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DEVELOPMENT AND INTERNATIONAL ECONOMIC CO-OPERATION: TRADE AND DEVELOPMENT

Establishment of an international labour
compensatory facility

Report of the Secretary-General

CONTENTS

	<u>Paragraphs</u>	<u>Page</u>
I. INTRODUCTION	1 - 10	2
II. DIMENSIONS OF THE PROBLEM	11 - 16	3
III. PROPOSALS FOR COMPENSATORY FACILITY	17 - 20	4
IV. JUSTIFICATIONS FOR CONTRIBUTIONS TO COMPENSATORY FACILITY	21 - 28	5
V. SCHEMES FOR CONTRIBUTION	29 - 31	7
VI. GUIDELINES FOR THE ESTABLISHMENT OF THE COMPENSATORY FACILITY	32 - 40	8

I. INTRODUCTION

1. The General Assembly, by paragraph 5 of resolution 34/200 of 19 December 1979, requested the Secretary-General, in close co-operation with the United Nations Conference on Trade and Development, the International Labour Organization and other relevant United Nations bodies, to carry out a study on the feasibility of the proposals of His Royal Highness Crown Prince Hassan bin Talal of Jordan concerning the establishment of an international labour compensatory facility ^{1/} and to submit a progress report to the General Assembly at its thirty-fifth session and a final report at the thirty-sixth session.
2. By paragraph 3 of the same resolution, the General Assembly requested the Secretary-General to take necessary measures with respect to the co-ordination of the treatment of the question of reverse transfer of technology within the United Nations system.
3. By paragraph 4 of the same resolution, the General Assembly requested the Trade and Development Board, as envisaged in paragraph 6 of resolution 102 (V) of the United Nations Conference on Trade and Development, to proceed with the consideration of appropriate arrangements, including the necessity of convening a group of experts, to examine the feasibility of measuring human resource flows.
4. A progress report (A/35/198) was presented by the Secretary-General at the thirty-fifth session, summarizing various views relating to the establishment of an international labour compensatory facility.
5. The General Assembly, by resolution 35/62 of 5 December 1980, took note of the progress report to be used as a basis for the completion of the final report. It further reiterated its request to the Secretary-General to submit to the Assembly at its thirty-sixth session the final report on this issue, to be prepared in co-operation with the United Nations Conference on Trade and Development, the International Labour Organisation and other relevant United Nations organizations, and to keep under continued review the co-ordination of work on the question of the reverse transfer of technology.
6. The Consultative Committee on Substantive Questions (Programme Matters), (CCSQ(PROG)), of the Administrative Committee on Co-ordination, in responding to paragraph 3 of the General Assembly resolution 34/200, concluded that there would appear to be no need at this stage to take any further measures with respect to the co-ordination of the treatment of the question of reverse transfer of technology within the United Nations system; the organizations had prepared analyses of their activities in the area which reflected that, by and large, each agency had found its natural lead role and a pattern had emerged within which the activities of the individual agencies were complementary and not conflicting. The Committee felt that, if deemed necessary by the intergovernmental bodies concerned, an over-all analysis of

^{1/} Record of the Proceedings, International Labour Conference, Sixth-third Session, Fourteenth (Special) Sitting, ILO, Geneva 1977, pp. 281-283.

the pattern of work in this area and its distribution among the agencies could be prepared and, should the need arise in future for more formal co-ordination, further measures would be taken.

7. In response to paragraph 4 of the resolution 34/200, CCSQ(PROG) agreed that no co-ordination problems arose in connexion with UNCTAD's proposed activities relating to the measurement of human resource flows or with the convening of an expert group on the subject.

8. By resolution 227 (XXII) of 20 March 1981, the Trade and Development Board decided to authorize the Secretary-General of UNCTAD to convene, no earlier than three months after a comprehensive study on the feasibility of measuring human resource flows had been submitted to member States for comments, an intergovernmental group of experts to examine the feasibility of measuring human resource flows.

9. In view of the above considerations, the present report is confined only to the examination of the feasibility of the proposals concerning the establishment of an international labour compensatory facility, hereinafter referred to as "the compensatory facility".

10. For purpose of convenience, the term "immigration country" is used in this report to indicate the country receiving the workers or the country of employment and the term "emigration country" is used to refer to the "country of origin" of the workers, without necessarily signifying the temporary or permanent status of migration of such workers.

II. DIMENSIONS OF THE PROBLEM

11. For over 15 years, the problems associated with large-scale movement of workers, especially the highly qualified and skilled persons, have been studied in considerable detail within and outside the United Nations system. A number of studies and reports (A/35/198, annexes II and III) have been generated on the causes and consequences of such migration, suggesting several types of remedial measures to reduce the adverse effects on the development goals and programmes of many developing countries. Detailed suggestions relating to compensatory measures for the migration of highly qualified scientists, engineers and related workers are contained in several UNCTAD studies. 2/ 3/

12. With significant increases in the volume of migrant workers in recent years, the attention of the international community is no longer confined to problems caused by the migration of highly qualified and trained persons only, but includes

2/ "The reverse transfer of technology (brain drain): international resource flow accounting, compensation, taxation and related policy proposals", a study prepared by Prof. Jagdish Bhagwati, Jan. 1973 (TD/B/C.6/AC.4/2).

3/ "The reverse transfer of technology: a survey of its main features, causes and policy implications" (TD/B/C.6/47).

other categories of economically-active persons as well. The problems are assuming more universal dimensions encompassing the movements of workers not only to developed countries but also to other developing countries.

13. The migration of workers in search of employment in other countries is becoming a common feature of the current global economic system. One report ^{4/} estimates the world total of workers outside their country of origin at about 20 million. Some of the emigration countries are losing up to about one third of their domestic labour stock. In some immigration countries more than 50 per cent of their labour force in certain categories of employment consists of migrant workers.

14. It is estimated that, between the years 1975 and 2000, the global labour force would have grown by about 900 million persons. Eight out of nine new job seekers would be in low income countries with youthful populations, high birth-rates and overcrowded job markets. Higher wage levels coupled with more readily available job markets in some countries as compared to lower wages and difficulties in securing satisfactory jobs in many developing countries would create conditions for increased migration of workers. Some migrations will be triggered by poverty or lower standards of living conditions. Others will be propelled by the process of development itself, involving movement of population strata which is above the level of economic destitution and which has the skill, resources and information on opportunities.

15. Large-scale economic movement of persons brings with it potentials for conflicts and social tension. Persons in the lower economic bracket of the immigration country are concerned about the competition with the migrant labour for jobs and welfare services. In some countries, there are signs of anxieties about the cultural and other influences of the extraordinarily large proportions of foreign labour. In the face of rising pressures of migration caused by economic forces many Governments of both emigrant and immigrant countries would benefit by an understanding of the consequences of such movements.

16. Solutions to such social and economic problems caused by large-scale migration would call for adequate measures at national and bilateral level, supplemented with concerted action at the international level.

III. PROPOSALS FOR COMPENSATORY FACILITY

17. Based on the assessments of the nature and magnitude of the problems of economic migration, a large number of measures have been suggested aimed directly or indirectly at reducing the adverse impacts on the development process of developing countries. These measures largely relate to national policies of emigration as well as immigration countries, emphasizing the economic, institutional

^{4/} Kathleen Newland, "International Migration: The Search for Work", World Watch Paper 33, World Watch Institute, Washington, D.C., November 1979.

and administrative solutions. It appears, however, that individual national policies in themselves are not sufficient to deal with the complexities of the problems unless reinforced by collective international efforts. A number of measures to be taken by developing and developed countries and by the international community are set out in UNCTAD resolution 102 (V), and in the Vienna Programme of Action on Science and Technology for Development. ^{5/}

18. Implementation of many of these measures would require a series of carefully designed steps and considerable financial and technical resources.

19. Among the various suggestions that have been advanced for international action, the one relating to the establishment of an international labour compensatory facility, proposed by Crown Prince Hassan bin Talal of Jordan during his address to the 1977 International Labour Conference, has received considerable attention in recent years. The compensatory facility "would draw its resources principally from labour-importing countries, but, in a spirit of solidarity and goodwill, other ILO members may contribute to it. The accumulated resources will be diverted to developing labour exporting countries in proportions relative to the estimated cost incurred due to the loss of labour ...". He also suggested that "part of the funds from the proposed International Labour Compensatory Facility be used as soft loans to participating developing countries for the purpose of promoting and financing social projects".

20. In paragraph 123 of the International Development Strategy for the Third United Nations Development Decade (resolution 35/56), it is suggested that the international community should consider examining, early in the Decade, in the light of relevant United Nations decisions, arrangements whereby developing countries experiencing large-scale outflows of their skilled nationals, which cause economic disruption could secure assistance in dealing with the adjustment problems arising therefrom. Concerted efforts by the international community is requested to take comprehensive and effective actions as recommended by UNCTAD resolution 102 (V) aimed at minimizing the negative impact of the migration of skilled personnel. There have been other general suggestions from individuals or groups of countries in support of schemes similar to the compensatory facility (A/35/198, paras. 39-40).

IV. JUSTIFICATIONS FOR CONTRIBUTIONS TO COMPENSATORY FACILITY

21. At the outset it is necessary to recognize that the economic needs in immigration countries are the important, though not the exclusive, causes of contemporary international economic migration. The immigrant countries allow the entry of foreign workers only if there is a demonstrable need for them, and where their presence is carefully adjudged as desirable to their economy. In many

^{5/} Report of the United Nations Conference on Science and Technology for Development, Vienna, 20-31 August 1979 (United Nations publication, Sales No. E.79.I.21 and corrigenda, chap. VII.

countries, employers must demonstrate to the competent authorities of the immigrant country that their needs cannot be satisfied with the indigenous labour force, before foreign workers will be permitted to enter. The immigrant country, which has the sovereign right to control the entry of foreigners, permits the economically-active workers to the extent determined by the demand. Even in situations where a country experiences aggregate unemployment, there are inevitable shortages of labour in certain skills, occupations, industries or regions creating demands for immigrant labour.

22. The demand-determined immigration of labour contributes to a fuller utilization of other factors of production such as local labour, capital, land and energy in the immigrant country. Consequently its national product rises in terms of both the supply of real goods and the generation of income. Profits and investments as well as wages tend to go up. The real goods that are produced and the services that are delivered will benefit the population of the immigration country.

23. The foreign worker who has cost the immigrant country nothing to rear and educate becomes a ready-made production factor. If the immigration country were to have waited for the domestic formation of indigenous labour force through population growth, education and training, it would have involved a substantial expenditure over a period of 15 or 20 years before the national became productive. No doubt that the immigration country meets the costs providing social necessities such as housing, school, hospitals and other infrastructure for the new immigrants and their dependants. However, many studies have shown that the net gains from the immigrant labour far exceeds such costs. 6/ 7/ 8/

24. These are the considerations - not only moral but also economic - justifying the contributions to the International Labour Compensatory Facility. The fact that the immigration countries generally command a "buyers market" for migrant labour does not reduce the validity of the reasons for contributions.

25. It is argued that migration of labour relieves the pressures of unemployment in the emigration country. It is not always the case that the emigrants are those that are surplus to their countries' needs. In many instances, the migration of needed skills have reduced the domestic production of essential goods and the delivery of vital services, causing dislocation and new costs. These effects become more pronounced whenever persons in more valuable or scarcer categories of jobs leave the country.

6/ Jones, K. and Smith, A., The Economic Impact of Commonwealth Migration, Cambridge University Press, London (1970).

7/ Bohning, W. R., "The economic effects of foreign workers, with special reference to the labour markets of Western Europe's post-industrial societies", OECD, Paris (1974).

8/ Simon, Julian, "What Immigrants Take From, And Give To, The Public Coffers", Final report submitted to the U.S. Select Commission on Immigration and Refugee Policy, Washington, D.C. (Sept. 1980).

26. The remittances of part of the emigrants' earnings to their countries of origin is considered by some as a form of compensation. It is stated that the emigrant countries could utilize these remittances to pay for imports or invest them in other productive activities. Others argue, however, that the incomes received by emigrants remain mostly in the immigration countries (or other foreign countries) and only a small part is remitted to their countries of origin. Such remittances are sporadic, undependable as a source of national income and subject to unpredictable fluctuations. In recognition of the difficulties caused by the fluctuations of remittances, the terms of the International Monetary Fund Compensatory Financing Facility were liberalized, in August 1979, to include shortfalls in workers' remittances in the same way as with the shortfalls in export earnings. 9/

27. It is important to note that the remittances usually serve the consumption needs in the emigration country. Increase in conspicuous consumption out of foreign remittances is a familiar phenomenon in many developing countries and only a smaller part of such remittances is earmarked for productive investments. In some instances, the additional demands run into bottlenecks in domestic supply and induce inflationary pressures or draw in imports. The consumption patterns in the emigration countries are influenced towards increased import of consumer goods, and thus a considerable proportion of the foreign exchange is lost to the country's productive capacity. The foreigners' remittances inevitably contribute to fuel the domestic inflation.

28. It appears, on balance, that the transfer of valuable and productive human resources benefits the immigration countries most and the emigration country the least, lending strong justification for contribution to the compensatory facility.

V. SCHEMES FOR CONTRIBUTION

29. A number of schemes have been proposed, outlining the rationale and the procedures for contribution to the compensatory facility (A/35/198, paras. 24-38 and annex III). Some have been developed and modified in considerable detail while others have been advanced as broad suggestions.

30. Some have proposed that the immigration countries levy special taxes and/or earmark a portion of the proceeds of certain existing taxes as compensation for benefits derived through immigration. Others have proposed that the contributions of immigrant countries should be a simpler and direct step incorporated in the normal budgetary processes of the immigrant countries. The amount should be related to the actual number of economically-active workers admitted into the country and computed as a fixed amount based on wage, salary or income level of different categories of workers.

9/ Goreux, L. M., Compensatory Financing Facility, Pamphlet Series No. 34, IMF, Washington, D.C. (1980).

31. The feasibility of these schemes have been demonstrated by their proponents. In the context of the establishment of the compensatory facility, it is possible to adopt a combination of these suggested schemes with suitable adjustments within the frameworks of international legal and administrative systems and procedures, provided the guidelines for the establishment of the compensatory facility are agreed upon at the intergovernmental level. Some of the considerations governing such guidelines are presented below.

VI. GUIDELINES FOR THE ESTABLISHMENT OF THE COMPENSATORY FACILITY

32. The establishment of the International Labour Compensatory Facility should be guided by certain broad principles arrived at by negotiations through an intergovernmental forum. Such principles would have to bridge over numerous special circumstances of individual countries in the interest of the solidarity and goodwill to deal with the complex dimensions of the problem of international labour migration. Implicit in these principles is the universal recognition of the sovereign rights of the countries to control the access to their respective territories and economic activities within them and to take all practical steps to ensure that migrants use the regular channels for their movements within and out of their countries.

33. It is necessary to determine the categories of economically-active emigrants on account of whom the liability for contribution to compensatory facility would arise. For instance, this category would include all cases of immigrants whose admission requires certification by the labour department that there are no willing, able and qualified resident workers available for that category of occupation and that their employment will not adversely affect the prevailing wages and working conditions in that occupation. Such persons as students, trainees, pilgrims, refugees, dependants, nomads, preachers, officials, diplomats and those admitted for humanitarian reasons would be excluded from this category.

34. The liability for contribution to the compensatory facility may be dispensed with in the case of those developing countries whose gross national product or average per capita income is below certain agreed-upon levels.

35. The contribution to the compensatory facility should be on the basis of predictable, continuous and assured resources. The national machinery for raising the contribution should be within the legal and administrative processes and should not impose discriminatory burden on the immigrants or any one particular section of the society in the form of special fines and taxation.

36. The amount of contribution to the compensatory facility by an immigrant country may be determined by taking into account such factors as the proportion of immigrants in its total as well as specific categories of labour force and their gross value to the economy.

37. Portions of the contributions to the compensatory facility shall be made available to the emigration country as assistance to their development programmes as grants, fellowships, equipments and reimbursable loans. Such assistance should

be related to the adverse impact on the emigration country caused by the emigration as well as the cost of rearing, educating and training the emigration. The duration of absence should be a factor in such consideration.

38. The guiding principle behind making contributions to the compensatory facility and for receiving assistance from it would be to avert progressively the adverse economic and social effects of the large-scale migrations of economically-active persons to the developed as well as the developing countries, and to ensure an orderly process of regulation of migratory labour. These principles should thus guide the programmes and projects for which the resources of the compensatory facility would be deployed.

39. The requisite level of funding and the operational procedures and institutional arrangements for the compensatory facility would have to be determined in the light of such guidelines as may be evolved through intergovernmental discussion.

40. The General Assembly may wish to consider the above guidelines as a possible basis for development of further proposals on the institutional and administrative arrangements for the establishment and operation of an international labour compensatory facility.
