

# THE IMPACT OF INTERNATIONAL MIGRATION PROCESSES ON THE ECONOMY ON THE EXAMPLE OF UKRAINE

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**Abstract.** The need to study the consequences of international migration processes is urgent for Ukraine, which is the general purpose of this work. *The purpose of this work* is to generalize theoretical approaches to the study of methods of analysis of the impact of international migration processes on the economy of the state, to study specific aspects of the impact on the economy of Ukraine. Despite the fact that the theoretical base, although present, cannot fully reveal all the aspects presented in the work, there is a need to use a significant methodological apparatus. *The methods* of induction, deduction, synthesis and analysis, comparison, historical retrospective, economic-mathematical analysis, graphic method for visual presentation of the results were used to write this research. *The object of research* in this paper is actually the processes of international labor migrations at the current stage of development. *The subject of research* in this paper is the economic aspect of the consequences of international labor migration for the economy of the country in the conditions of globalization. *The practical significance* of the article is to study the impact of international migration processes on the economy of Ukraine. The bottom line is that similar works were mainly aimed at studying the effects of individual factors that shape international migration processes or at the limited economies of individual countries that have their own characteristics and, accordingly, such conclusions cannot be extrapolated to absolutely all world economy. *Value/originality* lies in the fact that the article analyzed applied aspects of the impact of international migration processes on the economy of Ukraine. As a result of the study, key aspects of the positive and negative impact of international migration processes on the economic development of countries were analyzed. It was found that despite the presence of positive aspects of the impact of migration in the overall result, the labor donor country still loses. And on the example of Ukraine, we found that as a result of migration, the Ukrainian economy still loses.

**Key words:** international labor migrations, labor transfers, globalization, impact on the economy, labor resources.

**JEL Classification:** E71, F22, F32, J11

## 1. Introduction

International migration processes are one of the manifestations of international economic relations. Accordingly, with the development of globalization processes, when the general processes of interweaving of national economies in terms of various aspects of economic relations began to intensify, migration processes also began to gain momentum. Ukraine is involved in globalization processes quite strongly. Our country occupies a fairly high position (top-50) in the respective regions and ratings, which indicates that Ukraine occupies a fairly significant position in globalization processes, at least on a regional scale.

Thus, the relevance of international migration processes for Ukraine will also increase given the

fact that globalization processes in our country are generally intensifying. And international migration processes are actually a consequence of such economic transformations. The urgency of the migration problem for Ukraine is also determined by the nature, structure and impact of such migrations on the economy and the overall socio-economic situation in our country. The fact is that we can observe continuous imbalances in the structure of international migration processes, and in particular in Ukraine. First of all, this happens due to the unfavorable economic and military-political situation, a fairly serious outflow of the population continues. And it is happening on such a scale that it has an impact not only on the economic situation,

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but also on the demographic situation in our country in general.

We should also say that the majority of migrants are young and able-bodied people, who are forming a significant potential for the further development of the economy and the creation of added value. A significant part of migrants are intellectual workers. Likewise, the process of "brain drain" is very characteristic and negatively affects the economy of Ukraine. Thus, the relevance of the study is determined both by the economic situation in Ukraine and by intensifying processes of globalization that directly affect our country.

## **2. Theoretical aspect of the influence of migrations on the country's economy**

By its essence, labor services are a kind of commodity. Of course, they are inseparable from a person, but labor services also have their own supply and demand. Actually, the supply of labor services in the country is formed by labor resources. It is clear that if due to certain circumstances, i.e. migration, there is an influx of labor migrants, then we also observe an increase in the absolute amount of labor resources. Thus, the labor supply in some countries also increases (Malthus, 1798).

According to the basic economic laws, when the supply increases, with other constant conditions, the price of the given product decreases. In fact, in our case, there will be a decrease in wages, which balances supply and demand in the host country. And since the demand for labor almost does not change due to the influx of migrants, wages in such a country will decrease (Collyer, 2015).

If we talk about the outflow of labor resources from a certain country, then the labor supply will decrease (LaLonde et al., 1994). Again, according to basic economic laws, wages should rise. But this is only a theoretical model, and in real life it cannot fully demonstrate the consequences of migration processes.

If we talk about Ukraine as a labor force donor, the outflow is mainly due to the unemployed population. That is, although it is a part of labor resources, but since it is not employed in real working life, it affects wages to a lesser extent. If we talk about Ukraine, then at the level of unemployment of about 10 percent (in the pre-war period), we can say that it is precisely

among these unemployed that migration attitudes are most actively manifested (Dovzhuk, 2004). Accordingly, wages in Ukraine will not change due to migration processes. Although according to the theoretical model, it should increase.

In receiving countries, it is necessary to understand that migrants often become a source of cheap labor (Malthus, 1798). Accordingly, they have a greater impact on industries where low-skilled labor is in demand. Demand for such jobs is mainly in agriculture or service professions such as caregivers, cleaners, and drivers. For some European countries, where migration flows from Ukraine are mainly directed, the very arrival of domestic migrants is an opportunity to support the development of this industry (Vinokurov, 2020). Thus, there is indeed a decrease in wages from the hypothetical level that would have been established there under the condition that the corresponding national producers would have worked. For example, if our Ukrainian nurses did not work in Italy, then according to some studies, the salary would be two and a half times more than the current one (Zhurba, 2008). Again, we are talking about the specifics of the impact only on certain industries.

In fact, this is a manifestation of the fact that there will be two labor markets in the host countries – the national labor market and the migrant market. Accordingly, wages will mainly be formed in markets where migrants are less involved.

## **3. An applied aspect of the impact of migrants on the country's economy**

In order to generally analyze the gains of the world economy from the opening of labor markets and the movement of labor resources, we can once again turn to the general theoretical model. Of course, it does not have a significant real economic basis, but it is generally used to analyze such movements and their impact, and is often used in scientific literature to prove the effectiveness of migration processes. The theoretical model is shown in the figure below.

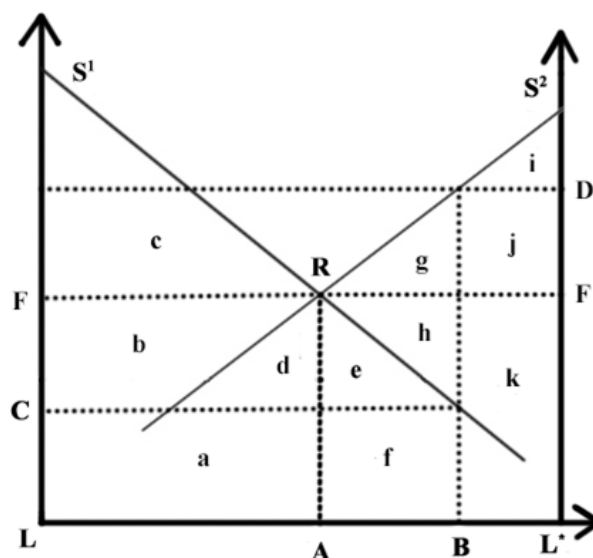
If we do not go into the details of the process in this case, since it is generally accepted and well-known in the circles of economic specialists, it is worth noting that in general, as a result of the change in the wage rate and its actual

balancing between the two countries, as in this example, an increase in production will be observed. In fact, if we have two countries (and such examples can be extrapolated to absolutely all countries of the world) with different wage rates (in our case, this is the value of  $LC$  and  $L^*D$ ), when setting a single wage rate at the level of  $F$ , it will be observed, respectively, the movement of labor from the first country to the second country, since the salary will be higher there. This generally corresponds to the general direction of economic migrations that we can observe in the world. At the same time, due to the fact that earlier labor resources were limited in each country, the countries could not use the values of the triangle  $g$  and  $h$  in their own disposal and production. At the same time, due to the opening of borders, labor resources will create an additional product in the form of the triangle mentioned above. Again, this will be the amount of migrants, which in this case is related to the segment  $AB$ . And the second country will also receive additional benefits in the form of a triangle  $g$  again at the expense of the product produced by migrants.

Thus, we can see that overall production has increased in the two countries. In accordance with the world economy, we can talk about an increase in GDP. Thus, for the general economic model and the general world economy, it is important to understand that global labor migrations have a positive effect, as they allow to maximize production volumes.

At the same time, we must understand that, of course, economic development of a country can be affected by migration both positively and negatively. Thus, it is necessary to emphasize once again that there is a donor country acting as a source of labor and a host country (a country receiving labor), which have a significant number of advantages.

1) According to even the above theoretical model, we see that there is an opportunity to increase production. And this is logical, since every arriving migrant will in any case try to get a job with a high probability. Accordingly, he will have a certain labor productivity and will create added value throughout his stay abroad. Since the wages of emigrants are usually somewhat lower, the gross product created by them will be smaller, but this is a direct impact on GDP due to the creation of additional gross product



**Figure 1. The impact of migration on world production**

Source: (Ratha et al., 2011)

(Pettinger, 2020). Again, we have to talk about the multiplier effect, since in any case, migrants in the new country will create additional demand for both housing and the service sector, and banally for food and other consumer goods. In any case, the earned part of the funds will remain in the country of migration and be spent there. Accordingly, it will rotate and create added product, as in the example of Keynes's multiplicative model. Accordingly, growth in demand may actually stimulate the need for additional production and further expansion of the economy with increased demand for labor. In reality, the impact of additional demand is not so significant and the multiplier effect is not observed in such a significant way, but still the demand is growing, and basically it allows to increase business activity and increase the volumes of consumption and production.

2) There are also advantages for the host country, because in general, costs for products produced with the help of migrant labor can be reduced (1967). As we have already noted above, in any case, an increase in supply with a relatively stable demand for labor will stimulate a decrease in wages. Even if we are talking about industries where there is mainly labor migration capital, and the labor market is formed at the expense of immigrants, we should talk about the fact that costs will be reduced. Accordingly, the cost of goods and services will be lower. It is clear that there is some influence in all industries

where the share of immigrants is smaller. At a minimum, they restrain wage increases for national workers. Again, this allows you to reduce the cost of a manufactured unit of production and either use the effect of scale, or simply improve competitiveness both within the economy and on international markets due to lower costs per unit of production. Again, this advantage may not be so obvious, but it also has a hidden meaning, especially when we talk about the significant scale of migration within a certain economy.

3) If we talk about the peculiarities of the life of migrants in the host country, it is clear that in addition to the expenses they have to bear in order to feed themselves and ensure a level of viability, they are also forced to pay a number of taxes. On the one hand, when consuming goods and services, they pay value-added taxes in the respective countries. On the other hand, they have to pay certain taxes in the form of payroll deductions or excise taxes or even paid work permits. In any case, they generate additional tax revenues for countries, which can be used to finance population transfers or government spending. Again, we turn to Keynes's multiplicative model, where with an increase in such payments, there is an infusion into the economy, which, due to the multiplier effect and further use of such funds, can have an impact in the form of an increase in the gross domestic product of a similar country.

4) Migrants can often become sources of important knowledge and technologies for the host country. Here, too, it is difficult to measure such an impact, but it is clear that if we are talking about the migration of highly qualified labor or the so-called "brain drain", then they can carry with them some technologies and knowledge that can be implemented in corporate enterprises. According to statistical data, a third of the Nobel Prize laureates from the United States are immigrants by origin, that is, the country has demonstrated that it gathers the most talented working population from around the world (Anderson, 2019).

5) Often, migrants, especially in the medium and long term, can become not only a source of expanded production and development in case of economic expansion and a shortage of labor resources (especially as it is often considered in neighboring Poland), but also a certain safety

margin in case of a difficult situation and crises. Just as we see in the framework of the corona crisis, when a significant number of migrants began to return to Ukraine, in the receiving countries they simply began to be released. Accordingly, when an economic crisis began, which is associated with a reduction in production and a reduction in employment, migrants may first of all become those who are fired by national companies. And if it is enough for them to save labor resources precisely at the expense of migrants, then further reduction of national workers simply will not happen. This will have less impact both on the economy and, to a greater extent, on the social climate within the country, since the domestic population itself will not feel the impact of cost-cutting measures and layoffs.

6) It is clear that migrants are often seen as a tool for improving the demographic situation. So, if we see a Europe that suffers from a depopulation crisis, then for it the relevant migrants can become a certain tool for improving the demographic characteristics of the population. Again, this can be used both within a certain region and city, and across the entire state. Various programs of individual states (Italy, Germany) that try to stimulate emigration to the country, cities or regions in order to improve the demographic situation and reduce the average age, or simply to provide the population with similar territories are often discussed within the scope of wide access (1982).

7) As we have already noted, migrants form a kind of labor market in industries that require low-skilled labor. So, for example, in Italy and Poland, our workers are often considered seasonal in low-skilled jobs, where in fact, today, domestic workers do not work in the lowest positions. In fact, the number of migrants has become so large that it forms its own labor market. Accordingly, in the absence of migrants, such industries simply would not have the opportunity to attract labor resources at all, and therefore would not have opportunities for development as such. Thus, precisely at the expense of migrants, there is an opportunity for such industries to resume their functioning. If we talk about the examples of developed European countries, then there are low-skilled workers in Germany and France (mainly from the countries of the Middle East and Africa). If we talk about the European countries



neighboring Ukraine, then again they are focused on our domestic workers. Thus, the country can save money by paying lower wages to migrants rather than incentivizing national workers to work in such positions in some way.

8) It should also be said that very often the relevant migrants are an opportunity for significant savings for the host country. In this case, the country does not have to pay transfers at the birth of a child, its further education, certain transfers for providing health care, etc. Thus, the country receives a ready-made worker who does not require additional costs and investments. Moreover, the labor donor country has already invested funds in the education and technical training of the relevant employee. According to some studies, such savings can amount to three hundred and fifty to seven hundred thousand dollars per migrant. Within the framework of the developed migration flow, it is clear that these figures are larger and amount to hundreds of millions of dollars.

Therefore, we considered only concepts related to the impact of migration on a global scale and with positive consequences for the host country. And since two countries are involved in the process of international migration, we have to consider the consequences that will be characteristic of each of these countries in a negative and positive aspect.

For a country acting as a labor force donor, positive aspects are manifested in the fact that the level of unemployment may decrease. Of course, such an impact is smaller than the gain from migration for the country receiving the labor force. In the history of the economic development of the countries of the world, there are cases when the governments of the countries specifically stimulated migration to developed countries in order to improve the socio-economic situation in view of the significant level of unemployment. Such examples refer to the 70s of the last century, when in Egypt they tried to stimulate emigration to the developed oil-producing countries in the Persian Gulf or Puerto Rico, where a certain level of migration to the developed United States of America was always taken into account in the implementation of annual and historical forecasts.

The second aspect of the positive impact of labor migration is foreign exchange earnings,

which are manifested through labor transfers, which are transferred to the Motherland by migrant workers. Again, it is obvious that the impact of such labor transfers is much smaller than the losses from the underachieved GDP, if only because part of the earned funds are forced to be spent by workers in the host country. At the same time, they could earn and spend absolutely all funds in their home country. If we analyze even from the point of view of the number of aspects of positive and negative impact, we see that there will be few advantages for the labor donor country. If we talk about negative aspects, then they are also present for each of the countries.

In fact, the negative and positive aspects will balance each other, as advantages for the host country can become problems for the labor donor country. So, if we say that the problem of unemployment is solved in the country that supplies labor resources, then, accordingly, such a problem can only appear in the host country. Also, along with the increase in the supply of labor resources, the average salary for the country or in certain industries may decrease, which will, of course, be a certain problem for national workers. In the country that receives migrants, the problem of their assimilation may arise, since in any case such workers will differ significantly in terms of the level of cultural and social development from the citizens of this country. Migrants are often the source of the increase in crime statistics in the country, as they need to find means for survival. At the same time, we will not observe other particularly serious problems when accepting a significant number of migrants.

And if we talk about the negative aspects for the countries acting as labor donors, then again they are related to the reduction of GDP and the reduction of the labor potential of this country, net costs from the development of personalities and transfer payments for those people who will later this country leave. Similarly, there may be an outflow of the working population together with knowledge and technology. A separate aspect is the negative demographic impact in terms of the deterioration of the demographic situation, as we can see in Ukraine, where the scale of migration has a negative impact even on depopulation processes.



**Figure 2. The concept of the impact of migration on the economy**

In general, the logic of the influence of migration processes is demonstrated in the figure below.

So, in general, we have seen that the distribution of benefits and advantages from migration will still be in favor of the receiving state.

**4. The impact of migration on the economy of Ukraine**

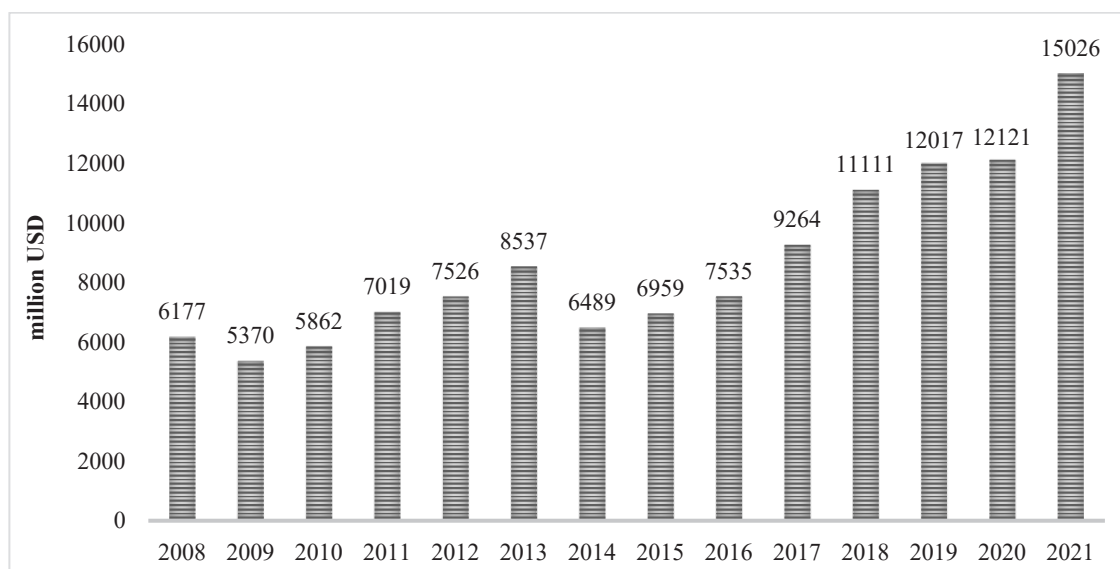
As a result of the theoretical research, it was found that there is no unified assessment of such an impact today. At the same time, we have identified some basic characteristics by which such an impact can be assessed. First of all, it should be noted that domestic economists, when assessing the impact of migration, talk about only one specific economic numerical aspect, such as labor transfers. Today, there are almost no approaches to assessing the economic impact in any other way in the domestic literature.

Indeed, only transfers relative to the Ukrainian economy account for approximately 8% of GDP, which makes them a fairly significant foreign currency income for the year. At the same time,

the volume of international loans for a year usually amounts to 2-3 billion dollars, the volume of investments excluding the last year in net balance amounts to three to three and a half billion dollars, which is again about four times less than the volume of labor transfers ("Survey on Migration and Human Trafficking in Ukraine, Moldova, Belarus and Georgia", 2019). Thus, we determine that indeed labor transfers are a significant compensation for the loss of labor resources in Ukraine.

Thus, we have to evaluate their dynamics, since this is the most important indicator of the impact, and from the positive side, on our economy.

If we turn to the dynamics of labor transfers over the past 13 years, we will see that there are no such significant disparities as, for example, in relation to the dynamics of labor migration to Poland, where compared to 2014 we see a 4-fold increase, and compared to earlier periods in almost 10 times. Compared to 2008 (the maximum value of labor remittances was recorded last year), the volumes increased only a little more than three times. Moreover, we can observe



**Figure 3. Dynamics of labor transfers to Ukraine**

Source: (Dynamika Obsiahiv Pryvatnykh Hroshovykh Perekaziv V Ukrainu, 2022)

approximately stable dynamics until 2016, when fluctuations were established within two billion dollars (that is, the value of the largest amplitude within 30-35 percent of the average value for the period). The increase was observed in 2017 and generally correlates, on the one hand, with the increase in migration volumes, but to a greater extent with the reorientation to the European labor market. We saw that a certain reorientation occurred sometime in 2014–2015, including as a result of Russian aggression. A significant increase in the volume of labor transfers began in 2014 and gained a fairly fast pace from 2016, which suggests that the labor of Ukrainian workers is obviously more expensive and better paid in European countries than in Russia and Belarus. We can observe the maximum values in the post-coronavirus year 2021, when additional ones gave a certain impetus to economic recovery.

## 5. Findings

Thus, we can conclude that even if the country loses migrant workers, it is better to reorient them to the European market, since it is more profitable for our state from a purely economic point of view. It is clear that from a political point of view, against the backdrop of Russia's military aggression, labor relations in the aspect of migration with the aggressor are not very relevant either.

So, we have seen that the infusions into the economy are significant, but not very significant. It is necessary to compare the extent to which the so-called labor compensation will cover the loss from the gross product that has not been maintained. It is also necessary to understand that there are so-called product transfers, but for the Ukrainian economy, according to the estimates of the NBU, they usually amount to about hundreds of millions of dollars and do not significantly affect the economic picture. And there are also shadow transfers, which, although taken into account in these statistics, may not be accounted for in full. Therefore, we can focus on the fact that the country actually receives at least one to one and a half billion dollars through illegal channels of food and money transfers.

Among the negative impact on the domestic economy of international labor processes, we can single out the underachieved gross product. The logic of this assumption is that labor migrants

are exactly able-bodied people who go abroad. And in any case, in order to ensure their existence and the existence of their family in Ukraine, they must find a job and work productively. Accordingly, by hypothesis, such people (of course, if there is a suitable vacancy) could also work in Ukraine. Accordingly, they could create added value and additional product within the Ukrainian economy and generally increase national production.

## 6. Conclusions

Migration processes in the world can be caused by a number of reasons, however, we consider the labor migrations themselves, which are mainly caused by the labor component, that is, the economic reason for displacement. Of course, there are other reasons for the formation of the migratory movement of the population, but they are not the objects of study in this work.

We saw that the economic reason manifests itself precisely in the difference in wages or available income at the disposal of an individual after migration. Some economists also identify the possibility of increasing the probability of getting a job, as well as a reduced unemployment rate in the host country. Therefore, we consider this to be a more accurate formulation of the economic cause of labor migration.

The assessment of the impact of labor migration is usually quite limited. It is about the fact that there is only one generally accepted indicator that reflects the economic consequences of labor migration. Moreover, it reflects them only from the positive side – this includes labor transfers of migrants. At the same time, we should note that even labor donor countries still receive some benefits from migration. And in addition to labor transfers, we can attribute here a decrease in the level of unemployment and savings on some public expenses (for example, on medicine and on education). At the same time, the positive consequences for the host country are much greater. They include an additional increase in the number of labor resources, which can become a guarantee for the expansion of national production. Migrants also create additional demand for domestic products. They can become a source of new technologies and knowledge.

In the future, it is necessary to reduce the outflow of Ukrainian labor resources abroad in every possible way. For this purpose, we analyzed

the reasons for emigration at the microeconomic level and came to the conclusion that economic policy should, first of all, be aimed at reducing motivations for emigration precisely at this microeconomic level, that is, at the level of decision-making by an individual. Some measures have been proposed that can reduce

motivations for migration. They are mainly related to the possibility of either reducing unemployment among unskilled labor resources, who leave Ukraine because they cannot find even the simplest work, or to stimulate the employment of scientists and young people, who make up the most productive population.

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