

# THE INFLUENCE OF TRANSNATIONAL CORPORATIONS ON LABOR FORCE MIGRATION IN ROMANIA AND IN THE EUROPEAN UNION IN THE CONTEXT OF THE GLOBAL CRISIS

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## **Abstract:**

*In this paper we propose to analyze the impact of transnationalization process on labor force migration. Also, we will try to show the connection or interconnection that exists between transnationalization on the one hand, and labor force migration on the other. The intensification of migration process is a characteristic or a result of the transnationalization process, which occurs in the second half of the XX century. Migration is a process owed solely to transnationalization. Today, migration of people to search for better wages implies a tremendous acceleration of transactions on the exchange markets, daily 1400 billion, resulting in destabilization of national economies, especially of small developing nations.*

**Key words:** migration, globalization, economic crisis, transnational corporations.

**JEL classification:** F22, F23, J61

## **1. INTRODUCTION**

It is known that, currently, the world states, especially the small ones, can't ensure anymore a stable development and growth based only their own forces. World governments perceive that the deepening of relations between countries, and also the more active and effective involving and integrating in the global economic cycle is the key factor of economic prosperity. Unfortunately, not all states can act alone on the world arena, especially the small ones. Some countries need support from other states, more experienced, stronger and with greater financial strength.

In the process of economic globalization, on the arena of international economic relations appear new actors. One of them is transnational corporations that move their capital from several countries of the world under the influence of different factors and create an economic chain through which are moving enormous innovations and financial flows.

Transnationalization of production, i.e. its expansion outside their home state, has a significant impact on national economies, establishing their place in the world work division.

However, parallel with the development of external economic relations, is changing the state's role and its functions. The state start to gain new functions, functions appearing as result of the states competition in the process of attracting foreign capital flows in the national economy.

Attracting transnational corporations in the national economy is today the main objective of the competition process between states. World states, especially smaller ones, in development or in transition, being enticed by the financial sources of TNCs, are involved in an increasingly fierce battle to attract the necessary capital in the country. Paradoxically, but eventually also TNCs are those which take advantage of it the most.

Thus, addressing the impact of this process needs to be done multilaterally, to find the optimum solution of how to attract foreign capital flows in the national economy at the present stage, focusing on their efficiency and quality.

## **2. LITERATURE REVIEW**

In the debates on the influence of transnationalization, savants and experts concluded long ago that this phenomenon is not purely economic, which is limited only to the reorganization of production activities and movement of capital flows. Globalization is a process of large-scale that produces effects in several areas such as politics, finances, trade, defense system, demography, ecology. Academics consider that the world has now become "a global city." Moreover, according to American scientists *Hatton and Williamson*, migration is one of the causes of the globalization process.

Transnationalization, in compared aspect, still can be viewed as migration process. Putting capital in other regions of the world, necessarily involves staff migration. Transnational corporations favors the meeting of the labor force with capital, making the movement of labor towards capital or transferring capital to areas with labor force surplus.

Usually, foreign direct investment is placed in the long term and requires interaction with various groups of economic agents, starting with suppliers and ending with officials. Investors need to know the consumer, labor force and raw materials markets, regulations and laws governing their activities. Informational and contractual problems can often be very hard, so legal rules remain to be the most important determinant of FDI flows in one state.

The history of labor migration knows more than 100 years. Since the mid-nineteenth century were observed in many migration flows from European countries to the U.S., especially during economic conjuncture overseas. The second wave of migration into the U.S. from different countries was in the years '20-50, XX century, and then followed the migration from Mexico, the Caribbean etc.

Experts consider that the first attractive center for foreign labor force has been South Africa, which since the '50s drew cheap labor force from neighboring countries. In the period 1950-1970 takes place the accelerated development of peripheral global regions industrialization, which later achieved positive results in industrial development, becoming leaders in chapter - exports. They relate to Latin America, South African, Middle East and Southeast Asia. Obtaining independence of many African countries boost this process. Active penetration of international corporations in South Africa from Europe and the U.S. in the '70s, led to increased migration of labor force in this area. During this time it began to form the international center of attracting labor force from another continent, in South America, in the composition of some of the more developed countries like Argentina, Brazil, Mexico and Venezuela. Simultaneously, in these countries annually comes a large workforce from some of the least developed countries and from African and Asian countries. The interest of the Middle East for the labor force is related to the development of the oil industry from the '70s. In the late '70s, Saudi Arabia, Oman, Kuwait, UAE, worked over 3 million foreign workers and specialists from neighboring Arab countries, India, Pakistan and South Korea.

In the last decade has been formed a new regional center of attraction of labor force - South-East Asia. Starting with the '70, here takes place a process of accelerating the country's industrial development and internationalization of economic life in this giant region, influenced by massive foreign investment. An important role in these processes went to different transnational corporations from different national origin: American, Japanese, Australian, South Korean, etc.

**Table no.1 Migration and foreign direct investments on the world, 2007**

Region	Migration, mil.	% from total population	FDI volume, billions
Europe	64.1	8.8	421889
Asia	53.3	1.4	147611
North America	44.5	13.5	102151
Africa	17.1	1.9	18090
Latin America	6.7	1.2	67526

Source: made by the author base don de dates from IMO, 2008

### **3. LABOR FORCE MIGRATION AND TRANSNATIONAL CORPORATIONS**

The main feedback of the process of migration is the migrant's remittances. They represent their financial sources, delivered in the origin countries. In 2002, migrant remittances constituted about 79 billion dollars. This amount is more than the sum of all development aid provided by the states of the world and about 40% of total FDI in developing countries.

The use of foreign labor force, in present, becomes an important part of normal and efficient operation of the world economy mechanism. Transnational corporations (TNCs), being the main driver of globalization, acts in a global economy that relates to global production, global capital, global market.

The main reason leading companies to internationalize their assets are: achieving higher profits with low costs and of enhanced profitability. This can be achieved by exploiting opportunities offered by other countries with cheaper raw materials and human resources, by the penetration of more advantageous markets for export. Not at least, among the positive effects of capital and technology exports are repatriating their earnings as profit in the origin countries of TNCs.

However, many scientists try to show the dependence between migration and trade. They say that determining the volume of trade without taking into account migration, it is not objective. Testing in some small economies shows that there is dependency between export and migration.

The practice of international labor migration has emerged as a spontaneous phenomenon but, with the development and intensification of the process, began to be regulated by the state. However, currently are not liquidated all features of this process.

The last decade of the XX century is characterized by the fact that importing countries and exporting countries of labor force introduce radical correction in their migration policy. As world practice shows, workers migration provides indisputable advantages to the countries: for those providing employment as for those who receive it.

For the control of migration processes, states have begun to introduce so-called migration rates. Labor force - importing states, taking into account the real needs and labor market situation, determine the number of labor resources to be imported.

The goal of migration policy of the exporting countries is that labor force migration should increase the reduction of unemployment, receipt of foreign funds from immigrant workers, i.e. remittances, which is used for balancing imports - export operations. But sometimes, there may appear acute economic and social problems.

#### Positive consequences of labor force migration:

- settling the problem of unemployment;
- the emergence of additional sources of income from migrants for exporting countries;
- obtaining the knowledge and experience by the immigrants;
- investment income of immigrants in small business, favoring the opening of new jobs.

Negative consequences of immigration workers:

- the trend of increase in consumption funds obtained abroad.
- the tendency to hide income;
- "brainwashing".
- decrease the qualification of unemployed immigrants.

One of the trends in the migration process is population migrating from different third countries to EU member countries. The main source countries of migration in the 15 countries forming the European Union until 2004 were Romania, Poland, Bulgaria, Turkey and Russia. European experts argue that East-West migration flows seriously threaten jobs and wages in the host countries of the EU, but take heavy losses in the source countries. Thus, workers from East were an additional favor for labor force market from European rich countries without having significant effects on employment or wages. In return, the source – country came to confront with loss of output and income to the public budget due to workers who migrate. In Poland, for instance, the government seeks to remove restrictions on foreign access to abroad force market, to cover the deficit of labor force in some sectors. The country from which they migrate, is faced with problems arising from loss of investment made in education and training of individuals who migrate and who agree to hire in less qualified jobs. The negative impact of migration is only slightly offset by the money migrants send to the families in the source country.

However, both for countries of origin as for TNCs host countries, in addition to the earnings of the process of globalization, there are also losses. The transfer to other countries of a part of the assets of TNCs contributes to job losses and rising unemployment in countries of origin. Moreover, labor productivity growth through technology transfer, information, innovation in firms purchased by foreign investors, brings with it an increase in unemployment in the host countries, in particular for unskilled or low skilled labor force. Host countries are frustrated that research and development operations are in countries of origin of TNCs, and technological innovations aren't implemented simultaneously in the host countries.

Workforce in developing countries means, for industrial countries, providing some branches and infrastructure with needed workers, without which it is impossible a normal industrial process, and sometimes normal everyday life. For example, in France, migrants make up 1/2 of total employment in construction, 1/3 - in the car industry, in Belgium - half of the miners, in Switzerland - 2/5 of the construction workers.

As mentioned above, one of the key features of the process of globalization is the movement or free flow of capital. In addition, current global trade regime under WTO auspices provides unique possibilities for movement and reallocation off funds. Transnationalization of the world takes place differently in each country. Some countries have more foreign capital, others less. The trend that it is observed today is that where foreign capital is moving there will focus large flows of people.

Even if corporations come in underdeveloped countries, they don't offer great benefits to employees; on the contrary, they came just as attracted by low wages and slave pyramid style of local systems. Citizens of third world are seeking to reach the West, believing that they perform the same work more and will gain more money. Their surprise occurs when, once arrived in Europe, all companies have their production moved to countries where they originally came, now they must re-orientate or accept jobs below their qualifications.

Although the products are cheaper because they are performed in countries where production costs are minimal, this migration of labor force generates unemployment in developed countries and, therefore, the remaining unemployed have no money to buy products even so not cheap. Forbes magazine has published a study showing that Detroit will disappear in the next 20 years, this outsourcing and

refurbishment made that unemployment in this city to be enormous, and now crime is at unimaginable odds. From a towering American city - king of the automobile production, with millions of habitants - now have left only 900 thousand people.

#### 4. THE IMPACT OF GLOBAL CRISIS ON LABOR MIGRATION

Socio-economic crisis, but also the lack of state programs well harmonized regarding domestic employment policy, has widened further more migration trends of a large part of the population, particularly youth. This trend is present in the official statistics of Romania.

**Table no. 2 Crude rate of net migration plus adjustment, per 1 000 persons**

geo\time	2005	2006	2007	2008	2009
European Union (27 countries)	3,619	3,168	3,818	*	1,879
European Union (25 countries)	3,816	3,381	4,058	*	2,003
Belgium	4,849	4,95	5,866	5,579	5,109
Bulgaria	0	0	-0,182	-0,115	-0,123
Czech Republic	3,539	3,381	8,123	6,887	3,338
Denmark	1,243	1,861	3,028	4,59	5,032
Germany	0,989	0,313	0,55	-0,652	-0,681
Estonia	0,104	0,122	0,119	0,095	0,095
Ireland	15,928	15,666	10,613	0,544	-9,855
Greece	3,6	3,587	3,575	3,392	3,181
Spain	14,775	13,711	15,599	9,083	1,716
France	2,968	1,427	1,12	1,198	1,186
Italy	5,532	6,404	8,37	7,179	6,367
Cyprus	19,03	11,217	9,44	4,442	1,167
Latvia	-0,245	-1,071	-0,282	-1,122	-2,058
Lithuania	-2,572	-1,431	-1,553	-2,298	-4,627
Luxembourg	13,127	11,326	12,502	15,758	13,59
Hungary	1,712	2,116	1,449	1,631	1,567
Malta	3,992	5,253	4,205	5,908	4,983
Netherlands	-1,399	-1,585	-0,055	:	2,399
Austria	6,848	3,547	2,172	4,078	2,1
Poland	-0,337	-0,947	-0,537	-0,39	-0,404
Portugal	3,64	2,461	1,838	0,881	1,373
Romania	-0,334	-0,3	0,035	0,06	-0,116
Slovenia	3,217	3,123	7,061	9,645	8,793
Slovakia	0,632	0,715	1,259	1,306	0,721
Finland	1,745	2,013	2,624	2,897	2,538
Sweden	2,96	5,591	5,9	6,027	7,272
United Kingdom	3,751	2,957	2,939	3,686	3,008
Croatia	1,864	1,64	1,266	1,59	*
Former Yugoslav Republic of Macedonia	-0,372	-0,259	0,069	-0,255	*
Turkey	-0,014	-0,041	1,347	1,724	*
Iceland	13,049	17,345	16,594	3,339	-11,258
Liechtenstein	4	3,482	1,815	2,481	5,337
Norway	3,965	5,069	8,395	9,08	7,459
Switzerland	4,336	4,88	9,449	12,18	5,53

Note: \* information is not available

Source: made by the author based on the dates from Eurostat

**Table no. 3 Active population, employed population, unemployed population**

	million persons			
	2005	2006	2007	2008
<b>Active population - total</b>	<b>9851</b>	<b>10041</b>	<b>9994</b>	<b>9944</b>
- Female	4420	4515	4479	4418
- Male	5361	5595	5494	5471
<b>Employed population - total</b>	<b>9147</b>	<b>9313</b>	<b>9353</b>	<b>9369</b>
- Female	4136	4239	4237	4212
- Male	4889	5115	5072	5101
<b>Unemployed population - total</b>	<b>704</b>	<b>728</b>	<b>641</b>	<b>575</b>
- Female	284	276	242	206
- Male	472	480	422	370

Source: *www.iom.int*

We observe certain stagnation in the number of active population. This is the effect of the lack of capital flows in the national economy in transition period. Moreover, as scientists estimate, the population of Romania until 2050 will decrease by 30%.

Today, according to statistical and sociological surveys carried out every third of working - age Romanians working abroad, many of which are illegal.

**Table no. 4 Romanian citizens who settled their residence abroad**

	number of persons			
	2005	2006	2007	2008 <sup>1)</sup>
<b>Total</b>	<b>10938</b>	<b>14197</b>	<b>8830</b>	<b>8739</b>
<b>By sex</b>				
Male	4110	5341	3088	3069
Female	6828	8856	5742	5670
<b>By age</b>				
under 18 years	765	963	1003	1214
18-40 years	7767	9924	6041	5829
41-60 years	1900	2621	1442	1419
61 years and over	506	689	344	277
<b>By origin country</b>				
Romanians	10301	13296	8589	8485
Hungarian	460	693	167	194
Germans	93	85	12	18
Jewish	48	54	21	27
Others	36	69	41	15
<b>By destination country</b>				
Australia	78	125	83	82
Austria	421	581	313	345
Canada	1220	1655	1787	1738
France	343	529	372	431
Germany	2196	3110	1902	1788
Greece	114	134	72	85
Israel	64	128	57	50
Italy	2731	3393	1401	1098
Spain	139	330	138	238
S.U.A.	1679	1982	1535	1591
Sweden	29	37	2	7
Hungary	1013	900	266	354
Others	911	1293	902	932

Source: *www.iom.int*

About 3710 thousand Romanians or 25% of the economically active population worked abroad during the implementation of the latest population census in 2003. But current statistics reflect only a partial picture of the existing migration and is possible that not less than 571 thousand of Romanians or 39% of the economically active population work abroad in the period 2003-2004.

The higher motivation for migration is a low income of population. The key reason of migration is the desire to earn more money, to be able to pay for basic existence, pay back debts and finance consumption.

Most migrants do not seem determined to go abroad on the grounds that there aren't jobs in the country, but from the desire to earn more money and to have a better quality of life. From purely microeconomic reasons, migration has served as a basic mechanism in the fight against poverty for many Romanians, which is generally determined by the high consumption level of households, financed by foreign currency transfers. It turned out that the monthly income of migrant families have grown six times after migration. By comparison with other European countries, the situation is as follows:

**Table no. 5 Average wage in European Union Member states (Euro)**

Country	2000	2005	2006	2007
<b>EU 27</b>	...	<b>28992,4</b>	<b>31302,1</b>	...
Austria	...	36032,0	36673,0	...
Belgium	31644,0	36672,7	37674,0	...
Bulgaria	1436,1	1977,7	2195,0	2626,0
Czech Republic	...	7404,5	8284,4	...
Cyprus	6334,9	20548,5	21310,2	...
Denmark	40962,2	47529,3	48307,3	5365,0
Estonia	...	...	...	...
Finland	27398,3	33290,0	34080,0	36126,0
France	26712,0	30520,9	31368,6	...
Germany	37319,0	41694,0	42382,0	...
Greece	14721,0	...	...	...
Ireland	...	40462,0	...	...
Italy	...	...	...	...
Latvia	...	4246,0	5210,9	6690,2
Lithuania	...	...	...	...
Luxembourg	35875,0	42135,0	43621,0	45284,0
Malta	11658,2	1180,3	11669,4	...
Holland	31901,0	38700,0	...	...
Poland	...	6269,9	...	...
Portugal	12619,6	14715,0	15929,6	...
Great Britain	37676,5	42866,3	44495,6	46050,5
<b>Romania</b>	<b>1732,0</b>	<b>3241,2</b>	<b>3937,8</b>	<b>5066,0</b>
Slovakia	3583,i	6373,6	7039,6	8400
Slovenia	...	...	...	...
Spain	17432,0	20438,8	2ii50,2	...
Sweden	3i620,8	34049,3	35084,0	3687i,4
Hungary	4i72,5	7797,8	7840,2	8952,0

Source: [www.iom.int](http://www.iom.int)

From the optimistic point of view, confident in the economic rise of our country, we could say that if migrants will return, however, it will not happen until a decade. As

things stand, the only advantage could be obtained by attracting migrant remittances in the interests and development priorities of the country, which later to place Romania on a higher level of development.

The migration and the flow of foreign currency transfers have led to increased internal costs of labor. Romanian workers tend to go abroad at relatively lower costs and obtain thus higher revenue, led to increased wage equilibrium (by increasing the proportion of capital/labor force), on the internal labor market. Transfer of funds from abroad, increasing workers' reserve wages up - the rate of salary that motivate workers to participate in the labor market - has also led to increased wages on the internal labor market.

## 5. CONCLUSIONS

Following investigations, we concluded that the cheap labor force, which is believed to have Romania, tends to be one less or relatively cheap. We believe that in the near future, Romania will lose the competitive advantage of cheap production factor that own – labor. However, we cast doubt the TNC expansion in Romania.

In essence, the effects of transnationalization process on the world states could be considered beneficial. In the situation of small states, which can not ensure economic development based on qualitative aspects, by themselves, transnationalization might present an enormous support.

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