

# **Outsourcing, Migration, and the European Economy**

## **An ESF Exploratory Workshop**

Rome  
September 15-17, 2006

***Scientific Report***

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# 1. Executive summary

## Context

The current era of globalisation has a number of distinctive features. First, while policies towards international trade and foreign direct investments (FDI) have become increasingly liberal immigration policies have remained quite restrictive, particularly with respect to unskilled workers. Second, the nature of foreign direct investment, particularly in developing and emerging markets, has changed. Third, the link between trade and migration is also changing. Finally, and perhaps more crucially, both FDI and outsourcing appear to be more prevalent in host countries with deep pools of skilled workers. The above considerations have important implications for research design in the social sciences.

## Scientific content

The workshop highlighted the need to study globalisation in a fully integrated way, not just as the sum of its different components. Separate analyses of trade, FDI, and migration are no longer adequate. Even bivariate studies of the links between trade and migration or between trade and FDI may miss critical elements of the overall picture.

## Outcomes

The workshop was pretty successful in bringing together scientists working on the many linkages between firm outsourcing, international trade, foreign direct investment, and migration. It pointed out to promising areas of research and is likely to have paved the way for new cooperative undertakings.

# 2. Scientific content of the event

The current era of globalisation has a number of distinctive features. First, while policies towards international trade and foreign direct investments (FDI) have become increasingly liberal immigration policies have remained quite restrictive, particularly with respect to unskilled workers. More recently, though, in response to the growing shortage of skills, certain industrialised countries have begun to favour the entry of skilled workers. This has raised particular concerns among policy makers in developing countries who are afraid of losing their most talented and educated people. The first part of the workshop focussed on skilled migration and its links with trade, FDI, and growth. Two main findings stand out. First, the link between skilled migration and growth, either in the sending or in the receiving country, remains elusive. Second, the papers presented at the workshop uncovered a number of relatively unexplored channels linking skilled migration with both trade and FDI. Empirical analysis suggests that these channels are quantitatively relevant.

Second, the nature of foreign direct investment, particularly in developing and emerging markets, has changed. Market access considerations are no longer predominant, thanks in large part to the substantial decline in international transportation and telecommunications costs. The investment

decisions of international firms seem to be driven increasingly by the desire to reduce production-related costs, and this objective is typically achieved by slicing the "value-added chain" among affiliates in different locations according to relative factor prices. In this context, trade costs happen to play a very different role – they no longer encourage multinational firms to invest abroad with a view to gaining better access to foreign consumers. On the contrary, their impact is to increase the cost of shipping from overseas production affiliates, so diminishing the incentive to invest abroad in the first place. From this perspective, trade flows and FDI are thought to be increasingly complementary. Also outsourcing, a fast growing component of international trade, appears to play a very similar role to FDI. The issue was analysed both at the theoretical and empirical level. Incompleteness of contracts was shown to have a key impact on the firm's decisions whether to integrate with its suppliers in the foreign country. A further crucial aspect that was analysed during the workshop was the impact of corporate taxation on exports and FDI.

Third, the link between trade and migration is also changing. The two have typically been seen as substitutes. The creation of NAFTA was indeed hailed by the then Mexican President Salinas as reflecting the desire of his country "to export goods, not people". This relationship may still hold true, but with decreasing strength. In particular the growth in trade in services, quantitatively one of the most important components in the expansion of international commerce in the last 15 years, is very much dependent on the ability to supply such services *in loco* through the firm's existing personnel, thus linking such trade with migration. Whether the ongoing round of WTO trade negotiations could promote trade in services as a partial substitute for migration was the subject matter of an in depth discussion during the workshop.

Finally, and perhaps more crucially, the political economy of trade, FDI and migration are key in determining future policy choices. Theory can cast provide considerable light on the impact of globalization and the identity of the most affected groups. Increasing job insecurity is often mentioned as a cause of globalization and a major factor behind the growing opposition to it. The need to work with more detailed and realistic models of the political economy process was highlighted during the workshop.

### **3. Assessment of the results, contribution to the future direction of the field, outcome**

#### **Assessment**

The workshop brought together international economists, migration experts, labour economists, business school and industry experts to discuss the theoretical underpinnings and the main empirical regularities of the links between trade, FDI, outsourcing and migration. As expected, the workshop had a strong focus on the European and substantive implications for research and policymaking there. However, the international nature of the subject matter meant that much of the papers discussed during the conference had broader implications for developing and transition economies too.

### **Contribution to the future direction of the field**

In the ensuing debates researchers have developed new theoretical perspectives and conducted fresh empirical analyses on industry-level and individual responses to these changes. As well as critically evaluating such research and identifying new lines of inquiry, the workshop provided an opportunity to tease out any implications for policymaking at the Europe-wide level and by individual Member States.

### **Outcomes**

The workshop highlighted the need to study globalisation in a fully integrated way, not just as the sum of its different components. Separate analyses of trade, FDI, and migration are no longer adequate. Even bivariate studies of the links between trade and migration or between trade and FDI may miss critical elements of the overall picture. The workshop aimed at adding to the body of empirical and theoretical knowledge on the many linkages between firm decision-making, international trade, foreign direct investment, and migration. Building on the work presented at the workshop, participants will most likely cooperate in drafting a joint proposal for the new FP7 program. They will also explore alternative venues of financing, including the ESF, for further meetings in this area.

## 4. Final programme

### Friday 15 September 2006

20:30 *Dinner at Ristorante "Terrazza Barberini"*

### Saturday 16 September 2006

08:15 *Bus transfer from hotel Alexandra to Villa Mondragone*

09:30-10:00 **Welcoming remarks and objectives of this workshop**  
**Simon J. Evenett**, (University of St Gallen and CEPR)  
**Riccardo Faini** (University of Rome "Tor Vergata", Centro Studi Luca d'Agliano and CEPR)  
**Giorgio Barba Navaretti** (University of Milano and Centro Studi Luca d'Agliano)

**Presentation of the European Science Foundation (ESF)**  
**Savvas Savvides** (Standing Committee for the Social Sciences)

10:00-10:45 **Migration and FDI: complements or substitutes?**  
**Maurice Kugler** (Southampton University)  
\***Hillel Rapoport** (Bar-Ilan University and CADRE, University of Lille II)

10:45-11:00 Discussion

11:00-11:15 *Coffee Break*

11:15-12:00 **Brain Drain and Inequality Across Nations**  
**Frédéric Docquier** (IRES, Catholic University of Louvain)

12:00-12:15 Discussion

12:15-13:00 **Growth and Skilled Migrations**  
\***Daniela Marconi** (Banca d'Italia)  
**Matteo Bugamelli** (Banca d'Italia)

13:00-13:15 Discussion

13:15-14:15 *Lunch*

14:15-15:00 **Ethnic Diversity and Trade**  
**Giovanni Ferri** (University of Bari)  
\***Laura Serlenga** (University of Bari)

15:00-15:15 Discussion

15:15-16:00 **Service Offshoring and Job Security: Evidence from Linked Employer-Employee Data for the United Kingdom**  
**Alexander Hijzen** (University of Nottingham)

16:00-16:15	Discussion
16.15-16:30	<i>Coffee Break</i>
16.30-17.15	<b>Corporate Taxation, Exports and Foreign Direct Investment</b> <b>Christian Keuschnigg</b> (University of St. Gallen and CEPR)
17:15-17:30	Discussion
17:30	<i>Close of the first day's sessions</i>
17:45	<i>Bus transfer from Villa Mondragone to hotel Alexandra</i>
20:30	Dinner at Ristorante 'da Fortunato'

## Sunday 17 September 2006

09:30	<i>Bus transfer from hotel Alexandra to Villa Mondragone</i>
10:45-11:00	<i>Coffee</i>
11:00-11.45	<b>The Politics of (Anti-)Globalization: What Do We Learn from Simple Models?</b> * <b>Douglas Nelson</b> (Tulane University and University of Nottingham) <b>David Greenaway</b> (University of Nottingham)
11:45-12:00	Discussion
12:00-12:45	<b>A Stake in the Internal Market: Trade in Services as a Partial Substitute for Migration?</b> <b>Bernard Hoekman</b> (World Bank) * <b>Caglar Ozden</b> (World Bank)
12:45-13:00	Discussion
13:00-14:00	<i>Lunch</i>
14:00-14:45	<b>Regional Integration and the International Organization of Production.</b> * <b>Fabrice Defever</b> (University of Paris I) <b>Frederic Andres</b> (University of Paris Dauphine)
14:45-15:00	Discussion
	<b>Summary session: Discussion on plans for follow-up research activities and/or collaborative actions</b>
16:00	<i>Close</i>
16:15	<i>Bus transfer from Villa Mondragone to hotel Alexandra</i>

Please note that some of the papers presented at this conference are an output of the Project PRIN-Cofin Miur on "The Economic Effects of the International Mobility of Production Factors".

## 5. Final list of participants

**Matteo Bugamelli**, Banca d'Italia

**Jaime de Melo**, Université de Geneve and CEPR

**Fabrice Defever**, Université Paris I

**Frédéric Docquier**, IRES, Université Catholique de Louvain

**Simon J Evenett**, University of St Gallen and CEPR

**Riccardo Faini**, Università di Roma "Tor Vergata" and CEPR

**Rikard Forslid**, Stockholm University and CEPR

**Alexander Hijzen**, University of Nottingham

**Christian Keuschnigg**, University of St Gallen and CEPR

**Daniela Marconi**, Banca d'Italia

**Giorgio Barba Navaretti**, Università degli Studi di Milano and Centro Studi Luca d'Agliano

**Douglas Nelson**, Tulane University and University of Nottingham

**Javier Ortega**, Université des Sciences Sociales de Toulouse and CEPR

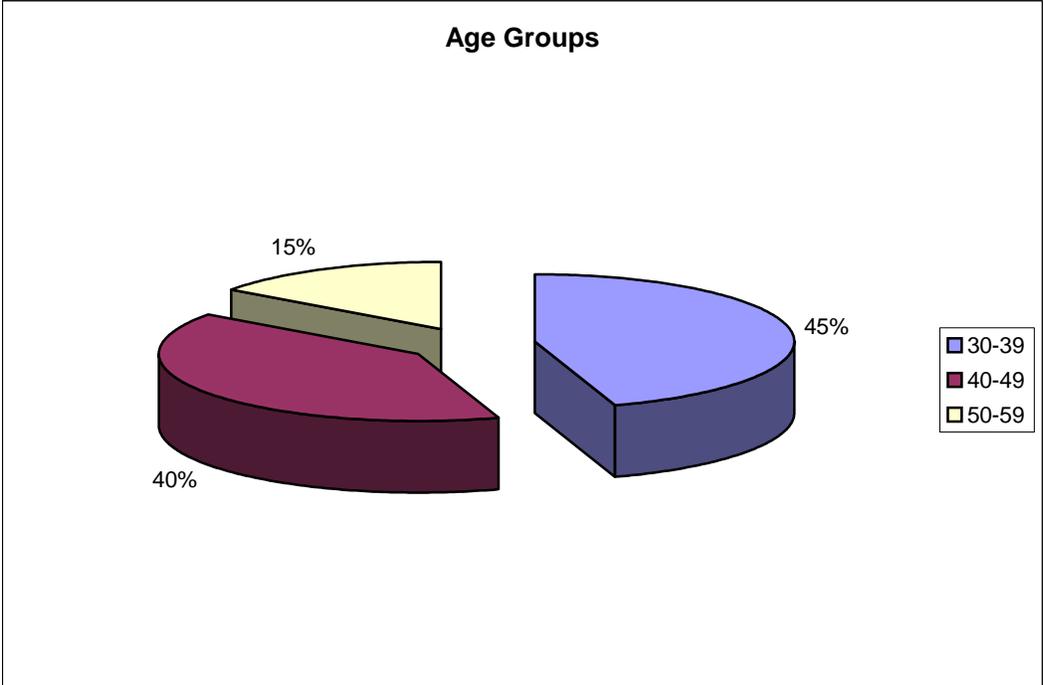
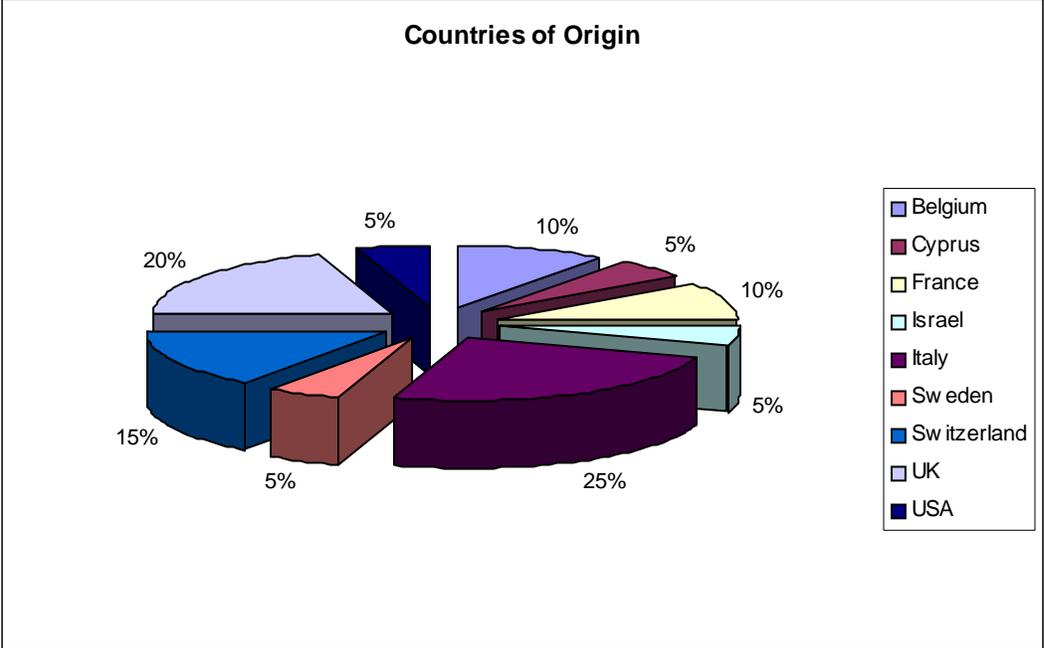
**Caglar Ozden**, Emory University and The World Bank

**Hillel Rapoport**, Bar-Ilan University

**Savvas Savvides**, European Science Foundation and Cyprus College

**Laura Serlenga**, Università degli studi di Bari

# 6. Statistical information on participants



**Gender**

