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International Trade Agreements and International Migration

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Abstract

Despite large potential economic gains to the countries concerned, bilateral and multilateral negotiations regarding liberalization of migration have not had the high profile of trade negotiations and agreements. Migration and trade have been traditionally the prerogative of different ministries, yet there are many interdependencies between international trade, foreign investment and migration. The relevance of these interdependencies for trade negotiations has been remarkably ignored in the literature. In this paper we therefore focus on the two-way interaction between international migration and agreements designed to enhance cross-border trade or investment. Liberalization of international trade in services and the movement of people are likely to offer much more significant economic gains than liberalization of remaining barriers to goods trade. However, progress within multilateral frameworks is fraught with difficulty. Mode IV of GATS is restricted to temporary movement of service employees and has yielded little progress so far. Negotiations within more flexible unilateral and bilateral frameworks are likely to be more successful in liberalizing the movement of labour. We discuss several specific examples and conclude that trade negotiations are increasingly accommodating migration policies that favour temporary migration over permanent migration and that the migration regulatory framework is likely to be further linked to trade and investment over time.

Keywords

international trade
migration
outsourcing
temporary workers
GATS
negotiation

JEL Codes

F15, F16 and F22.

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1. INTRODUCTION

Until the recent emergence of a global economic downturn, the world had witnessed decades of growing economic integration of countries. The intensifying cross-border movement of people, in terms of both travel and migration, is a core feature of globalization. While – based on the experience of previous severe downturns – there is an expectation of lower levels of migration for some time to come (see e.g. OECD 2009), eventually migration levels will be back on their upward path. It is precisely the economic, financial, technological and cultural intertwining of economies responsible for the current global contagion effect that makes a return to post-Depression protectionism unlikely. Moreover, relative to the long-run growth in international trade, the growth in global migration has remained modest. There is therefore significant potential for further growth, particularly given structural global labour market imbalances in terms of age and skill composition.

Migration and other globalization forces such as trade, foreign investment and information & communication technology developments are increasingly interdependent, yet the relevance of these interdependencies for trade negotiations has so far been remarkably ignored in the literature. While there exists an extensive literature on trade agreements and, similarly, a large literature on immigration policy, research that explicitly links the two is relatively sparse.[1] The current paper focuses explicitly on the linkages between these areas, focusing on the two-way interaction between international migration and agreements designed to enhance cross-border trade or investment.

During the epoch of globalization of the late 19th century (e.g., Williamson 1996), visas and work permits were not required for most movements of people between countries and for the employment of foreigners (Ng and Whalley 2005). In contrast, the recent epoch coincided with persistent control by nations of cross-border movements of people. This is particularly the case with respect to employment, with the exception of highly skilled professionals and the migration of workers residing within economically integrated areas. It can be argued that, in the past, relatively high costs of travel and communication acted as natural barriers to the movement of people. As these barriers have diminished over time, increased regulation has attempted to strengthen sovereignty and reduce the perceived costs of a large influx of foreigners on host populations.

Growth in immigration to developed economies has been significant, with the share of migrants in the population of high-income countries almost doubling between 1970 and 2000. However, of the current world population of 6.7 billion, no more than 3 percent are residing in a country other than their country of birth. This contrasts markedly with trade, where the ratio of worldwide merchandise exports to GDP increased from under 11 percent in 1970 to over 25 percent by 2007 (World Bank 2009). Freeman (2006) compares the relative

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[1] Early literature includes the volume edited by Lloyd and Williams (1996). Strutt *et al.* (2008) provide an extensive up-to-date review. Recently, a formal model of international migration and trade with hetereogenous workers (in terms of skills) has been developed by Iranzo and Peri (2009).

importance of people, trade and capital flows in globalization by looking at several different measures. While there is no simple way of comparing the flows, international merchandise trade as a fraction of the global sales of goods, and international capital flows as a fraction of the global capital market are much more significant than immigrants are as a proportion of the global labour market. Another relevant measure is that of price or wage dispersion. Wages of similar occupations around the world are much more dispersed than prices of goods and the cost of capital. Freeman therefore concludes that the least liberalized part of the global economy is the labour market.

It is important to emphasize at the outset that the international movement of labour has generally been treated quite differently from goods and investment flows (Chia 2006). International trade liberalization has taken place through a range of regional and multilateral agreements and Foreign Direct Investment (FDI) liberalization has often accompanied these agreements,[2] however, labour movements continue to be tightly regulated, particularly in the case of unskilled/semiskilled workers. Unlike the case of international trade, where the World Trade Organization (WTO) offers a multilateral forum for negotiations, no comparable institution exists for negotiations on the permanent and long-term migration of people (Hatton 2007). Countries are free to set immigration policy as '…an accepted exercise of national sovereignty' (Freeman 2006). Therefore almost all countries impose barriers that significantly limit the opportunities for foreigners to reside permanently or long term within their borders.

The interaction between trade agreements and the movement of people appears likely to become increasingly important. This is in part because barriers to the settlement of people across international borders remain high, while barriers to international trade have been significantly reduced over time. Hatton (2007) summarizes a range of studies that compare the potential gains from reducing barriers to migration with those from further reducing barriers to trade. The gains from moving to free migration are typically huge compared to moving to free trade (see also Anderson and Winters 2008). Despite these large potential gains, liberalization of migration has not shared the high-profile of trade liberalization and the movement of people across borders has not been a central focus of most international trade agreements.

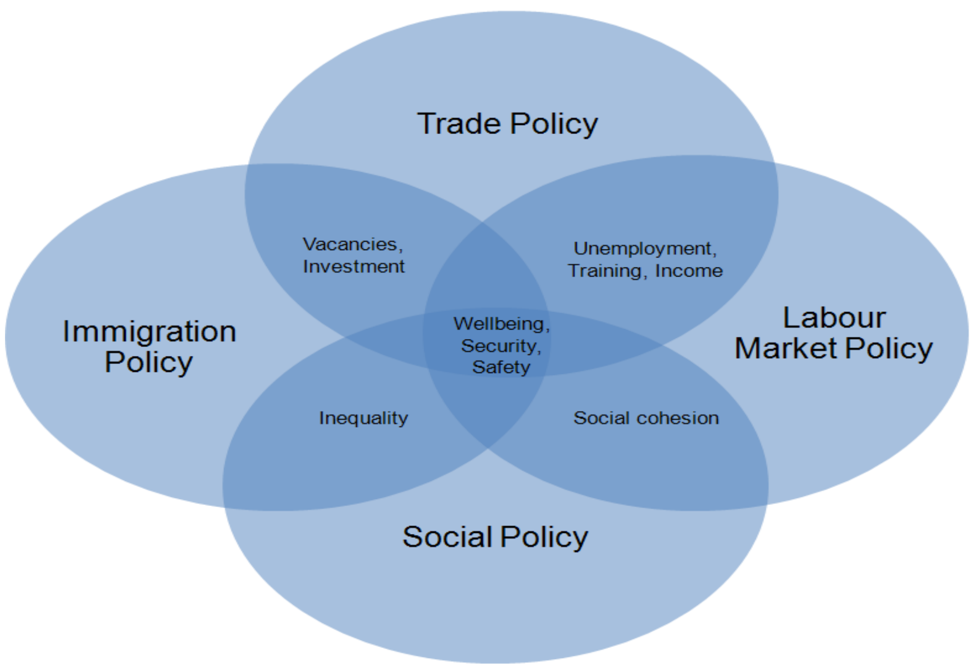
The increasing demographic pressure of high population growth in developing countries, combined with relatively low population growth and shrinking domestic workforces in rich countries, is likely to lead to greater incentives for people to migrate in coming decades, as well as pressure on governments by employers to accommodate such migration. The rapid growth in the number of opportunity-seeking young people in developing countries, along with large income gaps between countries and increasing demand for services in sectors such as care of the aged, domestic services, cleaning and tourism, make migration an increasingly significant labour market issue. In addition, large diaspora created by migration surges since the 1980s – with some 200 million people now living outside their

2 Though FDI liberalization has not accompanied multilateral trade agreements at the WTO level.

county of birth – have helped to reduce the costs and risks of migration of those considering a move in the future (World Bank 2006).

Closer economic integration may coincide with the introduction of relatively free labour movement (such as in the European Union) or an open border for labour may precede economic integration (such as in Australasia). Both trade and migration negotiations will benefit from a better understanding of the linkages between the different policy contexts, particularly those of trade, immigration, employment and social policy (Henry 2003). This is illustrated in Figure 1. At the intersections of such policy domains are issues such as wellbeing, training, labour shortages, inequality and security/safety. Neglecting to coordinate these policies may create problems (Keely 2003). For example, the granting of concessions to foreigners to provide services as temporary workers in some sectors of the host country may be a useful negotiating position in trade talks, but it is not necessarily consistent with immigration policy that may be driven by labour shortages in other sectors of the economy. Dynamic interaction between negotiations with rich potential linkages is an 'underdeveloped area of study within the field of negotiation': improved understanding of negotiation linkage dynamics may help negotiators to better manage the opportunities and challenges arising from multiple complex and interacting international agreements (Crump 2007).

Figure 1. Intersecting Policy Contexts



Using international evidence, this paper addresses the growing tensions faced by many countries desiring the benefits of increased economic integration through international trade agreements, while reluctant to liberalize the cross-border movements of people. The following section identifies the two-way interactions between international trade and migration. Next we review the benefits and costs of migration that may be taken into account when migration concessions are part of trade negotiations. In the fourth section of the paper, we focus on the extent to which multilateral, regional and bilateral trade agreements contain provisions for migration. A full review is beyond the scope of a single paper and we use instead selected examples, with an emphasis on negotiations and agreements that have been important for New Zealand. The New Zealand case is particularly interesting because this country has had in recent years the highest rates of immigration and emigration among developed nations (Bedford and Poot 2010), while also concluding several bilateral and regional trade agreements. The final section draws together some concluding comments.

2. INTERACTIONS BETWEEN TRADE AND MIGRATION

Most cross border people flows tend to be of a temporary nature, given the relatively mild regulation of the temporary movement of people (Iredale 2000). Long term and permanent migration often face strong restrictions, with particularly significant restrictions tending to be placed on unskilled workers, family-linked migration and the admission of people on humanitarian grounds. Both Iredale (2000) and Freeman (2006) argue that a loosening of such restrictions is likely when developed economies with ageing populations start to realize the benefits of opening their borders to inward labour flows. Furthermore, with increasing international trade, relocation of people may be necessary to facilitate transactions and trade in services. However, concerns about perceived negative economic and social impacts on the host population may lead to tighter migration restrictions. We first review how trade and investment flows may impact on migration. Then we look at the reverse causality, that is, how migration may trigger changes in international trade in goods and services.

a. Impacts of Trade and Investment on Migration

It can be argued that labour may be transferred directly through the movement of workers or indirectly through exports of labour-intensive goods. In other words, movements of goods, or factors of production other than labour, may substitute for the movement of people (Feenstra 1998; Freeman 2006). If a quota is set on the number of immigrants, this will create an incentive for trade in goods to increase and will cause more imports in the quota-setting country (Collins *et al.* 1997). On the other hand, if tariffs are significant, then it is likely that countries will be under pressure from potential immigrants to allow access to their labour markets legally or illegally. This is because the immigrants' home country exports will be restricted, causing lower demand for labour to produce export commodities. In addition, prices of goods and wages tend to be relatively high in developed countries with protected domestic industries, and the gains to immigrants may be significant if they can gain access to these labour markets.

Apart from substituting the importation of finished goods for unwanted immigration, it is also now common for countries to demand low-skill labour intensive intermediate goods from low wage economies through outsourcing, resulting in a relative fall in demand for low-skilled workers in the importing country. However, outsourcing of manufacturing to other countries may lead to concerns about the hollowing out of domestic industries. This has been a particularly prominent issue in countries such as Japan (e.g., Cowling and Tomlinson 2001).

In recent years, there has also been rapid growth in outsourcing of services, where the main benefit is not the abundance of unskilled labour in the developing economy, but the wage differential between developing and developed countries in the cost of (semi-) skilled labour. Outsourcing of services has become increasingly possible due to new technologies, the lowering of communication costs and compatibility of software packages. Some of the main business functions or activities that are outsourced include: customer service, data entry, telemarketing, and document management. In addition, professional services such as medical transcription, translation services and distance teaching can also be outsourced. A major concern that countries have with outsourcing is the loss of jobs for their own citizens, although some argue that the quality of services will also deteriorate. There is more political resistance to the outsourcing of service sector jobs than to the loss of manufacturing jobs because the outsourcing of services could potentially affect a greater share of the labour force (Jain *et al.* 2006). From a purely economic perspective, the benefits will outweigh the costs, with production and employment shifting according to comparative advantage. While lower-wage jobs are lost due to outsourcing, they should be replaced by higher-wage jobs in the local economy (Bardhan and Kroll 2003; Bhagwati *et al.* 2004). The greater competition due to outsourcing may also increase productivity and expand the range of services provided to customers.

Outsourcing of services and immigration are ‘two sides of the same story’: when a firm cannot hire cheap labour through immigration, outsourcing may be undertaken to substitute for this (Yomogida and Zhao 2005). In most countries, outsourcing faces fewer restrictions than immigration and when outsourcing increases, immigration pressures are likely to diminish. This raises an interesting issue, as the net benefits of outsourcing as compared with immigration have yet to be conclusively assessed. Meta-analysis of available evidence suggests that immigration has very little impact on wages and employment opportunities of native workers (Longhi *et al.* 2005a; 2005b). Often immigrants and native workers are complements rather than substitutes in production. Moreover, immigrants increase the consumption of locally produced goods and services and may trigger faster capital accumulation. With outsourcing, short-run domestic demand may decrease and wage and employment opportunities of local workers may be more negatively affected until long-run adjustments have been made. Governments of developed countries face therefore a dilemma: restricting immigration may encourage firms to outsource services abroad which may result in local job losses, while permitting increased immigration may discourage outsourcing but lead to social costs.

However, it is not always appropriate to view migration as a substitute for trade. Trade and factor flows (labour and capital) may be considered complements when trade increases as international factor mobility increases, and substitutes when trade falls due to an increase in factor mobility (Markusen 1983). The migrant labour input into production may be complementary to the locally born workers in a number of different ways. For example, low-skilled Mexican workers have three years less schooling on average than low-skilled American workers, which may be a reason for the disproportionate representation of Mexicans in some occupations (Freeman 2006). Furthermore, immigrant labour may differ in some unmeasured ways from local workers, such as a willingness to work in jobs that locals perceive as undesirable (Jones 2005). As countries develop, unskilled jobs tend to become increasingly unattractive to locals who have improved opportunities. Therefore, immigrants and local workers can be complements in production and migrant inflows may increase the productivity of locals.

There is increasing recognition of the importance of liberalizing the services sector, however, trade in services cannot prosper if the movement of people is not promoted (Walmsley and Winters 2005; Chaudhuri *et al.* 2004). Services often comprise a very significant part of a country's economy and services trade has become an important engine of world growth. Despite the large barriers faced, it has grown faster than world merchandise trade over the past two decades (Hufbauer and Stephenson 2007). Some estimates suggest that further liberalization of the service sector would offer much more significant gains than further liberalization of international goods trade (e.g., Dee and Hanslow 2000).

When discussing the impact of trade and investment on migration, we should not neglect the issue that technology both affects and is affected by the movement of people. Increasing sophistication of IT hardware and software may make distance labour more feasible over time. Modern communication technologies, such as email and the internet, lower the costs that migrants face to keep in touch with their relatives and friends, and help them to remain informed about their home country (e.g., McCann *et al.* 2008). This increases the proportion of the population that would contemplate migration. On the other hand, migrants are also a channel for the international transfer of technology themselves. For example, professional migrants may bring with them new processes and innovative ideas that can contribute to productivity growth (Hoekman *et al.* 2005). To date, however, very little systematic research has been undertaken on how immigrants affect innovation and productivity growth in specific sectors (Poot 2008). While migrants can be a transmission channel for the international transfer of new knowledge and practices, new information and communication (ICT) technologies can also substitute for migration flows.

Investment agreements and FDI flows will also impact on, and be impacted by, the movement of labour internationally. Gross FDI as a percentage of GDP averages 8.8 percent in the world, but the post-1990 growth has been phenomenal (Poot 2004, Table 1.1).[3] For a developing country the offer of FDI access can be a strong bargaining point in trade negotiations. FDI will create employment opportunities in the labour market of the developing country that, in turn, may lead to less emigration.

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[3] FDI of a country is here measured as the sum of the absolute values of inflows and outflows, not just the inflows.

If multi-national enterprises relocate facilities to another location for the purpose of gaining access to cheaper labour (the main driver of the 'hollowing out' referred to earlier), then people movement and FDI will be substitutes. However, countries that wish to attract FDI need an adequate supply of professional workers and FDI may trigger short-term movement in the form of business trips and temporary or permanent movement in the form of intra-corporate transferees. International investment flows are often facilitated and followed by skilled migrant flows (Gera *et al.* 2005; Freeman 2006). Therefore, FDI into developing countries is likely to substitute for low-skill migration to the developed country and generate high-skill migration from the developed country. The presence of high-skilled labour at a competitive price may be a precondition for FDI inflows (Guellec and Cervantes 2001) and in this way high-skilled immigrants may even precede an inward flow of FDI (Ivlevs 2006). In summary, FDI and migration are contemporaneous substitutes, with inward FDI reducing unskilled outward migration, and dynamic complements, with inward FDI encouraging inward skilled migration (Kugler and Rapoport 2007). If FDI and migration are on balance complements rather than substitutes, greater economic integration will increase migration.

b. Impacts of Migration on Trade

Migration may foster or create trade between host and home countries. There are various means by which this can occur. Firstly, higher global income resulting from migration triggers a greater demand for traded goods and services. Secondly, the presence of immigrants in a country may have trade-inducing effects. The two main mechanisms by which migrants themselves influence trade flows between the respective home and host countries may be summarised by immigrant preferences and a lowering of transaction costs. Throughout history, immigrants have seen opportunities for trade (Dunlevy and Hutchinson 1999). This may be because of cost differences, product differentiation and the migrants' tastes. Significant immigration from a particular area may create demand for goods from the home country. Furthermore, transaction costs of trade between the home and host country are lowered since immigrants will have the best knowledge of their home countries' markets, business practices and laws. When the language spoken in the host country differs from that in the home country, bilingual immigrants can facilitate communication. Immigrants may also make use of personal networks in their home and host countries to facilitate trade (see, e.g., Rauch and Trindade 2002). High-skilled migration, in particular, tends to create well-educated diaspora who facilitate trade by helping to enforce contracts, act as intermediaries, and expand cooperation (World Bank 2006).

The impact of migrants on trade will likely reduce as migrants become more integrated into the host economy. Their role as trade facilitators for exports to and imports from their home country will be most effective if they remain in regular contact and continue to desire goods from their home country. There are, however, tensions. For example, migrants may try to avoid discrimination by rapid integration but migrants who specialize in trading with their home country benefit from the maintaining of cultural identity (Epstein and Gang 2006).

Persons moving from developing countries often send remittances back to their families and this can indirectly impact on trade. Recent World Bank estimates suggest that remittance flows to developing countries may have reached close to 300 billion US dollars (OECD 2009). While the global economic downturn may lead to a levelling off or temporary decline in remittances, they continue to allow developing countries to import more than otherwise. On the other hand, if migrant groups become large, they may start producing home-country products and services in the host country. This could result in a fall in exports from the home country, lower the incomes of the home country population and partially offset the positive income effect of the remittances (Bryant *et al.* 2004).

There have been many econometric studies of the effect of immigration on trade. While a formal meta-analysis has yet to be conducted, Table 1 provides a selection of such studies and the estimated effect on imports and exports in the form of elasticities (the percentage change in the volume of exports and/or imports when the number of immigrants increases by 1 percent). Virtually all elasticities are positive, providing robust evidence that international migration boosts international trade. Quantitatively, the effects are fairly small though. Taking Wagner *et al.* (2002) as an example (using Canadian data), an increase in the number of immigrants by 10 percent would increase the export volume by 0.8 percent and the import volume by 2.5 percent. Table 1 suggests that the export effect of immigration on host countries tends to be smaller in many countries than the import effect. This is plausible because the trade facilitation effect of immigration operates both on imports and exports, while the home bias effect of immigrant consumption impacts only on imports.

Migration may also induce tourism flows, partly due to friendship and kinship networks. That is, migrants may attract more tourism into the host country, while they themselves may also become tourists when they return to their ‘home’ country to visit friends and family (Williams and Hall 2000). Furthermore, tourism itself may trigger subsequent migration as tourists may become attracted to a country and subsequently desire to migrate there. This is particularly common nowadays in terms of retirement migration, for example from northwest Europe to Mediterranean countries. Moreover, tourism cannot be transferred spatially and it is sometimes time-specific. This means that the labour force in the tourism sector must be where the tourism services are consumed and may be needed only at particular times of the year. Growth in tourism from abroad therefore generates an increase in the demand for seasonal and permanent workers that may be met by increased immigration, in turn fuelling further growth in tourism.

Besides tourism, growing demand for seasonal workers in agriculture and the growth in international trade in services are also leading to increased temporary migration (Abella 2006). Another cause of growing temporary migration is the increasing popularity of education abroad. Educational services are becoming increasingly global because with globally labour markets for professionals, students desire globally recognized qualifications. There are also strengthening collaborative efforts between tertiary institutions across national borders.

Tab1e 1. Estimates of the Elasticity of the Impact of Immigration on Exports and Imports

Authors (year)	Sample	Observation Period	Export Elasticity	Import Elasticity
Gould (1994)	US and 47 trade partners	1970-1986	0.02	0.01
Head and Ries (1998)	Canada and 136 trade partners	1980-1992	0.10	0.31
Girma and Yu (2000)	UK and 48 partners	1981-1993	0.02	-0.04
Ching and Chen (2000)	Canada and Taiwan	1980-1995	-0.06[a]	0.30[a]
Dunlevy and Hutchinson (1999, 2001)	US and 17 partners	1870-1910	0.08	0.29
Rauch and Trindade (2002)	63 Countries	1980, 1990	0.21/0.47[b]	0.21/0.47[b]
Wagner, Head, and Ries (2002)	5 Canadian provinces & 160 partners	1992-1995	0.08	0.25
Blanes-Cristobal (2003)	Spain and 40 trade partners	1991-1998	0.23	0.03
Combes *et al.* (2003)	95 French departments	1993	0.25	0.14
Bryant, Genc and Law (2004)	New Zealand and 179 trade partners	1981-2001	0.09	0.15
Parsons (2005)	EU-15 & 15 EU-expansion countries	1994-2001	0.12	0.14
Jansen and Piermartini (2005)	US and 175 partners	2000-2002	0.20[c]	0.40[c]
Bacarreza and Ehrlich (2006)	Peru and 30 trade partners	1990-2003	0.09	0.08
White (2007)	US and 77 trade partners	1980-2001	0.035	-0.007
Qian (2008)	NZ and 190 trade partners	1980-2005	0.04	0.17
Lung (2008)	Australia and 10 Asian trade partners	1963-2000	0.15	0.32

Notes: The original source of the entries for Gould (1994), Head and Ries (1998), Dunlevy and Hutchinson (1999, 2001), Combes *et al.* (2003) and Rauch and Tindade (2002) is Wagner *et al.* (2002). Bryant *et al.* (2004) calculated elasticities for Girma and Yu (2000) and Ching and Chen (2000); and retrieved estimates from Wagner *et al.* (2002) and Blanes-Cristobal (2003). Qian (2008) reported additional estimates for Parsons (2005), Bacarreza and Ehrlich (2006) and White (2007). Where alternative estimates were available, 'preferred' estimates have been selected.

[a] Export elasticity refers to exports from Canada to Taiwan, import elasticity refers to exports from Taiwan to Canada.

[b] The estimate of 0.21 applies to homogenous goods and 0.47 to differentiated goods. No distinction is made between imports and exports.

[c] These estimates refer to the impact of temporary worker migration only, measured through H-1B visas.

3. BENEFITS AND COSTS OF MIGRATION CONCESSIONS IN TRADE NEGOTIATIONS

There exists an extensive literature on the benefits and costs of migration and it is outside the scope of the current paper to comprehensively review all costs and benefits of both temporary and settler movement for sending and receiving countries.[4] Instead, we focus on some of the key costs and benefits may be taken into account when trade negotiations are linked to migration.

The basic economic perspective is simple. Migration enables human resources to locate to where they are most productive, with migrants benefiting from this through higher incomes. The sending countries benefit through the increasing marginal product of labour and therefore wages of those left behind. The receiving countries benefit through the so-called immigration surplus that accrues to the owners of capital and the workers with skills that complement those of immigrants (Borjas 1999). While sending and receiving countries benefit in aggregate, there will be a redistribution of income that makes some people better off and others worse off. The distributional impact of immigration may be much larger than its aggregate impact, which explains why it can be very difficult to reach a political consensus on immigration and why there is more sensitivity toward labour movements than toward trade and capital flows. Given that stakeholders in the migration debate are diverse and may include workers, employers, unions, multinational companies, immigration intermediaries, local communities and governments, it is not surprising to find a plethora of conflicting statements regarding perceived benefits and costs or risks.

At the macro level, there are many potential mutual benefits for both source and destination economies from liberalizing the international movement of people, including: augmentation of the gains from trade and investment liberalization; enhanced inter-country linkages; technological transfers and increased productivity. However, despite these potential benefits, a range of concerns about negative impacts persist. Perceived dangers in source countries include loss of skills (‘brain drain’), less local demand, less investment and a smaller tax base. In the destination economy, perceived adverse impacts on the domestic labour market, including job losses and lower wages for some locals, may be a key issue, despite the empirical evidence that such impacts are often quantitatively negligible (see Longhi *et al.* 2005a, 2005b; Okkerse 2008). Recent concerns have also centred on security, social cohesion and crime (e.g. Mayda 2006), with further concerns relating to issues such as labour standards and the illegal movement of people.

Increasingly, international migration regulation is favouring skilled and business migration, which has brought the ‘brain drain’ concern back to centre stage.[5] The ‘brain

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[4] For detailed reviews, see Borjas (1999) and more recently Poot and Cochrane (2005), Hanson (2008) and Pekkala Kerr and Kerr (2008).

[5] See Rutten (2009) for a recent example of economic impact assessment of an important component of the brain drain, namely the migration of medical professionals.

drain/brain gain' debate has continued for the past 40 years, with some irresolvable disputes and unenforceable policy recommendations (Vinokur 2006). If a brain drain problem exists, it may be alleviated by embracing the 'brain exchange' or 'brain circulation' concept (Duncan, 2008) and by focusing more on stimulating knowledge-intensive development in the donor countries (Skeldon, 2009). Sure, remittances may contribute to economic growth in the donor countries but this may not be enough. More promising will be increasing flows of FDI into high technology based production that is likely to increase the demand for skilled professionals in those countries, as well as generate skilled worker flows among developing countries (Chia 2006). Intensive 'brain circulation' will also result in knowledge spillovers that bring benefits to both sending and receiving countries. Such spillovers come from higher innovation and knowledge-driven productivity growth within and across industries (World Commission 2004; Gera *et al.* 2005).

The ease with which migrants can return to their home countries is especially important for poor countries. In order to benefit most from their diaspora, sending countries should facilitate the short-term visits and possible repatriation of their skilled workers. One possibility is encouraging dual citizenship, which needs to be approved by both sending and receiving countries. This would allow people to very easily re-enter both countries. Other mechanisms to facilitate 'brain circulation' may include tax or other monetary incentives to encourage repatriation (World Commission 2004).

Where trade and investment policy impact on the labour market and incomes, immigration has also demographic benefits for host and home countries. Immigrants are predominantly younger workers who can help alleviate labour shortages resulting from population ageing in developed countries, while reducing labour surpluses in their home countries (Freeman 2006). It should be noted, however, that the fundamental cause of population ageing is below replacement fertility. If migrants also have low fertility rates in the host country, population ageing may accelerate in the long run at a time when large immigration flows are no longer considered desirable (e.g. Poot 2008).

When migration concessions are considered in trade negotiations, an important issue is the extent to which the net economic benefit from granting temporary visas may exceed that of granting permanent residence. Temporary migration programs have gained notoriety since the guest worker schemes of western Europe in the 1960s, which fuelled significant increases in permanent migration through family reunification. However, there is now renewed interest in their expansion because of the perceived benefits over more permanent forms of migration, along with better information systems and policies for regulation (Abella 2006; World Bank 2006; Winters 2003). In the source country, financial and knowledge benefits should be higher if suppliers of services abroad return home to contribute to their own communities in the longer term (Mattoo 2003). Returnees may bring back new skills, knowledge, and contacts that can be of considerable benefit to the home country. In the host country, there may be lower social tensions, a limited burden on public expenditure and the opportunity for controlled variation in response to labour market conditions (World Bank 2006). In addition, short-term skilled labour movements may boost innovation (Tani, 2008).

These types of advantages make liberalizing temporary admissions politically much easier to sell to populations who may feel threatened by more permanent immigration (Abella 2006).

There can also be disadvantages of temporary migration. These include higher training costs for the host employers and the potential inability to keep a highly productive worker once the temporary permit runs out. Similarly, the migrants themselves may dislike a temporary move, compared with permanent residency, when the former provides no guarantee of future access to the host labour market. Temporary migration creates also a disincentive for workers to develop country-specific skills, including language skills. Moreover, there remains some difficulty in controlling temporary labour movements because 'temporary' workers are human beings who may grow attached to their host country, or find partners among the host population, and therefore desire to permanently settle. However, rather than seeing such integration of temporary workers in the host society as a problem, transitions from being a foreign student or temporary worker to permanent resident are becoming increasingly a preferred policy of permanent settlement, compared with the granting of permanent residency to applicants residing abroad.

Appropriate temporary worker policies can improve incentives and institutional arrangements to increase the effectiveness of temporary migration and alleviating labour market shortages. Abella (2006) offers a set of guidelines for 'best practice' which range from forecasting and managing the demand for labour through to agreements that better organize labour and protect worker rights. For example, enforcement of minimum wage legislation will ensure that even unskilled temporary workers are not paid less than their host country counterparts.

With respect to the desired composition of temporary and permanent migration flows, there is an interesting paradox. Borjas (1999) provides a theoretical model of the economic benefits to a country from immigration, suggesting that the greatest when migrants and the locally-born are the least similar, in the same way as countries benefit most from trade when they produce quite different things. Winters (2003) also notes that 'the very heart of international trade…lies in exploiting differences. The larger the differences, the larger are the potential gains' and he extends this argument to the temporary movement of people. In short, the greatest gains to be had are from allowing increased labour mobility between very different countries. However, in that case the social and political concerns may be much larger than in the case of migration between very similar countries. When immigrants and the native born are very different, this is precisely when the social and fiscal costs of immigration are the largest (e.g., Schiff 2000). The argument is that people establish attachments more easily with those who have similar customs, values, language, history and culture. For this reason migration can be thought of as creating negative externalities, or unintended adverse impacts, for example, in terms of social cohesion. On the other hand, diversity may also have positive externalities if it creates a more vibrant and entrepreneurial society (Poot 2008). While from the perspective of social policy it is highly desirable that immigrants become economically and socially integrated into the host society, we noted earlier that the trade facilitation benefits are greater, the less integrated they are.

4. MIGRATION AND INTERNATIONAL TRADE AGREEMENTS IN PRACTICE

To what extent have there been direct linkages between trade negotiations and agreements on trans-border labour movement? This is an important question which may be difficult to answer fully, given that the tradeoffs discussed in negotiations usually remain confidential. The extent to which separate agreements reached on migration issues are directly linked to trade negotiations may remain unknown to researchers. In any case, there are a huge number of bilateral, regional and multilateral trade agreements around the world, combined with country-specific and complex immigration policies across the world (e.g. Segal *et al.* 2010). Consequently, in this paper we briefly comment on the most well known multilateral and regional agreements, before providing some recent examples regarding New Zealand. This country, with a population of 4.2 million people, is of particular interest given that it had the most rapid economic liberalization in the western world during the 1980s and 1990s (see, e.g. Evans *et al.* 1996), while also having very high levels of both immigration and emigration. The foreign born population accounts for about 23 percent of the total resident population of New Zealand. At the same time, around half a million New Zealand citizens live in Australia and another 100,000 or so in the rest of the world. Remaining tariffs applied to international trade by New Zealand are now very low. Therefore, in exchange for opening their economies to New Zealand exports and FDI, migration concessions may be a more attractive alternative than further tariff reductions to trading partners negotiating access to the New Zealand market.

International trade agreements provide an important platform for inter-country bargaining across issues (Banda and Whalley 2005). We have already noted that the importance of linking complex and interacting negotiations in different areas of international relations is becoming increasingly clear (Crump 2007). However, the integration of labour mobility into trade agreements is very patchy, though trade agreements are often supplemented by separate international labour agreements (Strutt *et al.* 2008). We begin with an examination of the WTO and the General Agreement on Trade in Services (GATS) in terms of migration regulation, before turning to examples of regional and bilateral trade arrangements with a particular focus on New Zealand.

c. Multilateral Agreements

The WTO covers over 150 countries, diverse in their economies, geography and level of development, not to mention language and culture. A key guiding principle of the WTO is non-discrimination between member countries. This principle is motivated by the maximum gains from trade that are achieved when non-discrimination allows access to the lowest cost suppliers. However, labour markets are generally not able to fully adjust, due to various non-competitive aspects and public intervention such as minimum wages and social insurance. Hence, the benefits from non-discrimination may be weaker for the movement of people than for trade in goods (World Bank 2006). In addition, because of the cyclical nature of unemployment, governments are typically reluctant to undertake quantitative and permanent commitments (Chia 2006). A further hindrance to multilateral agreements on migration is that countries generally prefer to import foreign workers from particular countries and communities, rather than being bound by the WTO principle of Most Favoured Nation (MFN) treatment, whereby discrimination between countries is not allowed (Chia 2006).

The GATS was negotiated during the Uruguay Round in response to the huge growth in services in the global economy. All WTO members are signatories to the GATS, which comprises four main elements, identified as Modes I through to IV.[6] Mode I deals with cross-border supply; Mode II focuses on consumption of services abroad; Mode III deals with the commercial presence of foreign firms; while Mode IV is concerned with the presence of 'natural persons', i.e. migrants. GATS does not cover permanent migration, or workers in sectors other than services. There appears fairly broad agreement in the literature that GATS, especially Mode IV, is rather vague, unclear and ineffective. Relatively few commitments to open markets have been made, as evidenced by the very few changes in the movement of people that have been made, compared to that already covered under existing immigration policies.[7] Indeed, countries' actual temporary migration policies tend to be more liberal than commitments made under GATS, with existing national regimes often 'more open and less narrowly defined than the GATS' (Mattoo 2003). Schiff (2007) argues that the main difference between a guest-worker and Mode IV employment contract is that the former is between the host country employer and an individual whereas the latter is between the host country employer and a foreign firm. Using a theoretical model, Schiff shows that Mode IV is preferable to guest worker programs. However, Hatton (2007) argues that the real problem with Mode IV is that the basis for multilateral agreement on migration is not clear, with the missing element being the reciprocity that is central to multilateral agreements.

d. Regional Agreements

Perhaps the best-known regional free trade agreements are the European Union (EU) and the North American Free Trade Agreement (NAFTA), both of which offer insights into the opportunities and challenges of international labour movement. We also briefly consider Asia-Pacific Economic Cooperation (APEC).

The EU represents a unique agreement, covering many different economies, cultures and languages. It has resulted in relatively unrestricted movement of capital, goods and services. However, despite progress with respect to people movement, there remains a long way to go before this can be regarded as completely free among all EU member states. While it was originally planned that only skilled workers would be able to move freely within the EU, political and social pressures resulted in this being extended to all categories of citizens. Furthermore, a scheme that restricts on the basis of skills would be too cumbersome and costly to administer.

The main concern of Western European members in recent years has been the impact of new Central and Eastern European Countries (CEEC) members on labour markets. The

[6] See www.wto.org for details.

[7] See, for example, Chanda (2003), Winters *et al.* (2003) and Chaudhuri *et al.* (2004).

large flows of labour from east to west were predicted by e.g. Layard *et al.* (1992). A significant difference in wage levels between the old member states and the CEEC necessitated the negotiation of transitional arrangements for the movement of people (Breuss 2001). Expansion of the EU into more diverse economic regions has certainly tested the issue of borders and migration, with the EU displaying a very cautious approach to the new eastern borders (Kengerlinsky 2004). When the EU expanded from 15 to 25 countries in May 2004, only Britain, Ireland and Sweden waived the opportunity to impose immigration restrictions lasting up to seven years. With the joining of Bulgaria and Romania in January 2007, even those three countries imposed restrictions on migration.[8]

NAFTA has been in force since 1994 and, covering only Canada, the United States and Mexico, it is much smaller than the EU in membership. NAFTA is also much less ambitious than the EU in terms of cross-border people movement. However, it does include provisions for the *temporary* movement of business persons across each of the borders. There are four categories of business persons in the NAFTA agreement: business visitors, professionals, intra-company transferees, and traders/investors. Temporary entry should have a 'reasonable, finite end that does not equate to permanent residence' (International Trade Canada 2004). The NAFTA agreement differs from the EU in that permanent migration between the members States is still relatively restricted.

Asia-Pacific Economic Cooperation (APEC), formed in 1989 and now with 21 member economies, is still a much less comprehensive multilateral economic and trade forum than the EU or NAFTA.[9] APEC does not contain specific market access arrangements for labour mobility. However, it does include 'arrangements aimed at facilitating labour mobility by information exchange; dialogue with business; development and implementation of immigration standards; and capacity building to help streamline temporary entry, stay and departure processing for business people' (Nielson 2003). The APEC Business Travel Card Scheme simplifies the entry of cardholders into participating countries and reduces time and costs of entry visas and permits (Chia 2006). Other agreed measures aimed at facilitating the mobility of business people include: standards for processing applications; extending temporary residence permits for certain categories of skilled workers transferring within companies; and also Advanced Passenger Information (API) systems which enable passengers to be processed in advance of arrival in the destination country (Chia 2006).

e. New Zealand Agreements

The Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA, commonly referred to as CER) has been described by the WTO as 'the world's most

8 Dustmann and Glitz (2006, Chapter 2) provide an overview of Europe's experience of migration since the Second World War. The Economist (2008) provides a recent survey of EU migration issues. Iranzo and Peri (2009) calculate by means of a simulation model the impact on workers throughout the EU from further East-West migration liberalisation.

9 See www.apec.org for further details.

comprehensive, effective and mutually compatible free trade agreement' (MFAT 2008). Through CER there has been free trade in most goods and services since 1990. Alongside CER is the Trans-Tasman Travel Arrangement (TTTA), which has been effectively operating since 1923 and formally since 1973 (Carmichael 1993). Under this agreement, both New Zealand and Australian citizens can freely enter, live and work in each country. In 1998, the Trans-Tasman Mutual Recognition Arrangement (TTMRA) enabled people to register an occupation and practice if they are registered in the home country, removing one of the few remaining barriers to people moving for employment reasons (MFAT 2008).

In 2001, Australia redefined eligibility for social security, such that New Zealanders who are not permanent residents in Australia are not able to receive labour market-related social security benefits, including the unemployment benefit. While New Zealanders working in Australia are required to pay Australian taxes, when they become unemployed they may not receive the same benefits as Australians (Bushnell and Choy 2001). Semi-skilled or unskilled New Zealanders are most disadvantaged as they may not meet the Australian permanent residency criteria. Since the introduction of the new policy, there is some evidence of greater return migration and more frequent travel back to New Zealand since (Poot and Sanderson 2007). This asymmetric treatment is arguably a step backwards on the path towards the single Australasian market.

Historically, real wage differentials between Australia and New Zealand were not large and throughout the period of relatively high trade restrictions, trans-Tasman migration remained relatively balanced. By 1966, there were about 52,000 New Zealanders born in Australia and 43,000 Australians born in New Zealand. Subsequent trade liberalization did not reduce migration but instead increased migration from New Zealand to Australia. Much lower competitiveness of New Zealand's manufacturing led to significant job shedding during the 1984-94 reform decade, once protection was removed. Also, job creation and economic growth have proceeded faster in Australia than in New Zealand since the mid 1990s. By 2006, the number of New Zealanders born in Australia had increased to about 389,000 while the number of Australians born in New Zealand increased to a mere 63,000. However, with Australia being more capital intensive, the flow of capital would have been towards New Zealand (where the rate of return to new investment would be higher) as is evidenced by Australian ownership of many large New Zealand companies (see also Nana and Poot 1996). Two thirds of migration from Australia to New Zealand consists of New Zealanders returning, but Australia born migrants are likely to be professionals whose trans-Tasman migration is linked to the presence of Australian companies and Australian ownership of New Zealand companies.[10]

Both New Zealand and Australia have close ties to the Pacific Islands, however, these ties are relatively more important to New Zealand. The South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA) with most Pacific Forum Island Countries

[10] Alternatively, they may be Australia born children of New Zealanders, returning after residing some years in Australia.

(FIC) came into force in January 1981.[11] SPARTECA is a non-reciprocal trade agreement, under which Australia and New Zealand offer duty free and unrestricted or concessional access for virtually all products originating from the developing island member countries of the FIC (Productivity Commission 2002). Another Pacific Island agreement is the Pacific Agreement for Closer Economic Relations (PACER), which includes Australia and New Zealand. There are no explicit provisions in the SPARTECA or PACER agreements that deal with the movement of people.

There is a significant lack of formal employment opportunities in many FIC (e.g., Forau 2006). These small and peripheral economies have been detrimentally affected by globalization forces (Poot 2004) and the resulting unemployment or underemployment may become a source of disruption and pose threats to the security and viability of those countries. Therefore, the Pacific communities have two main options. They must either invest in job creation, or negotiate better people movement provisions with New Zealand and Australia. From the perspectives of the Pacific nations, as well as Australia and New Zealand, there are benefits in giving migration more prominence. Temporary and permanent migration are important sources of foreign exchange supply through remittances for many of the FICs (Qalo 2006; Voigt-Graf 2006). Permanent migration from the Pacific Islands to New Zealand has already been extensive. In 2006, the number of New Zealand residents from selected Pacific birthplaces was 51,000 from Samoa, 38,000 from Fiji and 21,000 from Tonga.

An issue of growing importance in many countries, including Australia and New Zealand is the need for seasonal migrants. The services that these migrants provide cannot usually be substituted by other modes of supply, unless activities are moved overseas. Fruit pickers are an important example of seasonal workers in the New Zealand context. For seasonal workers, bilateral labour agreements have become very important, with several hundred such agreements currently existing around the world (World Bank 2006, p. 73). For example, facing ongoing labour shortages in the horticulture and viticulture industries, New Zealand recently launched the Recognized Seasonal Employer (RSE) Work Policy. This policy seeks to facilitate the temporary entry of overseas workers in the horticulture and viticulture industries, with work including planting, maintaining, harvesting and packing crops. The RSE Work Policy is currently capped at 5000 places annually, though this can be adjusted in response to market demand (DOL 2009). Workers under this scheme are able to stay in New Zealand for a maximum of seven to nine months during any 11 month period. The RSE Work Policy gives preferential access to workers from the Pacific, trying to encourage economic development, regional integration and good governance within the region (MFAT 2008).[12] Employers are required to guarantee a minimum number of hours of

[11] The Pacific Forum Island Countries (FIC) comprise the Cook Islands, the Federal States of Micronesia, Fiji, Kiribati, Nauru, Niue, Palau, Papua New Guinea, Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu.

[12] New Zealand has a history of offering special concessions for immigration from Pacific nations. In particular, there is a Samoan Quota scheme for up to 1,100 Samoans and the Pacific Access Category (PAC) which allows up to 250 nationals from Tonga, 75 from Kiribati and 75 from

work, ensure workers are paid the market rate and provide pastoral care including suitable accommodation, translation, transport, opportunities for religious observance and recreation, and induction to life in New Zealand.

Migration from the Pacific plays a much smaller role in Australia, where 3 percent of the foreign born population originates from Pacific Islands, compared with 15 percent in New Zealand. However, Australia has recently also announced a similar scheme, the Pacific Seasonal Worker Pilot Scheme, which provides assistance to its horticulture industry, which suffers from a severe shortage of workers. The Australian scheme is currently far more modest than that of New Zealand, being only a three-year pilot scheme with up to 2500 visas being granted. It provides seasonal workers from Kiribati, Papua New Guinea, Tonga and Vanuatu with the opportunity to work for 6-7 months in every 12 month period, in areas of regional Australia where there is demonstrated unmet demand for low skilled labour.

Most multilateral and regional trade agreements, with the exception of the EU and CER, have had very limited direct linkages with the regulation of temporary or permanent movement of less-skilled workers (World Bank 2006). It should also be noted that agreements on free labour movement are much more likely among countries that have similar levels of development. This was undoubtedly a major factor in the EU and CER agreements. With the expansion of the EU to countries with much lower real income levels, we already noted the (temporary) barriers that have been introduced in the EU to limit migration flows from new member countries to existing high income members. The absence of multilateral agreements for dealing with visa and work permit issues in the global economy has led to some trade agreements dealing with the movement of people explicitly, usually in separate chapters, or in separate agreements concurrently. We conclude this section by outlining the implications for migration of the 2008 New Zealand-China Free Trade Agreement and the 2009 agreement regarding the establishment of the ASEAN-Australia-New Zealand Free Trade Area.

The NZ-China FTA provides duty free access of New Zealand manufacturers to China for most products by 2019, three years after imports from China into New Zealand will be tariff free.[13] What has been particularly interesting with this agreement is that during negotiations the New Zealand negotiators came under pressure from China to provide for the movement of Chinese workers into New Zealand. The concession is quantitatively very small, with the FTA providing temporary entry rights for a maximum of 1,800 Chinese workers at any point in time to address skill shortages. This includes commitments for up to 800 skilled workers from China to enter New Zealand for temporary employment in specified sectors where Chinese workers have occupations unique to their own language and culture,

Tuvalu, to become permanent residents if specific criteria are met. These policies are rather unique, with Stahl and Appleyard (2007) commenting that they 'cannot think of another developed country that admits migrants as a part of its perceived duty to assist their economic development'.

[13] See www.chinafta.govt.nz for full details of this agreement.

such as Chinese medicine practitioners, Chinese chefs, Mandarin teachers, martial arts coaches and tour guides. There is also a side 'letter' establishing a working holiday scheme that allows an annual quota of up to 1,000 skilled, young Chinese to enter New Zealand for up to a year. While these agreements regarding the movement of people do not cover large numbers, it is notable that they formed an explicit part of the negotiations and agreement reached between China and New Zealand. These kinds of agreements may well become an increasingly common and more important component of bilateral and regional trade agreements, with this hypothesis being supported by the recent agreement regarding the establishment of the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA), which also contains linked migration concessions.[14]

In the case of AANZFTA the commitments regarding trade in services are referred to as 'GATS-plus' in that they improve on existing GATS commitments. The increasing emphasis on services is in response to the expectation that services may account for up to half of all world trade by 2020. Not just Mode IV, but also Modes I-III are likely to stimulate temporary and permanent migration. For New Zealand and Australia a significant benefit of AANZFTA is the securing of improvements in access to the delivery of educational services in the ASEAN countries, through either distance education (GATS Mode I) or educators temporarily migrating to those countries (GATS Mode IV). These modes are considered less risky to small education exporters than Mode III (commercial presence), which would require significant set up costs in the countries where the education will be provided. It is not clear that these developments reduce foreign student inflows into Australasia (GATS Mode II – consumption abroad), as undergraduate education in the home country may be followed by graduate education or employment in the education-exporting country.

The agreement allows also for intra-corporate transferees to enter a member country for up to three years, while independent professional service suppliers are permitted entry for up to one year. In conjunction with the AANZFTA negotiations (but not part of the FTA) itself, temporary employment entry for up to three years has been negotiated for small number of workers from the Philippines (specifically nurses) and Viet Nam (chefs and engineers). In addition, working holiday schemes are still under consideration.

In summary, we see that such regional and bilateral FTAs offer interesting recent case studies of trade negotiations that have resulted in explicit migration concessions. These concessions are quantitatively very minor and their economic impact is therefore also expected to be rather small compared with the potentially large gains from the trade liberalization. However, they do appear to set something of a negotiating precedent for developing countries pursuing preferential trade agreements with high-income countries.

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[14] The ASEAN countries are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. See www.ASEAN.FTA.govt.nz for full details of this agreement.

5. RETROSPECT AND PROSPECT

This paper was motivated by the lack of literature that integrates international trade negotiations and the movement of people. This may reflect the limited negotiations on movement of people within trade agreements, but it may also reflect the fact that the negotiations themselves remain confidential (particularly in bilateral and regional agreements). In addition, the international movement of people is a politically sensitive topic in most countries, and it may be difficult to negotiate access to a country's labour market by those charged with trade negotiations, given the complexity of the issues and difficulty in assessing the potential trade-offs.

In this context, it is useful to point out that GATS is unlikely to have a major impact on immigration policy for several reasons. Firstly, GATS is only concerned with temporary movement. Secondly, the Most Favoured Nation (MFN) clause is unlikely to be acceptable to countries in this context. Under MFN, discrimination between trading partners is not allowed and any more favourable concessions granted must be extended to other WTO members. Thirdly, once agreements are made, these are difficult to reverse and countries will wish to maintain flexibility to adjust future immigration policy in response to changing domestic conditions. Nonetheless, it is likely that developing countries will increasingly seek access to developed country labour markets as a condition for opening their own markets to goods trade and professional services. Such negotiations are more likely to be on a bilateral than multilateral basis. There may also be increasing pressure to cover permanent labour movements, since some temporary work policies are already covered under existing arrangements.

Progress on linking trade and migration agreements seems likely to remain slow. It can be argued that trade is predominantly about short-run material consumption whereas migration generates a range of externalities over a long period of time (Greenaway and Nelson 2006) and people are generally more pro-trade than pro-immigration (Mayda 2007). Concerns about adverse labour market impacts for particular groups of native workers, concerns that immigrants may impose net burdens on public finances, as well as possible social and political aversion to increasing immigration are unlikely to diminish soon, particularly in the current global economic downturn.

Moreover, a key impediment to liberalization of migration may be the lack of a basis for reciprocity in negotiations (Hatton 2007). Labour-exporting countries may be keen to lower the barriers to the movement of their workers, however, such countries typically have asymmetrical policies. Developing countries that may encourage the emigration of their citizens are not always themselves open to immigrants from elsewhere. There needs to be greater awareness that trade, competitiveness and employment policies are 'inextricably tied into migration to a degree beyond what existed before the expansion of globalization' (Keely 2003). However, the counter argument is that multilateral trade negotiations have a more than 50 year history, while migration has typically been a national policy issue. Furthermore, the movement of people raises a host of additional challenges, including social and cultural integration, that trade agreements may not be well positioned to address.

Nonetheless, increasing demographic pressures may open countries to more serious discussions on migration agreements. For example, as the Japanese economy finds itself increasingly short of unskilled workers (given its rapidly ageing population) it may consider options that were previously unpalatable. Interestingly, the movement of natural persons was included as a 'major element' in draft agreements between Japan and the Philippines and Thailand (Yamagata 2006).

The largest gains are likely to be from allowing labour mobility between very diverse countries (Winters 2003). In order to help maximize the benefits and minimize the problems caused by the trans-border movement of people, Pasquetti (2006) argues that multilateral regulation is necessary at a global scale. That is, a case can be made for a 'World Migration Organization' (WMO) alongside the WTO.[15] However, as noted earlier, Hatton (2007) argues that international migration is driven by absolute rather than comparative advantage. Hatton therefore suggests and there is 'no basis for WTO-style negotiations over migration and therefore no grounds for reforming the international architecture in the hope of fostering liberalization'. Therefore, although large potential gains from liberalizing migration may be possible through improved cooperation along the lines of what the WTO has done for trade, this is not likely to happen, unless a specific way forward can be forged. As we illustrated in Figure 1, the explicit linking of immigration policy to other policy issues and agreements will be essential (see also Hatton 2007; Crump 2007).

Bilateral or regional approaches may serve to build trust, certainty and improved management schemes that could later act as stepping stones to multilateral deals. Again, this emphasizes the complex and interacting dynamic linkages that negotiators will need to be able to deal with effectively. Countries will typically prefer the flexibility to choose the conditions and countries from which labour may flow and they may be reluctant to agree to the WTO principle of MFN treatment. Therefore regional agreements appear particularly important and they are of course increasing dramatically in relevance even for trade negotiations, given the current setbacks for the WTO negotiations. Nonetheless, regional arrangements will bring their own set of problems which are well-documented in the international trade literature.

The current state of the economic environment in both origin and destination countries tends to determine the key areas of opportunity and concern. Comparative advantage arises with differences between economies, leading to important gains from trade and possibly even greater gains from the movement of people. In cases where access to the domestic labour market is negotiated as part of bilateral foreign policy initiatives, it should be

[15] There are already two International Labour Organisation (ILO) Conventions on migrant labour (dating back to 1949 and 1975) and a 1990 United Nations (UN) Convention on the rights of migrant workers and their families. However, these conventions are generally seen as benefitting sending countries rather than host countries and have consequently only been ratified by a limited number of (primarily sending) countries.

kept in mind that a quantitative assessment of the impact requires the use of a large scale model that brings the myriad influences together.[16]

Finally, we must emphasize that from the policy perspective these issues cannot be fully addressed within a purely economic framework. In this paper we noted the paradox of diversity. Economic theory suggests that the economic benefits of opening up borders to trade or immigration are at their largest, the more different the countries are. In addition, greater labour mobility helps to facilitate trade and increases the cross-border demand for domestic output. As noted earlier, some even argue that from the perspective of trade, economic assimilation of immigrants is not as desirable as the nurturing of cultural diversity. From the social perspective, however, it has become clear that social cohesion and the accumulation of social capital are not natural outcomes in increasingly diverse societies, but require resources to be allocated to the promotion of desirable social outcomes. Thus, the social evaluation of greater cross-border mobility resulting from greater international economic integration must go hand in hand with the economic assessment.

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[16] At the global level, some such modelling exercises have already been conducted (e.g., Walmsley *et al.* 2005).

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