroad that they may one day bring back to their home country, either by returning home or by investing there. In both cases, the capital stock in the country from which the worker originally emigrated rises.

10. The host country also stands to benefit from immigration. Here, the gains and losses partly depend on the ratio of labour relative to resources. If the country possesses a large capital endowment relative to its labour supply, an influx of new workers results in higher production; and there can even be an increasing return on labour inputs.

11. Immigration also broadens the tax base of the host countries, and this too bestows a range of fiscal benefits. Of course, this assumes that immigrants are filling vacant positions and are neither displacing other workers nor working illegally. The degree of financial benefit also hinges on whether these workers will retire in the host country or return home, and the extent to which they are eligible for state benefits as well as the generosity of those benefits. Immigrants who do not migrate for work and who remain unemployed and yet qualify for benefits can obviously create fiscal burdens. Illegal immigrants, who find work, pay taxes and contribute to the pension system, but who do not qualify for benefits will most likely prove fiscally beneficial, although the existence of grey labour markets itself poses a range of other problems. It should also be noted that those who work in the untaxed black or grey market as well as the local entrepreneurs who administer it could contribute to a climate of illegality.

12. At any rate, immigrants do fill critical gaps in the work force. A highly productive society, for example, may have few indigenous workers willing to accept unskilled but still essential work. In such cases, immigration is critical. In recent years both Germany and the United States have opened the door for certain highly skilled software programmers because of domestic skill shortages. Experts at the University of California recently told members of this Committee that California would not have a competitive agricultural sector if were not for the thousands of Mexicans working its fertile fields. [Secretariat Report (145 EC 04 E), visit to San Diego]

13. One of the most frequently cited potential costs of migration is the problem of the so-called "brain drain" (emigration of the brightest parts of population from countries and regions which need those people to galvanise development). The argument here is that when a developing country's most highly skilled workers migrate for employment to developed countries, they deprive their home country of critical capital. Indeed, the developing country has presumably helped finance the education and training of those workers on the assumption that this "investment" (the capital component of labour) will eventually yield a pay-off. But if the worker emigrates permanently at a relatively young age (and assuming that he or she does not remit earnings made abroad), that investment ostensibly confers no reward upon the developing country and can be written off as a sunk cost. Moreover the society will lack the trained specialists that are needed to raise the level of development and move it up the production ladder. In a sense, this is the equivalent of capital flight and will impinge on short and long-term economic growth.

14. In the same way, if a host country is burdened with high unemployment, immigration can actually impede economic development. A large influx of workers in some cases can reduce the marginal product of labour (the additional amount of production that a new worker adds to total output). This can either drive down wages or generate even higher unemployment. If new immigration also burdens the social safety net, it can reduce aggregate income, create fiscal problems and foment social tensions. The host country may also have to invest in infrastructure such as public housing, new transport and schools in order to accommodate the immigrant community. This puts pressure on public budgets, unless, of course, the immigrants are adding to the tax base.

15. On the other hand, when there is an increase in labour supply, production factors like land and capital become relatively scarcer, and this can push up their rent. In the short run, support for immigration may, therefore, come from employer's lobbies that seek external props to wage discipline, which, in turn, can raise the value of their capital holdings. Immigration can have the same effects as a redistribution programme because it benefits certain groups: "Workers lose because immigration drives wages down. Employers gain because immigrants drag wages down."

(Goldsborough). Yet wage laws often prevent legal minimum wages from falling, and so this logic often breaks down in the real world. The effects are more likely to be seen in the black market to the extent such a market exists.

16. Finally, there is the issue of what happens to immigrant workers once the host economy slows down. When a country experiences a boom, its demand for foreign workers increases and this pulls in "economic" immigrants. Yet, during times of recession, immigrants are often the first not to be rehired or to be fired. Empirical evidence suggests that an economic slowdown will not invariably result in an equivalent slowdown of immigration particularly as family reunions are the single greatest driver of immigration today. Indeed, immigration is only partly a function of economic conditions; non-economic factors like family reunions or marriages are also highly important. The OECD (Organisation for Economic Co-operation and Development) has demonstrated that the gap between immigrant and local unemployment levels varies significantly across countries. Immigrant unemployment levels relative to overall employment levels are one means of gauging a country's success in integrating new immigrants. Failure to close this unemployment gap can also exacerbate a range of related social problems including the stigmatisation of immigrants, social, cultural and political alienation, and the related rise of antisocial phenomena including the problem of crime and, in extreme cases, possibly even terrorism. This, in turn, can raise broader questions about national identity and the role of immigration in changing it. (OECD)

III. GENERAL TRENDS IN MIGRATION

17. Migration, thus, is a highly complex phenomenon and is shaping Western and developing countries in a plethora of important ways. Over the last decade, all Western countries have seen an unambiguous rise in immigration as well as the number of asylum requests. Asylum appeals to the German state, for example, hit historic highs with the collapse of the USSR and Yugoslavia. That said, most migration, in fact is among developing countries. Moreover, because mobility requires some capital, many migrants do not represent the poorest sectors of developing societies; although the same cannot be said of refugees fleeing conflict. Economic migrants often come from relatively dynamic developing countries like India and Mexico, which are increasingly networked globally and are relatively better off than much of the developing world. This suggests that a degree of development can actually stimulate rather than discourage migration. (*"The Migration Development Nexus"*)

18. As suggested above, family reunion is the strongest driver of migration into Europe and North America today, followed by those seeking economic advancement or those engaged in labour related migration. In OECD countries, family reunions currently account for some 50-60% of migration, while roughly one third is employment driven. But the rate of family reunion driven immigration has fallen slightly as a result of widespread labour related migration and new curbs on immigration. In the United Kingdom, for example, family reunion's share of overall immigration fell between 1999 and 2000 from 46% to 34%, as was the case in a range of other OECD countries. Italy, the Netherlands and Denmark have actively sought to limit this type of immigration. In the United States family reunion made up 70% of all admissions in 2001 compared to 83% in 1999. (OECD)

19. In those Western societies increasingly characterized by low birth rates and overall ageing, migration has become a critical factor in population growth. A number of European states would have seen their total population fall without high immigration levels. This has been the case in Germany since 1986 and in Italy since 1993. (OECD) Foreign-born populations are thus expanding in a number of Alliance countries, particularly the United States and Canada, although the trend is evident in Europe as well. Immigrant groups often have a higher fertility rate than the host population although this does tend to converge over time. Certain former countries of net

emigration, moreover, have now become countries of net immigration. Spain, Portugal, Ireland and now even the Czech Republic are examples of the latter.

20. Geographical proximity, historic and cultural ties, previous patterns of migrations, as well as economic relations all form the relationship between the country of emigration and the host country. Once a particular migration pattern is detectable, it is likely to persist because family links will tend to encourage further immigration from those regions. The presence of family in a host country greatly eases adjustment costs for new immigrants and they become poles of attraction. These "chain effects" are of great importance, as they tend to reduce the capacity of host countries to pick and choose their immigrants. Moreover, different source countries introduce different skill sets and cultural predispositions into the host country. Ultimately this can have a profound transformative impact on the host country's own culture, political life, economy and foreign policy.

21. According to the OECD there are now several critical migration related challenges confronting western countries. These include the need to better monitor migration flows and policies in order to detect new trends, share information and identify best practices used among OECD countries, and the promotion of social and economic integration of immigrants and their children into western societies. This is particularly important because the 1990s have not been a very successful period of integration. Resident foreigners are generally more vulnerable to unemployment. This is less the case in the United States and the United Kingdom, while Germany and France have a far greater divergence in employment levels between native-born people and immigrants. A number of factors explain such divergence including general labour market conditions, the social welfare system, the origin, cultural disposition and skill set of foreign workers and the labour demand of the host country. As a general rule, foreigners tend to be more vulnerable to unemployment when growth is slow. With the exception of Canada, the United States and Ireland, this observation is true for both men and women. Indeed, women usually suffer higher rates of unemployment. In France, for example, the rate of foreign-born female unemployment is 21%, 17.8% in Belgium, and 17% in Spain. Part of this is due to skill and language deficiencies as well as more subtle matters like the status of immigrants in the host society, and the status of women among the predominant immigrant groups. (OECD)

22. The extent to which international migration flows might alleviate the consequences of severe societal ageing for the labour market is frequently over estimated. Demographers suggest that international migration can only be a small part of the solution to this problem. Stabilizing Europe's working population through migration would require far higher and sustained inflows than in recent years. In some countries, the inflow rate would have to triple, and this seems both politically and socially untenable. Moreover, at the margins, increased migration will only accord temporary demographic relief because migrants also age, their birth rates generally tend to converge with those of the host country, and as immigrants grow older, of course, they too will lay claim to public resources set aside for their demographic group. (OECD Report) Only by bringing in significantly more migrants, not allowing them to bring in family and compelling them to return to their countries of origin at the age of 65 without the promise of future benefits, could one expect the West's labour ageing problem to be solved through migration. Of course, this is politically and morally untenable. It is also the case that several important origin countries, like Russia and Ukraine, are themselves rapidly ageing. Continued outflow of workers from these countries would therefore eventually have an adverse impact on their own development.

23. All that said, migrants are currently filling critical skills shortages in Europe and the United States. At the end of 1990s and in 2000, most OECD countries introduced specific measures to facilitate the recruitment of skilled foreign workers needed in leading industries. The United States, for example, has used its H-1 B temporary visa programmes to bring in a range of information technology specialists who helped fuel the boom in that sector and kept exploding wages in that sector in check. (OECD) In 2001, 164,000 of these visas were issued, although the

pace has slowed considerably since then because of the economic slowdown and the very slow pace of job creation in the US economy. The government subsequently removed information technology specialists from the list of occupations characterized by skill shortages. The United States does not impose limits on the number of foreign multinational executives working in the United States, although this has come under discussion. The United Kingdom has also relaxed recruitment conditions for highly skilled foreign workers and in recent years has granted work permits in the high tech, health care and education sectors. It has also extended an increasing number of permits to seasonal workers in the agricultural sectors. Canada's immigration programme is unambiguously slanted toward bringing in highly skilled workers and even entrepreneurs who introduce immediate and long-term benefits to the economy. In recent years, Germany has also looked to India as a source of new technology skills. [See NATO PA Secretariat Report (137 EC 03 E), Canada, 2003].

24. Workers in the health care sector are ageing very rapidly in the West, and hospitals increasingly recruit doctors, nurses, orderlies and administrators from developing countries. This has raised serious concerns about the potential for a "brain drain" of health care workers in developing countries where these skills are certainly needed but less well rewarded. Yet the precise impact of the "brain drain" is itself very difficult to gauge. Many OECD countries, for example, have been recruiting nurses from South Africa, for example, while South Africa, in turn, is recruiting from other African countries.

IV. THE MIGRATION DEBATE IN THE UNITED STATES

25. The regional concentration of migration is raising a particular set of dilemmas in the United States. High concentrations of migrants from the same country can greatly complicate integration. As mentioned above, Samuel Huntington has argued that a high concentration of Mexican immigrants in the South West and California and the great number of Cubans in South Florida have reduced the incentives for these groups to embrace the English language or what he calls America's creed and culture which, according to Huntington, are premised on the English language, Anglo-Saxon rule of law concepts, the rights of the individual, the protestant work ethic and its related injunction to create heaven on earth or a city on a hill. He warns that with continued high inflows of Latin American immigration, America risks becoming a nation of two distinct language groups, creeds and cultures.

26. Huntington suggests that the current pattern of immigration is spawning geographic concentration of Hispanic immigrants, which could cement separate linguistic identities. He cautions that sustained regional concentration of immigration, fuelled by immigration from a contiguous developing country, is discouraging immigrants from "buying into" the national cultural and political life. Instead, America's "Latinos" are building an alternative culture that is structured on a familial ethos more typical of traditional developing societies than modern developed ones. Huntington believes that unless the United States can find a way to disperse and assimilate these immigrant groups, the very coherence of the country could be at risk. He suggests, for example, that the concept of being American is premised on the acceptance of certain fundamental principals and a common language not on race, nationality or sectarian identity. (Huntington)

27. Huntington's view, however, is highly controversial, and his critics suggest that he underestimates the enormous boost these immigrants are giving to the national economy, their absorption of the American work ethic, and their capacity ultimately to integrate fully into the fabric of 21st century America. He also ignores the even more fundamental view that these immigrants are vital to the American economy. (Fuentes) Interestingly, the Johns Hopkins University historian, Francis Fukuyama, has recently suggested that while Huntington ignores those factors that have made possible the integration of Mexicans into the American mainstream, European societies do need to engage in a serious debate about the potential clash between their humanist culture,

tradition and identity and those of their Islamic immigrants. Princeton's Bernard Lewis has even suggested that Europe's Islamic immigrants are far more resistant to integration than America's Mexicans and even suggests that Europe is slowly becoming Islamicized. In an interview with *Die Welt*, he said that "Europe will part of the Arab West or Maghreb.... Europeans marry late and have few or no children...following current trends, Europe will have Muslim majorities in the population by the end of the 21st Century". (Vincour) Clearly some American academics are skirting on the edge of very controversial topics but the fact that this debate is opening suggests its potential resonance in western societies.

28. Whether one accepts Huntington's views or not, and many migration experts do not, it is true that high birth rates among Hispanic Americans as well as a sharp rise in Asian immigration are transforming America's ethnic make up. The Census bureau has suggested that by 2050, the proportion of the non-Hispanic whites in America will fall from 70% to 50% while the proportion of Hispanic Americans in the population will almost double from 12.6% in 2000 to 24.4% in 2050, both as a result of continued immigration and a fertility rate which is currently 50% higher than most other groups. The projects also suggest that America's total population will rise by 49% in this period, a sharp contrast to most other Western countries where population declines are expected. Due to lower birth rates, however, the US population will nonetheless age, with 20% of the population over the age of 65 by 2030. (Financial Times, March 8, 2004.) This percentage will increase particularly after 2030. At the same time, during the 1990s more than 11 million people were added to the U.S. population through immigration and one third of these are unauthorized. Illegal immigration has thus been soaring despite unprecedented efforts to limit it. (Cornelius)

29. In the mid-1990s, the US Commission on Immigration Reform (the so-called Jordan Commission) recommended a series of measures to reduce legal immigration by a third, including unprecedented workplace controls. Yet throughout the rest of that decade immigration rates soared to their highest absolute levels in history. Simply put, the contrast between law and reality has become untenable and immigration policy change is often in the air. The Bush administration recently proposed relaxing immigration laws to allow millions of undocumented workers to remain in the United States as guest workers with three-year visas, renewable once, if they are already employed. The proposal however, provides few possibilities for extending green cards to these workers or, for that matter, the eventual prospect of citizenship. Congress has so far refrained from acting on the legislation. Some Democrats lean toward extending an amnesty to migrants who have worked in the United States for at least five years and who have demonstrated English proficiency. They also want two new temporary worker programmes for low skilled workers, which would grant a total of 350,000 visas per year. Currently only 10,000 permanent resident visas are allocated to low skilled workers based on their occupation - far below labour market demand - while high skilled workers were extended 200,000 temporary visas in 2002. Some analysts suggest that this policy has created a climate conducive to illegality. (Cornelius) Conservatives oppose these initiatives and even President Bush's proposal has not been embraced by his party. Republicans on Capitol Hill have already signalled that the bill will not come to a vote before elections this fall. (Calmes) A number of other bills are also pending in Congress including the "Dream Act" which would give high achieving children of illegal immigrants access to University aid programmes. Immigrant activists complain that the broad approach to immigration is increasingly premised on criminalizing the problem and treating it as a police and security matter. One pending bill, for example, would require local police to enforce federal immigration statutes. Police in New York have said that this would undermine local crime fighting by making immigrants even more reluctant to report crime or help investigations. (Bernstein)

30. Another challenge in the United States is the rise of illegal immigration. The number of illegal immigrants living in the United States jumped from an estimated 2.5 million in 1989 to some 9.3 million in March 2002. In a country that is increasingly concerned about border security as a result of the September 11 attacks, these trends are indeed worrying. Tightening controls on America's borders, however, has increased the transaction costs of moving goods and people in and out of

the United States. Tighter border controls, have also fomented a certain amount of tension with America's NAFTA (Northern American Free Trade Agreement) partners, Canada and Mexico, although all three countries have made an impressive effort to cooperate on border management in an era of heightened security concerns. There is a very healthy dialogue among the three over finding the right balance between unhindered trans-border commerce and greater security, although invariably these two goals are not perfectly reconcilable.

31. Public perspectives in the United States are very divided over immigration. At the most general level, support for it is not particularly deep. Opinion polls suggest that most Americans are convinced that the economic impact of mass immigration is negative, while some economists would tend to argue that immigrants are playing a critical role in the national economy house cleaning, child care, elder care, gardening and small construction work. (Cornelius)

32. U.S. Leaders have responded to these concerns over the last decade by trying to enforce ever-more stringent border controls. Partly in response to the strong backlash against immigration in California politics, the Clinton Administration built up the urban border systems where Mexican immigrants most commonly gained illegal entry into the United States. The policy, however, has tended to push illegal migrants into the harsh desert regions of the borderlands in California, Arizona and Texas. The expectation was that this approach would slow down illegal migration. It has failed to do so; and as indicated the number of undocumented workers in the United States is soaring. Undocumented workers account for more than 60% of the total labour force in agriculture. The consequences have thus been the rise of illegal entries, higher mortality rates for those trying to get across the border and the emergence of vigilante groups in sparsely populated American borderlands who are taking the law into their own hands. Last year U.S. Border Patrol reports indicated that 325 people died trying to cross the border from Mexico to the United States - this was down from 340 the year before. Fatalities from January 1995 through May 2004 totalled more than 2,750, largely as a result of dehydration and heatstroke in the deserts or drowning in the river and canal systems along the US-Mexican border. (Cornelius). It is highly unlikely, however, that these barriers will be taken down because they have been welcomed in cities like San Diego. Even officials in the northern Mexican city of Tijuana told members of the Committee that in some respects the barrier has made life easier as it has discouraged criminal traffickers from operating in that city. [Secretariat Report (145 EC 04 E), visit to San Diego) Another unintended effect is that those who enter the United States illegally are now less likely to return home for fear of having to make a perilous journey to return to the United States.

33. Improving the situation poses a range of policy dilemmas. Wayne Cornelius from the University of California estimates that it would cost tens of billions of dollars to build a kind of Maginot Line border wall across the United States-Mexican border and there is little to ensure that even this would stop the inflow of illegal workers. Pursuing a strategy of increased workplace enforcement would likely be politically and economically counter-productive because the American economy has come to depend on millions of workers from Latin America. It is very difficult to enforce the provisions currently on the books. There is also a continuing problem that the children of illegal immigrants do not receive basic benefits because their parents fear deportation. As a result they are denied proper health care and education, even when they are entitled to these rights because they are birthright citizens of the United States.

34. Another fallout from September 11th has been far stricter visa controls for the tens of thousands of students, researchers and faculty at American Universities. Several major research universities are worried that the effects of new visa regulations could have a long-term impact on their student bodies and teaching faculty. Although international students comprise only about 4% of all students at US colleges, they contribute nearly \$12 billion to the US economy, according to a study by the Institute of International Education. The Department of Commerce claims that US higher education is the country's fifth largest service sector export. Moreover, since many highly trained foreign students remain in the United States to work, the American economy has benefited

enormously from the truly global character of its great universities. The United States has certainly derived enormous diplomatic advantage from the fact that many of the world's elite have been trained in America, speak its language and are long sympathetic to its politics. So any initiative that makes studying more difficult in the United States comes at a great cost although it may bring security advantages. Applications for all types of non-immigrant visas have fallen by 15% since September 11. In 2003 the State Department received some 541,000 applications for F-1 and J-1 Visas, the most common type of student visas, a fall of some 39,000 from 2000. (Blackburn) During the 2003 academic year, the State Department issued 214,331 student visas down from 234,322 in 2002 and 293,357 in 2001 a 27% drop. The United Kingdom, Canada and Australia are apparently enjoying a clearly related windfall in foreign students because of the mounting complexities of studying in the United States.

35. Yet, the fact that some of the September 11 hijackers entered the country on student visas has pointed to a genuine problem that the American government was compelled to remedy. The concern of many University administrators, however, is that the approach taken so far has penalized American universities. Indeed, these administrators are increasingly vocal in their complaints. Last year the Johns Hopkins Department of Bio statistics chose three new graduate students out of an applicant pool of 224, the Department Chairman described these three as the top young students in that field in the world. The government, however, denied all three of their visas for reasons that remain unknown. Similar stories are being reported throughout the United States. (Joffe)

V. THE EUROPEAN MIGRATION CHALLENGE

36. According to UN Secretary General, Kofi Annan, "One of the biggest tests for the enlarged European Union, in the years and decades to come, will be how it manages the challenge of immigration." (Annan) Today, more than 21.5 million foreigners live in the 25 member or acceding states of the EU and represent roughly 5.2% of the population. (*Courrier International*, October 16-22, 2003) In absolute terms, the principal host countries are Germany, France, the Netherlands and the United Kingdom. Relative to their population size, however, Luxembourg, Germany, Sweden and Austria have the highest percentage of immigrants.

37. Demographic trends currently provide one of the principal arguments in support of immigration. Europe is a rapidly ageing continent; its citizens are living longer and bearing fewer children. Without immigration, the population of the 25 member states would drop, from around 450 million now to under 400 million by 2050. This is especially worrisome since it means an overall contraction of the working age population. In Western Europe, the number of people aged 65 or more will increase from 63.4 million in 2002 to 92 million in 2025 and then gradually decline to 84.3 million by 2050. In Central and Eastern Europe, the respective numbers are 16.6 million in 2002, 23.6 million in 2025 and 29.9 million in 2050. According to the International Organization for Migration (IOM), in the absence of mass immigration, the largest contractions of the active population are to be expected in Germany, Poland, Italy and Spain.

38. Without a continuous flow of immigrants, skill shortages will occur in certain critical sectors. European health systems are likely to become short-staffed, parents might eventually lack home help for their small children, and pensions systems will be under enormous pressure as the percentage of pensioners inexorably rises relative to the percentage of those active in the work force. In 2001, Germany's Independent Commission on Migration concluded: "We need immigration to Germany because the population is getting older: life expectancy is increasing while the number of children born per family remains low and the number of births is decreasing". (IOM "World Migration" 2003)

39. Given the high level of unemployment and social resistance to large-scale immigration, however, European governments are reluctant to contemplate any significant opening to foreign workers. Greater emphasis is currently being placed on selective and temporary labour migration aimed at meeting critical skill shortages in certain sectors. Many West European countries are currently planning to recruit only expatriates with the requisite skills, such as specialists in the IT or the health-care sectors (especially nurses and paramedics). Germany, for example, recently launched a "green card" programme for information technology specialists and the United Kingdom has introduced a "Highly Skilled Migrant Programme".

40. It can be argued that opening the doors to unskilled labour would reduce illegal immigration. Managed immigration could provide one alternative to policies now being set by criminal networks engaged in the smuggling of people into Europe. Since it is very difficult to enter the European Union for economic reasons, the number of political asylum applications soared over the last decade. Consequently, the system has become precariously overloaded and has generated serious problems for genuine refugees and asylum seekers as well as for host countries. In 2000 and 2001, regional conflicts in the Middle East, Asia Minor and Sub-Saharan Africa also contributed to the number of asylum seekers throughout the OECD area, particularly in the Nordic countries, the UK, and Switzerland. In 2002, Iraqis made the largest number of asylum applications to OECD countries, followed by Afghans. Illegal immigration is also posing a range of political, social, economic and even security challenges and has generated a backlash in some circles against immigration in several European countries.

41. Current restrictions are therefore not necessarily curbing new arrivals, which are continuing to arrive through family reunions and irregular entries. Restrictions and current border controls often redirect flows of migration to more accessible countries. Furthermore, stricter immigration laws generally affect only legal immigrants and far too often have failed to impede the steady flow of illegal migrants into Europe. The character of illegal immigration has also changed in recent years: where it once largely concerned young men looking for work, today whole families are involved. This problem has become particularly serious in the Mediterranean region, which has seen a large increase in the movement of migrants from the Balkans and Northern Africa. The UN High Commissioner for Refugees estimates that more than 5000 have drowned over the past decade crossing the Mediterranean. (Dempsey) The trafficking of women and children has become a large problem particularly with regard to the Balkans, and security officials are increasingly concerned about the illegal migration from Northern Africa, particularly in the wake of the Madrid bombings.

42. Anxiety about migration has also led to new pressures to restrict unimpeded access of citizens of the new member states within the Union. Some current EU member governments are concerned that an inflow of cheap, well-trained labour could only increase unemployment and raise the costs of unemployment benefits. (*Neue Zürcher Zeitung*, February 23, 2004) The governments have agreed a seven-year transition period after which the citizens of the new members will be granted the right to move and work throughout the EU.

43. The European Commission has pointed out that immigration usually slows down once a country has joined the EU and has strongly opposed these restrictive measures. It suggests that immigration from new members cannot be linked to unemployment: only 2% of the unemployed people in new member states have expressed an interest in leaving their country, according to a survey of the Commission. The greater risk might be that new member states might suffer a "brain drain", in which the benefits would accrue to the host country. As suggested above, however, remittances can counteract the adverse effects as can new investment patterns related to migration and the possibility that workers will return to their home countries with higher skill sets. The OECD also reports that countries like the Czech Republic and Hungary, which have received an enormous amount of foreign direct investment, are now hosting corporate immigrants from Western companies.

44. All of this has sparked a vigorous public debate in Europe about immigration, asylum, border security, and identity. The question of how to integrate migrants from different cultures and religions into Europe's old but rapidly changing cultures has taken on new urgency. The debate is driven by concerns about the presence of extremist political parties in several European countries, rising islamophobia, anti-Semitism and racism.

45. European politicians, government officials, the public and mass media are paying closer attention to Muslim immigration, particularly since the September 11 attacks which were partly planned in Europe. The Madrid bombing of March 11 2004, in turn, likely involved Moroccan terrorists linked to al-Qaeda. Over the last three years, security forces in Europe have uncovered terrorist planning cells with links to Northern Africa and the Middle East in Germany, France, Belgium and the UK. All of this has reopened questions about current European approaches to immigration, border security, and the difficulties Europe has sometimes confronted in integrating some Muslim groups into the fabric of European societies. Indeed the Western Mediterranean has emerged as the largest source of migration in several southern European countries. Algerian emigrants are located almost exclusively in France, whereas large Moroccan and Tunisian communities can be found in Spain as well as in France. The United Kingdom is the preferred country of choice for immigrants from India, Pakistan, Sri Lanka and Bangladesh as well as large numbers of asylum seekers from other countries. Whilst the vast majority of migrants of all faiths and backgrounds in Europe have been welcomed, the activities of a small minority have caused public alarm.

46. One key for improving the management of immigration will be to find ways to distribute migrants more evenly across the different regions of Europe, a point that Antonio Vitorino, the Commission's Director General for Justice and Home Affairs, has been advancing. (*Courrier International*, October 16-22, 2003) If the EU fails to agree on quotas and the countries and regions of Europe fail to cooperate more fully in accepting migrants among its members, migrants will likely continue to flow toward the same European regions. Some of these regions currently confront grave difficulties in absorbing the great number of newcomers: in 2001 for example, 120,000 migrants arrived in London. London is widely regarded as a highly successful cosmopolitan city and a model for integration and tolerance. However, in other areas of the UK such as certain towns in the North West of England, ethnic tensions and social and economic problems have arisen which have been exploited by far right anti-immigrant parties.

47. The European Union is attempting to co-ordinate its immigration policies and to overcome the difficulties associated with divergent member country immigration rules. The Maastricht Treaty provides the foundation for this effort. It introduced the "Third pillar" in which immigration and asylum were recognised as matters of common interest. Only with the Amsterdam Treaty, however, were European institutions given the necessary treaty-based competence to develop some common asylum and migration policies. The Community principally operates in two main areas: in the conditions of entry and residence for third-country nationals and in illegal immigration and residence. Minimum standards for safeguarding the rights of third-country nationals have been established, as well as the conditions for legal residents in one member state to settle in another. The Tampere Council called for co-operation in the following four areas: partnership with countries of origin (for example the "Western Mediterranean Co-operation Process"); development of a common European asylum system; fair treatment of third-country nationals; and a comprehensive approach to the management of migration flows. But there is still a long way to go before co-operation will work effectively. Full harmonization remains a long way off.

48. One problem is that Europe has not fully standardized approaches to immigration, asylum and related challenges. Geographic and economic differences within the EU can result in an unequal distribution of immigrant concentrations with some countries shouldering a far greater burden than others. The challenge of border control, moreover, remains the responsibility of

member states, although the burden can be particularly great for those states like Italy with long and difficult borders to patrol. Italy, for example, has encountered increasing inflows of illegal immigrants and its long coastline poses a tremendous challenge for those responsible for defending it. The newly appointed Commissioner for Justice, Freedom and Security, Rocco Buttiglione accordingly has called for the adoption of a more equitable burden-sharing system among member states. Buttiglione believes that countries with small coastlines benefit from cost-intensive coastal protection and the security provided by member states such as Italy and Spain. (Fromm)

49. The Common Unit for External Borders Practitioners, which meets in the European Council under the aegis of the SCIFA (Strategic Committee of the Council for Immigration, Frontiers and Asylum) coordinates EU border control policies in what is called SCIFA+ formation. SCIFA+ is fairly adept at hammering out common and integrated risk assessment, and in coordinating joint operational actions, strategic management and risk assessment inspections in critical cases regarding Europe's external borders. Yet, SCIFA+ has few operational capacities. More systematic and sustained operational coordination is clearly needed among member states, particularly when one considers that the external border is truly a common border. The decentralized network of national centres loosely coordinated by SCIFA+ currently accords member states' national services the central responsibility for SCIFA+ operations. Some have suggested that a genuinely integrated EU policy for external border control will ultimately demand an integrated European border guard. (http://europa.eu.int/eur-lex/en/com/cnc/2003/com2003_0323en01.pdf)

50. Following the Thessaloniki meeting of the European Council (2003), member governments put forward a proposal for the creation of a European Agency for the Management of Operational Cooperation at the External Borders. This would be an independent, specialized Community structure for operational cooperation, risk assessment, training & research and coordinating the removal of third-country nationals residing illegally in the EU. The Agency should start operating by the start of 2005 with a proposed budget of €6 million in 2005 and €10 million in 2006. (<http://europa.eu.int/scadplus/leg/en/lvb/l33216.htm>)

VI. THE DEVELOPMENT ANGLE - REMITTANCES

51. Migration and development are closely linked. The movement of people forges links between developed and developing communities, it spreads knowledge, fashions networks where none before existed, redirects investment, generates remittances and creates advocacy communities well positioned to advise and even put pressure on political authorities in developed countries to provide greater support for the developing world. The development effects however are not all positive. Migration can also trigger "brain drains" that deprive developing countries of their greatest talent, while the inflow of remittances is sometimes inflationary and poses special macro-economic challenges to developing country leaders.

52. Migration is rarely treated as a development or poverty reduction issue. It is, rather, driven by labour market, foreign policy, security, and other political concerns. Like many other development issues, it raises serious questions pertaining to "policy coherence". More specifically, do Western governments pursuing a set of development-oriented objectives undo what they are trying to achieve with their immigration policy? The answer, of course, depends. But the fact that the question is being ever more frequently asked suggests that Western policymakers need to do a better job of examining how potentially conflicting objectives should be properly balanced. (*The Migration Development Nexus*)

53. In weighing the potential gains and losses from migration, the question of remittances deserves special attention because their importance has increased considerably over the last decade, creating new economic and political linkages among countries. Remittances are funds immigrants or naturalized citizens earn in host countries and then repatriate to their country of origin. They have become one of the most important sources of foreign exchange for poor countries (twice the amount of foreign aid in 2001 and ten times higher than net private capital transfers). (Kapur, McHale) In 2002, immigrant workers remitted some €80 billion to developing countries or 54% more than the €45 billion those same countries received in official development assistance. This figure compares with recorded remittances of US\$17.7 billion in 1980. This funding is lifting entire countries out of poverty, creating new channels for the flow of international finance, and more generally recasting key aspects of international politics. Currently the principal recipients of remittances are lower middle-income countries with per-capita income between \$736 and \$2,935). Pakistani workers, for example, were expected to remit \$4.5 billion in 2003. Philippine workers are now remitting \$6.4 billion a year while the Dominican Republic has used a high level of remittances to galvanise its own impressive economic development. In Armenia, remittances have provided a social safety net, which has cushioned millions from the dire consequences of an extended post-Soviet economic depression. (Kapur, McHale) Currently the United States and Saudi Arabia are the two largest sources of workers remittance to developing countries.

54. The most obvious explanation for this dramatic expansion is the steady increase in migration over this period. The general liberalisation of capital markets has also contributed by greatly facilitating the movement of capital across borders. The opening of capital markets has sharply reduced black currency markets, and this has both encouraged remittances and made it so a higher percentage of remitted earnings now appear in official statistics. An important new financial infrastructure is under construction that is further facilitating the movement of money across borders even to remote regions of the developing world. Western Union, a US-based company, has played a leading role in making it possible for immigrants to wire money around the world, although at a cost that, for many, remains prohibitive.

55. Remittances are an under-appreciated source of development funding. In many cases, they constitute the most stable source of financial flows to developing countries. Remitted earnings are not subject to the vagaries of donor government political and economic fashion, they come with no interest costs to the receiving country, they are deposited with no conditions attached, they require no large bureaucracy to manage, and they can sometimes flow to the poorest sectors of society, although they do tend to move to better off households within better off communities in the more dynamic developing countries. The farther away the country of emigration is from the host country, the more likely that remittances will flow to middle class families because of the daunting initial cost of travel for the immigrants. (Kapur) More than 80% of Indian migrants to industrialised countries, for example, have a university degree compared with 2.5% of India's general population (Kapur).

56. As suggested above, remittances to developing countries rose steadily between 1998 and 2001 when other private capital flows were declining in the wake of the Asian financial crisis. Even the more stable components of capital flows – FDI (Foreign Direct Investment) and official flows – declined in 2000-01. (Ratha) Remittances had to be most affected by the economic cycle in host countries. The American economic boom in the second half of the 1990s, for example, helped spark a sharp increase in global remittances.

	TOTAL REMITTANCES, US\$ BN		REMITTANCES/ GDP	
1	India	45.9	Lesotho	37%
2	Philippines	29.1	Jordan	21%
3	Mexico	28.0	Samoa	21%
4	Turkey	21.0	Yemen	18%
5	Egypt	16.6	Cape Verde	18%
6	Morocco	10.0	Albania	16%
7	Brazil	9.3	Jamaica	13%
8	Thailand	8.0	El Salvador	11%
9	Pakistan	7.8	Georgia	10%
10	Jordan	7.7	Antigua Barbuda	9%

Source: IMF and World Bank

57. In an important sense, remittances also carve out pathways for investment and trade and can deepen economic links between the country of emigration and host countries. Emigrants tend to invest more in their own country and benefit from local knowledge that outsiders may lack. This phenomenon is known as home bias in investment. There is also a direct link between remittances and investment. Emigrants often remit money in the expectation that they will eventually return home. When they open savings accounts in their country of origin, this naturally deepens local capital pools. Here differences between long-term and short-term migration become important, since temporary emigration tends to generate more remittances than long-term migration. At the macro-economic level, remittances can also provide a much-needed boost to developing countries' balance of payments. While these funds do not necessarily directly add to a developing government's budgetary resources, they do raise the level of national savings. When remittances are invested, they contribute to long-term output growth. But too much too fast can boost prices and lead to a currency appreciation that renders exports less competitive in global markets. Managing these phenomena can be a challenge.

58. Remittances have a number of advantages over foreign aid and international development lending. First of all, they eliminate costly middlemen and reduce the risk that funds will not be spent in accordance with people's needs. Remittances are far less likely to be siphoned off by corrupt government officials or squandered on prestige projects that fail to contribute to genuine development. On the negative side, they do tend to underwrite consumption rather than investment. But this consumption boost is, nonetheless, helpful and certainly has multiplier effects on local economies. In the end, the positive effects of remittances vastly outweigh any potential downside. The harder question is whether they compensate for the adverse effects of a "brain drain". Here the answer depends on a range of factors including whether or not highly skilled workers or untrained workers are migrating in the first place.

59. Efforts to facilitate the transfer of remittances confront a number of obstacles, but perhaps the most daunting of these relates to the financial front in the war on terrorism. This poses a dilemma; preventing terrorist organisations from channelling funds to operatives has become a central plank in the international community's anti-terrorist campaign. It is no easy task to distinguish remittances from terrorist-related transactions, and more efforts are clearly needed in this area. Striking a balance between facilitating worker's remittances and impeding terrorist

financing will not be easy. The economic effects in Somalia of the post-September 11 crack down on the *hawala* systems, for example, were significant. Since there is no recognised private banking system in that country, Somali migrants had relied on one firm (the Bakarat Group of Companies) to remit funds home. The group was shut down in 2001, because of its alleged links to al-Qaeda operatives. This has had an immediate effect on the Somalian economy, where remittances represent between 25 and 40% of GDP. (Kapur, McHale)

60. As suggested above, inadequate financial infrastructure poses another barrier to remitting funds to developing countries. Transaction costs can exceed 20%, and it has been estimated that simply reducing these costs by 5% would generate savings of \$3.5 billion for workers remitting funds. (Ratha) The World Council of Credit Unions (WOCCU) recently founded the International Remittance Network to facilitate small financial transfers from the United States to the developing world. It is offering a transfer service with no fees and favourable exchange rates, but its services are confined to credit union members. Portuguese banks have also played a leading role in developing low cost instruments for the hundreds of thousands of Portuguese workers living abroad. By the late 1990s, deposits from emigrants represented 20% of total deposits in Portugal's banking system. Mexican banks now allow debit cards to be used to transfer money, and ATM machines have captured some 11% of the market. Rising competition has also induced a dramatic fall in the cost of wire transfers from the United States to Mexico. This has consequently strengthened Mexico's retail banking sector and created credit markets where none previously existed. (Kapur, McHale)

61. Finally, it is worth considering how migration and the growing importance of remittances are reshaping international politics in surprising ways. To take one of many examples, India's reluctance to support a US-led war in Iraq in 2003 may partly have been due to the presence of many Indian expatriates in the Gulf region who feared they would be forcefully repatriated were their country to enter the American-led coalition. (*Foreign Policy*, Nov/Dec 2003) At another level, immigrant groups with citizenship in a host country often become powerful advocates for the interest of the country of origin, and this is changing the way developed countries approach the world in subtle ways.

VII. OUTSOURCING

62. Trade is generally understood only in terms of the export and import of goods and services and the resulting returns on capital and labour that accrue as a result. The movement of people, however, has long been considered a separate issue. This has begun to change. In recent months there has been a highly charged discussion both in Europe and North America about the movement of people and jobs, the impact this is having on the global trading system and the effects on the countries that are either importing or exporting workers or jobs. Moreover, technology is making it increasingly possible to trade in sectors that were once considered non-trading. A range of traditionally non-tradable services can now be "exported" because of the vast innovations in telecommunications networks and information technologies.

63. One of the greatest challenges in managing a free trade policy involves the reallocation of resources. Foreign competition opens markets and bolsters competitiveness, provided resources (including labour) are reallocated to exploit emerging opportunities and comparative advantages. A computer company, for example, may decide to import components rather than manufacture them at home because the price is much lower for foreign manufactured parts and the quality could well be higher.

64. Catherine Mann, an analyst at the Institute of International Economics, has estimated that US companies reduced the cost of computers and communications equipment by between 10% and 30%, by purchasing parts from firms around the world. She suggested that this lifted US

growth by 3% a year between 1995 and 2002, as more companies took advantage of ever cheaper information technology. Mann argues that similar gains can be obtained through the outsourcing of code writing and could be extended into the currently very costly medical sector. (*Wall Street Journal*, January 26, 2001) The United States nevertheless continues to run a very large services surplus. (*The Economist*, February 21, 2004).

65. The internationalisation of the division of labour, of course, implies that some workers and managers will lose their jobs as a result of outsourcing. The great challenge is how to transit labour from old to new industries in order to reap the benefits over time. Sometimes this is not possible. It is not easy to move a middle aged unskilled worker into the software industry to take an extreme example. Global outsourcing and technological advance can thus widen the gap between winners and losers. The jobs that remain in the most developed countries are likely to be those that require more complex technical and human skills, while simpler tasks are likely either to go offshore or to be performed by machines. In this sense, outsourcing can accelerate many of the effects that normally kick in when new technologies are introduced to an economy, including an income gap between the skilled and the unskilled. (Wessel)

66. The capacity of a society to make labour market adjustments invariably conditions broader political perspectives on the global economy. Indeed, if resources are not properly reallocated and if redundant labour is not retrained and put back to work into competitive sectors over a reasonable time frame, then globalisation can rightly be seen in a negative light. Much therefore hinges on a society's capacity to redeploy labour and capital to competitive sectors quickly, efficiently and humanely. If this adjustment eludes policy makers, then globalisation can weaken critical aspects of a national economy and undermine political and social comity. How to harness this dynamic poses important policy dilemmas for governments. Indeed, Western political leaders are increasingly challenged to hammer out strategies to facilitate this transition and minimize the human and social costs associated with the job destruction that the global economy can induce while exploiting the even greater level of job creation it spawns.

67. Indeed, how social safety nets are set up and the capacity of the labour market to embrace rather than resist change are both of paramount importance. Having high social ambitions can facilitate the transition if it instils in workers an attitude that embraces rather than resists change. Education and training for redundant labour are a central part of this process and so too is an adequate social safety net. Governments must craft policies that do not give workers the incentive to remain unemployed rather than take on new jobs. Efforts to simply remove people from the labour market in the face of international competition will only erode national competitiveness. In the past, some OECD governments lowered the retirement age to deal with the problem of those losing jobs as a result of structural changes. This was an entirely inappropriate way to deal with the challenge and saddled several European countries with an altogether burdensome and ultimately unsustainable set of retirement ages that now seem anachronistic both because of the lengthening life span of Western populations and the general ageing of Western societies. The looming pension crisis is now driving reform efforts, which economists argue are still proceeding too slowly to meet the challenge.

68. "Job outsourcing" or the movement of jobs to foreign countries has become one of the hot button issues in Washington in this election year. The debate is hardly restricted to the United States; this March, Germany's Chancellor Gerhard Schroeder charged that those who advocate outsourcing work are "unpatriotic" (Blau) while France's Finance Minister Nicolas Sarkozy has waged a campaign against outsourcing which includes measures to slash the taxes of those companies that do not export jobs - an initiative that could cost €1 billion in 2005 alone. (Milne, et.al.). The political debate in the United States has been fuelled by the fact that the recovery over the last two years has been essentially jobless. Indeed as of February 2003 a net total of 2.3 million jobs had been lost since Mr Bush came to office, although productivity growth is now running at 2.1%. (*The Economist*, February 19, 2003) Growing unease about unemployment

and job stability has inspired renewed attention on outsourcing. Even conservative supply side economic writers like Paul Craig Roberts have begun to challenge neoclassical trade assumptions (Schumer, Roberts). The debate is unfolding now both in Europe and the United States for a number of reasons, but one important one is that the jobs moving off shore are increasingly in the service sector which was once seen both as immune from international competition and a sector which the West anyway tended to dominate. The reality though is far more nuanced.

69. US government statisticians estimate that outsourced jobs account for 1% of those registered as unemployed. The jobs lost to outsourcing are thus far less than the number of jobs lost and created overall as a result of all the short-term and structural machinations that shape the national economy, including "in-sourcing" or jobs that foreign companies "export" to the United States. Indeed the Organization for International Investment, which tracks the number of jobs outsourced to the United States by other countries suggests that the United States is importing many more jobs than it exports because of its highly attractive business climate, 34% of these are in the manufacturing sector. Foreign firms based in the United States currently account for 22% of US exports as well. (Wriston) According to one recent study, the number of all trade related layoffs in 2001, the peak of job loss, constituted only 6% of American unemployment. The difference today is that outsourcing is having an impact on some white collar jobs that were once safe from competition although most of the outsourced jobs are in areas like code writing and switchboard operating.

70. Some in the United States have argued that the median income of Americans has remained stagnant and blame outsourcing as one of the reasons. The picture, however, is more complex. The slow growth in median income is partly a result of the scale of immigration into America, which, according to some studies, is greater than all immigration in the rest of the world put together. Many of these immigrants are taking up the lowest paid jobs in the United States, and as a result, five million immigrant households were added to those living below the poverty level between 1979 and 1999. (*The Economist*, March 13, 2002.) Among native-born Americans, poverty rates have declined steadily since the 1960s, and African American families have recently seen their median income rising at twice the pace of the country as a whole. Thus without immigrants, middle-income growth trends have steadily improved since the 1960s. These numbers point to a problem related to integrating new workers into the US economy and the difficult conditions in which new immigrants often must work. Many of these Americans are struggling to survive on minimum wage jobs, which offer few benefits.

71. It is also the case that between 1980 and 2002, Americans in work rose by 40%, far outstripping the 26% increase in population in the same period. Some three quarters of the American adult population is now working, an estimated 10% higher than the rate in Europe, largely because of the high number of women in the work place but also because American teenagers frequently take part-time work. (*The Economist*, March 13, 2002)

72. There are currently dozens of bills pending in Congress and state legislatures throughout the country that aim to hinder outsourcing in a range of industries like computer programming, accounting and medical work. The US Senate, for example, approved a measure that imposes restrictions on government contractors to discourage companies from outsourcing American jobs overseas. The ban would not apply to countries that have signed an international accord liberalizing government procurement rules. India and China, it should be noted, have not signed this. The tabled legislation seems to fit into six categories: assisting affected workers by applying trade adjustment assistance which is currently reserved only for manufacturing workers; laws requiring full disclosure including a bill that would demand that employers provide three months notice before they lay off more than 14 workers to jobs overseas - a plan endorsed by the Democratic candidate John Kerry; laws slashing federal aid loans grants and guarantees to any company that lays off more workers at home than it does abroad; laws requiring that no outsourcing be permitted under the rubric of federal contracts; laws providing tax incentives and

imposing tax penalties for those considering moving jobs abroad, and legislation insisting on privacy protection so that private information like medical or financial data would not be sent abroad without the express permission of subject of that information. (Phillips) The Administration so far has not backed any proposal to limit outsourcing US jobs.

73. It should also be noted that India has developed a substantial outsourcing business, which has been a core feature of its strategy of opening to the world economy. It enjoys a very well educated and inexpensive labour force, which has become enormously attractive to North American and European firms. American information technology firms alone currently employ 250 thousand workers in India either directly or through subcontracted work. This is generating enormous revenues for this developing country and a tremendous amount of political heat in Washington. (*Wall Street Journal* March 8, 2003.) Not surprisingly, India has become a key player in services trade both for the United States and to a lesser extent in Europe. Its highly skilled workers are being hired as software programmers, medical support staff, and in-call servicing - jobs that were once seen as the preserve of Western workers. The Internet and low cost communications have made these sectors tradable, and it is generating some tension. Some firms claim that in today's highly competitive markets, they could not survive without the input of Indian labour, even though managing outsourced services can be tricky over the short to medium term. (Thurm)

74. India itself is emerging as a promising new market as well as a producer in the international trading system, and its strategic relationship with the United States is clearly deepening. Last year, trade between the two countries totalled \$18 billion. India's trade surplus with the United States stood at roughly \$8 billion in 2003, a 50% increase from the previous year. India also has slashed tariffs in recent years but industrial tariffs rate stand at 20% compared with 3% in the United States.

75. The United States Trade Representative Robert Zoellick is using the anti-outsourcing backlash to pressure India for concessions in other trading disputes. He has pushed his Indian counterparts to lower barriers in a number of areas as part of a strategy to defuse the jobs protection debate in Congress and state capitals. The United States is now asking India to reduce agricultural and industrial tariffs and quotas, liberalize its government procurement rules and stiffen intellectual property protections. The idea is to win concessions in return for American restraint on restricting outsourcing legislation. So far Indian authorities have resisted the pressure.

VIII. RECOMMENDATIONS

76. Immigration both to North America and Europe will remain economically essential for a range of reasons. But the attacks on New York and Madrid raise highly relevant questions about how to square immigration with some national security requirements. As the debate unfolds, it will be important to recognise how important immigration has been to the economic and cultural life both of North America and Europe.

77. As a starting point, it is essential that Western policy makers dealing with immigration strive for policy coherence. Policies should take into account development impacts, domestic economic conditions, labour needs, and national security. As the OECD has frequently pointed out, western governments too often take away with one policy, what they have given with the other. More systematic analysis of the broad impact of a range of related labour migration policies is needed to ensure that they are at least coherent with each other.

78. That said, efforts are clearly needed to reduce illegal immigration, although there are a range of policy options for achieving this goal both on the supply and demand sides. The European Union, for example, needs a far more coordinated approach to border control as well as

a means to better calibrate labour market requirements with immigration policy. The latter is also true for the United States, where current immigration policy can seem out of touch with the real demand for immigrant labour. Policy should better fit with rather than totally deny real market conditions. Promoting development in countries of emigration, can over the long run, help keep workers at home, although it must be pointed out that some of the more dynamic developing countries are also the greatest exporters of labour.

79. Strategies for dealing with illegal immigration are doomed to fail if they focus on the supply side without addressing demand issues. But penalizing employers who hire illegal immigrants is not always a politically viable strategy, particularly when that labour is needed. This is why there is currently a bias for border enforcement strategies as opposed to interior enforcement. New ways need to be found to ease bottlenecks in developed country labour markets and to make it easier for these workers to remit funds and participate in basic social services like education and healthcare. Greater efforts are also needed to encourage migrants to invest their remitted funds in local development initiatives in their home countries in order to provide a sustainable foundation for wealth generation.

80. Western countries should further develop and improve their programmes designed to fill short-term employment and ensure that workers are protected. These programmes need to be coordinated with law enforcement in an attempt to reduce the demand for illegal immigration. Currently this demand is often met illegally and strips the workers of fundamental protections, imposes enormous enforcement burdens on the host societies, and provides sustenance to people smugglers who thrive on restrictive policies fully at odds with labour market realities. These policies should be developed with the countries of origin and indeed could be broadened to include a range of states with a direct interest in cobbling together common policies. Efforts to dissuade incoming immigrants must be humane and more work is needed to reduce fatality rates on the United States-Mexican border as well as in the Mediterranean.

81. Support for a financial architecture that will allow workers from developing countries to remit earnings to their home countries cheaply and in a transparent fashion would bring enormous financial and security benefits to the developing world. The current financial infrastructure is inadequate to the task and extracts a high percentage of the remitted funds from the pockets of poor workers. This only bolsters the informal financial sector that is far less transparent and which the international community now recognises as a tool used by both criminal and terrorist organizations. The international lending community and OECD countries should redouble efforts to build up a financial structure which will facilitate low cost and transparent cross border financial transactions of small amounts of capital. The goal of facilitating remittances should not become a casualty of the war on terrorism. Efforts must be made to ensure that compliance with new Financial Action Task Force regulations on money laundering do not impose cost on poor workers seeking to remit funds to their home countries. Building low cost and transparent financial architecture for such transfers would help in the war on terror and would be far cheaper than seeking to police monetary transfers in a system which has been driven underground.

82. In an ever more global economy in which services as well as manufactured goods are increasingly subject to the laws of the global market, significant private and public investment is needed in labour skills development. This has many implications but one is that education must increasingly be understood as a lifelong undertaking. Workers must be trained and retrained several times over the course of their working lives if they and investors are to stay on the top of the production curve and reap the benefits from the global economy. Job migration will only increase political strains in our societies if these measures are not undertaken. The goal should be to move labour quickly into productive sectors, not to defend labour allocations and industrial structures that are no longer appropriate. Yet, the income gap between those in dynamic and less dynamic sectors has grown.

83. Western countries need to help immigrants improve language and work skills through greater vocational training. Vigilance is also needed in combating discrimination. Forging proper housing policies and encouraging more even geographic distribution of immigrants and asylum seekers are vital to this process. Naturalization, citizenship, and democratic rights for legal immigrants can and should be part of the strategy. At the same time, migrant diaspora are an excellent source of local knowledge that Western policy makers should be prepared to tap into when forging policies affecting the countries of origin.

84. Although Western policy makers tend to focus on the impact of immigration on their own countries, they also need to be aware of how these movements are affecting developing countries. This is particularly important in cases where developing countries are hosting war refugees. These host countries need strong Western support to help finance the burdens they have assumed; otherwise the temptation to close their borders could prove overwhelming.

85. European enlargement could well change the pattern of asylum petitions in Europe. One concern is that thousands of extra asylum seekers could be sent back to border states under the EU's so called Dublin II regulation. New and fragile asylum systems in the new members could ultimately, be overwhelmed as a result. It will be essential to establish reception centres to process claims of asylum seekers and there will be the need to redistribute refugees across the EU rather than leaving the great majority in a handful of states and regions. Europe needs a collective return system and an EU asylum agency to manage registration policy and co-ordination. (Lubbers).

86. Encouraging regional distribution within host countries both in Europe and in North America can both facilitate the integration process and promote a degree of development in regions beyond capital cities. At a more general level, increased co-operation on border control in North America, Europe and across the Atlantic is vital to ensure that the movement of people is controlled but not unnaturally hindered in ways that could prove costly. Greater border protection in vulnerable areas like the Mediterranean is essential and is in the shared interest of all Alliance members including Canada and the United States. Continued international, national and local efforts are needed to combat the trafficking of women and other vulnerable groups.

87. Immigration offers no panacea to the general problem of an ageing work force. The best remedy for this is to find ways to keep workers employed longer and tap into underemployed groups who would stand to benefit, for example, from laws that facilitate part-time work. Most economists agree that some degree of labour market loosening will have to be part of the solution to the demographic-pension time bomb, and it is time to look seriously at the practical steps that need to be taken to prevent a terrible fiscal crisis exploding throughout the OECD as a result of this looming crisis.

88. Western governments must strive to keep their universities open to students from the developing world. The creation of skilled professionals is crucial to economic and political development and the presence of these students in the West is tremendously enriching. Efforts are needed, however, to square this imperative with fundamental western security concerns.

89. Western governments should encourage rather than hinder growing labour mobility among OECD countries both within Europe and across the Atlantic. The number of nationals from European Union countries in the United States grew by 32% between 2000 and 2001 alone. These trends are mutually beneficial and are laying foundations for a more integrated trans-atlantic community.

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