

# The side effect of brain drain in globalisation economics essay



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In this paper we will describe one of the side effects of globalisation, more specific the effect on the human capital of underdeveloped and developing countries who see their best and most productive workers leave the country to seek fortune and money in the richer western world. In an economic context “ Globalisation” is the reduction or removal of barriers and borders in order to facilitate flows of capital, goods, services and also labour.

Globalisation is also the integration of economies and societies around the world. This paper focuses on the labour flows and more specific on the migration and flows of skilled labour. Globalisation is not something new, but the technological and political evolutions after World War II have hastened this process. We won't look at the flows themselves, but rather at one of the side-effects of migration in a globalised world: the brain drain, and, in some cases the brain gain.

Brain drain is human capital flight. It's the phenomenon where skilled workers or young potentials : individuals with technical skills or knowledge; migrate and leave their country. While brain drain is not something new, it's effects are much greater in a globalised world where skilled workers can freely travel the world. Many countries have restricted migration policies; but high-skilled well trained workers are often more than welcome and often even encouraged to come to the western world.

There are many reasons for this skilled migration and the reasons to migrate may differ from region to region. Skilled workers living in Eastern Europe migrate to the USA or the EU because there are more career opportunities, salaries are higher and social security is better. African migrants sometimes flee violence, poverty, political instability or corruption, ... While there are

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also highly skilled European academics working in the USA, the Far East or vice versa; we will focus on the skilled migration from under-developed or developing countries to the developed world.

In this paper we will take a deeper look at the brain drain. The first section summarises migration data, both skilled and unskilled. The next section discusses the disadvantages of skilled migration from the point of view of the underdeveloped and developing countries. The subsequent section takes a look at the advantages of skilled migration, again from the point of view of the underdeveloped and developing countries. Before jumping to the conclusion, we'll discuss a few advantages and disadvantages of the skilled migrants themselves. The final section sums up the conclusion and gives some moral point of views and my opinion about this theme.

Where possible, we will make a distinction between several groups of underdeveloped and developing countries: Eastern Europe, Middle East and Northern Africa, Sub-Saharan Africa and the Indian world and Pacific Islands. Every region has a different history and every region has different regional characteristics. The effects of skilled migrations or the extent of every effect will be different for every region depending on the technology level, the political stability, the share of skilled workers, the composition of the population, ...

## **How big is the brain drain?**

Before summarizing the advantages and disadvantages of skilled migration from the sending countries perspective we first must know how big the brain drain really is. How many skilled workers leave the Third World and migrate

to the developed countries? Answering this question is not easy. Who are the highly skilled? Should we also count unskilled migrants who are educated in the developed world and thus become skilled? Do we count illegal migrants as well? We won't tackle these questions in this paper, but simply use the data provided by organisations like the IMF, the World Bank Group and the OECD. According to these organisations skilled migrants are migrants with at least tertiary educational attainment, wherever they completed their schooling.

Table 1 shows us some regional characteristics of the different regions in 2000. It provides us for each region the proportion of skilled in the resident population (Skill), the average emigration towards the OECD countries (Aemig), the skilled migration rate (Semig) and the ratio of remittances to GDP (Rem/Y). The regions are grouped as follows: Eastern Europe (EAS), Middle East and Northern Africa (MEN), Sub-Saharan Africa (SSA) and the Indian world and Pacific Islands (IND).

Table 1: regional characteristics in 2000:

**Region**

**Skill**

**Aemig**

**Semig**

**Rem/Y**

EAS

12.4%

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6.6%

11.8%

1.3%

MEN

8.5%

3.5%

8.5%

2.8%

SSA

2.8%

0.8%

12.9%

2.6%

IND

4.5%

0.4%

5.2%

1. 8%

Data source: Luca Marchiori, I-lung Shen, Frédéric Docquier (2009)

We can conclude from table 1 that Eastern Europe and the Middle East and Northern Africa have attained a reasonable level of education already. The situation in India is worse and alarming in Sub-Saharan Africa. In all four regions, the skilled migration rate is a lot higher than the average migration rate, hence the brain drain. Again, the situation in Sub-Saharan Africa is disturbing. Eastern Europe and to a lesser extent also the Middle East and North Africa also have a very high skilled migration rate. The skilled migration rate is lower in India, but the skilled and unskilled migration rates of bigger countries are always less impressive than those of smaller countries.

## **Disadvantages of skilled migration**

### **Support rate diminishes**

When the active part of the population diminishes, a smaller group of people are capable of providing economic support to the number of older people, children and students who are materially dependent on the support of others. The burdens are carried by a shrinking group workers and the part of the population that creates an added value becomes smaller and smaller. The support rate in Western Europe and Japan for example, diminishes due to the aging of the population. Not only Western Europe and Japan are hit by the aging of the population! There are developing countries in Eastern Europe and Asia that face the same problems.

The aging of the population isn't the only cause for a diminishing support rate. Migration can have the same effect, especially when young or high schooled workers leave the country: the group of active workers shrinks when some of them search a better future in other countries all over the world. When developing countries who have to cope with a growing group of retired inactive people, also lose their trained and educated workers, they are hit twice.

First of all, this means that the pressure on the government budget augments: pensions need to be paid, medical costs are higher while tax revenues go down. One of the consequences can be that countries will cut in educational programs. This can even amplify the brain drain: not only do they lose their most productive workers, they also won't be able to educate enough new young high skilled workers to replace the retired workers.

This is a major problem for countries in Eastern Europe. African countries, the Middle East and India all have a very young population. The diminishing support rate doesn't really trouble them.

## **Human Capital goes down**

The biggest and most notable disadvantage of schooled migration looking from the perspective of the sending countries is the downswing of human capital in these sending countries. Human capital is the stock of competences, knowledge and personality attributes embodied in the ability to perform labour so as to produce economic value. It is the attributes gained by a worker through education and experience (Sullivan, Arthur; Steven M. Sheffrin (2003).). It's obvious that human capital of a country is

affected by the migration of the high schooled and best trained workers. The human capital of a country determines among others the number and type of investments a country attracts, but has also a huge impact on another important factor of the growth of a country: the technology level of an economy.

Political unstable or unsafe countries are often faced with a large stream out of both high schooled and unschooled workers. The stream out of these unstable countries is often a lot bigger than the stream out of more stable underdeveloped countries where workers leave for economical reasons only. Countries with an unstable and violent history have as a result lost almost all their skilled workers. This also means that they need to invest in the training of new skilled workers or that they have to attract foreign doctors, engineers, craftsmen, ... As a consequence, a huge part of the official development assistance goes to the recruitment and or training of skilled workers (doctors and other health care workers, skilled craftsmen for rebuilding infrastructure, ...) who are difficult to retain once trained. This way, western countries are indirectly investing their own future workers. Especially Sub-Saharan Africa has this huge problem. The first step to retain their skilled workers is off course, the much needed political and economical stability.

### **As a result the growth of “ Technology” slows down**

As explained above, there's another important factor affected when human capital goes down: technology. When discussing the brain drain, we talk about the most skilled workers who leave. Those skilled workers are the first and most important people who use and/or develop new technologies. The talents of these workers are indispensable when a country wants to advance  
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to higher technology level. Technology is an important factor determining the type of (foreign) investments a country attracts. The brain drain can thus have an immense effect on the development of a country. When foreign investors are only interested in cheap workers or natural resources, but not in the local talents; foreign investments often don't help to develop a country. Companies who search a country with enough skilled workers are often willing to invest in training, but will look for countries with a better starting position.

The brain drain clearly slows down or even stops the development of underdeveloped or developing countries who are only attractive for their low wages or natural resources. The regions principally affected are again the least developed countries: Sub-Saharan Africa and unstable Asian countries. The Middle East or Eastern Europe is less affected. The recent revolution even shows that there seem to be too many high schooled young people. They don't find a job even after several years of academic schooling.

### **The Economic returns to investment on education in underdeveloped countries go to the developed countries.**

The investments in education done by underdeveloped countries and developing countries partly disappear without a trace. The investments go up in smoke when the high skilled workers, educated in their own country, leave their country and migrate to the developed world. As mentioned before, the same can be said about big parts of the development aid sent to underdeveloped countries: parts of this aid are reserved for educational projects.

It can be at first sight be discouraging to invest in the education of academic personnel when the most talented individuals dream of a career in the western world.

As expected, the negative aspects of the brain drain are numerous and can be devastating in the short run. The human capital of a country not only determines the number of skilled workers available for domestic production, but also affects other important parameters of an economy: technology and the capacity to innovate! Both factors determine the volume and type of incoming investments. Add to this the diminishing support rate and the low returns on investment on education and the picture doesn't results don't look promising.

## **Advantages of skilled migration**

### **Remittances and investments?**

More often than not, migrants send home large sums of money to their family whom they left behind in their home country. These sums are called remittances. They are sometimes even the only or at least the most important reason for migrants to travel to a richer and better developed country in search of career opportunities and wealth. At first, many migrants plan to work a few years until they have acquired enough money to be able to return back home and maintain their family. It makes therefore perfect sense that these migrants send home lots of money even before returning home. According to The World Bank, these remittances send back to the developing or underdeveloped countries are even 1, 5 times greater than the worldwide budget spend on development aid. For the developing countries,

remittances represent about 2% of their Gross Domestic Product, for the underdeveloped countries roughly 6% and for some of the least developed countries of this world this percentages rises to almost 20%!

There are certain analysts who equate remittances with foreign investments, but opinions are divided on this subject. There are even analysts who claim that remittances have mainly negative effects on the economies in underdeveloped countries. Remittances create and maintain economic dependency and take away incentives to start local businesses and take the initiative to enhance living standards.

While there are indeed negative effects, most economists believe remittances to be a good thing for developing and underdeveloped countries. Remittances can enhance the state of health, the level of education, the access to information and technology and can reduce the need of child labour. While they indeed can be the cause of dependency, the money send back home can also create opportunities to invest in the local economy and start up new businesses. One of the biggest advantages of remittances is the stability they bring. In times of hunger, crop failure, drought, an economical or political crisis; remittances can make the difference for families hit by misfortune.

It ' s important to make a critical note before jumping to the next advantage. While there are many migrants, both low and high skilled, who send back large sums of money, it's the small elite group of very high skilled migrants who send back the smallest amount of money; if they send something to their home land at all. The skilled workers who left their country that

invested in them and who can produce, potentially, the highest return on investment, are also the workers that fail to do so, not because they can't fulfil their potential, but because they seem to forget their roots, financially speaking.

### **The incentive effect of brain drain**

Success can be contagious. The same can be said about migration. When young people in underdeveloped countries see that their countrymen who left in search of better career opportunities, more stability and a higher living standard, they can be stimulated to study to enhance their chances of also finding a better future abroad. At first, this seems to be another disadvantage of the brain drain. Underdeveloped countries seem to be losing even more high-skilled workers. Not all these new formed high skilled workers however will migrate. The long term net effect will in most cases be positive for the human capital of a country.

Obviously this effect can only be positive in the long term: it takes time and money to invest in young people and to create a new generation of high skilled, well trained potentials. Furthermore, this won't stop the brain drain. Migrating is still the main goal of many students in Third World countries. The investments of underdeveloped countries are still very high when looking at the outcome, even if the net effect is positive. Investing in education remains investing in the future of both your country and the future of the countries that attract skilled workers.

This effect can only play in countries with enough infrastructure and stability. A country that lacks the necessary resources to train their high potentials will

never be able to benefit from this incentive. This effect therefore isn't big enough to be called an advantage in Sub-Saharan Africa. In Eastern Europe on the other hand is the number of skilled workers already relatively high. That's why the incentive effect won't be very high in Eastern Europe. The incentive effect can be a real advantage in India and North Africa and the Middle East: both regions are reasonably stable and have the infrastructure and means to educate their workers.

## **Reduced Risk Premium**

In an open economy, the Risk Premium is one of the most important factors that determines the volume of (foreign) investments in physical capital in a country. Countries with a low risk premium can more easily attract foreign investments than countries with a higher risk premium. Financiers who invest in regions or countries where the return is less certain and with more uncertain circumstances will demand a higher return on investment than those who choose to invest in more stable regions. The risk premium is determined by several factors: political stability in a region, economic stability of a country, ... and also by the available knowledge of a country or region.

Migrants can ' t really affect the political or economical stability of their home country, but they can spread the knowledge of their country. When high skilled leave their country they can spread this knowledge in the companies and countries where they live and work. This way, they can directly and indirectly reduce the risk premium for their country and thus attract more foreign investments. The effect is assumed to impact every region with comparable magnitudes.

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## **Diasporas can be an important source of trade, capital, technology, and knowledge for origin countries.**

We have just explained that the brain drain can indirectly enhance the physical capital of a country thanks to the reduced risk premium. The extra foreign investments not only raise the physical capital of a country, they can also raise the human capital and the technology of a country. The foreign investments can bring new technologies to a country.

There is however another mechanism that can bring extra investments, technology and knowledge to a country: networking or more specific diasporas. A population of a country cast around the world can still keep in contact with each other and with their home country. This way, new technologies, ideas or concepts or moral standard can reach their home country. They all can have an effect on the labour market or the human capital of a country. If the status of women changes for example, the labour market can be opened for women. If family values change, birth control can become a discussable issue.

There's also a change that a world-wide network is created when people keep in contact. This network can defend the interests of a country, can promote a region and can help to attract investments.

## **DDI: Diaspora Direct Investments**

When an underdeveloped or a developing country is faced with a large stream out of skilled workers or academic personnel, the chances will grow that some of these migrants will invest in the country they came from. They should have a great knowledge of their home region and they normally still

have lots of local contacts. When some of those migrants are successful and search a good place to invest, there ' s a big chance that they will choose their home country, if stable enough off course.

Migration can attract foreign investments thanks to the reduced risk premium (foreign investments) and thanks to successful migrants who invest in their home country (Diaspora investments). There's however a difference between the two. Foreign investments are not always seen as a factor of growth and evolution. Some scholars argue that foreign investors only exploit workers and that technological spillover effects are rare. Diaspora investments on the other hand are more likely to be durable investments.

At first sight, the loss of skilled workers has mainly a negative impact on the economies of the sending countries. When we dive deeper into the effects of the brain drain and when we also take a look at the long term effects, we can be more optimistic. For some countries the brain drain might even be an advantage. The economy and society of countries faced with a large stream out of skilled workers can be more open, more globalised and more advanced thanks to the technology spillovers of diaspora investments, the changed standards and values and the incentives effect of brain drain. On top, Gross Domestic Product of the underdeveloped and developing countries rises thanks to the remittances and the extra foreign investments they can attract through the reduced risk premium.

## **What about the immigrants themselves?**

When looking at the advantages or disadvantages of the high schooled immigrants who head to the developed world, we mainly see advantages.

That may seem obvious, there ' s after all often a good reason why they choose to migrate. Many unschooled migrants who reach the Western World after a long and touch journey don't end up in paradise, but often have to spend at least a few years as an illegal. For those who are finally accepted, a good job is often unreachable. The situation for most high-skilled migrants is of course very different. Many of them can perfectly legally and without much problems choose the country they prefer. The western world even actively recruits in many developing countries when searching scarce workers. There are for example many health care workers from the Philippines working in Europe and many IT-specialists from India work in the USA or Canada.

One could even say that high schooled workers in underdeveloped countries are crazy if they do not leave their country and search a better future in the Western World where the career opportunities are better and wages are much higher. Nevertheless, there are a few critical comments to make. Even for high schooled migrants, live is not roses all the way.

### **Brain waste: high skilled immigrants accept jobs way under their level of schooling**

The training, education and experience of migrants isn't always appreciated in the western World. There are many examples of high schooled Asians, Africans or Eastern Europeans who have to accept jobs why under their level of schooling. That doesn't have to mean that their standard of living has decreased after migrating, but we might say that their intellectual capacities are wasted. The Western World doesn't always take full advantage of their schooling, experience and talents and they aren't fulfilling their potential. A

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question we might ask is whether these high skilled workers would offer their talents to a country where they would be much more appreciated and where they could fulfil their potential, like their home country. They might be happier, even when working for a lower salary.

## **Conclusion**

There are both negative and positive aspects on the brain drain, on the migration of skilled workers from underdeveloped and developing countries to the developed world. The brain drain has correctly raised many questions, especially when looking from the perspective of the sending countries. There are however scholars who claim that the brain drain has more advantages than disadvantages when looking at the picture as a whole.

On the one side we see the direct impact of the brain drain: countries lose their schooled workers and their human capital goes down by definition. The decline of human capital has an impact on the technology level of a country and on the investments it can attract. In addition a big part of the investments on education done by the sending countries go up in smoke: the schooled workers leave the country and take their skills with them. Countries who lose their skilled workers and who face another problem, the aging of the population, are hit twice. They not only have to face all the problems mentioned above. They also have to cope with a shrinking support rate. The active part of the population who contributes to the economy and pays taxes grows smaller and smaller while the number of pensioners who need to be supported by the government and thus by the active part of the population expands.

On the other side recent studies have come to the conclusion that there are also many advantages to the brain drain, particularly when looking at the long term effects of skilled migration on the economy of the sending countries. The creation of human capital in the sending countries is stimulated by the incentive effect and the migration of workers, both skilled and unskilled creates flows of cash to the developing and underdeveloped countries. These flows of cash, the so-called remittances, often represent an important share in the Gross Domestic Product of the sending countries, especially in the Gross Domestic Product of the least developed countries. Furthermore, a sending country can attract additional foreign investments thanks to the brain drain. Firstly thanks to a reduced risk premium and secondly the migrants themselves can, when they are successful abroad, invest in their home country.

We can for certain say that the short term effects of the loss of schooled workers on the underdeveloped and developing countries are negative. Furthermore the economical growth of countries faced with a brain drain can stagnate. Human capital is an important economical factor for growth and evolution not to be underestimated.

Looking at the long term effects, the answers are less clear and ambiguous. Future investments can be higher thanks to the diaspora investments and the additional foreign investments. The remittances are often indispensable for many undeveloped countries, particularly in moments of crisis: famine, an economical crisis or natural disasters. Lastly, we must also mention the influence migrants can have on the technology level of underdeveloped

countries, but also on standards and values. The effects of birth control on poverty cannot be underestimated.

When we make a distinction between the different regions, the least developed countries are not the ones that are affected the most by the loss of skilled workers. When we say least developed countries, we are referring to the countries of Sub-Saharan Africa. This region benefits the most from the brain drain in the long run. We might even conclude that Sub-Saharan Africa will benefit from a brain gain thanks to the loss of skilled workers. Sub-Saharan Africa however will not benefit from this brain gain as long as the region isn't politically and military stable. The African countries will never attract enough investments without this much needed stability.

Both the short term and the long term effects for Eastern Europe are probably negative. The level of education in this region is already too high to profit from the positive effects on the human capital of a country. Next, this region is hit by the same big problem Europe and Japan have to face: the aging of the population. When a big part of the most productive part of the population leaves the country, those who stay will have to double their efforts.

When looking at the two other regions, India and the Pacific and The Middle East and North Africa, drawing the right conclusion is less evident. Will the positive effects outweigh the negative ones or not? Both regions already have a relatively large group of schooled workers and the technology level in both regions is sufficient. The benefits for those aspects will be negligible. Both regions need to attract extra investments. Tunisia for example, has

many young academic schooled workers who are familiar with the new technologies, but not enough jobs. When the high-schooled, but unemployed young workers migrate to the Western World, the Middle East and North Africa can only benefit.

## **My Opinion**

The effects of skilled migration on the developing and underdeveloped countries, both the long term effects and the short term effects, are analysed in detail. But how to deal with the negative effects of the brain drain or how the negative effects can be limited is almost never explained. Only the papers discussing Diaspora Direct Investments give advice on how to get more out of and attract these investments. It's difficult to give an opinion on a subject when it isn't clear how to counter the negative effects or how to get the most out of the positive effects in order to go from a brain drain to a brain gain.

Before taking a position on the brain drain, it might be useful to clarify the situations of the different parties involved. Firstly, there are the underdeveloped and developing countries faced with a large stream out of schooled workers. They seem to be powerless to stop this since scholars only describe their problems, but don't propose a solution. As mentioned above, the effects of the brain drain are mainly negative. There are indeed also positive effects when looking at the long term, but it's far from certain that the positive effects will outweigh the negative ones for many countries. The question remains: can the underdeveloped and developing countries change their precarious situation? Can they encourage the schooled workers to stay in a country where the future is often uncertain, wages are low and career <https://assignbuster.com/the-side-effect-of-brain-drain-in-globalisation-economics-essay/>

opportunities scarce? This seems impossible to be. That however doesn't mean that nothing can be done. Taking away some of the reasons to migrate will reduce the migration and its effects: political and military stability, safety, less corruption, ... are just a few of the many reasons to flee a country and to built a new life abroad. What's more, if these problems are at least partially solved the economical returns to investment on education will be higher. To conclude, there seems to be no real solution for this problem when looking at the sending countries. The only thing they can do is closing the gap with the developed world. The magical formula to do so though, do not seem to exist.

It's even more difficult to find a solution when we analyse the brain drain from the individual migrants perspective. It seems that the decision to migrate, when possible, is at first sight easily made. Can we blame the high skilled workers living in an underdeveloped country to dream of a better paid job in a safer and more stable environment with more career opportunities? Are they wrong to do so and is it wrong to leave a country that invested in them? There's another aspect we must look at when we analyse the brain drain from the migrants perspective: remittances and investments. Do these migrants have the moral duty to send back large sums of money? Do they have the moral duty to invest, when possible, in the country that educated them? It's better to leave the answer to the migrants themselves.

Finally, we have the Western governments and companies who fight their war for talent. The United States of America, Europe and Japan all need new skilled workers to replace the baby-boom workers who will retire and the

BRIC-countries need skilled workers to close the gap with the developed  
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countries. Many countries and companies try to attract the same highly skilled talents and rely on international labour flows to fill in future gaps. The global competition doesn't give them a choice. If they don't attract enough talented workers, economic growth might slow down. In my opinion, we can't blame the developed countries for the brain drain. Every country tries to prosper. But should the Western World compensate the developing and underdeveloped countries for the brain drain? Should they make good the loss of skilled workers in