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IMPACT OF HIGH- SKILLED MIGRATION ON THE ECONOMY

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A R T I C L E I N F O.

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Abstract

Labor migration is an integral part of the labor market. In the conditions of the liberalization of the economy, migration flows began to be directed from a certain region and country to another country. While labor migration brings certain advantages to donor and recipient countries, it also creates some challenges.

INTRODUCTION

In recent years, the literature on the economics of migration has shown a significant increase in articles examining host country effects outside of the labor market. In particular, researchers have begun to shift their focus from labor market and fiscal changes to what we call the "broader effects of migration on the economy's production and consumption markets" and the role of highly skilled migrants in these processes.

There are many reasons for this change, and we highlight a few here. One important factor is that over the past few decades, many developed countries have experienced not only one-off migration "shocks", but also continuous "waves", resulting in permanent changes in the population and labor force. In turn, this has encouraged many researchers to look beyond the short-term effects of newcomers to long-term, dynamic effects. At the same time, empirical studies of migrants in the labor market have repeatedly shown that highly skilled migrants can play very different roles than those in other skill cells. Given the demographic context, much of the emerging research explores the diversity that migration brings and the potential opportunities for diversity in different economic and spatial contexts, including the emergence of "hyper diversity" in some urban neighborhoods. He emphasized.

DISCUSSION AND RESULTS

This "broader effect" between the relationship between high-skilled immigration and innovation has been a major focus of the literature to date. Also, there is an increasing interest in the entrepreneurship of highly skilled migrants, for example, groups of "transnational entrepreneurs" and startup founders are a clear example of this. This is a shift from a long tradition of research on migrant and ethnic entrepreneurship, which has focused on small business formation in non-trade sectors such as retail and leisure.

Similarly, studies examining the links between migration, trade and investment flows increasingly focus on highly skilled diasporic communities as providers of market access. Other studies have looked at the effect on prices of housing and other local goods/services, but these studies are less common. In many

countries, particularly the UK, migrant flows are geographically uneven, with cities, and particularly large cities, recording the largest stock of new arrivals. Highly skilled migrants may also be disproportionately attracted to urban areas with larger labor markets and better access to new ideas, partners and start-up capital. Silicon Valley, with its prominent entrepreneurial communities in South and Southeast Asia, is the best-known example. Interest in local-level impacts is growing, with geographers, economists, and others studying how migration affects urban life and urban economies.

Table 1 The level of employment indicators in European countries

	2010	**2015**	**2020**
EU-27	**63.0**	**65.8**	**64.5**
Germany	65.0	70.1	70.3
EU-8	**60.2**	**64.5**	**61.5**
Czech Republic	64.2	66.6	65.4
Estonia	63.0	69.8	63.5
Latvia	62.3	68.6	60.9
Lithuania	61.2	64.3	60.1
Hungary	56.8	56.7	55.4
Poland	51.7	59.2	59.3
Slovenia	65.3	68.6	67.5
Slovakia	57.0	62.3	60.2

Broader effects research is still a young field, with much of the published material appearing in the past five years, and further research is greatly needed. The 150 studies reviewed here include a mix of quantitative and qualitative approaches based on large-scale data sets, surveys, case studies and, in some cases, historical analysis. The focus of this field is economics, but articles are also drawn from other related fields (geography, urban studies, business and management, entrepreneurship, innovation and housing studies). This review does not purport to be comprehensive: it is based on research originally commissioned by the UK Migration Advisory Committee (MAC) and follows the broad outline of this brief.

Analysis of the economic impact of migration has mainly focused on labor market or fiscal impacts. These analyzes typically involve neoclassical settings in which migrants have a single role (workers or consumers of public services), modeling is limited to one-time shocks and adjustment periods, and the scope of impacts is narrowly defined. Such an approach ignores or trivializes several broader economic impacts of migration, particularly those related to skilled migrants. To illustrate this point, we attempt to compare labor supply and demand with dynamic growth settings.

Table 2 The level of unemployment indicators in European countries

	2010	**2015**	**2020**
EU-27	**9.3**	**7.1**	**9.0**
Germany	10.5	7.5	7.8
EU-8	**11.3**	**6.5**	**11.1**
Czech Republic	8.3	4.4	6.7
Estonia	9.7	5.5	13.8

First, consider the static "labor markets" setting. A certain number of firms' productivity in a particular host country is determined by labor costs, additional fixed technological capabilities, and trade costs. Immigrants enter the country only as workers and are perfectly interchangeable with the local

population. In this model, skilled migration has limited economic impact. In small open economies (such as the UK), a net migration shock increases labor supply and temporarily lowers the average local wage. If wages are sticky, local jobs may also fall. Over time, domestic wages and employment rates should adjust to their pre-shock levels through international capital flows and the expansion of labor-intensive industries. If the migration shock consists of skilled workers, it lowers the relative wages of skilled natives and raises the wages of low-skilled natives. For firms, migration helps labor productivity by reducing labor costs. But migration does not have a broader effect because other productivity modifiers are exogenous.

Next, consider the dynamic "growth" setting. Here, firms can change their labor costs, innovation capacity, and trading environment. Endogenous growth models show how human capital can help generate new ideas that push the technological frontier and help increase productivity. Firms that invest in R&D can thus increase innovation capacity and improve productivity, but may face informational/financial constraints in doing so. Trade costs are now determined in part by information asymmetries and coordination problems, and firms that can lower them will increase productivity (and subsequently gain market share). Existing firms also face competition from entrepreneurs who build businesses around new ideas.

In such circumstances, skilled immigration has several effects, particularly on the production and consumption sides of the economy. For example, access to knowledge and ideas may be highly uneven, national entrepreneurial "capacity" may vary, and the characteristics of innovation ecosystems may limit the diffusion of ideas. This opens up space for skilled/entrepreneurial individuals to contribute to knowledge production and for international networks to help spread innovation across space.

Similarly, complex global production chains imply high search, transaction and management costs. Intermediary actors, such as skilled migrants, can help firms enter new markets and coordinate complex business activities. Similarly, production complementarity between skilled migrants and natives can increase returns to capital, thereby generating higher savings and inflows of foreign direct investment. All of these channels contribute to productivity and/or competitiveness in the sense of increasing market share for firms in the host country. These channels require relaxing some assumptions from the static framework. In particular, migrants can work as entrepreneurs and investors, as well as workers; migrants have financial, social and network capital, as well as human capital; and immigrants and natives may be imperfect substitutes.

When thinking about these issues, it is useful to think about the side effects of "production" and "consumption". Production channels affect productivity and its driving force and can operate at different levels. First, individual migrant status may preselect entrepreneurial individuals who contribute to new business formation and/or open new market niches or highly human capital "stars" who contribute to innovation. Second, firms that hire a "star" researcher or scientist can significantly increase their productivity at the expense of other competing firms. More broadly, diverse workforces may have an advantage in generating innovative ideas, particularly in skills and knowledge-intensive sectors that create significant added value. Firms in these high-value sectors may also benefit from the access of skilled migrants to co-ethnic networks, which may facilitate knowledge diffusion or reduce coordination costs, thereby improving international market access.

Third, we can see indirect spillover effects at the sector or market level. Migrant entrepreneurs can stimulate competition in domestic markets, forcing incumbents to innovate and increase their productivity. Diversity within specific firms and diaspora externalities can also contribute to the innovation of all firms by further spilling knowledge across industries. Similarly, changes in the activities of migrant entrepreneurs and investors and the market entry of specific firms can alter the overall patterns of trade and direct investment between home and host countries.

On the consumption side, the effects of skilled migration are more difficult to isolate. Locally, high

levels of net migration may increase the level of demand for non-traded goods and/or lead to shifts in demand in these sectors. Migration can also increase competition for goods whose supply is uncertain, such as housing and rising local prices.

There is a well-established 'ethnic entrepreneur' literature linking migrant and minority communities to self-employment, entrepreneurship and small business formation. Migrants and minority ethnic communities are generally more likely to be self-employed. The enterprise level is influenced by the availability of opportunities, individual and group characteristics, and emerging strategies. An urban location may favor an ethnic enterprise due to urban demographics and/or greater economic opportunities.

Ethnic entrepreneurship can be reactive: exclusion from mainstream economic life can force groups to develop new businesses, products and services. On the contrary, specific characteristics and attitudes of society can develop active entrepreneurship. For example, "middle-class minority" status may help individuals create business opportunities across social groups. Alternatively, entrepreneurs may benefit from the externalities of migrant enclaves, such as better access to information or finance.

This study is not concerned with human capital per se: individual migrant entrepreneurs can be highly skilled individuals or low-skilled actors entering sectors with low entry barriers. A recent set of studies focuses more on skilled migrants and identifies two more channels. As shown in Roy's model, the migration decision involves balancing risks against expected future returns, so the migration decision may positively select highly skilled and/or highly entrepreneurial individuals. Migrants also face cheaper opportunities to invest in new skills or ways of working, so migrants may be more flexible economic actors – for example, more willing to participate in disruptive business models. a skills-based migration policy will then help attract highly skilled professionals. and/or entrepreneurial “stars” to host economies.

In closed economies, the external influence of co-ethnic enclaves or groups may be limited by group size or external constraints. However, in the context of globalization, transnational diaspora groups can be an important source of social and cultural capital. Likewise, highly skilled and motivated transnational entrepreneurs may establish new ventures in several locations or act as liaisons between local firms and those in "home" countries.

In theory, all four of these channels can be limited. First, the apparent effects of skilled migrant/minority status may simply be attributable to individual stocks of human capital or to broader structural conditions. Second, discrimination can limit opportunities for business creation, even in reactive settings; and may limit intermediary-type arbitrage opportunities. Third, in a closed economy, enclave externalities may also be limited by size (the smaller the group, the smaller the within-group matches. Finally, diaspora /enclave opportunities may be weaker than other factors; and some transnational teams may be more organized and efficient than others.

The main effect of migration-entrepreneurial channels is on levels of business creation. There may also be wider implications. First, new firm entry increases market competition and may induce incumbent firms to innovate in response. Second, net firm entry accounts for a large share of national productivity growth, so higher levels of entrepreneurship can increase short-run productivity.

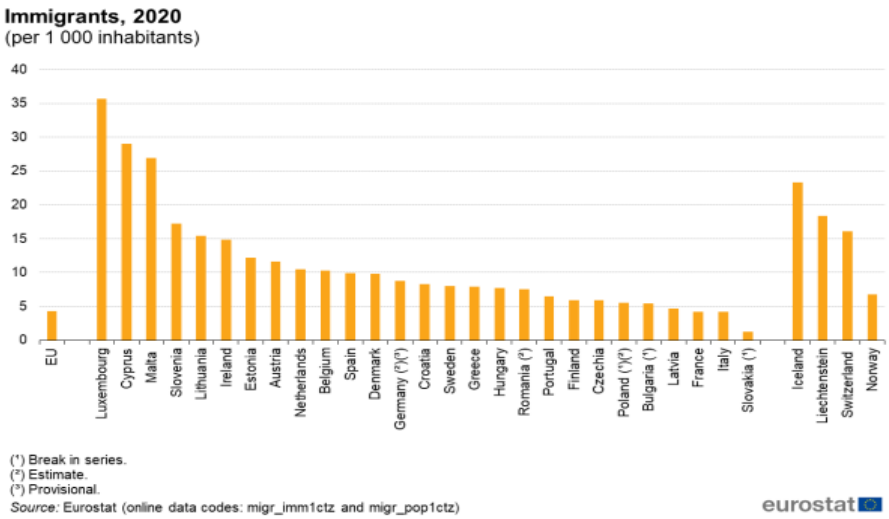

Figure 1. Migration indicators of European countries in 2020

The study does not discuss the distributional effects of skilled migrant entrepreneurship, but we can outline some issues here. One important point is whether new migrant firms join existing firms or not. As migrants discover new opportunities, the net effect may be additive; however, to the extent that new opportunities are also disruptive, complementarity is limited. More broadly, the entry process can increase consumer welfare if entrants induce stronger incumbents to innovate and weaker firms to exit. However, this leads to welfare losses for the owners and employees of the domestic firms that are left behind.

Skilled migrants can play a number of investment-related roles, both at the level of individual firms and in terms of higher levels of trade and direct investment. However, while trade and FDI mechanisms are relatively well covered in the literature, channels at the individual level are rarely discussed.

Migrants who are high-income individuals and enter the host economy as investors should ease capital constraints for local firms. Relatedly, investments can lead to knowledge spillovers between investors and recipients: skilled investors with industry-specific expertise can also influence recipient firms' innovation and productivity.

CONCLUSION

Over time, migration can change the level and pattern of trade and foreign direct investment flows between host and domestic countries. Imperfect information creates trade conflicts: migrants improve international market knowledge, which leads to better matching of buyers and sellers. Diasporic/ethnic networks also increase trust by providing effective means of contract management and enforcement. Along with these "information channels", migrants also create a "preference channel" by demanding goods from their home country. The size of trade effects with a particular sending country depends in part on the size of the migrant community in the receiving country. Skilled migrants can also play an important role in these channels: skilled migrants can have good knowledge of business opportunities, good social capital and professional networks. As with trade flows and foreign direct investment flows, skilled migrants can provide local investors with additional information about "home" market investment opportunities that reduce transaction costs. Thus, skilled migration helps reduce home ownership. Similarly, skilled expatriates can provide matching and intermediary functions that help multinational firms develop and manage overseas investments.

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