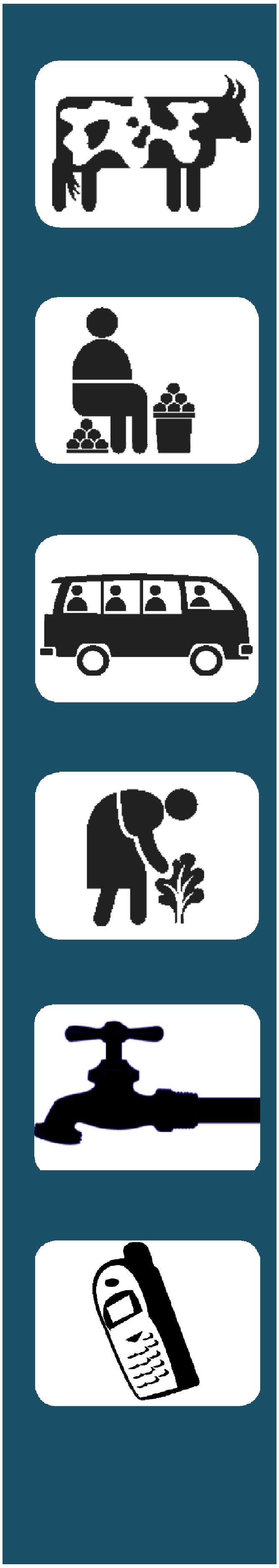
TRADE & INDUSTRIAL POLICY STRATEGIES



POLICY BRIEF

An alternative perspective on the emigration of highly skilled people from South Africa

INTRODUCTION

Emigration of highly skilled people* has become an increasing concern in South Africa in recent years. While it is uncontested that there has been skilled emigration from South Africa, reliable and up-to-date figures on the extent of this emigration are not available.

Statistics South Africa (Stats SA) stopped collecting emigration statistics from February 2004 following the Immigration Act No. 13 of 2002. Even statistics collected prior to 2004 suffered from severe shortcomings as only self-declared emigrants were captured. Official statistics thus understated the true number of highly skilled emigrants. Research in 2000 showed that the number of skilled emigrants from South Africa was about 3.2 times higher than official Stats SA figures suggested (Kaplan, Meyer and Brown, 2000).

At the country level, a net loss of highly skilled people leads to a brain drain, which has negative effects on the future development and growth of the economy. At the company level, any net outflow of highly skilled people exacerbates difficulties to recruit, or replace, the highly skilled staff increasingly needed as South Africa's economy becomes more specialised and service orientated.

In the annual World Economic Forum *Global Competitiveness Report,* an inadequately educated workforce is regularly mentioned as one of the most problematic factors of doing business in South Africa.

* Due to the lack of a precise, international definition of 'highly-skilled people', the term is used in different ways in empirical and theoretical work. This policy brief uses the following definition: *"Highly skilled workers are normally defined as having a university degree or extensive/equivalent experience in a given field. According to the Organisation for Economic Co-operation and Development . . . it includes highly skilled specialists, independent executives and senior managers, specialized technicians or tradespersons, investors, business persons, "keyworkers" and subcontract workers."* (Iredale, 2001: 8)

Likewise, the Grant Thornton (2011) survey notes that 37% of South African business owners consider – for the fifth consecutive year – the lack of a skilled workforce as the greatest constraint to business expansion.

It should be noted, however, that emigration – and emigration of skilled people in particular – is not unique to South Africa. In many developing countries and even in some developed countries, such as Canada, New Zealand and several European countries (especially smaller open economies), concerns about the emigration of their skilled population and the ensuing brain drain are also growing.

It should also be emphasised that in an increasingly globalised world, migration is not unusual. In general, young and highly skilled people are the most mobile population group. The temporary emigration of young, highly skilled individuals is even often directly or indirectly promoted, for example through international exchange programmes at the tertiary education level or to gain international work experience.

Without doubt, the loss of human capital is unfavourable to the South African economy and its future development perspectives. It is difficult, though, to significantly reduce skilled emigration in the short run, let alone to reverse past emigration decisions. Nonetheless, there would be some promising measures to influence the migration balance of highly skilled people in the medium to long term in favour of the South African economy.

However, even if such measures are successfully implemented, it is unlikely that emigration will cease altogether or that all highly skilled South African expatriates would return home. Introducing appropriate measures is nevertheless recommended to ensure a positive migration balance of highly skilled people such that the demand of the South African economy can be met.

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This policy brief takes a different focus and argues that emigration does not have detrimental effects only, but that highly skilled people can exert a positive influence on the growth and economic development, even when they do not reside in the country anymore. It recommends that South Africa resumes its efforts to tap into the huge potential associated with the large, highly skilled expatriate communities in numerous countries.

Australia, Canada, New Zealand, the UK and the US host large numbers of South African expatriates, many of whom are highly skilled. According to OECD (2008), 47.4% of the South African expatriate population in the OECD has tertiary education. If this largely neglected resource is successfully tapped, the emigration of skilled people and the considerable stock of highly skilled South African expatriates do not need to constitute a loss to the South African economy any longer. On the contrary, it has the potential to become a real asset to the country.

BRAIN DRAIN

A net loss of highly-skilled people through permanent or long-term emigration can lead to a detrimental brain drain. The reason is that simultaneous with their emigration, "skills as a stock of knowledge and/or abilities embedded in the individual" (Meyer, 2001: 95) are lost to the economy. Furthermore, highly skilled individuals generate positive externalities for the economy and for society, which are also lost when they emigrate (see Kesselman, 2001, Özden and Schiff, 2006 and World Bank, 2011a). These include:

- Increased *productivity* of co-workers and employees.
- Increased *employment*, since skilled labour is a complement to unskilled labour in many sectors (and in professional services sectors in particular).
- Positive impact on the *success and performance of enterprises* (which in turn augments economic growth and creates job opportunities for less qualified workers).
- Increased *competitiveness* through innovations and inventions.
- Provision of *key public services* (e.g. teachers/ lecturers in the field of education or health professionals/doctors in the health sector).
- Positive effect on *fiscal budget* (i.e. the taxes highly skilled people pay are generally larger than the value of the public services that they consume and the public funds invested in their education).
- Contribution to debate on *public and social issues* as well as crucial impact on *institutions* and *politics.*

The importance of human capital and the negative economic consequences of its scarcity or lack, which is aggravated by the emigration of highly skilled people, have been demonstrated in both the theoretical and the empirical literature. A brain drain constrains economic growth, which in turn negatively affects employment and the creation of new jobs. In addition, highly skilled people and professionals obtain a scarcity premium, depending on their availability, which exerts a negative effect on the wages of less qualified workers, leading to an increase in wage and income inequality (World Bank, 2011a).

In South Africa, the supply of highly skilled staff hardly keeps up with the growing demand. The shortage of financial management, accounting, auditing and engineering skills as well as shortages in other sectors are emphasised by the World Bank (2011a), SAICA (2008) and the Solidarity Research Institute (2008). At the same time, global demand for highly-skilled people has been growing. This has intensified the worldwide competition for the available skills – including for highly skilled South Africans.

People with marketable and internationally transferable qualifications such as engineering, nursing or medicine are particularly prone to emigration if the conditions in their home country are deemed unsatisfactory. Moreover, the widespread active recruitment of South African professionals by international recruitment agencies reinforces emigration (Erasmus and Breier, 2009). As a consequence, the scarcity of skilled staff increasingly constrains the growth of particular sectors.

CHANGING PERCEPTIONS

In the past, the emigration of highly skilled people was seen as a once-and-for-all loss to the economy. Later on, it became clear that some emigration is only temporary. When these emigrants return, they are likely to do so with more skills. These are acquired in the destination country, for example in the form of a tertiary education, through further vocational training, a research stay or through international work experience. The country of origin thus gains new human capital, which could make up for the initial loss of human capital to a considerable extent.

These findings led to the conclusion that "temporary emigration may be the best of all in an 'optimal brain drain' world" (Lowell, 2001: 18). The exclusively negative view on the economic effects of emigration thus changed, provided that some of the emigrants returned (tacitly assuming that they come back with a higher human capital stock). In this regard, Lien (2006) noted that "emigration is not the problem, but the nonreturn of emigrants is" (p. 262).

While some emigrants eventually return to their country of origin, the question is which ones? Empirical research by Borjas and Bratsberg (1996) in the US showed that if mainly skilled people in the countries of origin emigrated, return migrants tend to be the least skilled among these emigrants.

The empirical evidence therefore implies an unfavourable bias, such that return migration may not make up for the initial loss of skills to the extent that was expected.

Recently, the implicit distinction between beneficial temporary emigration and detrimental permanent or long-term emigration has been questioned. It has been recognised that there might even be some potential benefits to the country of origin if the emigrants do not return at all.

POTENTIAL BENEFITS OF EMIGRATION

One positive aspect of emigration was recognised early. Many expatriates regularly send money back home to family or friends. For poorer countries, these inflows of money are considerable compared to the Gross Domestic Product (GDP). In 2009, for instance, remittances as a share of GDP amounted to 26.2% in Lesotho, 10.6% in Senegal, 5.7% in Kenya, 5.5% in Nigeria and 4.7% in Uganda. In South Africa, remittance inflows amounted to a comparatively low 0.3% of GDP – in absolute terms, however, this was equivalent to US$902 million (World Bank, 2011b).

Remittances provide developing countries with a steady flow of foreign exchange and help to further economic development. In many instances, remittance flows are less volatile than development aid flows or foreign direct investment (FDI). They also increase the disposable income of recipient households, which is likely to boost aggregate demand in the countries of origin.

Recent estimates by the World Bank showed that the diaspora savings for the African continent amounted to almost US$53 billion in 2009 – with Sub-Saharan expatriates accounting for more than US$30 billion (Ratha and Sanket, 2011). These estimates demonstrate that African emigrants make considerable savings abroad, which are partially sent back to the respective countries of origin.

Beyond the obvious benefits of remittances, it is now gradually being recognised that expatriates can exert a positive and valuable influence on the development and economic growth of their country of origin in a variety of other ways. As with remittances, this is built on emigrants who are willing to maintain a close connection with their country of origin and that they want to contribute to its development.

Emigrants or expatriates generally play an important role as ambassadors for their country of origin. Moreover, they create and enforce – at times even unwittingly – links and relationships between their country of origin and the country where they have taken up residence. These have different forms, yet they have something in common – they all contribute to the economic development and growth in the country of origin:

- Technology transfer
- Knowledge transfer
- Active co-operation between institutions
- Creation of business and trade networks
- Trade creation
- Channelling of resources and FDI

The *transfer of technologies and knowledge* that highly skilled emigrants facilitate from the generally richer and more advanced destination countries back to their countries of origin is not negligible. At times, it is deemed as important as the physical return of emigrants (see Lowell, 2001 and Harris, 2005). The active promotion of a continuous transfer of technologies and knowledge and its successful application in the country of origin has the potential to significantly contribute to the home economy.

Furthermore, academics or researchers can make an important contribution to the *active co-operation* between universities and research institutions in the source and the destination country. This could include, for instance, increased collaboration between the organisations that expatriates work for and similar ones in the country of origin, the promotion of exchange programmes (for students and young academics from the source country) or short, temporary visits of expatriates (or their colleagues in the destination country) at universities or research institutions in the home country.

Business people, executives and managers can, after emigrating, actively foster co-operation between economic and business associations in the two countries. Even more important, they are in a prime position to play a crucial role in establishing *new business and trade networks*, or growing existing ones (see also IOM, 2003 and Docquier and Marfourk, 2006), which opens up opportunities for companies and small businesses in the country of origin.

In general, the presence of expatriates leads to increased *opportunities for trade and exports* of local products. With South African expatriates, their consumption preferences for specific South African products, such as biltong, rooibos tea or wine, saw the setting up of South African shops in countries with a certain number of expatriates. While the initial demand may be largely due to South African expatriates, the products are likely to be gradually introduced to more customers, resulting in a growing demand overseas for South African products.

Moreover, expatriates usually know their country of origin fairly well, from the time they lived there, from visits and through information from friends and relatives who still live there. Compared to people in the destination country, expatriates therefore often have valuable "insider knowledge". This puts them in a unique position to much more efficiently *channel* *resources and foreign direct investments* to their country of origin (Harris and Schmitt, 2005).

The fact that at least some emigration can and does take place may change some incentives in favour of the economic development of the country. First, the prospect of emigrating to a country with higher returns to education may provide a general incentive to invest more in human capital. This is because the expected return on this investment rises when there is an option to emigrate later. Only some of the people who increased their investment in education will eventually emigrate though (Stark, Helmenstein and Prskawetz, 1997 and 1998; Vidal, 1998).

Second, the option to emigrate can impose some discipline on tax authorities. Private investment in education is usually made in view of a higher earning potential. However, once the human capital is acquired, it is vulnerable to over-taxation when emigration is difficult or not possible. If emigration can take place without difficulty, people are likely to emigrate progressively if the tax burden increases. In this context, tax authorities are constrained in taxing human capital, which makes it more worthwhile to invest in education. This in turn increases the human capital stock and ultimately improves the economic growth and development prospects of the country (Kuhn and McAusland, 2006).

CONCLUSION

The emigration of highly skilled people is not solely detrimental to a country as it was often thought in the past. This is also being recognised in developing countries (see, for example Ratha and Plaza, 2011, whose focus is specifically on Africa). South Africa also has the opportunity to take advantage of its expatriates in numerous countries all over the world, many of whom are highly skilled. This can provide the country with sizeable benefits, *if* this resource is tapped successfully.

Although there is a huge, as yet untapped potential for South Africa, it is unlikely that the benefits will unfold to their full extent without any guidance or support. In some instances, specific structures to strengthen the ties between highly-skilled expatriates and their country of origin are indispensable to induce and enable them to efficiently participate in their country's economic development from abroad.

A promising way to achieve this is though a network approach. At the continental level, the World Bank started the African Diaspora Program (ADP) in September 2007 in an effort to promote and enable the African diaspora to contribute human and financial capital to the economic development of their countries of origin. The ADP is carried out in partnership with the African Union, partner countries, partner donors and African Diaspora Professional Networks and Hometown Associations. The implementation of the ADP indicates that emigration of skilled people is no longer merely regarded as a complete loss to the countries of origin.

South Africa has already made an attempt through the establishment of the South African Network of Skills Abroad (SANSA). Such a network has enormous potential. It can tap into the skills that the country desperately needs, and it can also have multiplier effects as it facilitates access to the socio-occupational networks that expatriates have built up in diverse countries. However, establishing a network and mobilising expatriates is not easy, nor is its upkeep. The difficulties that were encountered in the process of implementing SANSA and the upkeep of the network are documented by Kaplan et al. (2000), Kaplan and Meyer (1999) and Meyer (2001).

Expatriates' willingness to contribute to developing their country of origin is a necessary but not sufficient condition for the success of the network approach. The network depends crucially on the facilitation and the support of the two countries involved and the respective institutions. The commitment of government, industry associations and research institutions in the source and destination countries is of utmost importance.

Good organisation of the network is indispensable to facilitate information-exchange, communication and co-ordinated activities. The network should provide a platform where expatriates (or the institutions and organisations they represent) and people in the country of origin (or individual companies, research institutions and organisations) can interact to establish links and relationships in an easy and cost-efficient way. It should, for example, allow companies or research institutions to advertise projects, planned co-operations or even jobs on this platform.

It is time to revise the traditional view on the economic consequences of emigration. Although it is uncontested that a lack or even just a scarcity of skilled people can put a serious constraint on an economy, there are also some potential benefits. Expatriates are a valuable asset to a country, provided that this source is successfully tapped. In this case, the net loss caused by the emigration of the highly skilled is considerably reduced.

It is therefore strongly recommended that South Africa actively takes advantage of the potential offered by its expatriate population. Emigration does not need to remain a mere loss to the country. On the contrary, the country can draw considerable benefits from its expatriates. It should thus start to view their expatriates as an asset. The challenge is to tap this valuable resource. The South African Network of Skills Abroad is a promising starting point that is well worth pursuing and building on.

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Policy Brief prepared by Thomas Höppli, TIPS

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www.tips.org.za

TIPS is an research institution active in South Africa and the region that facilitates policy development

info@tips.org.za +27 12 431 7900