

LECTURE 2: MIGRATION OF CAPITAL AND LABOUR

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MPUP 5301:

Globalization, Social Problem and Policy

1970s -1980s

From New to Changing International Divisions of Labour

- » **New International Division of Labour (NIDL)**
 - > explain such marginalisation and mass unemployment of workers in the West as a result of the out-migration of production capital, especially those engaged in labour-intensive production processes, from developed to developing countries
 - > emergence of **a world market of labour, a worldwide industrial reserve army and a world market for production sites.**

division of labour theory of Babbage

- » an increased division of labour fragments the labour process so that **skilled labour is replaced by unskilled cheap labour**.
- » It follows that capital can exert greater control over workers.
- » capital wants to increase its power of control by deskilling labour and fragmenting the labour process is also supported by the deskilling theory, which focuses on the changes at the micro/enterprise level.

NIDL Theory

- » challenge the assumption of neo-classical economists that wage differentials are the sole reason for the relocation of capital. However
- » different meanings of the ‘division of labour’ make it more preferable to account for the division of labour by measuring the changes in the structure and utilisation of the labour force rather than measuring the changes in the circulation of capital and the distribution of production activities (Cohen, 1987).

Changing International Division of Labour (CIDL)

- » shift the focus of analysis from the sphere of production to the sphere of production relations
- » empirical base also extends from the limited experience of the few NICs to the more complex phenomenon of the international division of labour between the core, semi-periphery and periphery.
- » suggests that the 'global expansion of capital and the transnationalisation of production requires and generates repressive political institutions and social formations in the Third World (Southall, 1988)

Behind the Miracle

- » due to the dictates of the international mobility of capital, the peripheral states (the highly repressive regimes in the NICs) maximise their attractiveness as sites for investment by minimising the cost of labour and ensuring its quiescence and adaptability.

Migration caused by recomposition of capital.

- » Sassen-Koob (1987) correlates the migration of labour and capital together under the restructuring of capital in the World System. **The labour flows are associated with worldwide trends in the recomposition of capital.**
- » Labour migrations to the core are associated with the **recomposition of the economic structure of the old centres** of the world economy, which are now in decline.

Migration in the peripheral area

- » Labour migrations to the periphery are associated with the **relocation of manufacturing and clerical activities to selected peripheral areas.**
- » The regional concentration of these activities and their labour intensive character maximise the impact on people, **promoting an internal migration to the new industrial zones.**

NIDL and CIDL

» Similarity

- > **enhanced geographical mobility of capital and labour** since the 1970s

» Difference

- > CIDL theorists argue that the relocation of the production process is not new, but as old as capitalism itself. The current restructuring of capitalism is only a specific form of a longer historical process of the development of capitalism.

Migration of Capital from 1980s to 1990s

- » The recipients of capital **flow from the developed countries are mainly the developed countries themselves** rather than the NICs.
- » The nature of capital migration from the developed countries is not mainly production capital but **circulation capital, that is, service, financial and business capital.**

From NICs to the New NNICs

- » From 'green-field' investment — creating new plant or enterprise — to '**mergers and acquisitions**' investment.
- » Capital migration from the NICs to the New Newly Industrialised Countries (NNICs) to grasp the opportunities of **deregulation and privatisation in these countries**
- » The NNICs are those countries which have just recently adopted an export-oriented manufacturing strategy to join the NICs.

Foreign Direct Investment (FDI)

- » The magnitude and migration of capital can be measured by the statistics of the **Foreign Direct Investment (FDI)** in the global economy.
- » FDI includes all forms of investment from the home country to the host country but **excludes investment in the form of loans**

FDI from developed to developed

- » Most Foreign Direct Investment (FDI) outflows originate from and are directed to developed countries.
- » Five home countries (France, Germany, Japan, the United Kingdom and the United States) accounted for two-thirds of total outflows between 1980 and 1995.
- » About 50-55 per cent of the outflows from these countries during the second half of the 1980s was in the **services sector**.

Slow FDI growth in developing

- » In early 1990s, developing countries have received, on average, less than 20 per cent of worldwide FDI inflows.
- » In fact, the share of **average annual investment inflows in developing countries fell from 26 to 17 per cent between the periods 1981-1985 and 1986-1990**

Annual Average Changes in Foreign Direct Investment (FDI) of UK, 1971-1990

Annual average	FDI Outflows (US\$ million)	FDI Inflows (US\$ million)	Net FDI lost (outflows-inflows) (US\$ million)
1971-1980	+955	+864	+91
1981-1985	-125	-929	+804
1986-1990	+1,763	+5,391	-3628
1991-1995	+25,000	+17,000	+8,000

UK: From 1971 to 1980

- » capital outflows and inflows were both increasing in Britain, but the increase in outflows was greater than inflows by 91 US\$ million per annum.
- » the aggregate effect was a steady out-migration of capital from Britain.
- » the unemployment rate of Britain also surged from 3.9 per cent in 1971 to 11.1 per cent in 1981

UK: From 1981 to 1985

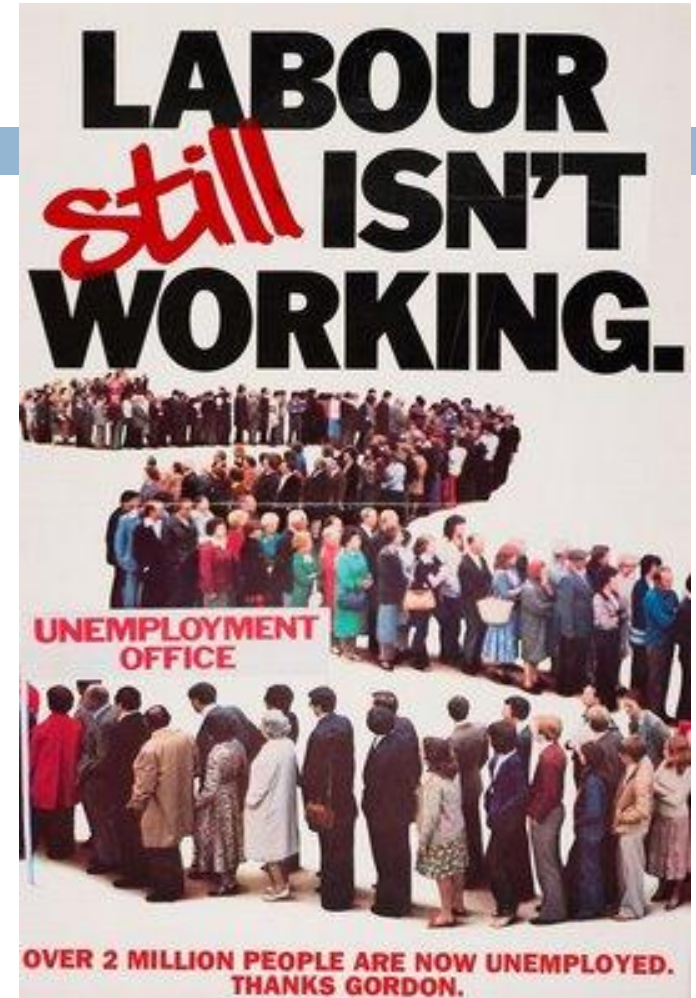
- » capital outflows and inflows decreased tremendously owing to an economic recession.
- » decrease of inflows was much higher than the decrease of outflows.
- » the absence of the inflow of capital from other developed countries, Britain faced a faster rate of aggregate out-migration of capital.
- » Facing the decreasing inflows of capital and its own recession, Britain's unemployment rate experienced another strong increase. In 1986, the unemployment rate reached its peak level of 11.7 per cent.

UK: 1986 to 1990

- » a significant increase in the outflows of capital but also a tremendous increase in the inflows of capital. It may be due to the fact that the formation of the EU attracted inflows of capital which wanted to bypass trade barriers.
- » The Thatcher government intended to defeat organised labour to attract investment. The tremendous increase of inflows of capital resulted in a remarkable decrease of the net out-migration of capital from Britain.

UK: 1986 to 1990

- » Britain had become a net-capital inflow country with a 3.6 US \$billion inflow per year from 1986 to 1990. During those five years, the unemployment rate in Britain decreased from 11.7 per cent to 5.6 per cent.



UK: From 1991 to 1995

- » Both inflows and outflows of FDI increased significantly. While outflows of FDI increased from 16 billion USD in 1991 to 37 billion USD in 1995, the inflows increased less vigorously from 16 to 30 billion USD in the same period.
- » During the early 1990s, the direction of capital flows is the opposite of that of the late 1980s.

» The out-migration of capital from the UK is outweighed by the in-migration from other countries with a net capital loss at an annual average of 8 billion USD per annum.

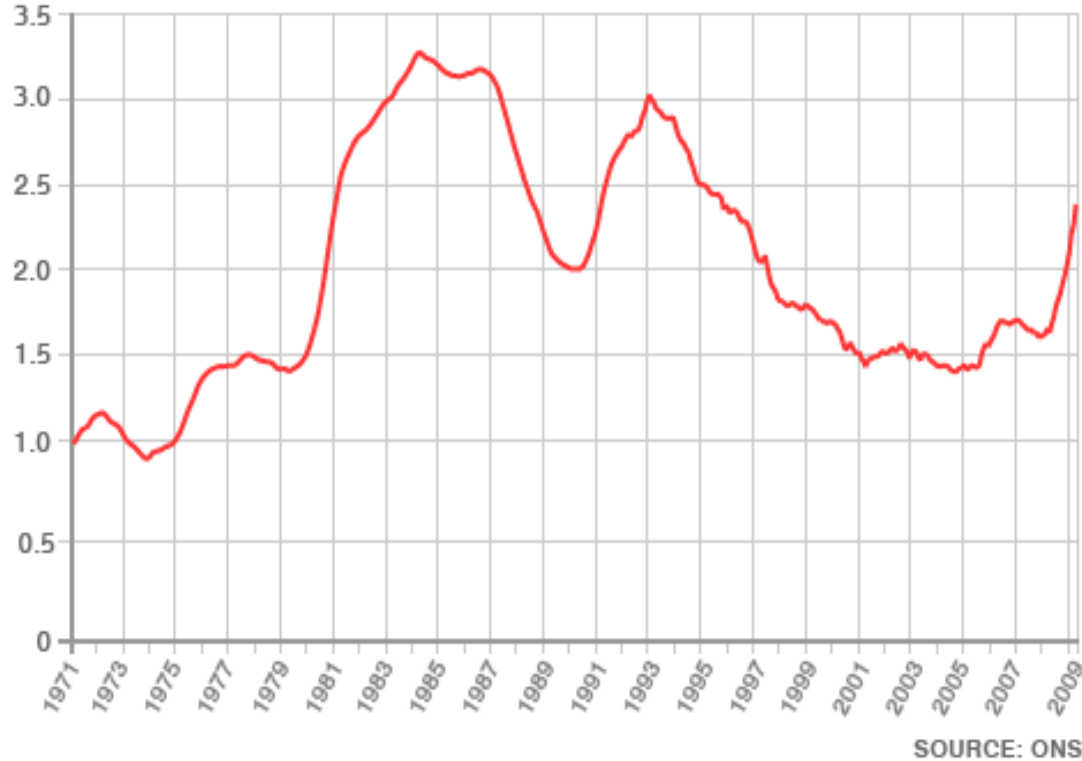
» The trend in the unemployment rate also stopped decreasing and started increasing again.

» The unemployment rate increased sharply from 5.6 per cent in 1990 to 10.2 per cent in 1993. After the economic recession in the early 1990s, †

» The net-outflow of capital from Britain decreased with a concomitant decrease in the unemployment rate after 1994.

UK unemployment February 1971 - July 2009

Unemployed (millions)




» The magnitude and the direction of the migration of capital in Britain were synchronised with the changes in the unemployment rate from the 1970s up to the mid 1990s.

Migration of Capital & Unemployment

UK FDI Outward and Inward Stock and It's Share in World Total, 1980-1995

	FDI outward stock US\$ billion			FDI inward stock US\$ billion		
	UK	World Total	% of UK in World	UK	World Total	% of UK in World
1980	80	513	15.6%	63	482	13.1%
1985	100	685	14.6%	64	735	8.7%
1990	230	1,684	13.7%	218	1,717	12.7%
1995	319	2,730	11.7%	244	2,658	9.2%

- 
- » the share of the UK FDI outward stock in the world decreased steadily from 15.6 per cent in 1980 to 11.7 per cent in 1995, while its percentage of FDI inward stock in the world total was much more volatile, in accordance with the economic climate in the world economy.

Decreasing and fluctuating in-migration of capital → Unemployment

- » it is not the increasing out-migration of capital from Britain, but the decreasing and fluctuating in-migration of capital from other countries, which seems to be a crucial factor in determining the level of unemployment in the UK

Modified NIDL theory

- » This supports the NIDL theory. However, contrary to the hypothesis of the NIDL, the host countries of capital out-migration are other developed countries, not the NICs.
- » Capital is now migrating in the form of circulation (finance and service) capital rather than in the form of production capital.



*Capital Migration in NICs: The
Case of Hong Kong*

- » Both the ‘miracle’ economic success of Hong Kong in the 1960s and 1970s and its rapid de-industrialisation since the 1980s can be understood from the perspective of the CIDL, emphasising the role of Hong Kong in the regional political economy and the world system.



CIDL & Hong Kong

1950s: export-oriented manufacturing

- » The CIDL on a global scale and the resultant relocation of production in the 1950s made it possible for Hong Kong export-oriented manufacturing, given its labour-intensive nature, to be competitive in international markets

World

- » the formation of the international subcontracting network (mainly in the garment and electronic products industries) has facilitated the incorporation of Hong Kong into the world system through the TNCs



1980s: Relocation to China

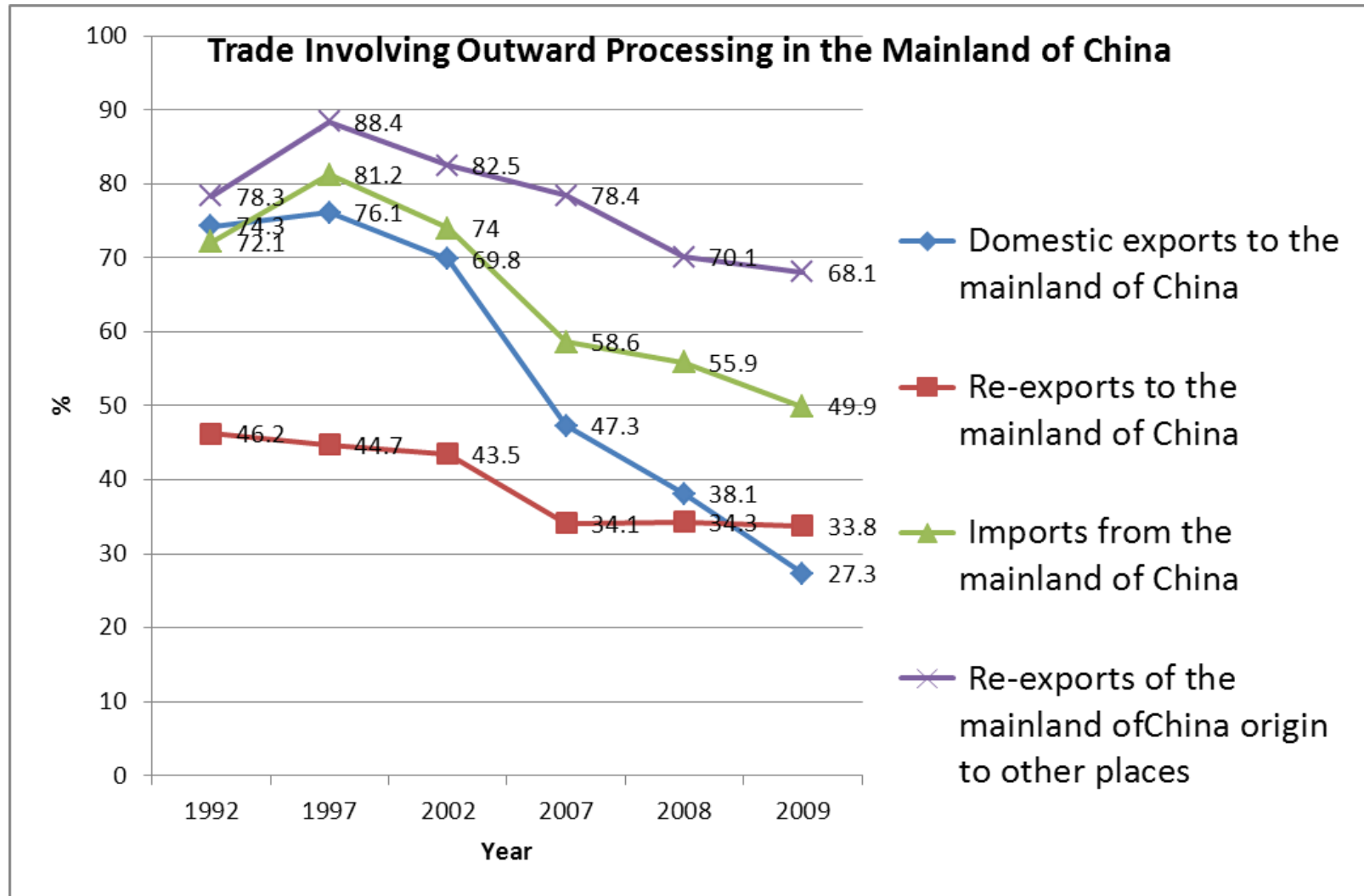
- » With the advent of economic reforms in China in 1979, Hong Kong's economy has been gradually integrating with the economy of southern China, especially the ZJDR.
- » Most of the manufacturing industries in Hong Kong have relocated their production to China to avail themselves of the cheap labour and rent there



De-industrialisation in Hong Kong

- » De-industrialisation in Hong Kong became significant and rapid after the early 1990s. Employment in the manufacturing sector as a percentage of total employment decreased from 47 per cent in 1971, to 41.3 per cent in 1981 and further to 35.8 per cent in 1986.

Proportion of Outward Processing Trade between Hong Kong and China, 1992-2009



Changing Role of HK in relationship with China

- » Production facilities and market channels have become more developed in China so that the OP process is now more independent in seeking raw materials, machines and resources from sources other than Hong Kong.
- » Hong Kong no longer merely acts as an entrepôt for trading with China, but as a secondary world city to export to the rest of the world products which are manufactured in China.

HK major share of FDI in China

- » The importance of Hong Kong capital in financing China's rapid industrialisation and facilitating the integration of southern China into the world system can be reflected by the major share Hong Kong capital has in the total foreign investment in China.

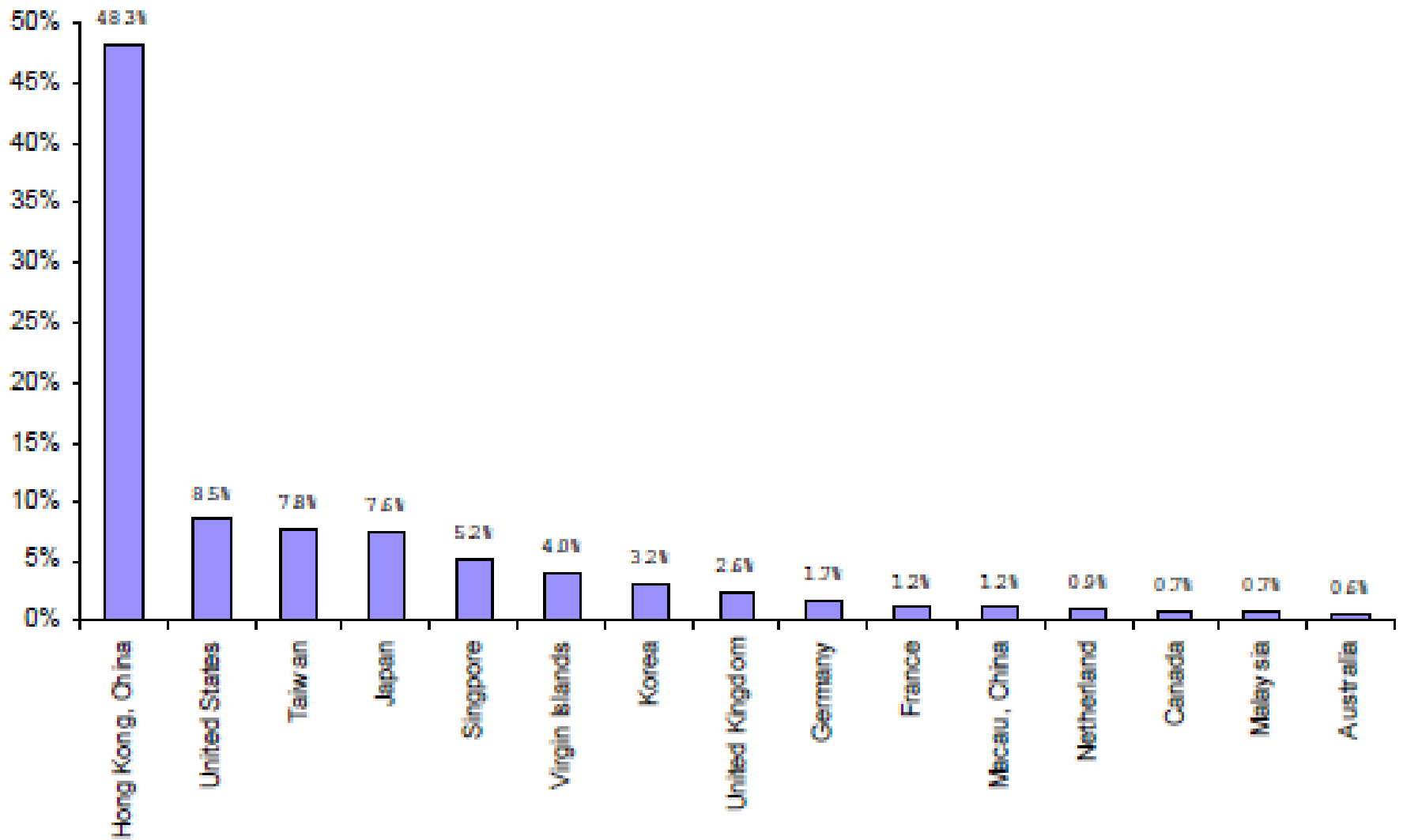


Figure 3: top 15 FDI source countries/regions, 1983-2000

Source: China Foreign Economic Statistical Yearbook, China Statistical Yearbook, Almanac of China's External Economies and Trade, various issues.

Bi-directional migration of capital

- » Support the general thesis of the NIDL that production capital migrates from high wage to low wage countries.
- » In the case of capital migration between Hong Kong and China, the flow is not unidirectional. Capital migrates from Hong Kong to China and vice versa. It is obvious that significant amounts of capital also flow from China to Hong Kong.

China become the largest capital exporter to HK

- » In 1994, China surpassed Japan and became the second largest capital exporter country into Hong Kong. In 1994, the stock of FDI from China was HKD 96.0 million
- » In 2008, China FDI in Hong Kong is 179.7 million, the largest capital exporter in HK (39% of Total FDI 464.3 million in HK)

Three Categories of Capital from China

- » Capital from China can be divided into three categories: namely investment in the service sector, 'round-tripping' investment, and hot-money investment
- » Hot-money investment is a highly mobile investment, which grasps every opportunity to earn extremely large profits in the high-risk financial market. Due to its high-risk, the hot-money investment may lose extremely large sums of money all of a sudden.

Round-tripping investment (假洋鬼子投資)

- » Round-tripping investment refers to domestic investment made under the guise of foreign investment which is aimed at taking advantage of fiscal (tax-reduction, low-tariff) and other benefits available to foreign investors (export quotas) in a given country (Kwan 1994)
- » Round-tripping investment between Hong Kong and China, which is one of the reasons for the huge amount of investment from Hong Kong to China.

Round-tripping investment (假洋鬼子投資)

- » A rising proportion of FDI in China is believed to be of this nature: investment capital originating in China, flowing to Hong Kong and then re-entering China as foreign investment.
- » Round-tripping investment from and to China via Hong Kong does not involve a net flow of funds between China and Hong Kong. Therefore, the magnitude of capital outflows from Hong Kong is much smaller than the nominal figure.

Revision on CIDL

- » the out-migration of production capital from Hong Kong to China supports the general thesis of CIDL that production capital migrates from high wage areas to low wage areas and that the out-migration of capital has created unemployment in the host country
- » However, the flow of capital is not so simplistic and uni-directional

The working men have no country →

The capital have no country

- » Capital (most of it belongs to provincial governments or large state enterprises) from socialist China also utilises every opportunity flowing from the deregulation and denationalisation process in China.
- » the logic of the flow of capital is guided by a single principle -- to earn as much profit as possible.

essence of capitalism : 'adaptation' and 'eclecticism'

- » The cross investments among the 'triangles': USA, Japan, and Europe; the 'round-tripping investment' from China to Hong Kong; the increasing fragmentation of the production/circulation process of the TNCs; and the easy-turn direction of capital flows, all signify the essence of capitalism, that is, 'adaptation' and 'eclecticism' as suggested by Braudel

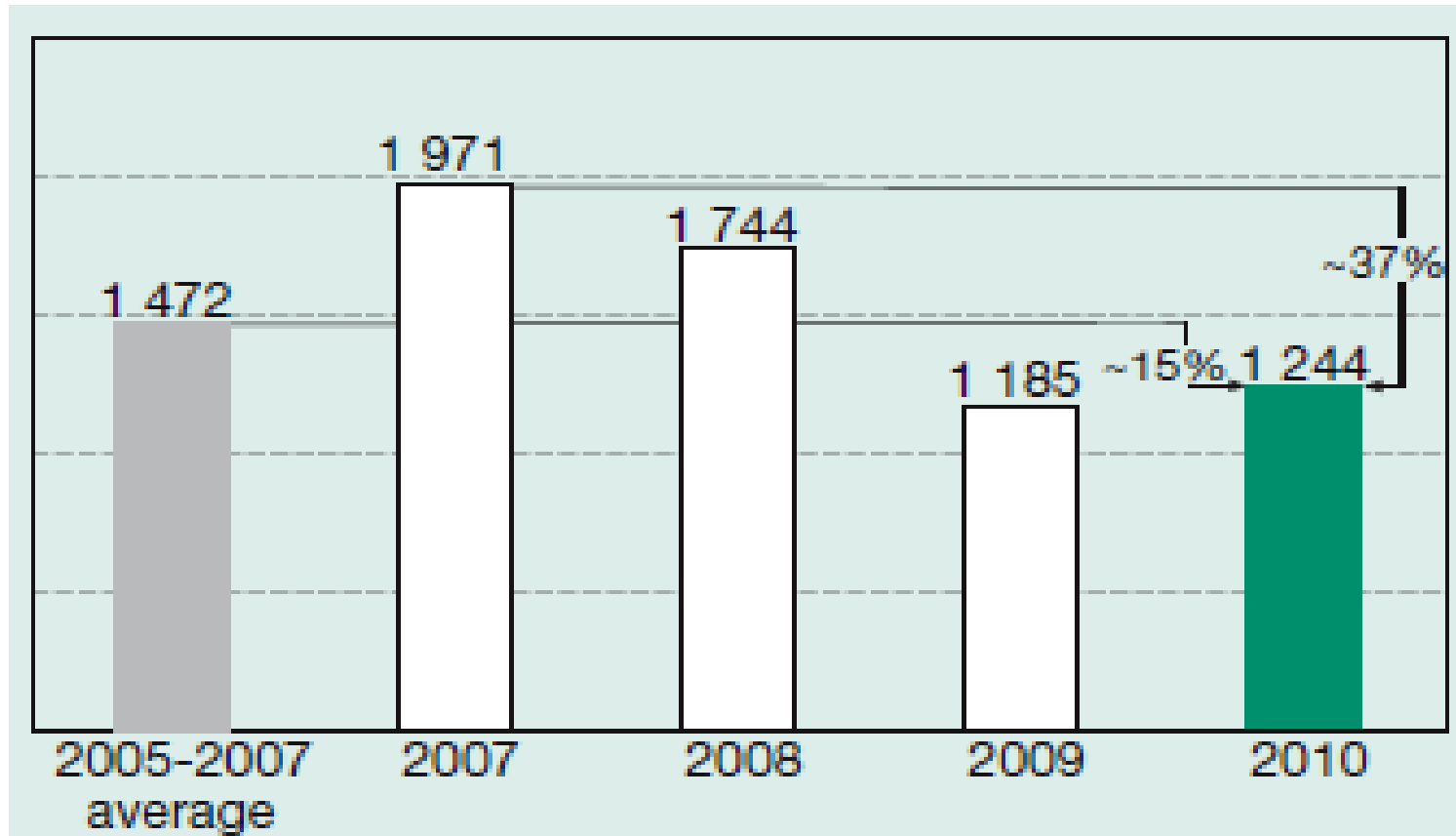
essence of capitalism : 'adaptation' and 'eclecticism

- » Capital flows
 - > from high-wage areas to low-wage ones, or
 - > from North to South,
- » while investors will grasp every opportunity to increase their **profit and flexibility**

Current Migration of Production Capital

- » Global foreign direct investment (FDI) has not yet bounced back to pre-crisis levels, though some regions show better recovery than others.
- » The reason is not financing constraints, but perceived risks and regulatory uncertainty in a fragile world economy.

**Figure I.1. Global FDI inflows, average 2005–2007
and 2007 to 2010
(Billions of dollars)**

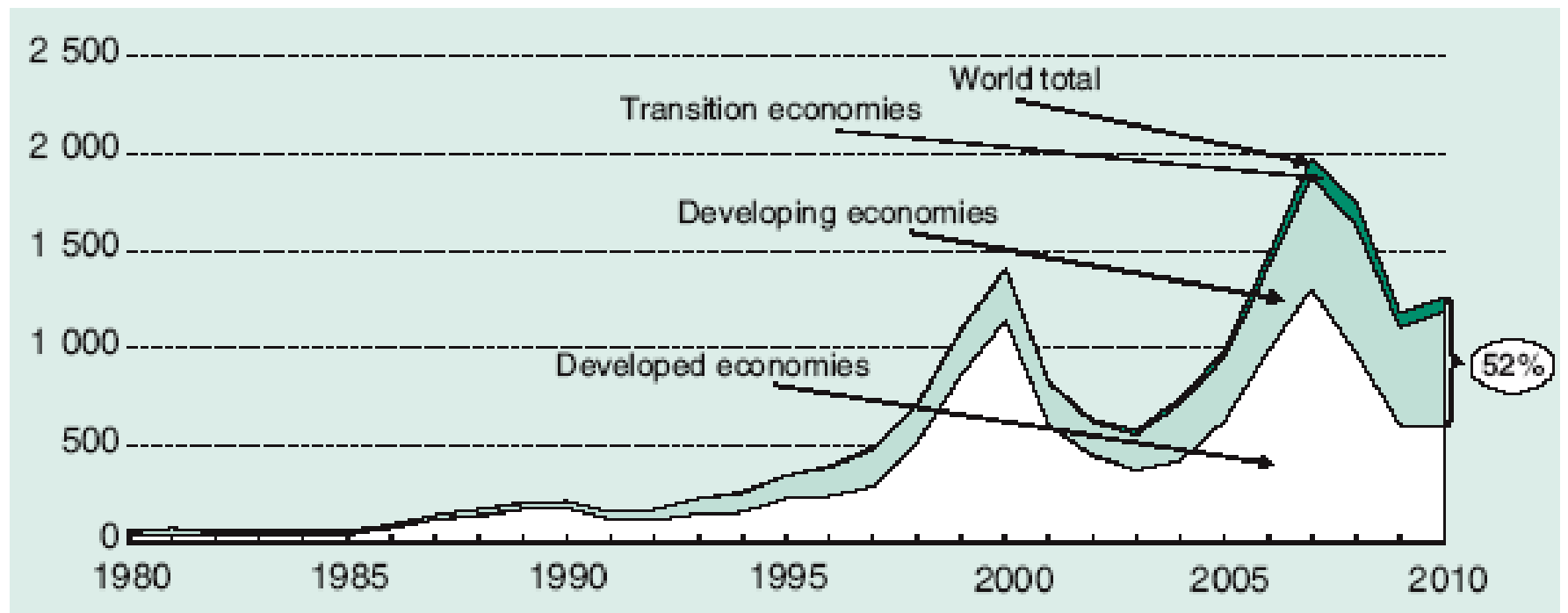


Source: UNCTAD, based on annex table I.1 and the FDI/TNC database (www.unctad.org/fdistatistics).

Below their pre-crisis average

- » Global FDI flows rose moderately to \$1.24 trillion in 2010, but were still 15 per cent below their pre-crisis average. This is in contrast to global industrial output and trade, which were back to pre-crisis levels.
- » Global FDI will recover to its pre-crisis level in 2011, increasing to \$1.4–1.6 trillion, approaching its 2007 peak in 2013.

Figure 1.3. FDI inflows, global and by group of economies, 1980–2010
(Billions of dollars)



Source: UNCTAD, based on annex table I.1 and the FDI/TNC database (www.unctad.org/fdistatistics).

FDI to development countries

- » FDI inflows to developed countries and transition economies contracted further in 2010.
- » In contrast, those to developing economies recovered strongly, and together with transition economies – for the first time – surpassed the 50 per cent mark of global FDI flows

South–South flows

- » FDI flows to developing economies rose by 12 per cent (to \$574 billion) in 2010, thanks to their relatively fast economic recovery, the strength of domestic demand, and burgeoning South–South flows.
- » The value of cross-border M&As into developing economies doubled due to attractive valuations of company assets, strong earnings growth and robust economic fundamentals (such as market growth).

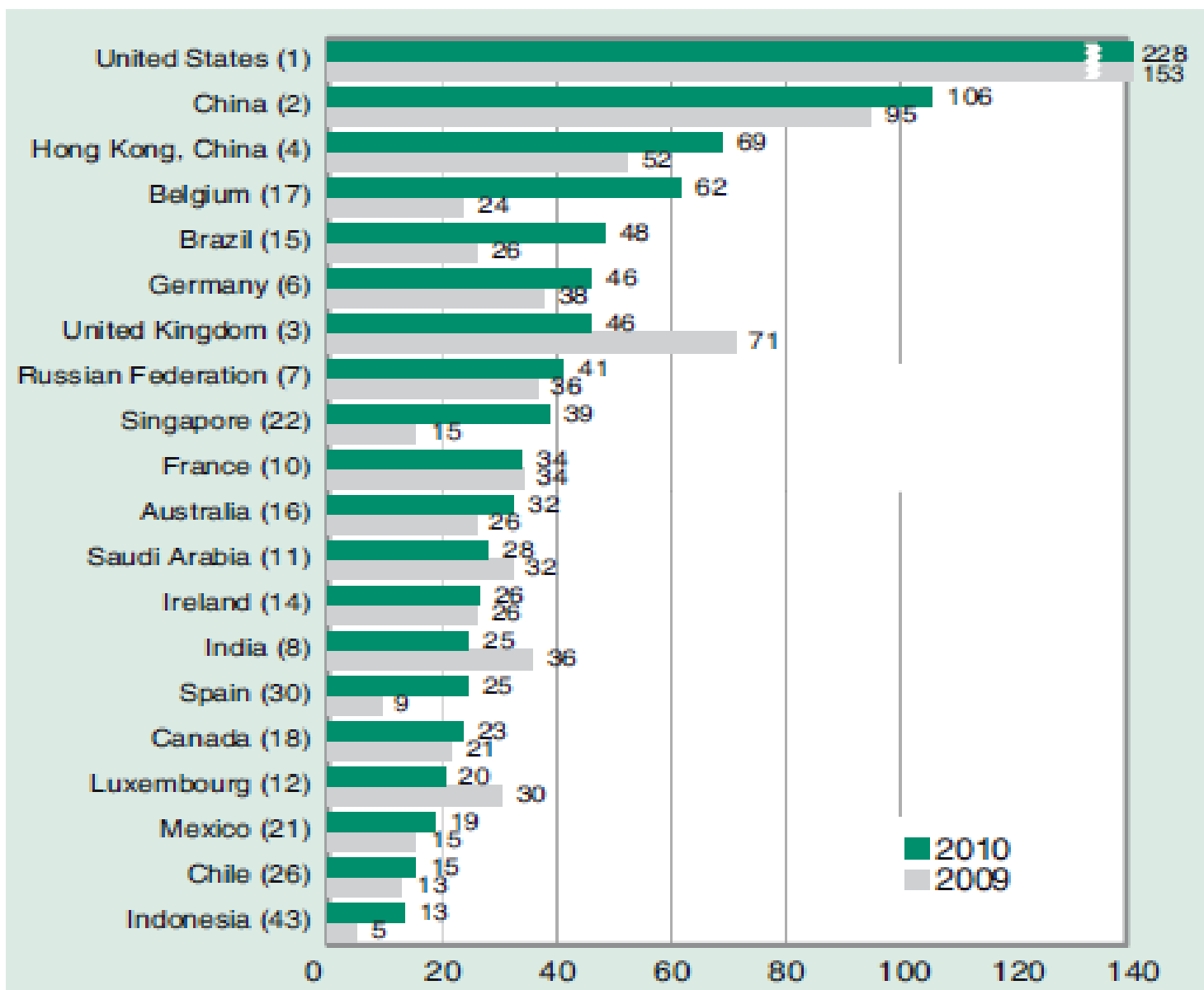
South–South flows

- » As more international production moves to developing and transition economies, TNCs are increasingly investing in those countries to maintain cost-effectiveness and to remain competitive in the global production networks.
- » They also generated record levels of FDI outflows, much of it directed to other countries in the South. This further demonstrates the growing importance of developing economies to the world economy, and of South-South cooperation and investment for sustainable development.

Not all South are benefited

- » Furthermore, interregional FDI between developing countries and transition economies has been growing rapidly. In contrast, FDI inflows to developed countries continued to decline.
- » Some of the poorest regions continued to see declines in FDI flows. Flows to Africa, least developed countries, landlocked developing countries and small island developing States all fell, as did flows to South Asia.
- » major emerging regions, such as East and South-East Asia and Latin America, experienced strong growth in FDI inflows.

Figure I.4. Global FDI inflows, top 20 host economies, 2009 and 2010 ^a
(Billions of dollars)



Importance of the TNCs

- » International production is expanding, with foreign sales, employment and assets of transnational corporations (TNCs) all increasing.
- » TNCs' production worldwide generated value added of approximately \$16 trillion in 2010 – about a quarter of global GDP. Foreign affiliates of TNCs accounted for more than one-tenth of global GDP and one-third of world exports.

State-owned TNCs

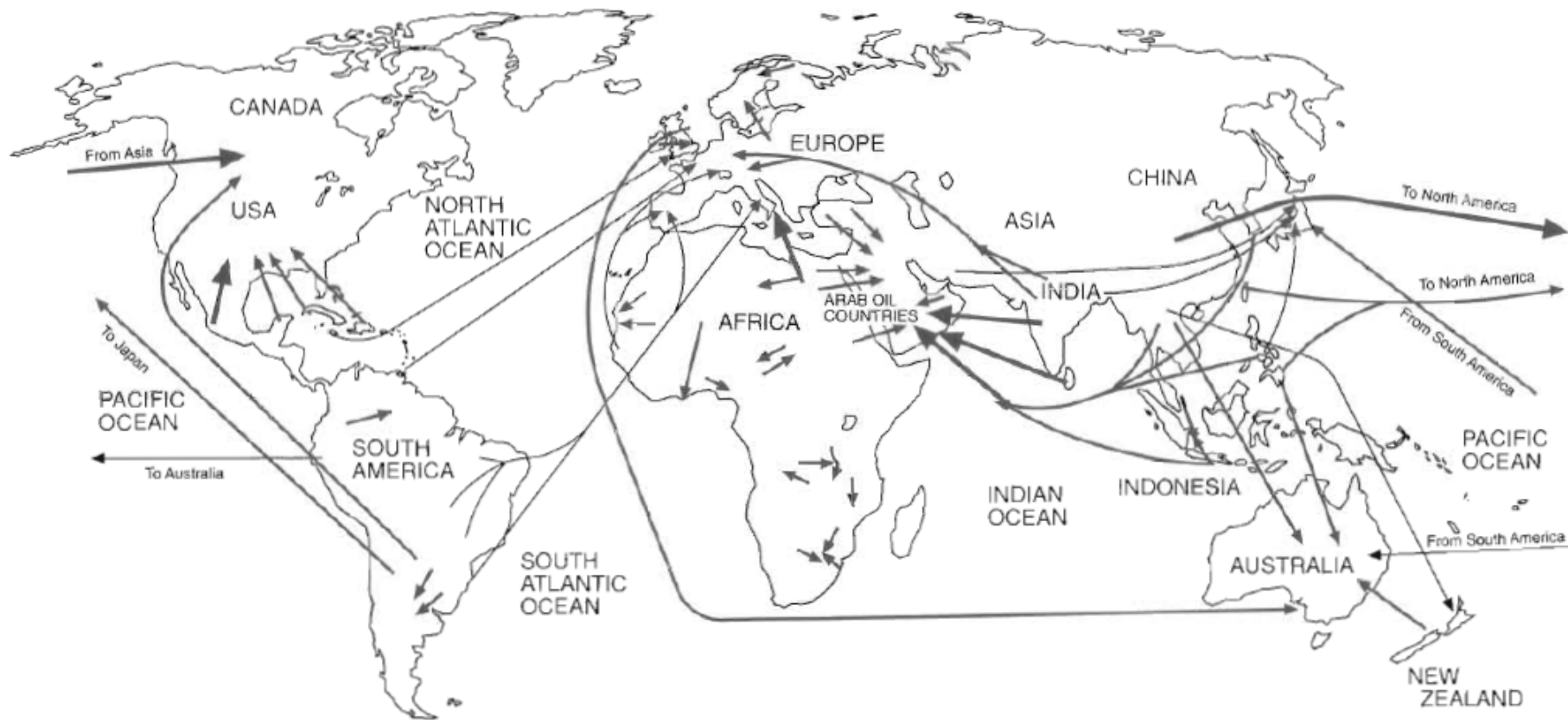
- » State-owned TNCs are an important emerging source of FDI. There are some 650 State-owned TNCs, with 8,500 foreign affiliates across the globe.
- » While they represent less than 1 per cent of TNCs worldwide, their outward investment accounted for 11 per cent of global FDI in 2010.
- » The ownership and governance of State-owned TNCs have raised concerns in some host countries regarding, among others, the level playing field and national security, with regulatory implications for the international expansion of these companies.

Further integration of developing economies

- » Increasingly, transnational corporations are engaging with developing and transition economies through a broadening array of production and investment models, such as contract manufacturing and farming, service outsourcing, franchising and licensing.
- » present opportunities for developing and transition economies to deepen their integration into the rapidly evolving global economy



International Migration



Map 11.1 Global migratory movements from 1973 (Castles and Miller, 1998)

International migrants

- » International migrants are an important part of globalization. They take advantage of the increased interdependence of the world's economies and find themselves a place, sometimes a very modest place, in the global market
- » Although there are relatively few international migrants compared with internal migrants, in political and sociological terms their movement are highly sensitive.

Numbers of international migrants restrained

- » Through inertia, social movement with a natal community, lack of opportunity, immigration restrictions and xenophobia, the numbers actually crossing international borders for the purposes of settlement are restrained.
- » The proportion of foreign-born members of the US population are expected to be higher However, the peak year was long ago as 1910, when 15 per cent of the population was foreign born.

US Immigrants

- » With the outbreak of the First World War, the Depression and immigration controls, numbers were dramatically reduced to about 5 per cent(1970), a proportion that only slowly crept up

New Dimensions of International Migration

- » After the Second World War, labour migration was mainly from the South to the North
 - > From former colonial territories to their old metropolis, or from adjacent poorer countries to their richer neighbours. Turks and Yugoslavs went to West Germany while Mexicans came to USA in even greater numbers.
 - > In the early 1970s, labour immigration for permanent settlement in the more powerful industrialized countries of Europe and North America virtually stopped.

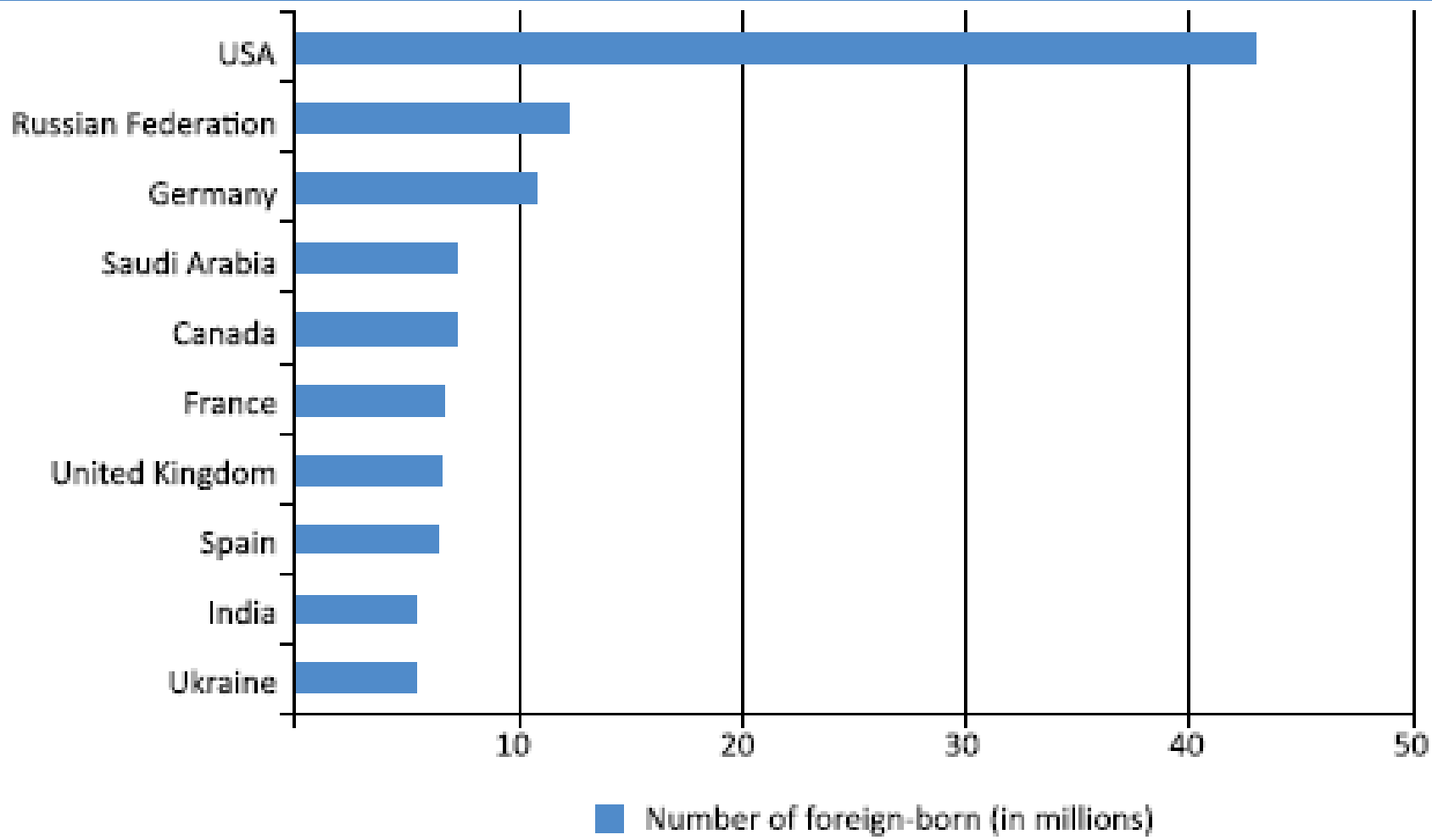
Trends in 1990s and 2000s

- » several new forms of international migration became more evident:
 - > The growth of refugee migration
 - > The phenomenon of 'immigration shopping'
 - > The rise in undocumented workers
 - > The rise in independent female migrants
 - > The situation of skilled transients
 - > Unskilled contract workers

Current Migration of People

- » The total number of international migrants worldwide in 2010 is estimated to be 214 million persons. This figure has remained relatively stable as a share of the global population, increasing only by 0.1 per cent, from 3.0 per cent to 3.1 per cent, between 2005 and 2010 (UN DESA, 2009).
- » The United States of America (USA) still hosts the largest migrant stock of any country worldwide, while six of the top ten countries with the largest foreign-born populations (France, Germany, the Russian Federation, Spain, Ukraine and the United Kingdom) are found in Europe

Figure 1: Countries with the largest foreign-born populations in 2010 (in millions)



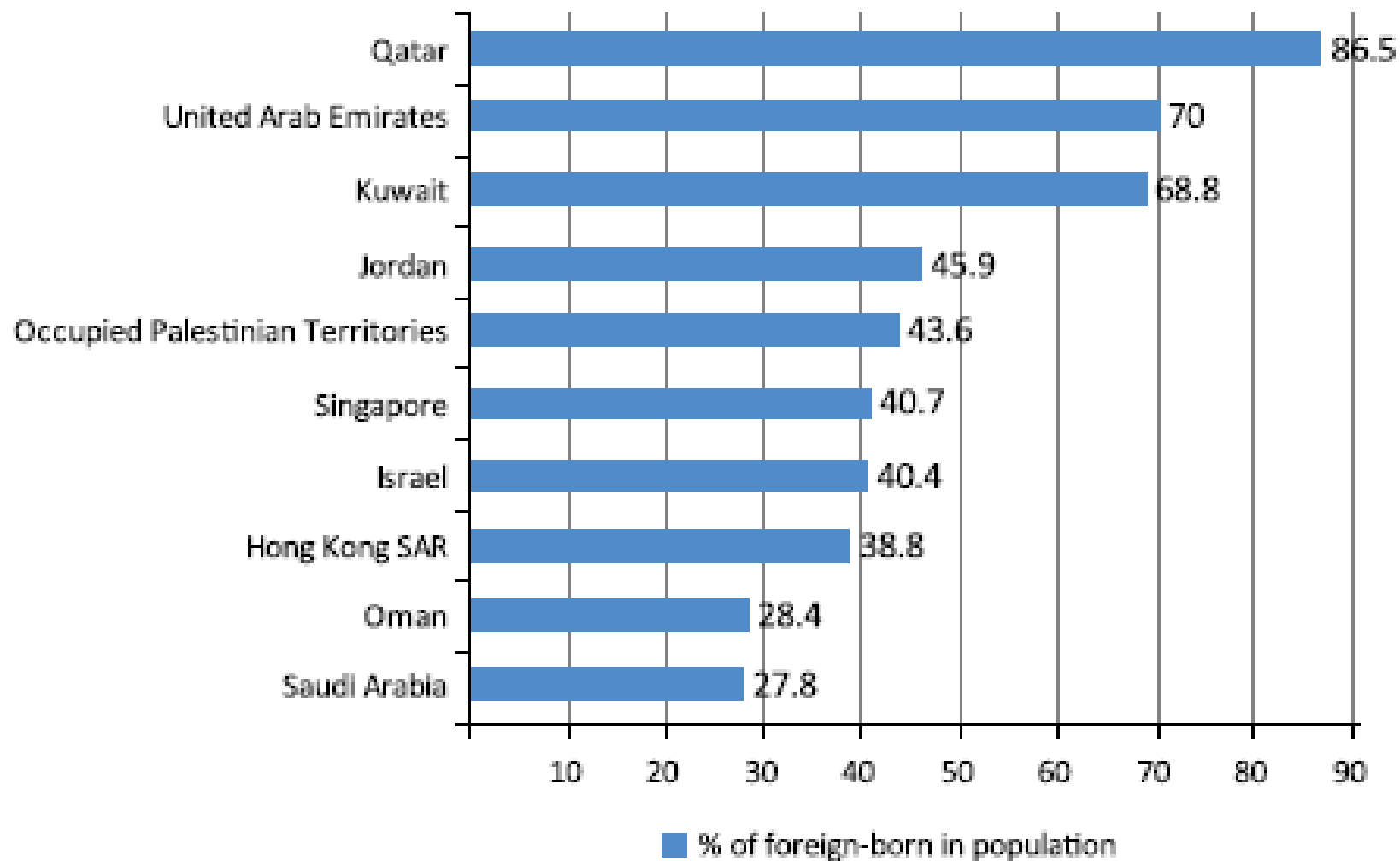
Concentrated in high-income countries

- » Fifty-seven per cent of all migrants live in high-income countries – up from 43 per cent in 1990. Migrants make up 10 per cent of the population of high-income regions (compared to 7.2 per cent in 1990) (UN DESA, 2009).

High proportion in small countries

- » When migrants are considered as a percentage of a country's population the picture changes.
- » Among the countries with a population of more than 1 million, only Saudi Arabia features in the top ten countries of destination. In some small countries, migrants account for more than half the population

Figure 2: Percentage of foreign-born in population in 2010



Source: UN DESA, 2009.

Government's responses

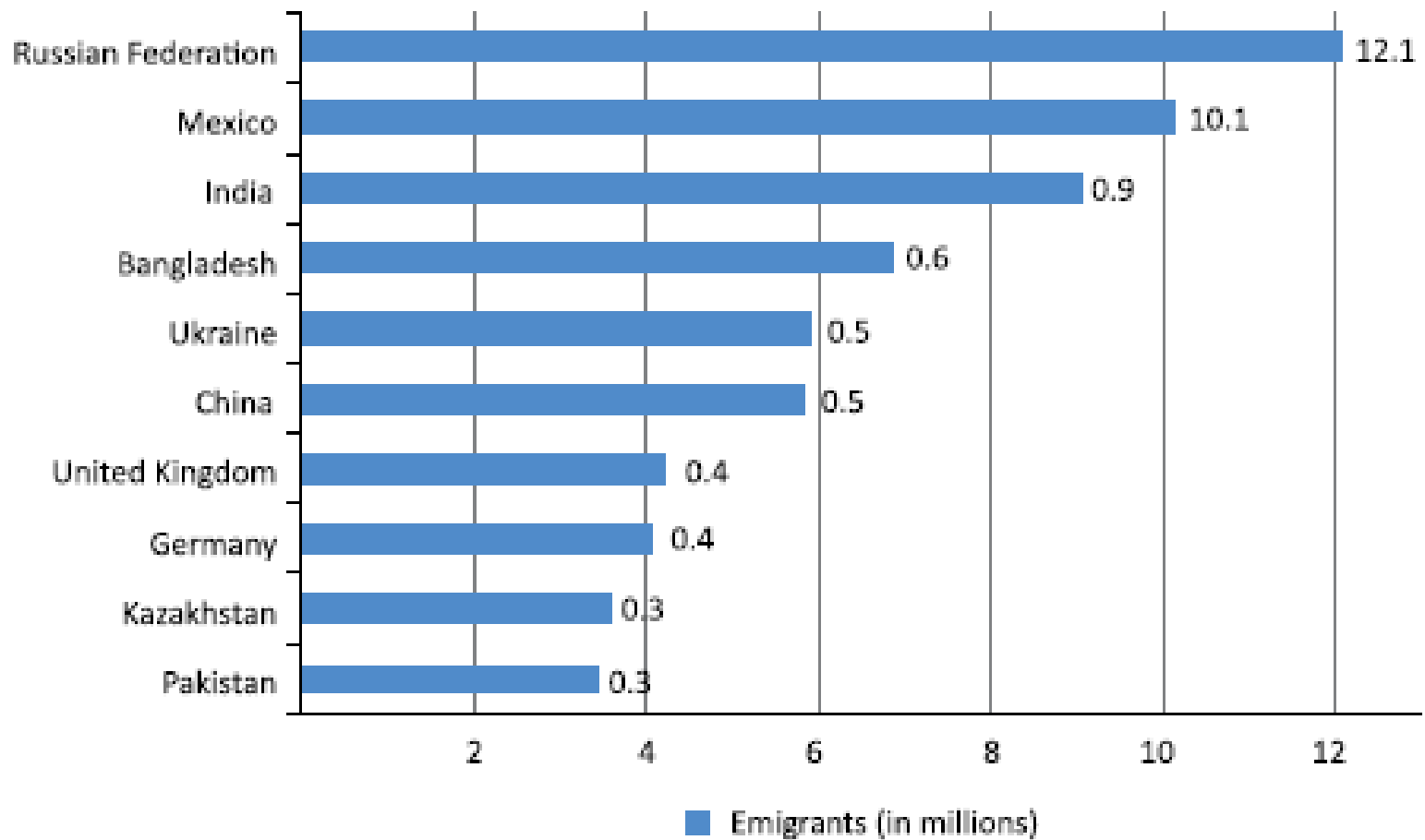
- » Most of the main destination countries consider their current level of immigration to be “satisfactory”, as do 152 governments worldwide. Only France, the Russian Federation and Saudi Arabia consider their current level of immigration to be “too high” (31 other governments worldwide share this opinion), while Canada is one of the 9 governments that consider current levels of immigration to be “too low”

In & Out



- » Many of the main countries of destination (Germany, India, the Russian Federation, Ukraine and the United Kingdom) are also among the top ten countries of origin of migrants.

Figure 3: Countries with the largest emigrant populations in 2000 (in millions)



Note: DRC estimates are based 2000 Census Round Data.

Source: DRC, 2007.

» **Trends** If the migrant population continues to increase at the same pace as the last 20 years, the stock of international migrants worldwide by 2050 could be as high as 405 million

- > International migration involves a wider diversity of ethnic and cultural groups than ever before;
- > Significantly more women are migrating today on their own or as heads of households; the number of people living and working abroad with irregular status continues to rise;
- > there has been a significant growth in temporary migration and circulation.
- > There are far more internal migrants than international migrants worldwide.

Capacity Building to manage social change

- » More effective systems will be required to match supply and demand in the labour market.
- » Growing numbers of migrants, from increasingly diverse backgrounds, can increase diversity and cultural innovation but will also make the development of effective integration policies more challenging.
- » Indeed, in all countries of migration, dedicated attention to managing social change associated with migration will be required.



The End