

# **POSITIVE AND NEGATIVE INFLUENCE OF INTERNATIONAL LABOR FORCE MIGRATION ON THE ECONOMICS OF UKRAINE**

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Summary: the main tasks of issues is to investigate causes and consequences of international migration of the population; to detect the main directions and centers of gravity of migrants in; to identify scale, dynamics and trends of the main migratory flows of Ukrainians; to analyze of the influence of wages on labor migration (Ukraine-EU); to research push - factors of migration in Ukraine. The object of research is external migration of the population of Ukraine, its features and conditions for the formation of migration flows, taking into account the socio-economic and political provisions of the country. The purpose of this research paper is determined on the basis of the relevance of the topic under consideration. It consists in forecasting and analyzing the results.

Massive labor migration slows the country's economic growth, and finally, Ukraine has realized it. We must admit that over the past 2.5 years, Ukraine has received 22 billion US dollars from the labor migrants, which is 11 times more than the amount of the IMF loans for the same period. The process of understanding it seemed to be long and painfully, but only at the end of last week, the Inflation report was published by the National Bank (NBU).

NBU analysts note: "One of the main risks of the key scenario is the continuation of the outflow of the workforce from Ukraine, which will create high rates of further imbalances between the labor market supply and demand." To be more precise, mass labor migration provokes the growth of prices, while Ukraine's economic growth slows down. It should be noted that labor migration hinders the growth of production rates in construction, industry, agriculture, transport, and communications.

Picking berries in Finland or building houses in Poland – the decision is not that simple. The work is not easy, the conditions of work are inhuman, the risk of remaining without money is high, and this is not the worst thing that can happen to a guest worker. Nevertheless, in recent years, Ukrainians massively become labor migrants, mainly they go to the West, searching for the better life.

Migration in the state is constantly increasing. On average, more than 5 million people work abroad every year. There is a noticeable increase not only from cities but also from villages. Thus, the external labor migration of Ukraine is characterized by the following data: - labor migration is more widespread among men (65%) than women (35%), while the level of participation of rural population in labor migration is 2.9 times higher than urban: migrations

involve 6, 3% of economically active rural population, while in cities only 2.2% of urban residents.

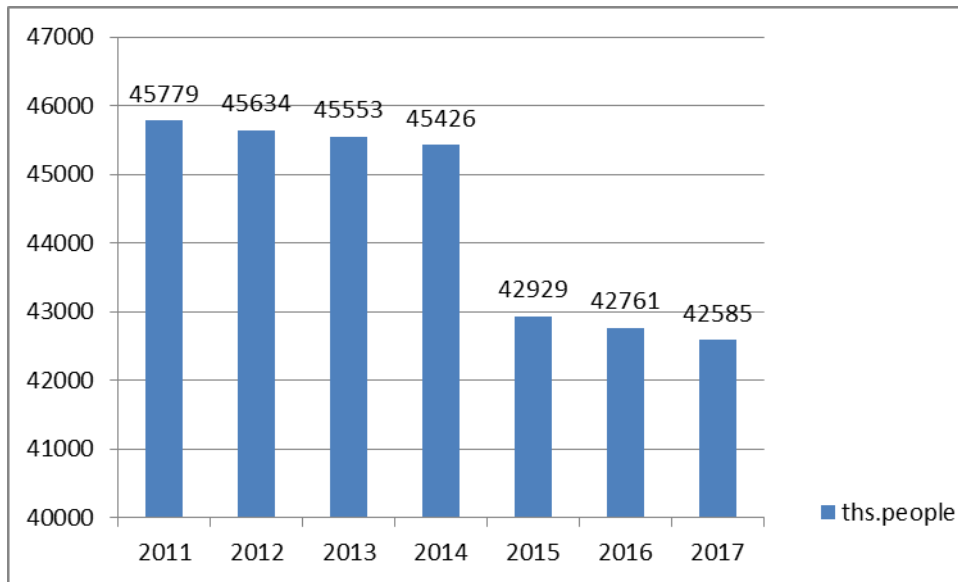


Figure 1 - Migration movement of Ukrainians during 2011-2017

It seems that the politicians do not despair and instead of creating incentives for business development and self-employment in the country, people are offered to save expensive gas and electricity. That is why our labor migration continues to remain at a high level; moreover, from year to year, it is rapidly accelerating. So, in 2016, the number of funds received by Ukraine from the labor migrants increased by 8%, in 2017 - by 24%, and for the first half of this year 2018 - by 31%.



Figure 2 - Intensity of labour migration by region of Ukraine (5 – highest, 1 – Lowest)

The main reason that causes people to leave the country is the inability to obtain a decent wage in their home country. The average salary in Ukraine is only 342 dollars. Moreover, most vacancies provide almost half of the earnings. At the same time, in Poland, popular among the Ukrainian migrants, one can earn about 1000 euros a month. This difference pushes hundreds of thousands of Ukrainians to leave for work.

Ukrainians earn and transfer money home more than anyone else. However, they also have better-paid jobs. Russia is no longer the main market for our labor migrants because in Poland salaries are 40-50% higher. One-third of all transfers to Ukraine come from Poland. There are more Ukrainian labor migrants in Russia than in Poland. But the income from Russia to Ukraine is much larger than from the western countries - last year, 1.4 billion dollars came from Russia. This speaks not only of the difference in salaries but also of some restrictions on the money transfer. Many just carry cash through the border. At the same time, Russia's statistics show that the number of Ukrainian labor migrants in the Russian Federation is declining - in 2017, 48% less Ukrainians arrived there than a year earlier.

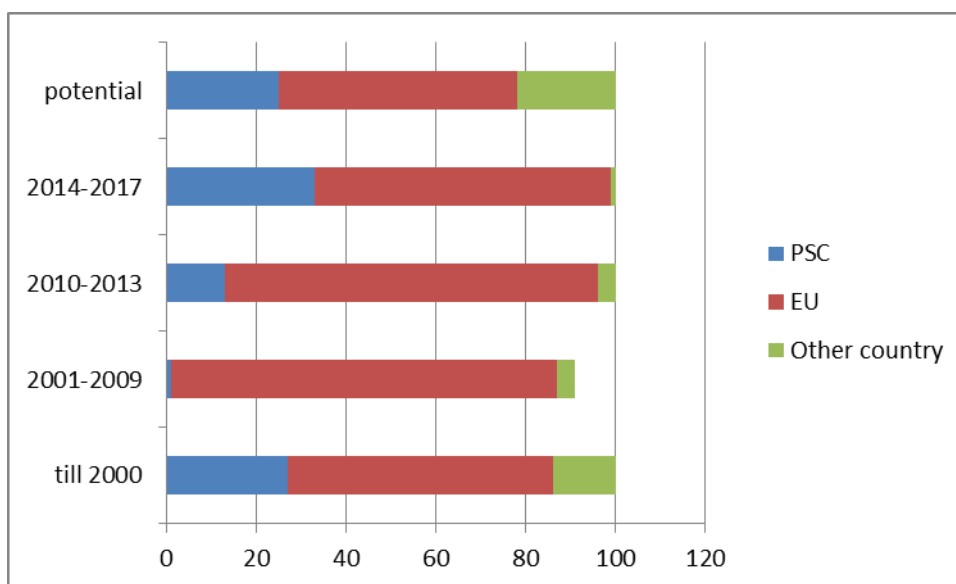


Figure 3 - Dynamics of the ratio of labor migrants by main destination regions

Every sign indicates that the rate of mass labor migration would continue to grow; first of all, people would emigrate to Poland. Polish Vice-Minister of Foreign Affairs Bartosz Cichocki stated that in 2017, Ukrainian labor migrants transferred from Poland the amount corresponding to 3-4% of Ukraine's GDP. Also, the Polish diplomat stressed: "To understand the scale of this phenomenon, you must understand that in 2016, according to estimates, Ukrainians working in Poland, sent to Ukraine about 8 billion zloty (2,2 billion USD). In 2017 - more than 12 billion zloty (3,5 billion USD).

According to the National Academy of Sciences of Ukraine, 12% of Ukrainian households have at least one member of the family who worked abroad.

In 2017 according to the research of the sociological group "Rating", which surveyed 1,200 respondents in all parts of the country, it was established that the largest countries where Ukrainians migrate are the Russian Federation (43%), Poland (14%), Italy (13%) and the Czech Republic (12 %). Among other countries where flows of labor migration are directed are Spain (4.5%), Germany (2%), Hungary (2%), Portugal and Belarus (1%); - there are significant differences in the directions of external labor migration of men and women.

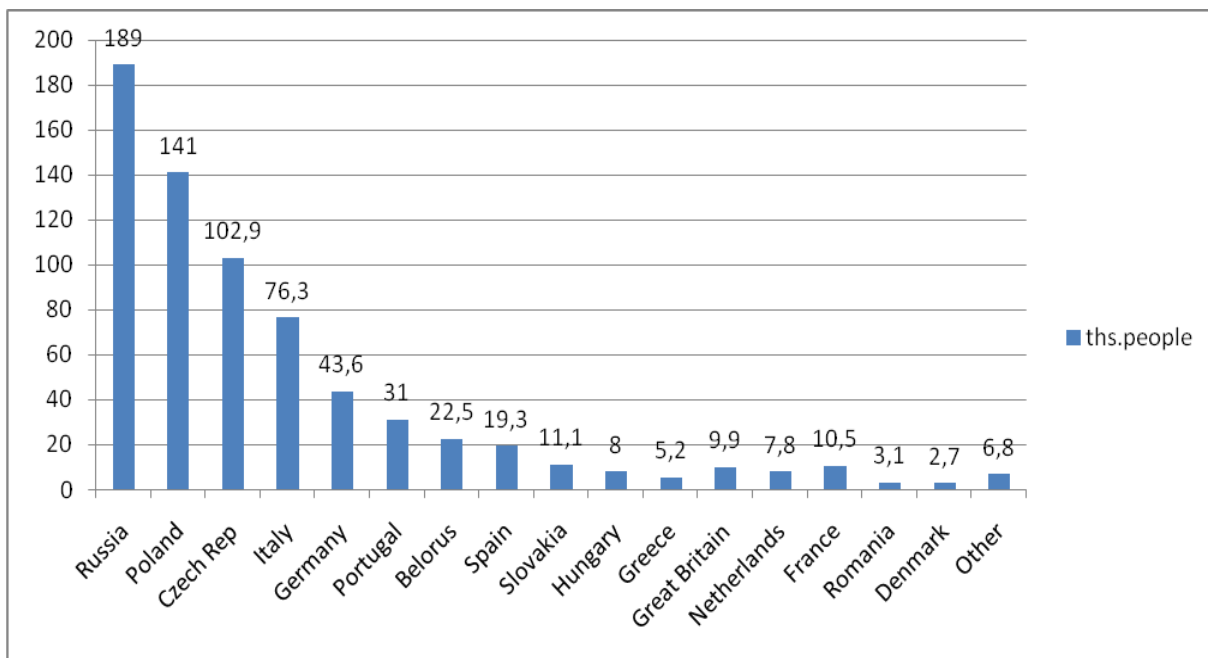


Figure 4 - The number of Ukrainian migrant workers in the EU countries (2017)

Finally, it is a challenge for us to again become a dynamically developing country, attractive for national business and international investors. In the meantime, experts persuade that by the end of 2018, from 500 thousand to 1 million Ukrainian workers might leave the country in search of work.

The NBU marked that currently, the entrepreneurs mark the lack of qualified workers on the market, which is due to work migration to Poland and other countries, where Ukrainians often choose to stay for good.

One of the major risks of the basic scenario is the ongoing flow of the workforce from Ukraine. It will further increase the disproportion between the demand and offer on the market. The labor migration also prevents the growth of production rate, above all in construction, industry, agriculture and communications.

According to the local employment services in Poland, over the previous year, 62 percent of migrant workers from Ukraine got their jobs abroad illegally. Last year, only 12150

people used the services of legal companies. “Almost 90 percent of people try to go abroad, searching for assistance among their fellows who don't even have a license”, said Vasyl Voskoboynyk, the president of the All-Ukraine Association of Companies for International Recruitment.

The lawyers recommend that workers resort to solely legal mechanisms when searching for a job in the neighboring EU countries; another piece of advice is to search for the enterprises that enjoy the benefits of foreign investments.

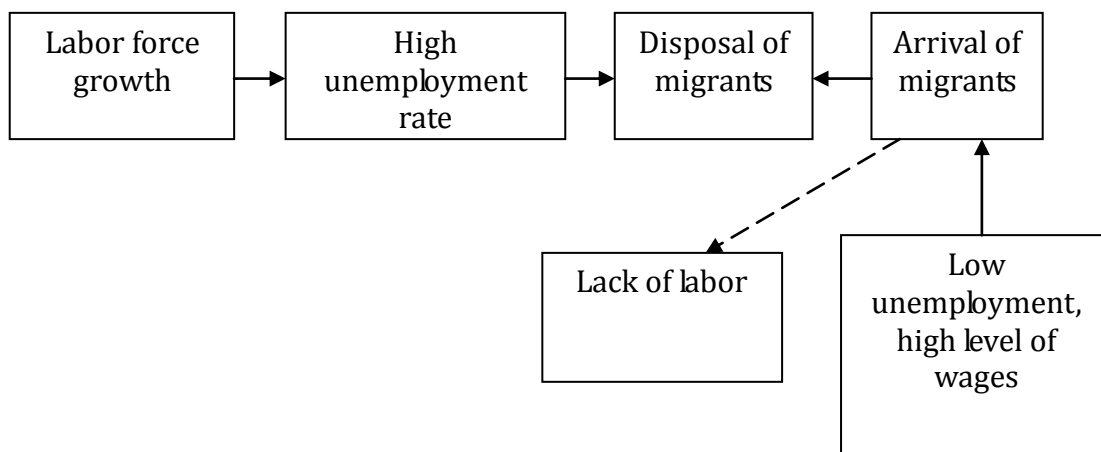


Figure 5 - Causal mechanism of migration

I think Ukraine is on a similar journey to that of other Eastern European countries. Both theory and practice confirm that in the long run migration may bring many benefits not only for migrants themselves and their family members, but also for their countries of origin.

Lower unemployment, decline in poverty, higher income and well-being are not the only benefits of migration for the migrants and their relatives. Often, there are many more positive consequences of migration for human development, including improvements in education and healthcare. In its turn, the state receives large volumes of remittances, which are far less volatile and far more reliable sources of foreign currency compared to routes of capital in many developing countries. By the way, the volumes of private remittances have increased in Ukraine as well – to 8.4% of GDP in 2017 (according to the new National Bank methodology) and are continuing to improve this year too (in January-May they reached \$4.5 billion and exceeded last year's figure by 30%).

However, remittances are not a major part of the balance of payments. They comprise 10-15% of the value of imports or exports. In particular, in 2011 and 2012, remittances were not enough to cover the trade deficit which stood at USD 10.2 bln and USD 14.3 bln respectively. It should also be noted that the net contribution of remittances to the balance of payments is less

than the gross contribution as remittances stimulate the growth of imports. The above data on the propensity to consume imported goods and services suggest that imported goods and services account for about a third of remittances received by Ukraine.

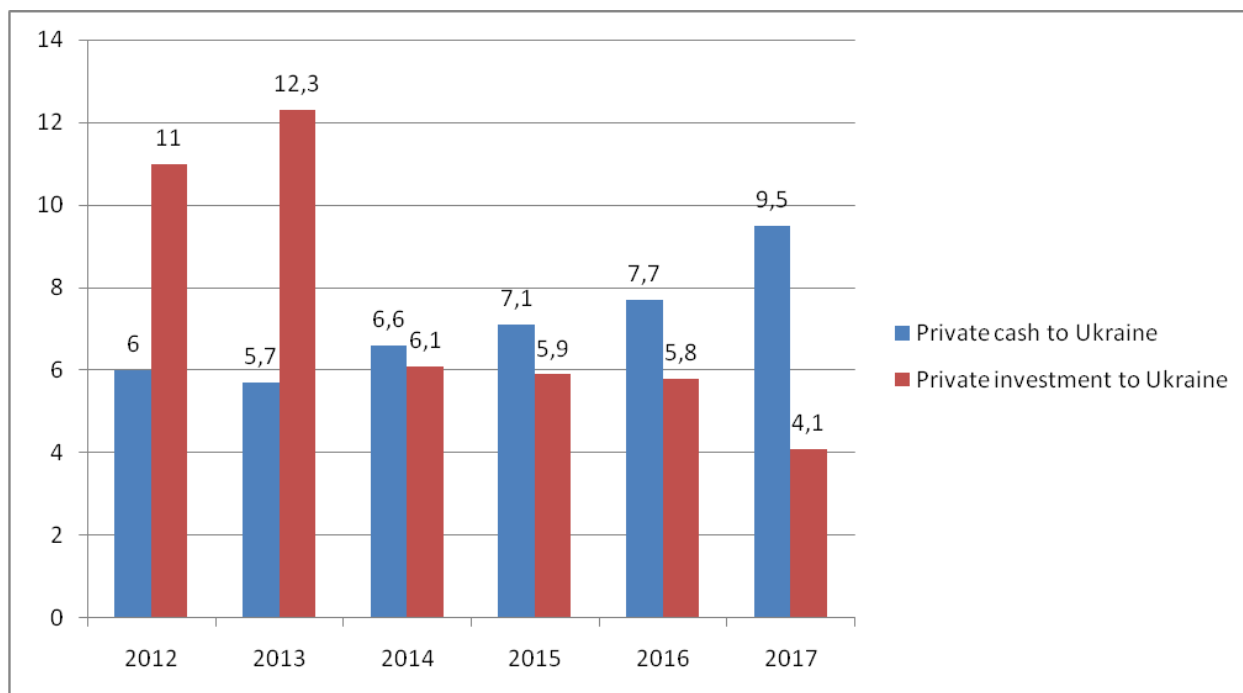


Figure 6 - Foreign direct investment and private remittances to Ukraine in 2012-2017 (bln USD)

However, in the long run, the consequences are far less positive: the state is left with less workforce, is losing educated young people and qualified professionals, is experiencing greater pressure on its public finance. Significant migration to overseas destinations (including the movement of highly qualified professionals) and the ageing population – altogether pose a great challenge for the state, taking into account the need to support a competitive economy. For example, the “brain outflow” means a loss of public resources invested in their education, a shrinking volume of manufacturing, a worsening of the business climate within the country.

So what needs to change in Ukraine in order for people to be incentivized to work here? I believe the most important thing is to reach substantial economic growth.

This is the reasonable grounds for securing a growth and population’s disposable income. Unfortunately, the Ukrainian wages cannot be compared to the European level. For instance, according to the data from OECD, the average annual wage in Poland in 2017 was PLN 50.8 thousand (close to \$13,500), in Portugal – EUR 17,000, in Spain – EUR 28,000. At the same time, in Ukraine it is around UAH 100,000 (\$3,800). Therefore, in order to curb the levels of labor migration, the Ukrainian wages need to get closer to the European levels, based on a higher productivity. As we can see, the government is already taking action in that direction. For example, the real wage index in June 2018 stood at 113% relative to June of 2017.

When it comes to discouraging the migration sentiment, the world experience including the history of Eastern European nations indicates that a comprehensive approach should be implemented. As such, the priority should be given to the creation of decent employment conditions, to the improvement of public institutions, to the creation of conditions for higher employment, to the improvements in productivity and in the economy overall.

In order to manage migration more effectively, we need to implement these fundamental ideas.

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