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Labour migration and its impact on Ukraine's economic development

The author analyses the phenomenon of labour migration in Ukraine and its impact on the country's economic development. Its positive consequences include more foreign currency flowing into Ukraine due to the remittances from the labour immigrants, as well as opportunities for the working population to improve its financial situation. Among its negative effects are the reduction of the population of Ukraine and the instability of its social security system. Some recommendations to address the issues of labour migration are also provided, which include, i.a., job creation, a reduction of the shadow economy and a continuous analysis of the scale of illegal labour migration from Ukraine.

Migracja pracy i jej wpływ na rozwój gospodarczy Ukrainy

W artykule przeanalizowano zjawisko migracji pracy na Ukrainie oraz jego wpływ na rozwój gospodarczy tego kraju. Pozytywne skutki migracji wiążą się głównie ze zwiększeniem wpływu obcej waluty do Ukrainy dzięki przekazom pieniężnym od emigrantów pracy oraz umożliwieniem osobom pracującym poprawy ich sytuacji finansowej. Migracja pociąga jednak za sobą także skutki negatywne, takie jak zmniejszenie ludności Ukrainy i niestabilność systemu zabezpieczenia społecznego. Wskazówki dotyczące rozwiązywania problemów migracji zarobkowej obejmują m.in. tworzenie nowych miejsc pracy, zmniejszenie „szarej” gospodarki i przeprowadzanie bieżących analiz skali nielegalnej migracji zarobkowej z Ukrainy.

Keywords: labour migration, labour force, migrant's income, money transfers, investment

JEL classification: J230, J240, J610, J620

Introduction

In the recent decades, Ukraine has been the scene of active migration processes. As shown in an assessment by The World Bank, it is among the five largest suppliers of migrants in the world, preceded only by Mexico, India, China and Russia [Strilchenko, 2012]. According to the United Nations Organization, migration is inevitable and potentially a beneficial component of modern life in each country or region of the world. Some experts and researchers call Ukraine one of

the largest donors of labour in Europe. According to a labour migration research conducted in 2012, 1.2 million Ukrainian citizens are working abroad. However, an analysis of data from the European Union and Russia indicates that this estimate is too low. The number of Ukrainian migrant workers abroad is closer to 1.5–2 million, which is 6.8–9.1% of the economically active population of Ukraine [ILO, 2013].

Thus, it is important to evaluate the impact of migration on the development of Ukraine's economic system.

A significant contribution to the study of labour migration issues, theories and practices of labour reallocation, as well as legal aspects and regulations of migration processes has been made by the leading Ukrainian scholars: B. Heyets, S. Zlupko, A. Kostenko, E. Libanova, E. Malinowska, G. Schyhelska, and others.

The purpose of the present paper is to study the characteristics of migration and its positive and negative effects on the economic development, as well as to provide some recommendations to address the problems of labour migration.

1. Labour migration as a complex socio-economic process

Labour migration is a complex socio-economic process defined by various objective and subjective factors, i.a. climatic, demographic, ethnic, social and economic ones; it is influenced the most by the two latter ones. With this in mind, researchers have identified two main functions of migration: a social and an economic function. The social function of migration consists in the efforts of migrants to meet income needs by changing place of residence, through professional growth as well as improved working conditions and living standards, while the economic one – in providing a certain level of labour mobility, territorial redistribution and a quantity/quality match between demand and supply of labour and skills of different profiles in different areas [Kostenko, 2009].

Migration is also defined by certain external and internal factors; the former include:

- capacious labour market in the Western countries,
- attractive work compensation,
- steady increase in demand for foreigners' labour in the developed countries.

The latter include:

- lack of jobs in the home country,
- significant pay gap between the home country and the foreign country,
- social and economic crisis,
- recession,
- growing economic contradictions,

- discomfort at the general instability in the home country,
- widespread corruption,
- lack of opportunities for development and self-realisation,
- vulnerability to abuse by the authorities.

Labour migration should be considered as a natural aspect of the development of social relationships, that leads to both positive and negative consequences; in the case of Ukraine, the former include:

- more foreign currency flowing into Ukraine in the form of remittances from the labour immigrants and foreign investments through joint ventures,
- promotion of Ukraine's integration with the global labour market,
- opportunity for the working population to realise their talents abroad, to improve their skills and their financial situation,
- reduction of the unemployment rate and of the social tension,
- opportunity to promote Ukrainian culture in the world and to create new centres of Ukrainian diaspora.

The latter include:

- reduction of the population,
- loss of part of the finest workforce (especially academics and professionals), which leads to a slowdown in technological progress,
- loss of skills, as people with a high level of training perform mainly unskilled work abroad,
- investment of the state funds in the education at all levels, which then creates value added outside the country,
- lack of contributions to the pension fund and other social funds due to lack of deductions from the workers' salaries,
- discrimination and exploitation of Ukrainian citizens by employers abroad,
- emergence of political and economic claims to Ukraine by the recipient countries due to the increase of illegal Ukrainian labour migration,
- deterioration of family relationships through long-term absence of family members, lack of parental attention and distorted family values, resulting in adopting a frivolous attitude to life,
- re-integration issues faced by the workers who return home and find themselves unaccustomed to the Ukrainian conditions of work and life.

According to the researchers, consequences of such double nature – both positive and negative – also affect the Ukrainian state. These include, for example, the fact that, on the one hand, labour migration relieves tension on the home labour market, while on the other, it leads to the loss of a significant number of professionals. This also applies to the cultural aspect of labour migration: undoubtedly, the Ukrainians carry their traditions and customs into other parts of the world; yet many of them, studying foreign languages to obtain high-paying work, lose their Ukrainian identity [Wolowyna, 2013].

2. The main directions and characteristics of labour migration from Ukraine

The main source of data on labour migration in Ukraine are two large-scale household surveys, the first of which was held in 2008 by the State Statistics Service of Ukraine in cooperation with the Ukrainian Center for Social Reforms, the 'Open Ukraine' Fund, The World Bank and the International Organization for Migration [SCSU, 2009], and the second – in 2012, by the European Union and the International Labor Organization, as a part of the 'Effective Governance of Labor Migration and Its Skills Dimensions' project [ILO, 2013].

The analysis of the data shows that the main migration destinations are the European Union and Russia. According to the 2012 survey, 51% of the migrant workers (602,500) were working or looking for work in the EU (mainly in Poland, Italy and the Czech Republic), and 43.2% (511,000) – in Russia (see Table 1).

Table 1. The main directions of labour migration from Ukraine (the 2012 survey results)

Country	Number of Ukrainian labour migrants	Percentage in the total number of immigrants
Total	1,181,600	100.0
EU	602,500	51.0
Poland	168,400	14.3
Italy	156,000	13.2
Czech Republic	153,000	12.9
Spain	52,600	4.5
Germany	27,800	2.4
Hungary	23,000	1.9
Portugal	21,700	1.8
Russia	511,000	43.2
Belarus	21,500	1.8
Other	46,600	4.0

Source: [ILO, 2013].

Men prevail among the migrants, amounting to two thirds of the migrant workers and to 4.8% of the total number of men aged 15 to 70; female migrant workers amount to 2.2% of the women from the same age group. Also, rural population is more involved in labour migration than urban population (6.3% and 2.2%, respectively) [ILO, 2013].

Table 2 illustrates the education level of Ukrainian labour migrants.

Table 2. Education level of migrant workers from Ukraine (2012 survey results)

Education level	Percentage in the total number of migrants
University degree	15
Basic higher or incomplete higher education	15
Secondary education	65
Primary or incomplete secondary education	5

Source: [ILO, 2013].

Undoubtedly, only a small number of workers are able to find jobs that match their skill level; the vast majority of them perform low-skilled jobs regardless of their education level.

Table 3 shows the main employment areas of Ukrainian migrants.

Table 3. Main employment areas of Ukrainian migrant workers (2012 survey results)

Employment area	Percentage	Country
Construction industry	46	Russia, Italy, Czech Republic, Spain
Homecare	18	Italy, Spain
Agricultural sector	11	Poland
Wholesale and retail	9	Russia, Poland
Industry	4	Poland, Czech Republic
Transport	4	Russian, Poland
Hotel and restaurant sector	4	Czech Republic, Italy
Other	4	Germany, Portugal

Source: [ILO, 2013].

3. Income of the migrant workers and its using

According to the mentioned survey, the average wage of migrant workers abroad amounted to US\$ 930 per month, which was, of course, much higher than the average salary of a staff member at a Ukrainian enterprise (US\$ 330.5 in 2011). In most EU countries, the average wage of Ukrainian workers exceeded that in Ukraine by no more than 20–30%; the exception was Poland, where it was significantly lower. This is due to the fact that most migrants from Ukraine into Poland were employed in seasonal agricultural work, whereas in most other countries they worked in construction and services [ILO, 2013]. The income and characteristics of migrant workers from Ukraine are given in Table 4.

Table 4. Income and characteristics of the migrant workers from Ukraine (2012 survey results)

Country	Average wage, US\$ per month	Percentage of immigrants working over 6 months	Percentage of immigrants having work permit	Percentage of men
Russia	874	18.4	35.5	83.8
Poland	560	4.4	40.1	53.1
Italy	1056	74.2	64.8	21.5
Czech Republic	1,137	29.1	83.3	75.1
Spain	943	93.5	76.0	56.7

Source: [ILO, 2013].

Migrant workers remit the money earned overseas to Ukraine, which significantly improves the welfare of their families. The money was primarily used to cover daily expenses (77.5% of households); 40.9% of the respondents bought durable goods, 29% of them built, reconstructed or repaired their houses, and 22.2% made savings [Malynovska, 2010].

Despite the fact that the migrants' earnings are rarely invested, they help to raise the living standards and reduce poverty. By increasing demand, they positively influence the economy.

According to the National Bank of Ukraine, the amount of private money transfers to Ukraine is increasing (see Table 5); it is almost commensurate with direct foreign investment and constitutes 4% of the GDP.

Table 5. The amount of private money transfers to Ukraine in 2008–2013 (US\$ bn)

2008	2009	2010	2011	2012	2013
6.2	5.4	5.9	7.0	7.5	8.5

Source: [ILO, 2013].

In Ukraine, the main channel of impact of remittances on the GDP is consumption. Its scale depends on two factors: the marginal propensity to save (MPS) and the propensity to purchase imported goods and services [Kireyev, 2006]. MPS is not high – most of the migrants' money transfers were used for consumption, as the income level of the receiving households was low (the income of 88.4% of them was below the Ukrainian average, and for 53.8% of them the received transfers constituted more than half of the total income).

The propensity to consume imported goods and services, on the other hand, is high – the remitted money stimulate imports.

The analysis of the marginal propensity to consume and the propensity to purchase imported goods and services shows that the contribution of remittances from abroad to Ukraine's GDP (through consumption) is up to 4%.

Given the low MPS, the impact of remittances on the GDP through the investment channel is not significant. Migrant workers invest the money earned abroad primarily in their own homes (construction and housing), due to the desire to provide housing for themselves or their children, and selection of housing and real estate as investment.

Some Ukrainians who returned from abroad tried to open a small business at home. However, this phenomenon is not widespread, because starting a business usually requires more initial capital than they had been able to save. In addition, the overall investment climate in Ukraine is not favourable. According to the World Bank's *Doing Business 2014* report, out of 189 countries, Ukraine ranks 112 for the ease of doing business.

In our opinion, it is important to note the prominent role of remittances from migrant workers in the balance of payments, as the amount of transfers was commensurate with the amount of gross direct foreign investment; in 2012 and 2013, it even exceeded it.

Economic and mathematical modelling shows that the Ukrainian economy would have lost 7% of its capacity without the stimulating effect of the migrants' transfers. In particular, the production could have been reduced by 17% in the light industry and by 14% in the food industry. The consumption would have decreased by 18% and the income of the average household would have been reduced by 14–21% [Malynovska, 2010].

Thus, labour migration plays an important role in Ukraine's economy of today. It is a factor that reduces unemployment and the source of significant additional resources. However, it generates a major problem of loss of labour force and intellectual potential.

The studies show that the trends of labour migration in Ukraine are not positive – despite the difficulties faced by the migrant workers during the economic crisis in the host countries, the mass return home is not observed, which can be explained by the fact that the situation in the host countries is, nevertheless, more favourable than in Ukraine [Shchyhelska, 2013].

In our opinion, solving the problems of labour migration requires taking a number of internal and external measures. The former should include:

- job creation, specifically in the areas of agriculture and light, textile and chemical industries, in which labour migrants are currently employed in Europe,
- increase in wages,
- reduction of the shadow economy and shadow employment,
- comprehensive assessment of migration flows.

The external measures should include:

- legal forms of labour migration,
- possibility for labour migrants to freely return home,
- signing of the relevant international agreements and improvement of the existing legislation regarding licensing of firms that organise employment abroad,
- continuous analysis of the scale of illegal labour migration from Ukraine and elaboration of the measures to prevent this phenomenon,
- prevention of human trafficking.

Conclusions

The impact of labour migration on Ukraine's economic development is ambiguous. On the one hand, the additional money flowing into the country contributes to poverty reduction, stimulates the domestic production and supports the balance of payments; on the other hand, the outflow of workers abroad reduces the supply of the domestic labour market and creates risks for the stability of the social security system. In addition, migration leads to the loss of skills, as highly-trained people perform mainly unskilled work abroad.

The main ways of solving these problems include the creation of new jobs, enhanced labour remuneration, limitation of the shadow economy and shadow employment, civilised forms of leaving abroad for work, prevention of human trafficking, continuous analysis of the scale of illegal labour migration from Ukraine and carrying out measures to prevent this phenomenon. Of particular importance is the signing of the relevant international agreements and improving existing legislation regarding licensing of firms for employment abroad.

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