

# International Economics

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## Lecture 5

# **International Factor Movements**

International Labour Migration

Foreign Direct Investment

# **International Labour Migration**

Migrants can be divided into five main categories

- **Settlers**
- **Contract workers**
- **Professionals**
- **Irregular workers**
- **Asylum seekers and refugees**

## International migration

- **Settlers** – people who intend to live permanently in their new country.
- **Contract workers** – people who are admitted to other countries on the understanding that they will stay only for a specific period: the length of their contract.
- **Professionals** – these include employees of transnational corporations who are moved around from one country to another.

## **International migration**

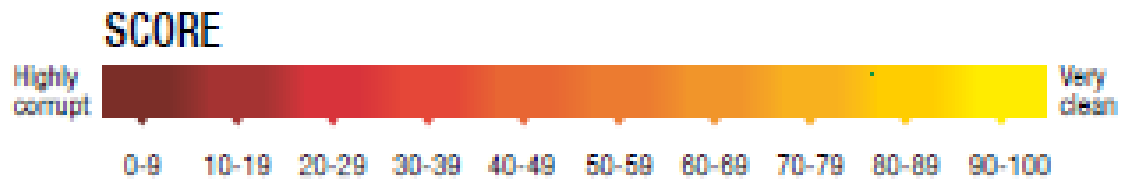
- **Irregular workers** – undocumented or illegal immigrants.
- **Asylum seekers and refugees** – asylum seekers have left their homes to escape danger.
- If their claims for asylum have been accepted they are then classified as ‘refugees’.

## Motivations for migration

	<b>Push factors</b>	<b>Pull factors</b>
<b>Economic and demographic</b>	Poverty, unemployment, low wages, high fertility rates, lack of basic health and education	Prospects for higher wages, personal or professional development, potential for improved standard of living,
<b>Political</b>	Conflict, insecurity, violence, poor governance, corruption, human rights abuses,	Safety and security, political freedom,
<b>Social and cultural</b>	Discrimination based on ethnicity, gender, religion	Family reunification, ethnic homeland, freedom from discrimination

# Corruption Perceptions Index

<b>Azerbaijan</b>
<b>Brazil</b>
<b>China</b>
<b>Georgia</b>
<b>Germany</b>
<b>Greece</b>
<b>India</b>
<b>Italy</b>
<b>Poland</b>
<b>Portugal</b>
<b>Spain</b>
<b>Turkey</b>
<b>Ukraine</b>



<http://www.transparency.org/research/cpi/overview>

<http://data.worldbank.org/>

Country	Corruption Perceptions Index, 2017	Fertility rate (births per woman), 2016
<b>Azerbaijan</b>	31/122	1.9
<b>Brazil</b>	37/96	1.7
<b>China</b>	41/77	1.6
<b>Georgia</b>	56/46	2.0
<b>Germany</b>	81/12	1.5
<b>Greece</b>	48/59	1.3
<b>India</b>	40/81	2.3
<b>Italy</b>	50/54	1.4
<b>Poland</b>	60/36	1.3
<b>Portugal</b>	63/29	1.3
<b>Spain</b>	57/42	1.3
<b>Turkey</b>	40/81	2.1
<b>Ukraine</b>	30/130	1.5



**Voice and Accountability**

Governance  
Score  
(-2.5 to +2.5)

Country

Azerbaijan -1.56

Brazil 0.45

China -1.50

Georgia 0.26

Germany 1.39

Greece 0.71

India 0.39

Italy 1.05

Poland 0.78

Portugal 1.21

Spain 1.03

Turkey -0.71

Ukraine 0.01

**Political Stability and  
Absence of  
Violence/Terrorism**

Governance  
Score  
(-2.5 to +2.5)

Country

Azerbaijan -0.76

Brazil -0.41

China -0.25

Georgia -0.37

Germany 0.58

Greece -0.13

India -0.83

Italy 0.24

Poland 0.52

Portugal 1.08

Spain 0.27

Turkey -1.80

Ukraine -1.89

**Government  
Effectiveness**

Governance  
Score  
(-2.5 to +2.5)

Country

Azerbaijan -0.16

Brazil -0.29

China 0.42

Georgia 0.57

Germany 1.72

Greece 0.31

India 0.09

Italy 0.50

Poland 0.63

Portugal 1.33

Spain 1.03

Turkey 0.07

Ukraine -0.46

<b>Regulatory Quality</b>	Governance Score (-2.5 to +2.5)
Azerbaijan	-0.25
Brazil	-0.11
China	-0.15
Georgia	1.05
Germany	1.78
Greece	0.24
India	-0.25
Italy	0.70
Poland	0.88
Portugal	0.91
Spain	0.94
Turkey	0.04
Ukraine	-0.32

<b>Rule of Law</b>	Governance Score (-2.5 to +2.5)
Azerbaijan	-0.56
Brazil	-0.28
China	-0.26
Georgia	0.33
Germany	1.61
Greece	0.08
India	0.00
Italy	0.32
Poland	0.47
Portugal	1.13
Spain	1.01
Turkey	-0.25
Ukraine	-0.71

Number of countries involved in wars: 69 (November 14, 2018)

Source: <http://www.warsintheworld.com/>

- **Africa (29 Countries and 258 between militias-guerrillas, separatist groups and anarchic groups involved):** Hot Spots: Central African Republic (often there are armed clashes between Muslims and Christians), Democratic Republic of Congo (war against rebel groups), Egypt (war against Islamic militants of Islamic State branch), Libya (civil war), Mali (clashes between army and rebel groups), Mozambique (clashes with RENAMO rebels) Nigeria (war against Islamist militants), Somalia (war against al-Shabaab Islamist militants), Sudan (war against rebel groups in Darfur), South Sudan (clashes with rebel groups)
- **Asia (16 Countries and 176 between militias-guerrillas, separatist groups and anarchic groups involved):** Hot Spots: Afghanistan (war against Islamist militants), Burma-Myanmar (war against rebel groups), Pakistan (war against Islamist militants), Philippines (war against Islamist militants), Thailand (coup d'etat by army May 2014)

Number of countries involved in wars: 69 (November 14, 2018)

Source: <http://www.warsintheworld.com/>

- **Europe (10 Countries and 82 between militias-guerrillas, separatist groups and anarchic groups involved):** Chechnya (war against Islamist militants), Dagestan (war against Islamist militants), Ukraine (Secession of self-proclaimed Donetsk People's Republic and self-proclaimed Luhansk People's Republic), Nagorno-Karabakh (clashes between Azerbaijan army against Armenian army and Nagorno-Karabakh army)
- **Middle East (7 Countries and 259 between militias-guerrillas, separatist groups and anarchic groups involved)** Iraq (war against Islamic State Islamist militants), Israel (war against Islamist militants in Gaza Strip), Syria (civil war), Yemen (war against and between Islamist militants).
- **AMERICAS: (7 Countries and 30 between drug cartels, militias-guerrillas, separatist groups and anarchic groups involved):** Colombia (war against rebel groups), Mexico (war against narcotraffic groups).

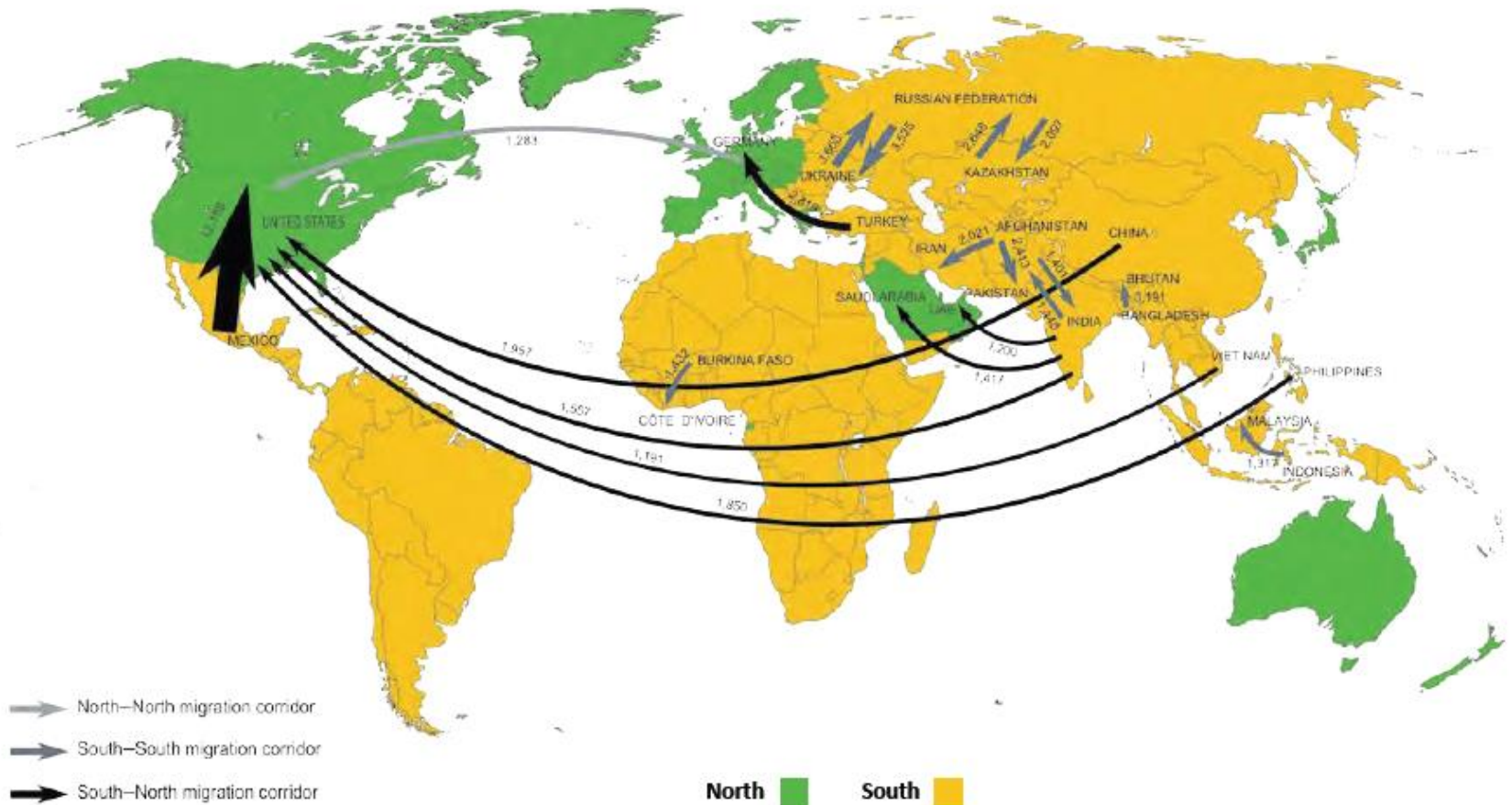
## International migrants, 1970–2015

Year	Number of migrants	Migrants as a % of world's population
1970	84,460,125	2.3%
1975	90,368,010	2.2%
1980	101,983,149	2.3%
1985	113,206,691	2.3%
1990	152,563,212	2.9%
1995	160,801,752	2.8%
2000	172,703,309	2.8%
2005	191,269,100	2.9%
2010	221,714,243	3.2%
2015	243,700,236	3.3%

Source: UN, International Migration Report 2018

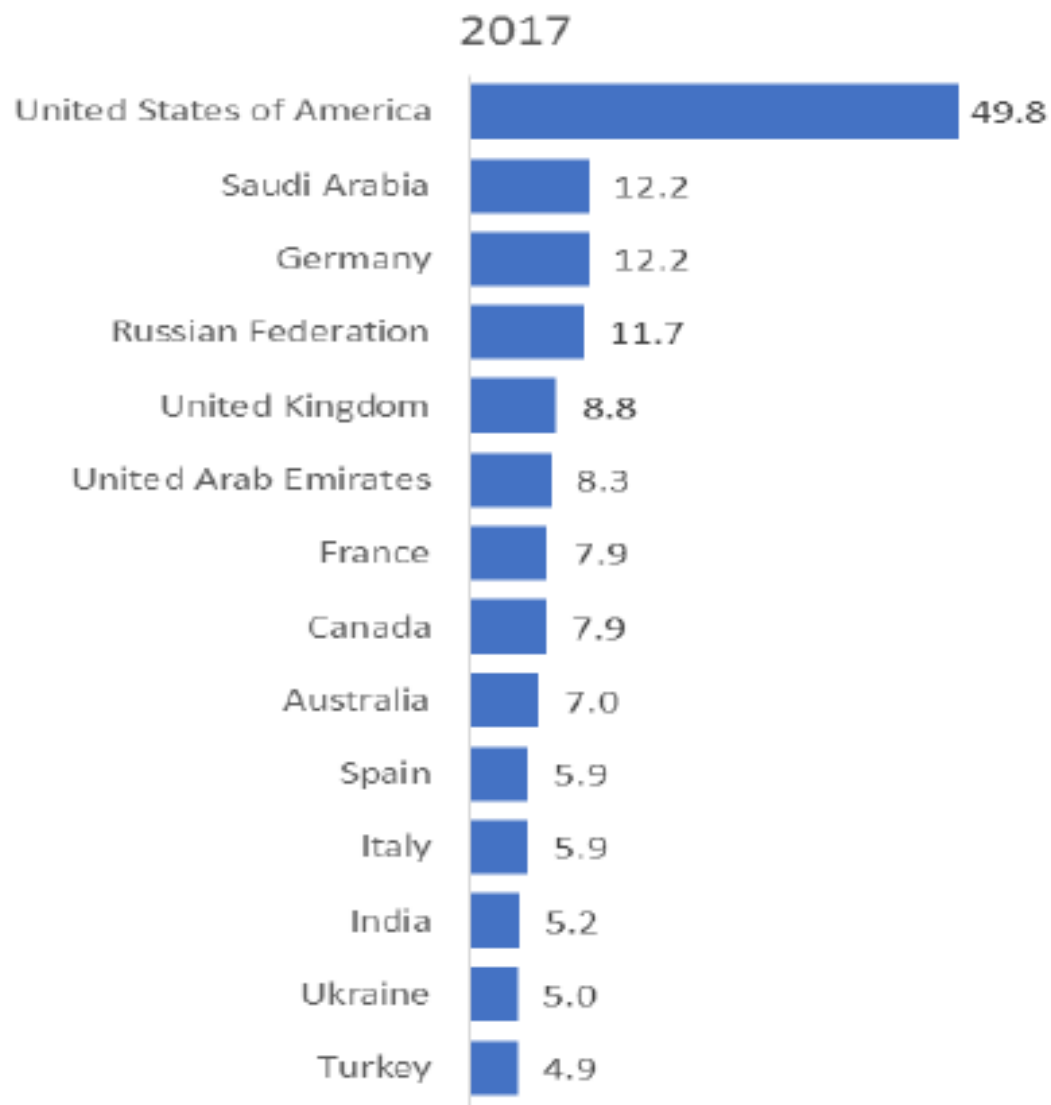
- Target regions with currently high immigration rates are: North America, Australia and Europe except Eastern Europe.
- Countries of origin with high emigration rates are in: Africa, Eastern Europe, Central Asia, South and Central America.

## Top 20 migration corridors worldwide (migrant stock, in thousands), using the World Bank classification, 2010



Source: Migration and Remittances Factbook, 2013

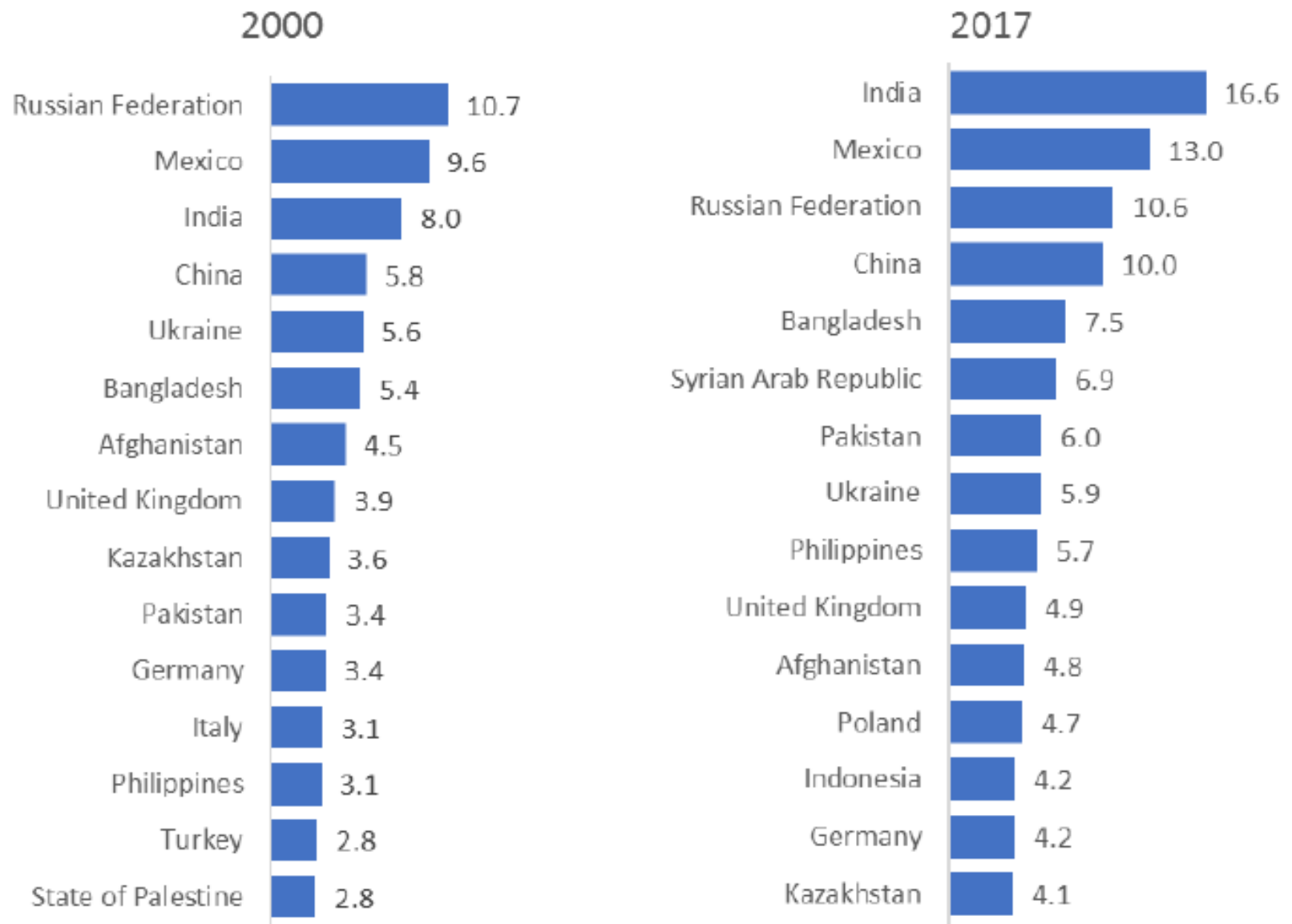
## 14 countries hosting the largest numbers of international migrants, 2017 (millions)



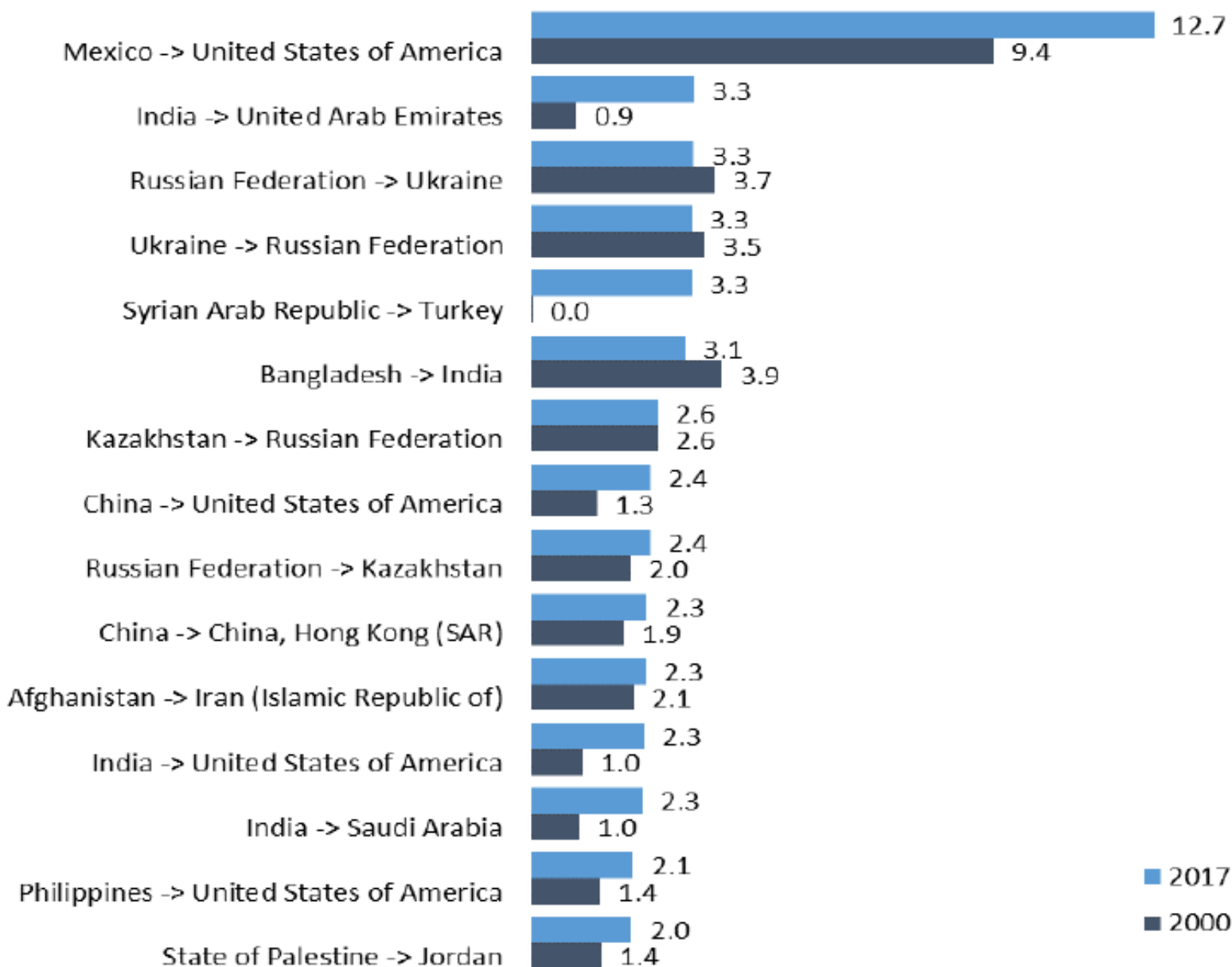
Source: UN, International Migration Report 2017



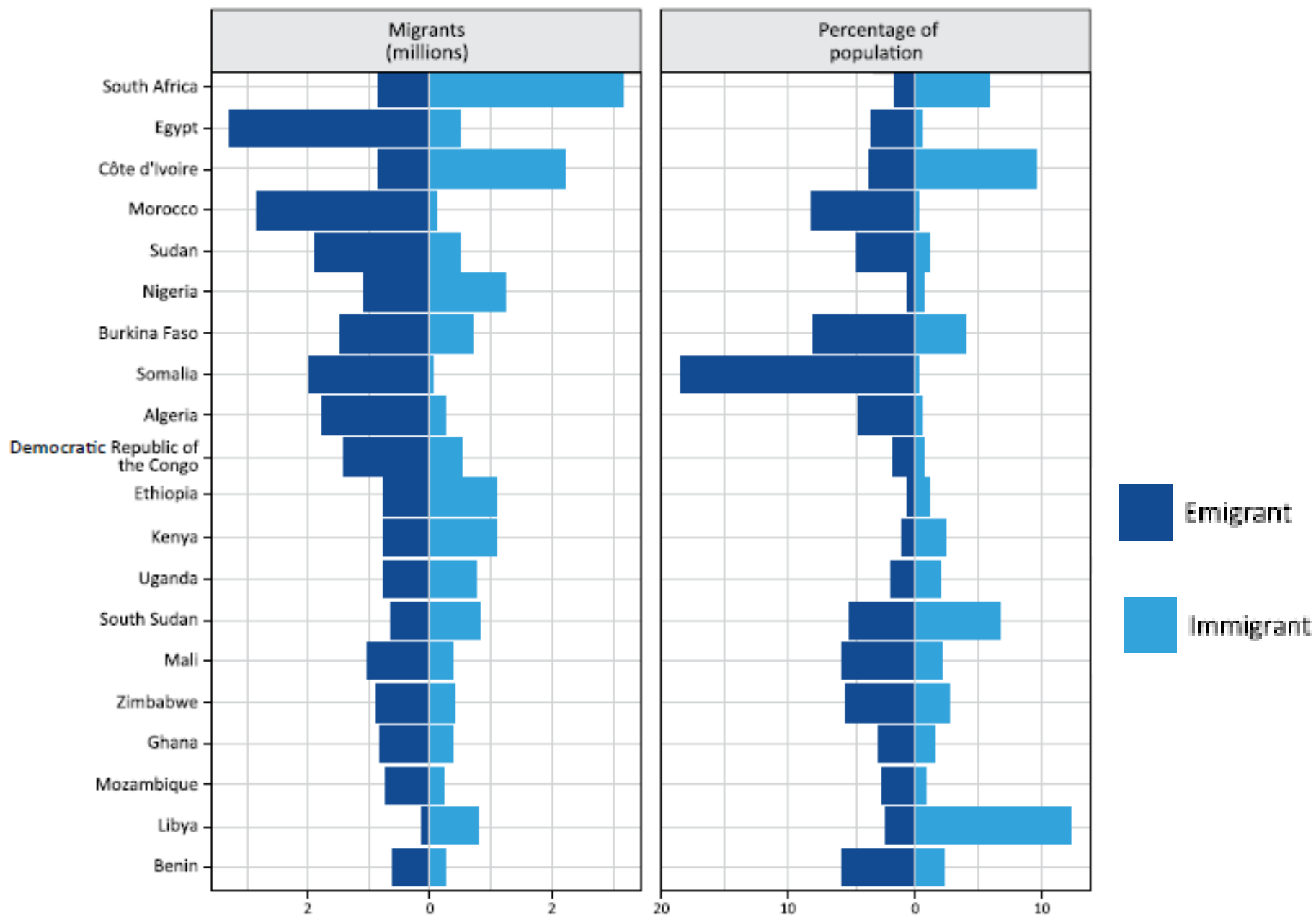
**15 largest countries or areas of origin of international migrants, 2000 and 2017, number of migrants (millions)**



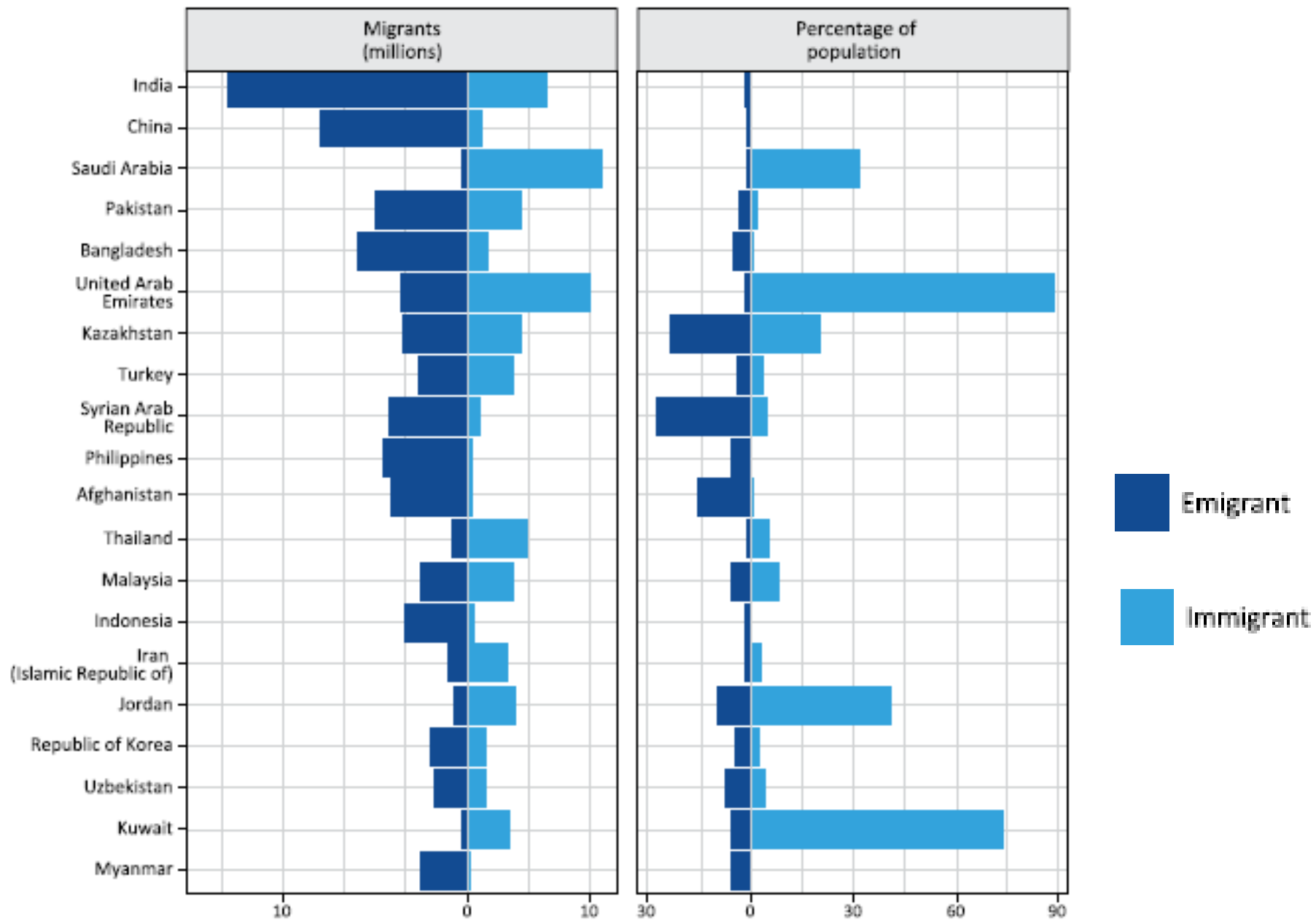
## Fifteen largest populations of international migrants from a single country or area of origin living in a single country or area of destination, 2000 and 2017 (in millions)



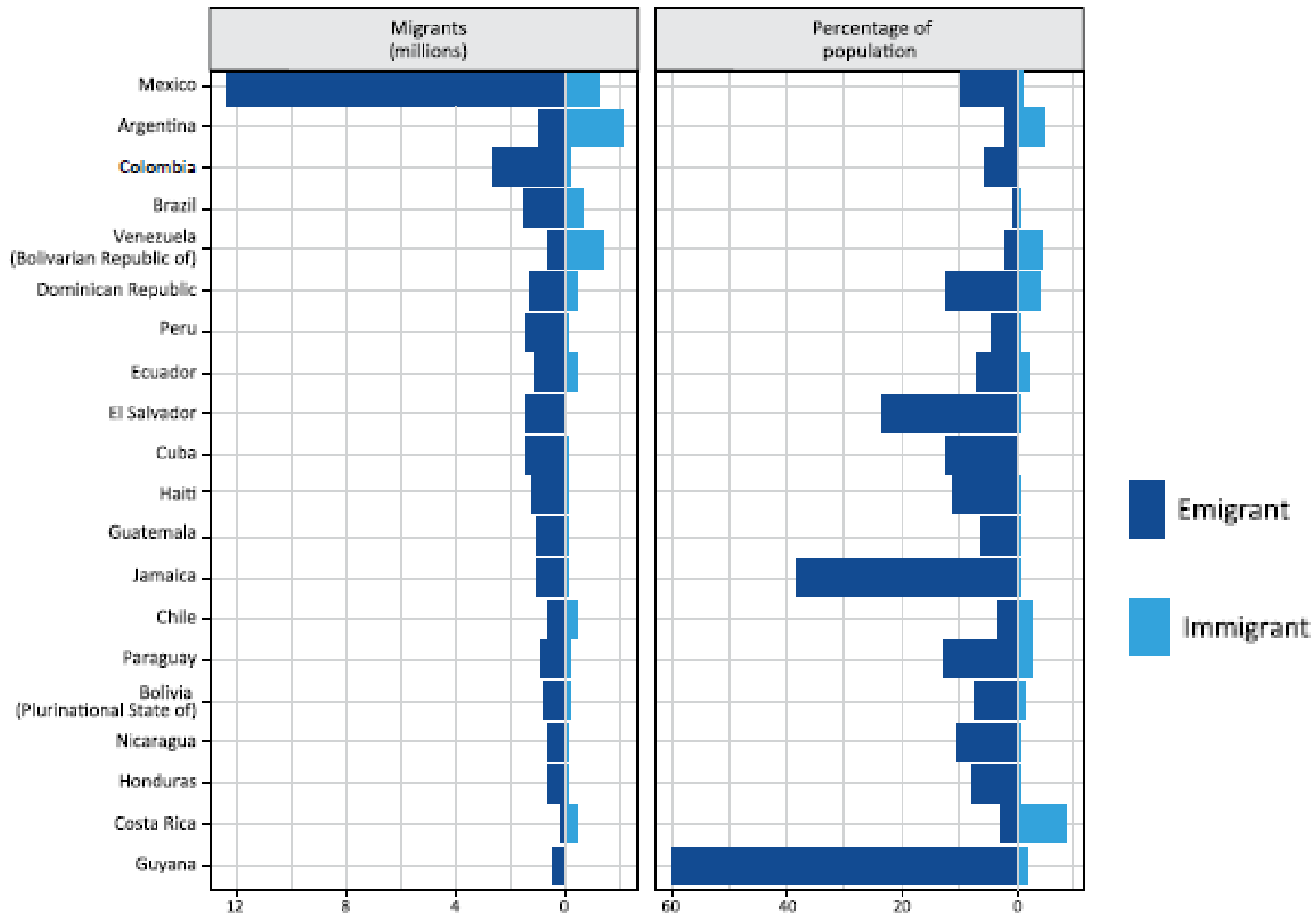
## Top 20 African migrant countries in 2015



## Top 20 Asian migrant countries in 2015



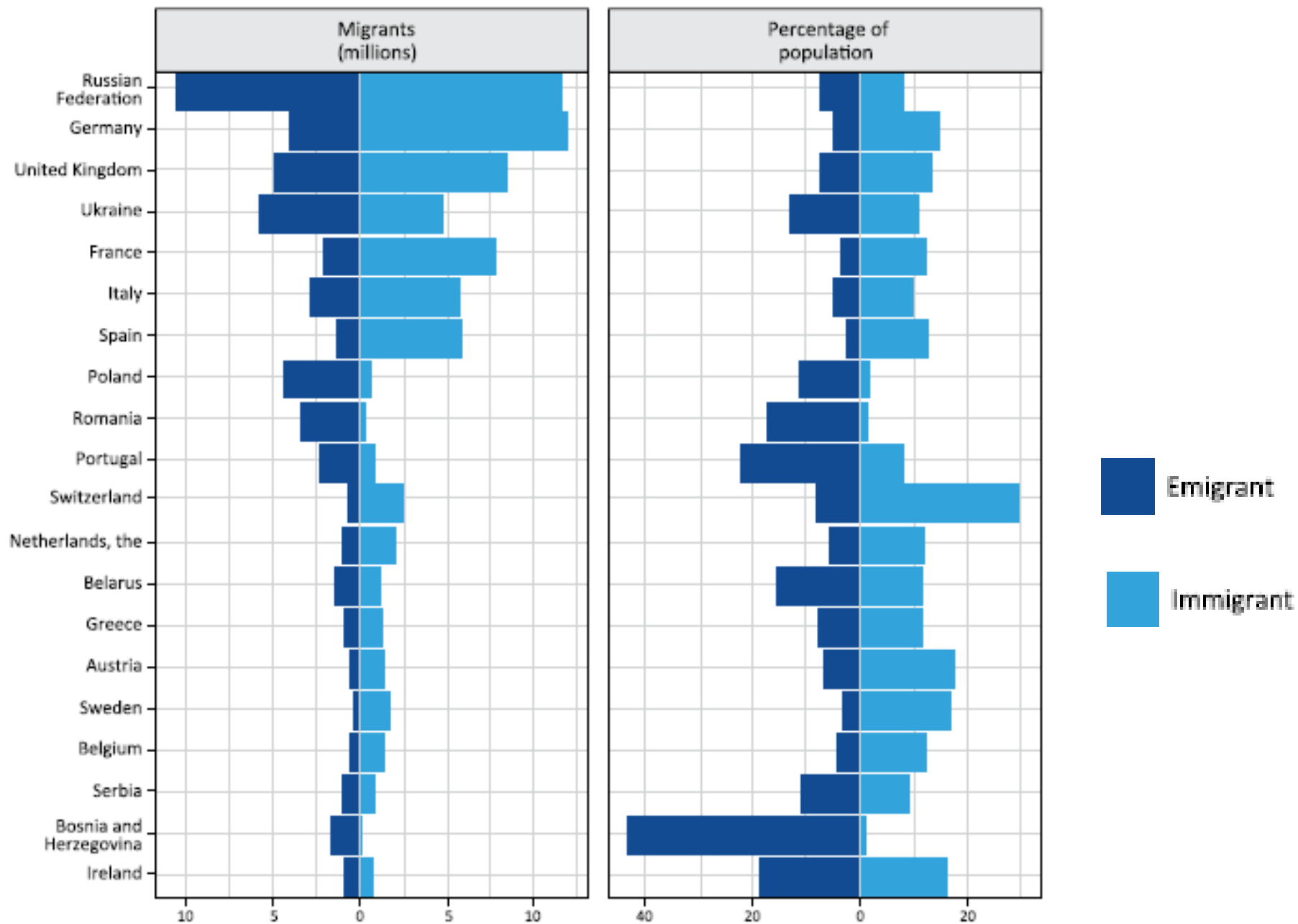
## Top 20 Latin America and the Caribbean migrant countries in 2015



Source: UN, International Migration Report 2018

Source: UN, International Migration Report 2018

### Top 20 European migrant countries in 2015



<http://www.pewglobal.org/2018/02/28/global-migrant-stocks>

<b>Country</b>	<b>Destination, 2017</b>	<b>Origin, 2017</b>
<b>Azerbaijan</b>	Russia, Armenia, Ukraine, Kazakhstan, US, Uzbekistan	Armenia, Georgia, Russia, Uzbekistan, Kazakhstan
<b>Brazil</b>	US, Japan, Portugal, Italy, Spain, China	Portugal, Japan, Paraguay, Bolivia, Italy, Spain
<b>China</b>	US, Hong Kong, Japan, Canada, South Korea, Australia, Singapore	Hong Kong, South Korea, Brazil, Philippines, Indonesia, Vietnam, US
<b>Georgia</b>	Russia, Greece, Ukraine, Azerbaijan, Armenia, US	Russia, Armenia, Ukraine, Azerbaijan, Kazakhstan
<b>Germany</b>	US, Switzerland, Turkey, UK, Austria, France	Poland, Turkey, Russia, Kazakhstan, Romania
<b>Greece</b>	Germany, US, Australia, Canada, Turkey, UK	Albania, Germany, Georgia, Bulgaria, Russia,
<b>India</b>	United Arab Emirates, US, Saudi Arabia, Pakistan, Oman, Kuwait	Bangladesh, Pakistan, Nepal, Sri Lanka, Burma

<http://www.pewglobal.org/2018/02/28/global-migrant-stocks>

<b>Country</b>	<b>Destination, 2017</b>	<b>Origin, 2017</b>
<b>Italy</b>	Germany, US, France, Canada, Switzerland, Australia, Belgium	Romania, Albania, Morocco, Ukraine, Germany, China
<b>Poland</b>	Germany, UK, US, Canada, Ireland, Netherlands, Italy	Ukraine, Germany, Belarus, Lithuania, Russia, UK
<b>Portugal</b>	France, Switzerland, US, Brazil, Canada, UK, Spain, Luxembourg	Angola, Brazil, France, Mozambique, Cabo Verde
<b>Spain</b>	France, UK, US, Argentina, Germany, Venezuela, Switzerland	Morocco, Romania, Ecuador, Colombia, UK, Argentina
<b>Turkey</b>	Germany, US, France, Netherlands, Austria, Switzerland	Syria, Bulgaria, Germany, Rep. of Macedonia, Greece
<b>Ukraine</b>	Russia, US, Kazakhstan, Germany, Italy, Belarus, Poland	Russia, Belarus, Kazakhstan, Uzbekistan, Moldova, Azerbaijan



## Net migration rate

- Net migration rate – the difference between the number of persons entering and leaving a country during the year per 1,000 persons (based on midyear population).
- An excess of persons entering the country is referred to as net immigration (e.g., 24.83 migrants/1,000 population);
- An excess of persons leaving the country is referred to as net emigration (e.g., -20.99 migrants/1,000 population).
- The net migration rate indicates the contribution of migration to the overall level of population change.
- The net migration rate does not distinguish between economic migrants, refugees, and other types of migrants nor does it distinguish between lawful migrants and undocumented migrants.

## Net migration rate, (2017est.)

<https://www.cia.gov/library/publications/the-world-factbook>

<b>Country</b>	<b>Migrants per 1,000 population</b>	<b>Country</b>	<b>Migrants per 1,000 population</b>
<b>Azerbaijan</b>	n.a.	<b>Italy</b>	3.70
<b>Brazil</b>	-0.1	<b>Poland</b>	-0.40
<b>China</b>	-0.40	<b>Portugal</b>	2.5
<b>Georgia</b>	-1.6	<b>Spain</b>	7.80
<b>Germany</b>	1.50	<b>Turkey</b>	-4.5
<b>Greece</b>	2.3	<b>Ukraine</b>	n.a.
<b>India</b>	n.a.		

## Labour migration

- *Permanent migration*: this includes mostly highly skilled migrants and migrants entering under family reunification and refugee programs.
- *Temporary migration for all types of employment*: this includes migrants entering for a specific type of job where there are vacancies, often referred to as ‘guest workers’.
- *Temporary migration for time-bound employment*: this includes migrants entering to fill seasonal jobs that will end with the completion of a project such as a construction project, service providers, trainees and students.

## **Economic benefits of migration**

Migrant workers are of economic importance to their country of **origin**

- Major source of income to families via remittance of wages, which can be used for daily living, investment and job creation.
- Migrant workers can benefit from better employment opportunities, higher wages, skill development, learning new technologies and ideas, higher living standards.
- Migrants who return are a source of new technologies and ideas.

### Top countries receiving remittances (2000–2015) (current USD billions)

Top countries receiving remittances							
2000		2005		2010		2015	
India	12.84	China	23.63	India	53.48	India	68.91
France	8.61	Mexico	22.74	China	52.46	China	63.94
Mexico	7.52	India	22.13	Mexico	22.08	Philippines, the	28.48
Philippines	6.96	Nigeria	14.64	Philippines, the	20.56	Mexico	26.23
Republic of Korea	4.86	France	14.21	France	19.90	France	23.35
Spain	4.86	Philippines, the	13.73	Nigeria	19.75	Nigeria	18.96
Turkey	4.56	Belgium	6.89	Germany	12.79	Pakistan	19.85
United States of America	4.40	Germany	6.87	Egypt	12.45	Egypt	16.58
Germany	3.64	Spain	6.66	Bangladesh	10.85	Bangladesh	15.38
United Kingdom	3.61	Poland	6.47	Belgium	10.35	Germany	15.36

Source: Migration and Remittances Factbook, 2018

Top countries sending remittances							
2000		2005		2010		2015	
United States of America	34.40	United States of America	47.25	United States of America	50.78	United States of America	61.38
Saudi Arabia	15.40	Saudi Arabia	14.32	Saudi Arabia	27.07	Saudi Arabia	38.79
Germany	9.04	Germany	12.71	Russian Federation	21.45	Switzerland	24.38
Switzerland	7.59	Switzerland	9.99	Switzerland	16.88	China	20.42
France	3.77	United Kingdom	9.64	Germany	14.68	Russian Federation	19.70
United Arab Emirates	3.68	France	9.48	Italy	12.89	Germany	18.56
Republic of Korea	3.65	Italy	7.55	France	12.03	Kuwait	15.20
Israel	3.26	Russian Federation	6.83	Kuwait	11.86	France	12.68
Japan	3.17	Luxembourg	6.70	Luxembourg	10.64	Qatar	12.19
Netherlands, the	3.13	Republic of Korea	6.67	United Arab Emirates	10.57	Luxembourg	11.35

Source: Migration and Remittances Factbook, 2018

## **Economic benefits of migration**

Migrant workers are of economic importance to their **host** country

- They produce goods and services.
- They often have great ambition and drive, working hard to succeed, which improves productivity and stimulates economic growth.
- They bring new ideas, improving technology and business and work practices.

## **Economic benefits of migration**

Migrant workers are of economic importance to their **host** country

- They introduce new industries, such as food and restaurants, expanding the range of goods and services for the population and improving quality of life.
- They spend money in the economy leading to an increase in aggregate demand.
- They pay taxes, contributing to government revenue.
- They perform jobs that nationals do not want to do.



## **Problems and challenges associated with labour migration**

- Temporary workers often have restricted legal rights and most can only access employment in low wage industries and are often unable to access assistance if they lose their jobs.
- People who do not speak the language of the host country would find it difficult to negotiate an individual employment contract.
- Migrant women face gender discrimination. They are often working in gender-segregated and unregulated industries.

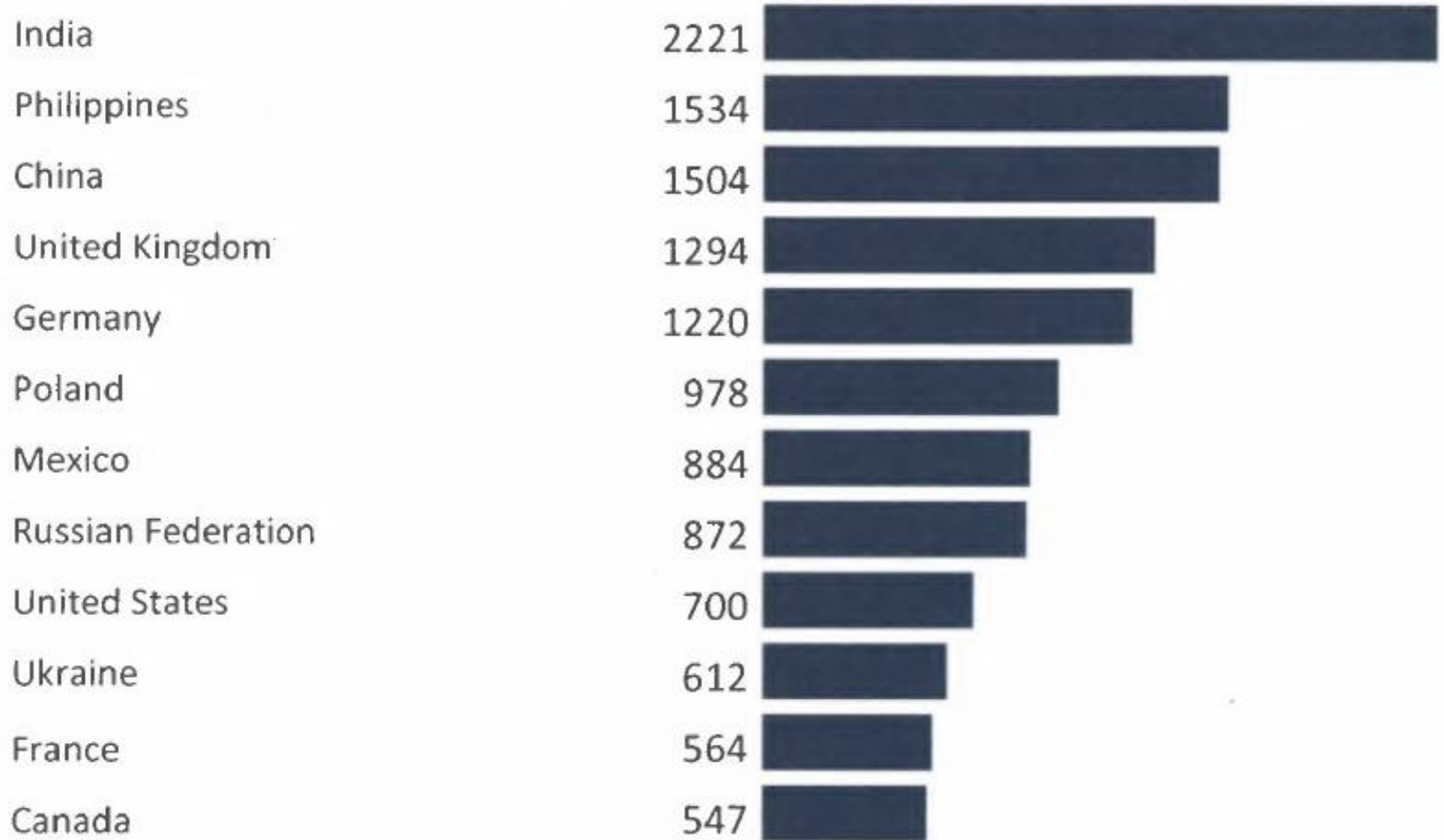
## Labour migration - characteristics and trends

- **Migrants from developing countries** are found in most types of jobs, are typically found at the bottom and top end of the labour market, but the **majority are found at the bottom end**, performing jobs that are often dangerous, ‘dirty’ and low paid.
- The **majority of migrant professionals move between industrialised countries** and are usually transferees within transnational corporations (TNCs).
- A significant number of professional migrants move to poor countries along with foreign investment, contributing their knowledge and skills and so enhancing economic development.

## **Labour migration - characteristics and trends**

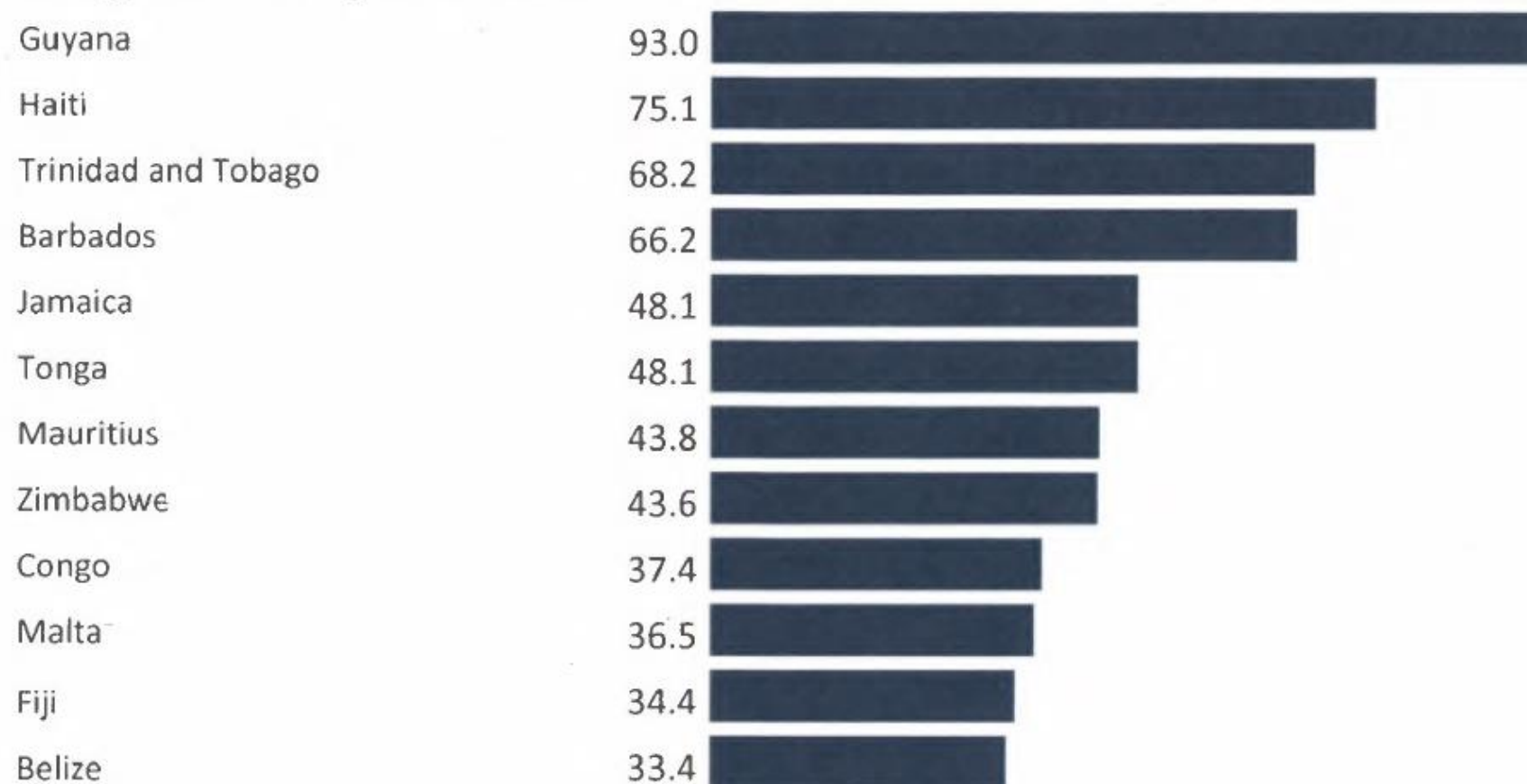
- **Migration from developing countries to industrialised countries has been rising**, although still a small % of industrialised countries' workforces, on average.
- **Almost half of all migrants move from one developing country to another** where wage differentials are not large, e.g. from Haiti to the Dominican Republic.
- **Many countries are both sources and destinations** for migrants, e.g. Australia receives migrants from all over the world, but Australians also migrate to other countries.

## Top Emigration Countries of Tertiary-Educated, 2010/11 number of migrants, thousands



Source: Migration and Remittances Factbook, 2016

## Top Emigration Countries of Tertiary-Educated, 2010/11 emigration rate, % of total



Source: Migration and Remittances Factbook, 2016

## **Brain-drain**

- Is the large-scale emigration of individuals with technical skills or knowledge.
- Is regarded as economic cost, since emigrants usually take with them the fraction of value of their training sponsored by the government or other organizations.
- Is often associated with de-skilling of emigrants in their country of destination, while their country of emigration experiences the draining of skilled individuals.

## Brain-drain

- **Portugal** is suffering the largest drain in West Europe. Skilled workers have migrated to Australia, Canada, Switzerland, Germany and Austria.
- In the first year of **Poland** EU membership 100,000 Poles registered to work in England (63% of Polish immigrants to the UK are aged between 24 and 35 with 40% possessing a university degree).
- The UNDP (United Nations Development Programme) estimates that **India** loses \$2 billion a year because of the emigration of computer experts to the US.

## Brain-drain

- In **China** the brain drain usually happens in two ways, including that the skilled intellectuals migrate to other countries, and students study overseas and then stay abroad.
- Seven out of every 10 students who enroll in an overseas university never return to live in their homeland.
- There are currently more African scientists and engineers working in the United States than there are in Africa.



## **The global financial crisis and subsequent recession had a significant impact on migrants around the world**

- Remittances to developing countries fell by around 10%.
- Migrant workers suffer racial abuse – they are blamed for unemployment.
- Migrant workers are concentrated in vulnerable industries hit hardest by global recession, such as construction – more likely to lose their jobs.

## **The global financial crisis and subsequent recession had a significant impact on migrants around the world**

- Migrant workers often have less rights as workers, for example lack of access to safety nets such as unemployment benefits.
- Many countries have tightened immigration policies including greater restrictions on irregular migrants such as refugees: this has reduced global movement of unskilled labour in particular, and can also make existing migrant labour more vulnerable to racial abuse and discrimination.

# **International Factor Movements**

Foreign Direct Investment

## Capital inflow types

- **Foreign direct investment (FDI)** is defined as an investment involving a long-term relationship and reflecting control by a resident entity in one economy in an enterprise resident in an economy other than that of the foreign direct investor.
- **Portfolio investment** in ownership of firms
  - Purchasing shares of stock in foreign firms

FDI has three components:

**Equity capital**

**Reinvested earnings**

**Intra-company loans**

- **Equity capital** is the foreign direct investor's purchase of shares of an enterprise in a country other than its own.
- **Reinvested earnings** comprise the direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends by affiliates, or earnings not remitted to the direct investor. Such retained profits by affiliates are reinvested.
- **Intra-company loans** or intra-company debt transactions refer to short- or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises.

# **Types of FDI**

**Greenfield investment**

**Mergers and acquisitions (M&As)**

## **Greenfield investment**

- Greenfield investment – direct investment in new facilities.
- Greenfield investments create new production capacity and jobs, transfer technology and know-how, and can lead to linkages to the global marketplace.
- Main benefits of greenfield investments: an increased employment, investments in research and development, and additional capital investments.



## **Greenfield investment**

- Criticism of the efficiencies obtained from greenfield investments includes the loss of market share for competing domestic firms.
- Another criticism of greenfield investment is that profits are perceived to bypass local economies, and instead flow back entirely to the multinational's home economy.

## Mergers and acquisitions (M&As)

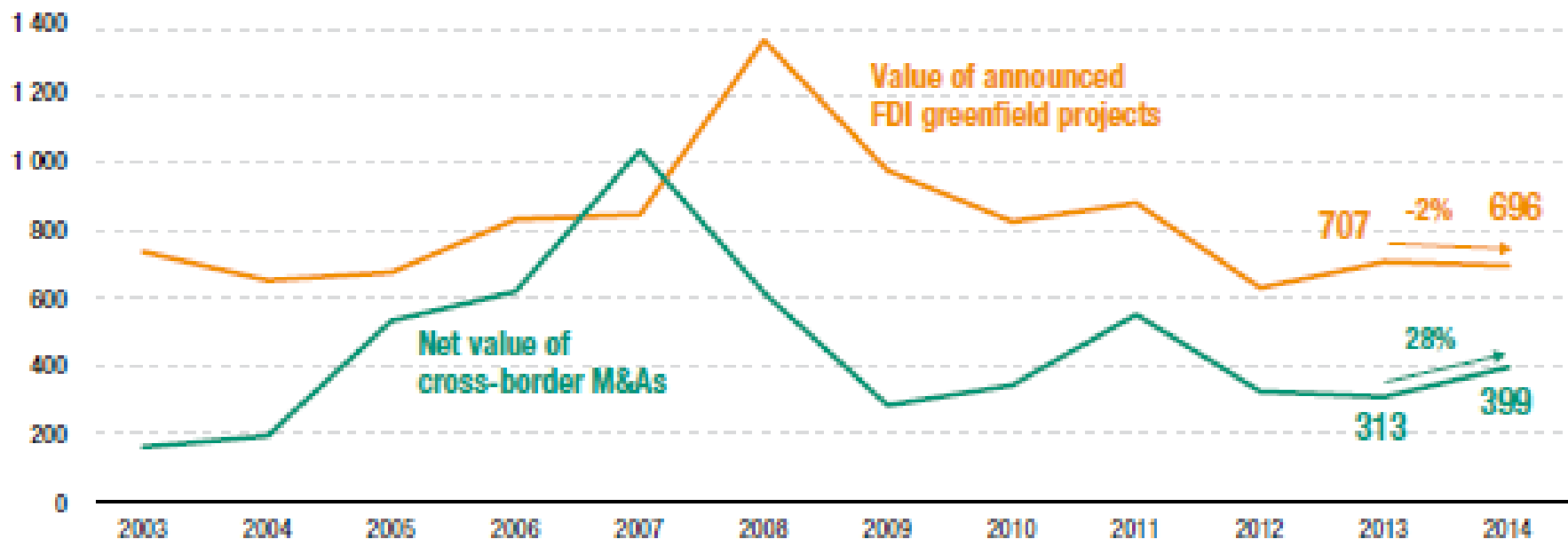
- **A merger** happens when two firms, agree to go forward as a single new company rather than remain separately owned and operated.
- When one company takes over another and clearly established itself as the new owner, the purchase is called **an acquisition**.
- From a legal point of view, the target company ceases to exist, the buyer "swallows" the business and the buyer's stock continues to be traded.

## Mergers and acquisitions (M&As)

- Whether a purchase is considered a merger or an acquisition really depends on whether the purchase is friendly or hostile and how it is announced.
- The real difference lies in how the purchase is communicated to and received by the target company's board of directors, employees and shareholders.

# Value of cross-border M&As and announced greenfield FDI projects worldwide (USD Billion), 2003–2014

Source: UNCTAD, World Investment Report, 2015 (<http://www.unctad.org/en>)



## **Host country effects of FDI, Advantages**

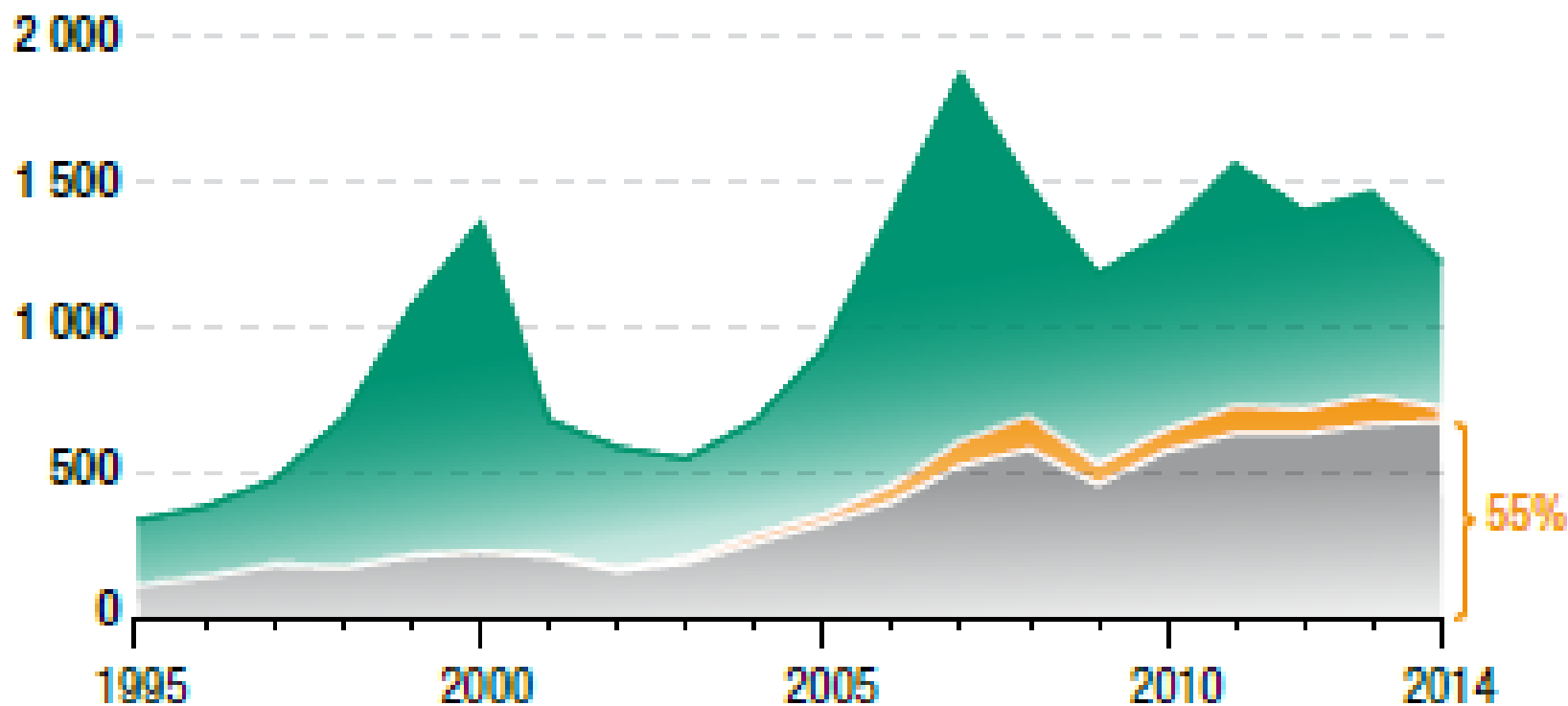
- FDI can stimulate the host/target country's economic development
- FDI creates new jobs, as investors build new companies in the host economies
- FDI develops human capital resources
- FDI allows resource transfer and exchanges of knowledge (expertise, technology, new products)
- FDI increases a labour productivity,
- FDI increases host countries' income, salaries

## Host country effects of FDI, Costs

- Adverse effects on competition
- Adverse effects on the BOP
  - After the initial capital inflow there is normally a subsequent outflow of earnings
  - Foreign subsidiaries could import a substantial number of inputs
- Threat to national sovereignty and autonomy
  - Loss of economic independence
  - Sweatshops and labour exploitations
  - Environmental degradation

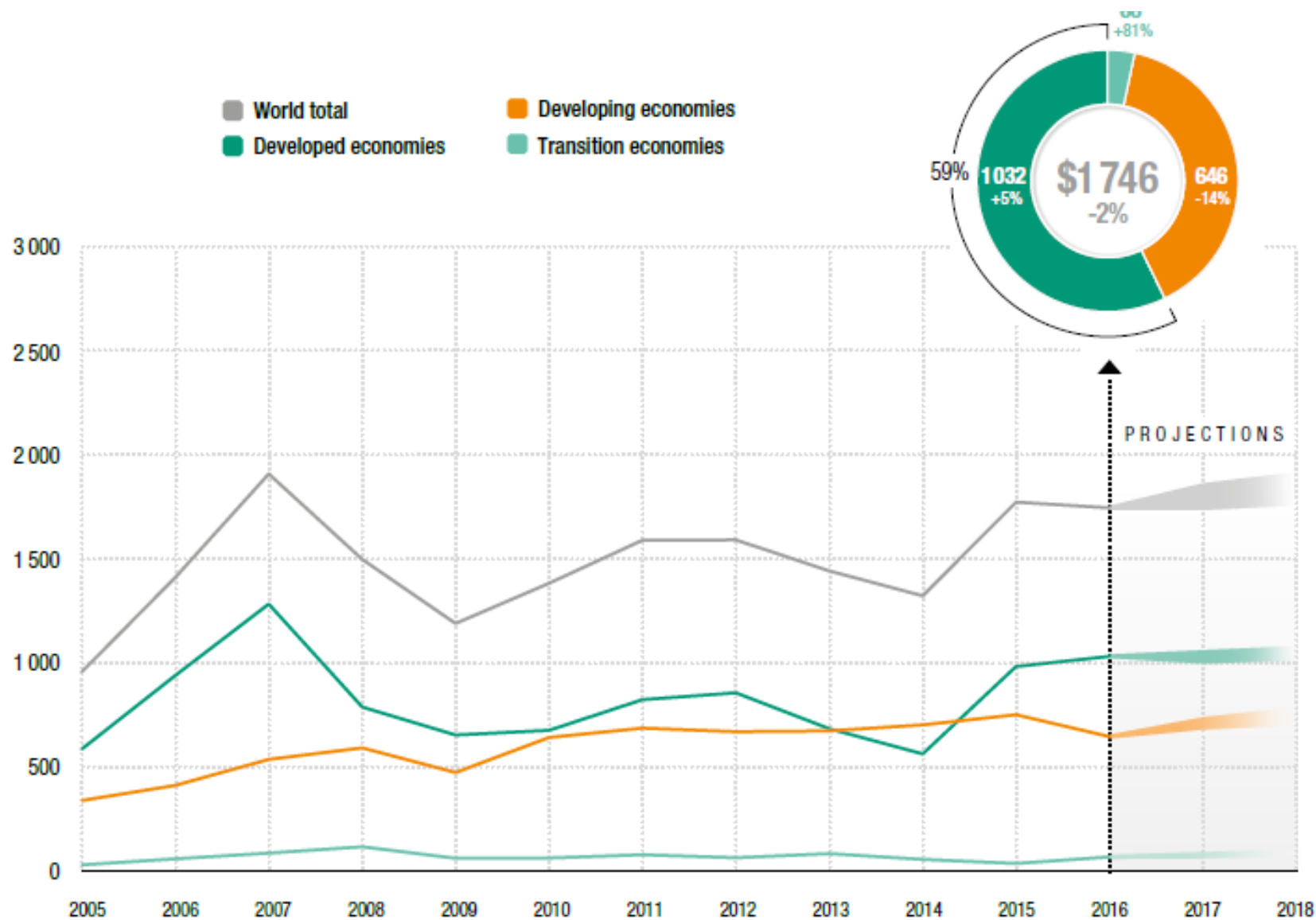
# Global FDI flows, 1995-2014 (Billions of dollars)

Source: UNCTAD, World Investment Report, 2015 (<http://www.unctad.org/en>)



# FDI inflows, global and by group of economies, 2005–2016, and projections, 2017–2018

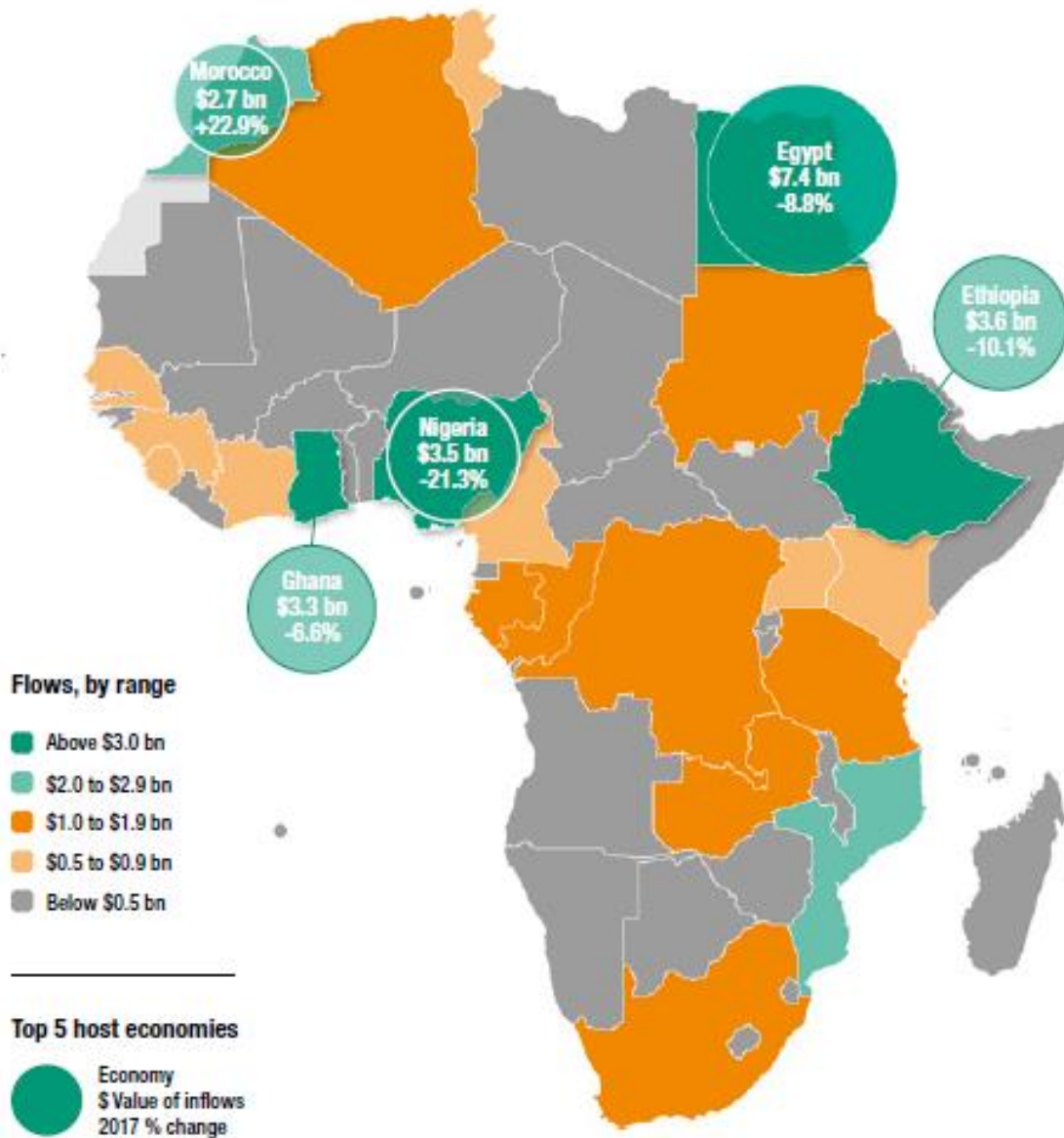
(Billions of dollars and per cent)



Source: UNCTAD, World Investment Report, 2018



## FDI flows, top 5 host economies, 2017 (Value and change)

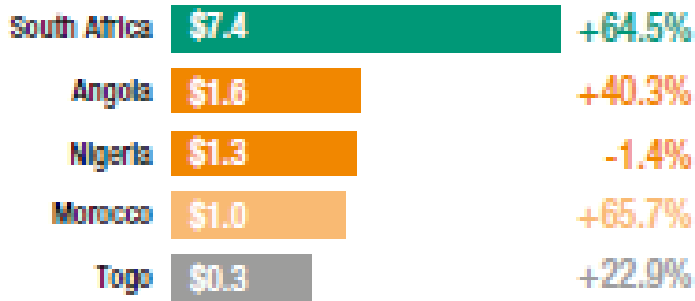


Source: UNCTAD, World Investment Report, 2018

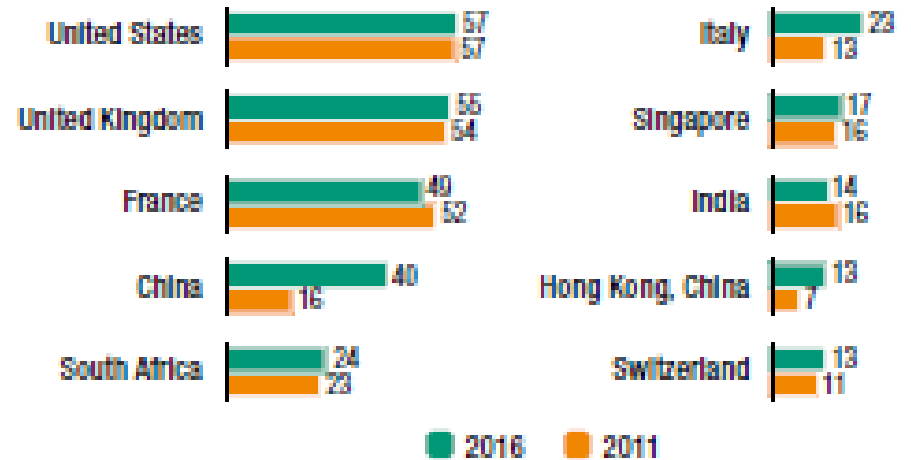
# Africa

## Outflows: top 5 home economies

(Billions of dollars and 2017 growth)

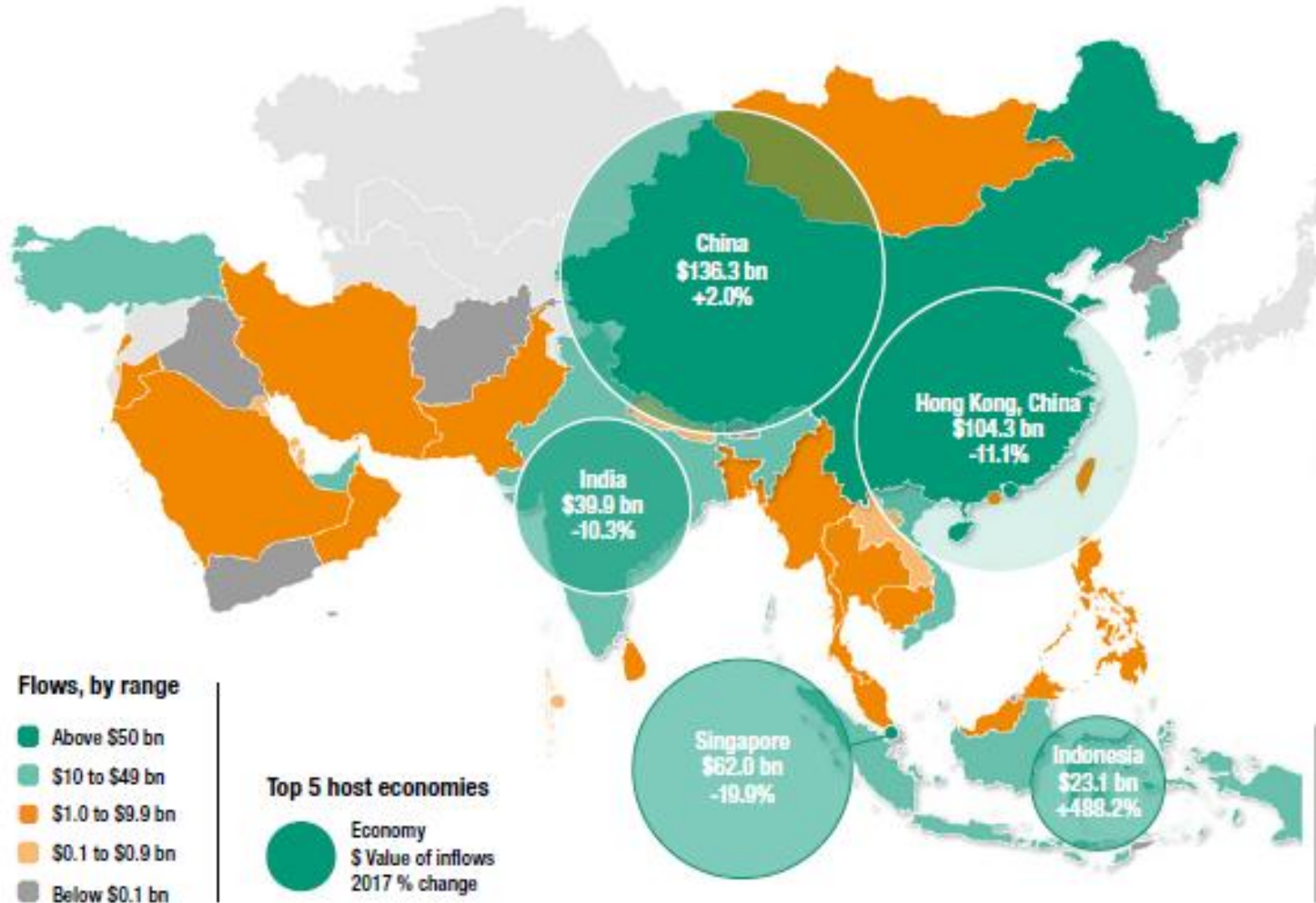


## Top 10 investor economies by FDI stock, 2011 and 2016 (Billions of dollars)



# DEVELOPING ASIA

FDI flows, top 5 host economies, 2017 (Value and change)

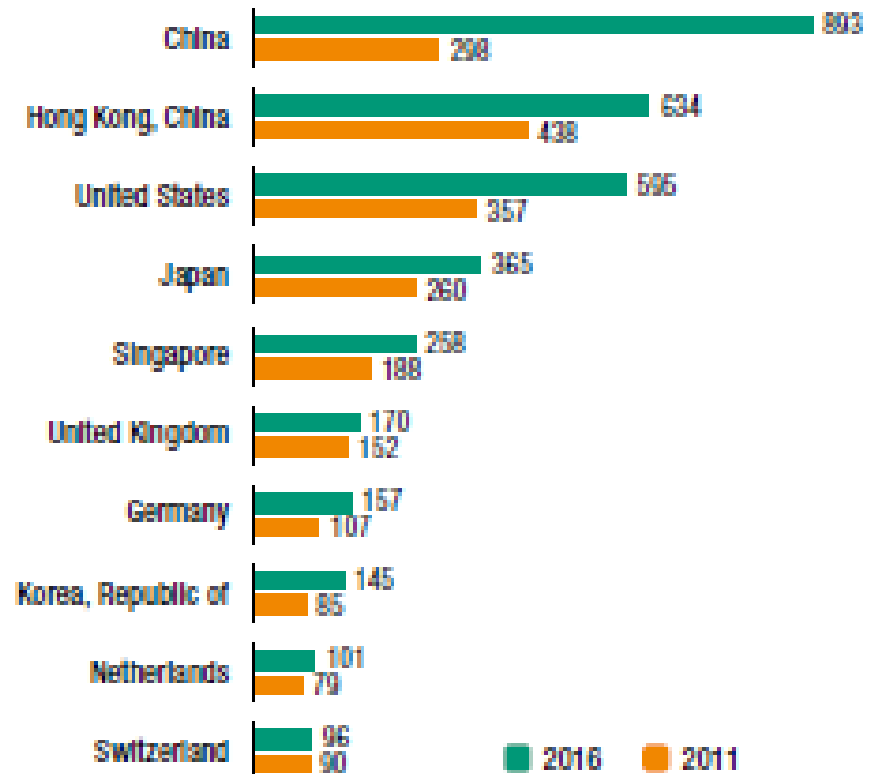
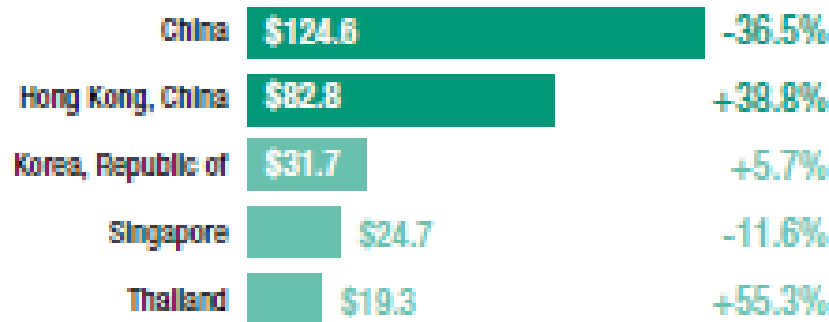


Source: UNCTAD, World Investment Report, 2018

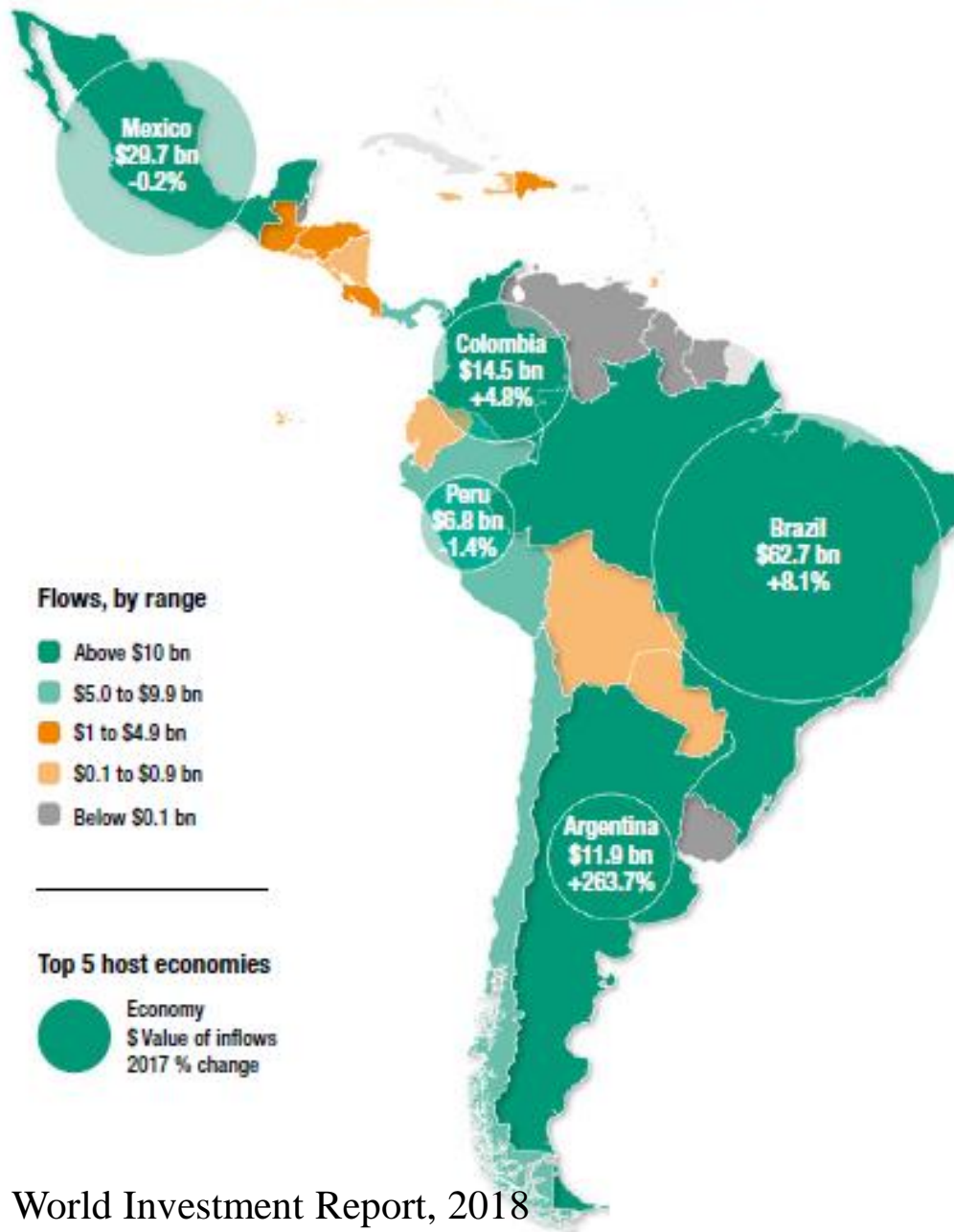
# Asia

**Top 10 investor economies by FDI stock, 2011 and 2016 (Billions of dollars)**

**Outflows: top 5 home economies**  
(Billions of dollars and 2017 growth)



# FDI flows, top 5 host economies, 2017 (Value and change)

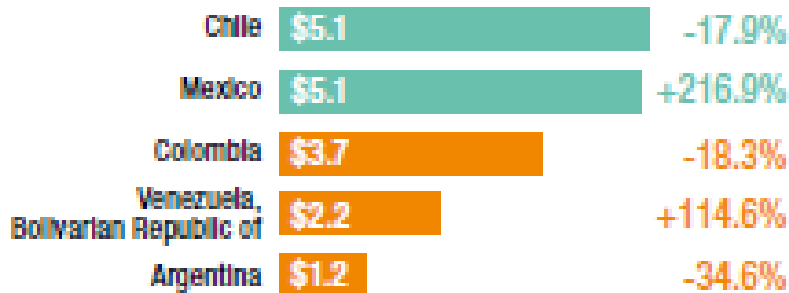


Source: UNCTAD, World Investment Report, 2018

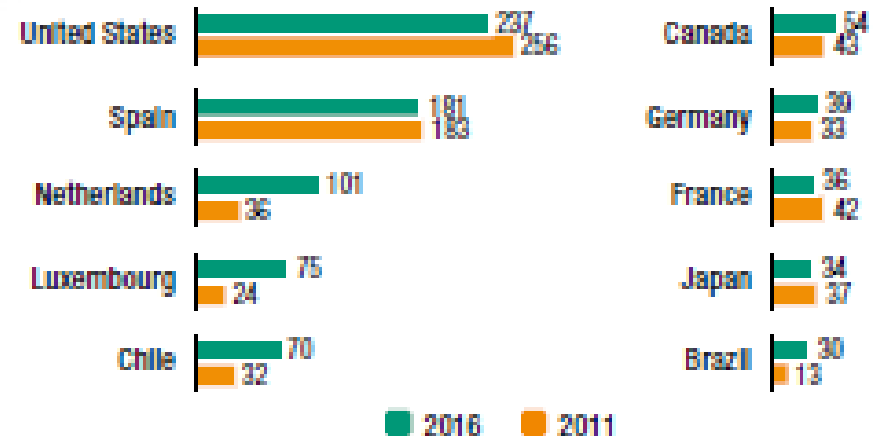
# Latin America and the Caribbean

## Outflows: top 5 home economies

(Billions of dollars and 2017 growth)

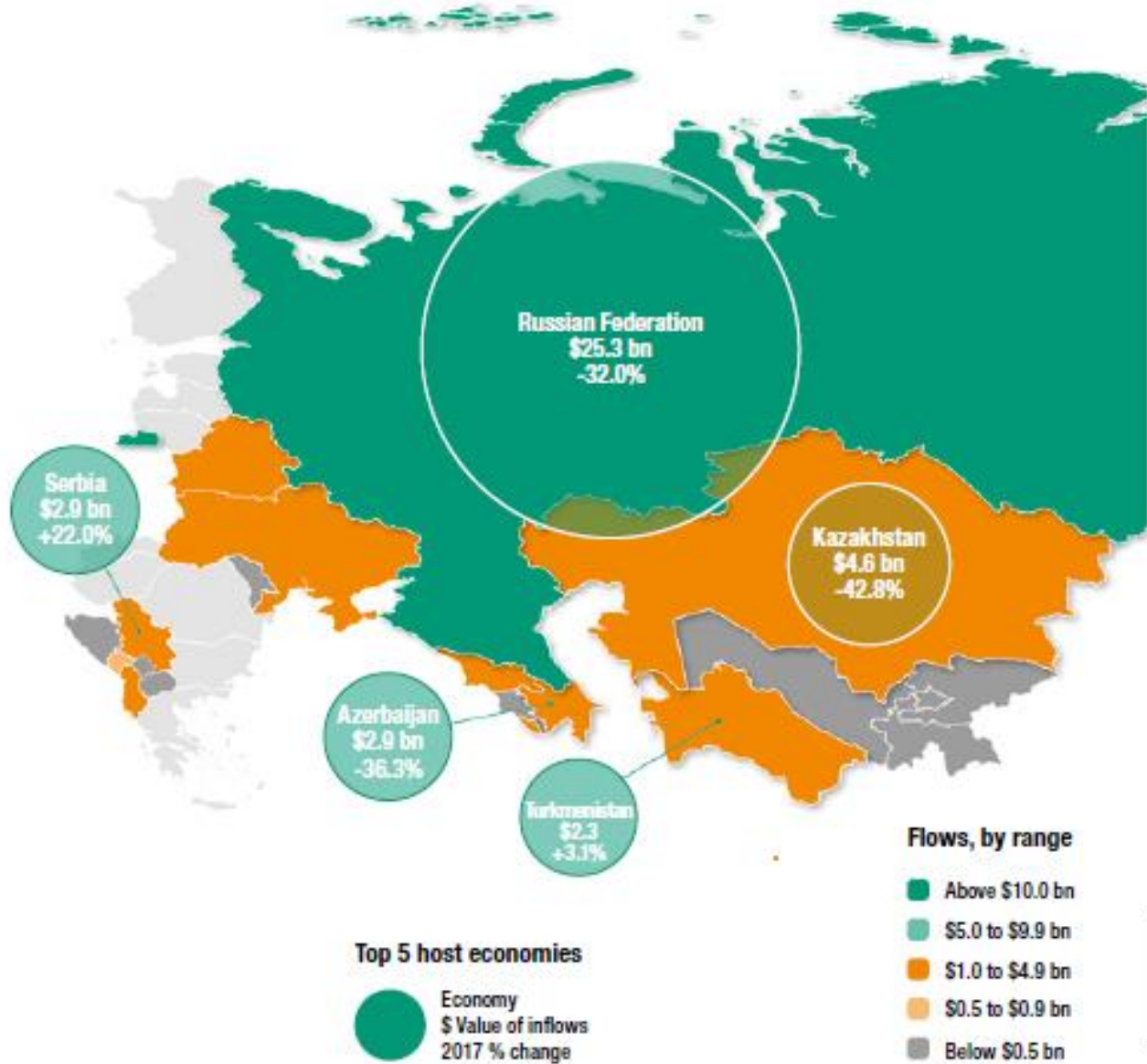


## Top 10 investor economies by FDI stock, 2011 and 2016 (Billions of dollars)



# TRANSITION ECONOMIES

FDI flows, top 5 host economies, 2017 (Value and change)

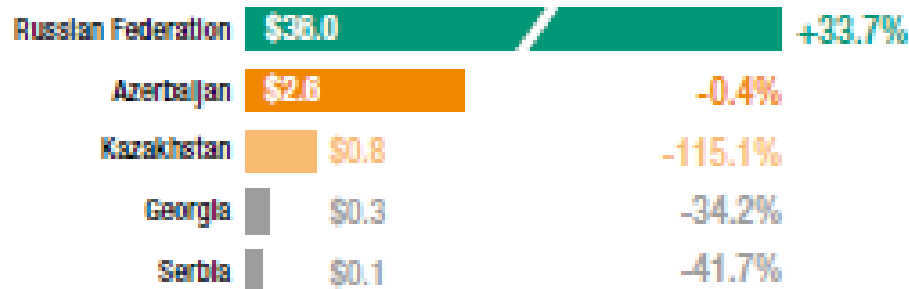


Source: UNCTAD, World Investment Report, 2018

# Transition Economies

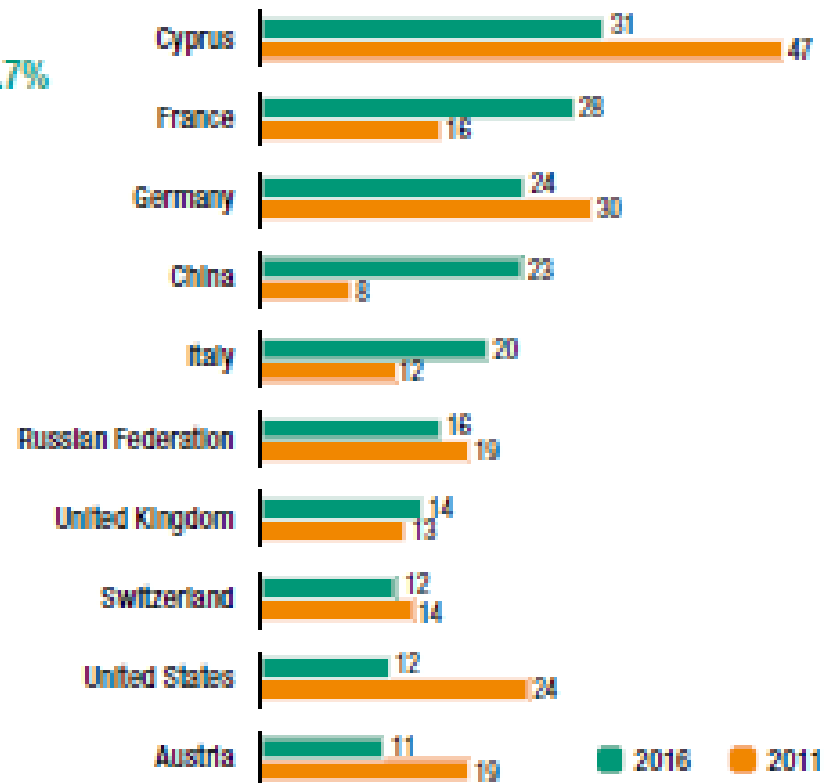
## Outflows: top 5 home economies

(Billions of dollars and 2017 growth)



## Top 10 investor economies

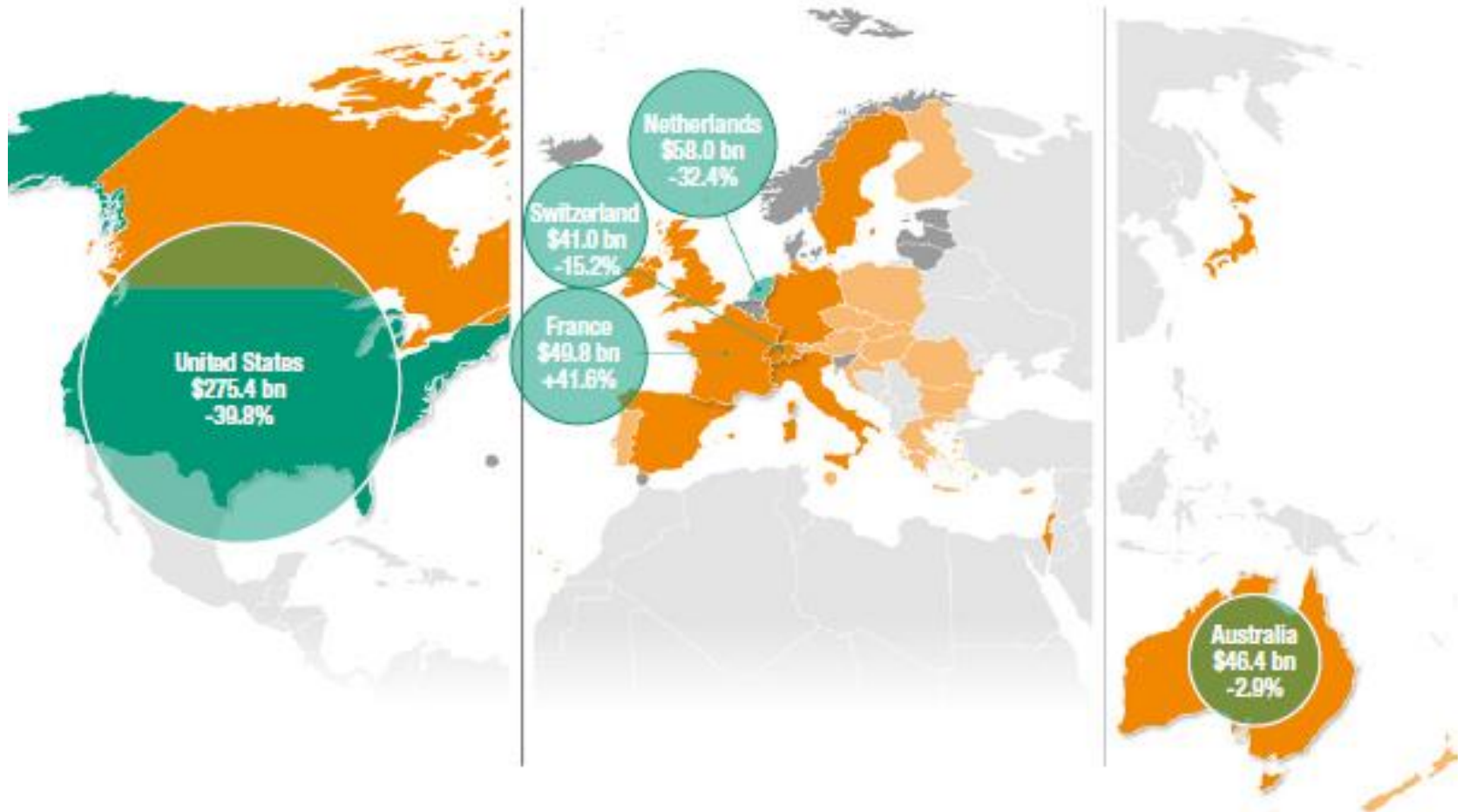
by FDI stock, 2011 and 2016 (Billions of dollars)





# DEVELOPED ECONOMIES

FDI flows, top 5 host economies, 2017 (Value and change)

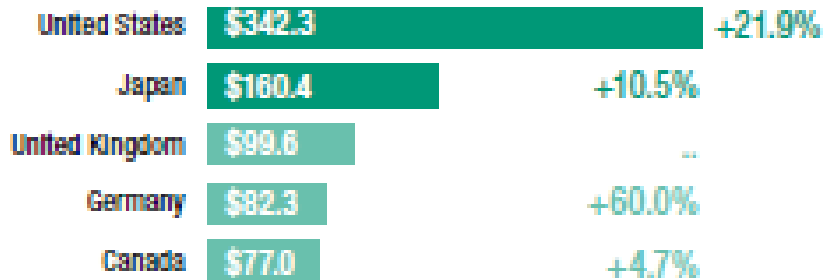


Source: UNCTAD, World Investment Report, 2018

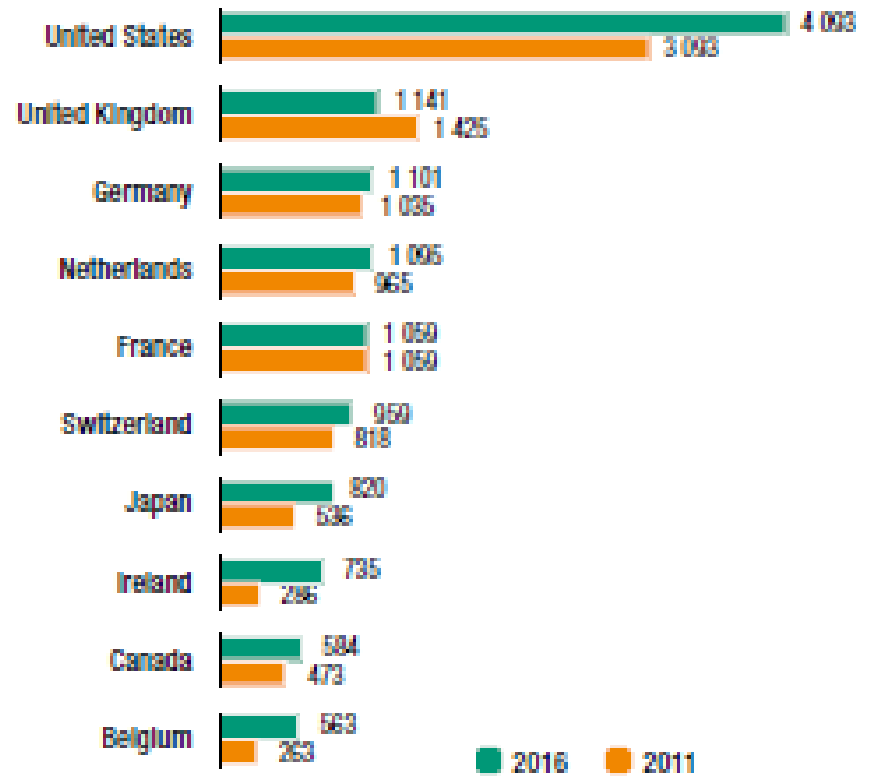
# Developed Economies

## Outflows: top 5 home economies

(Billions of dollars and 2017 growth)

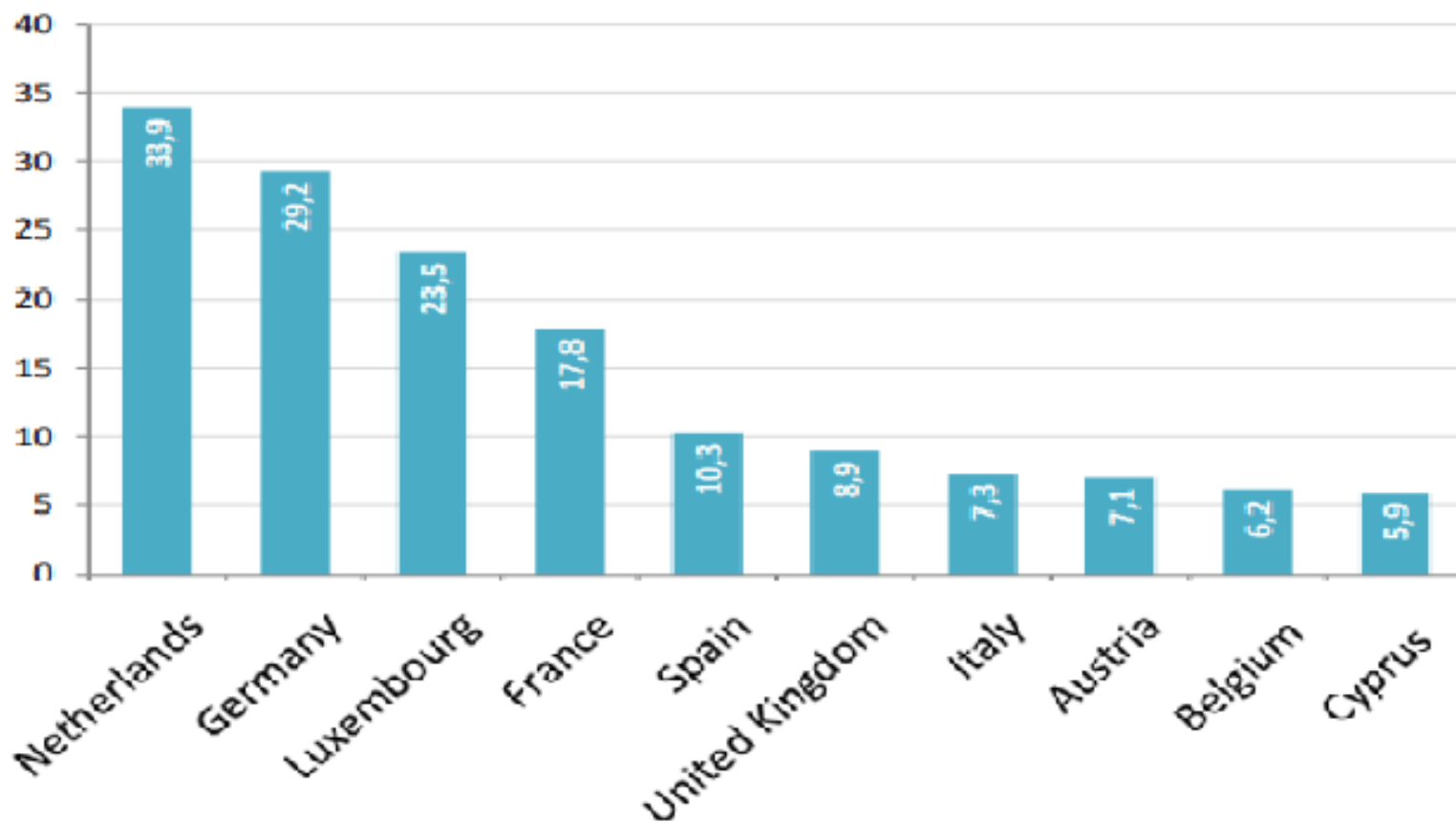


## Top 10 investor economies by FDI stock, 2011 and 2016 (Billions of dollars)



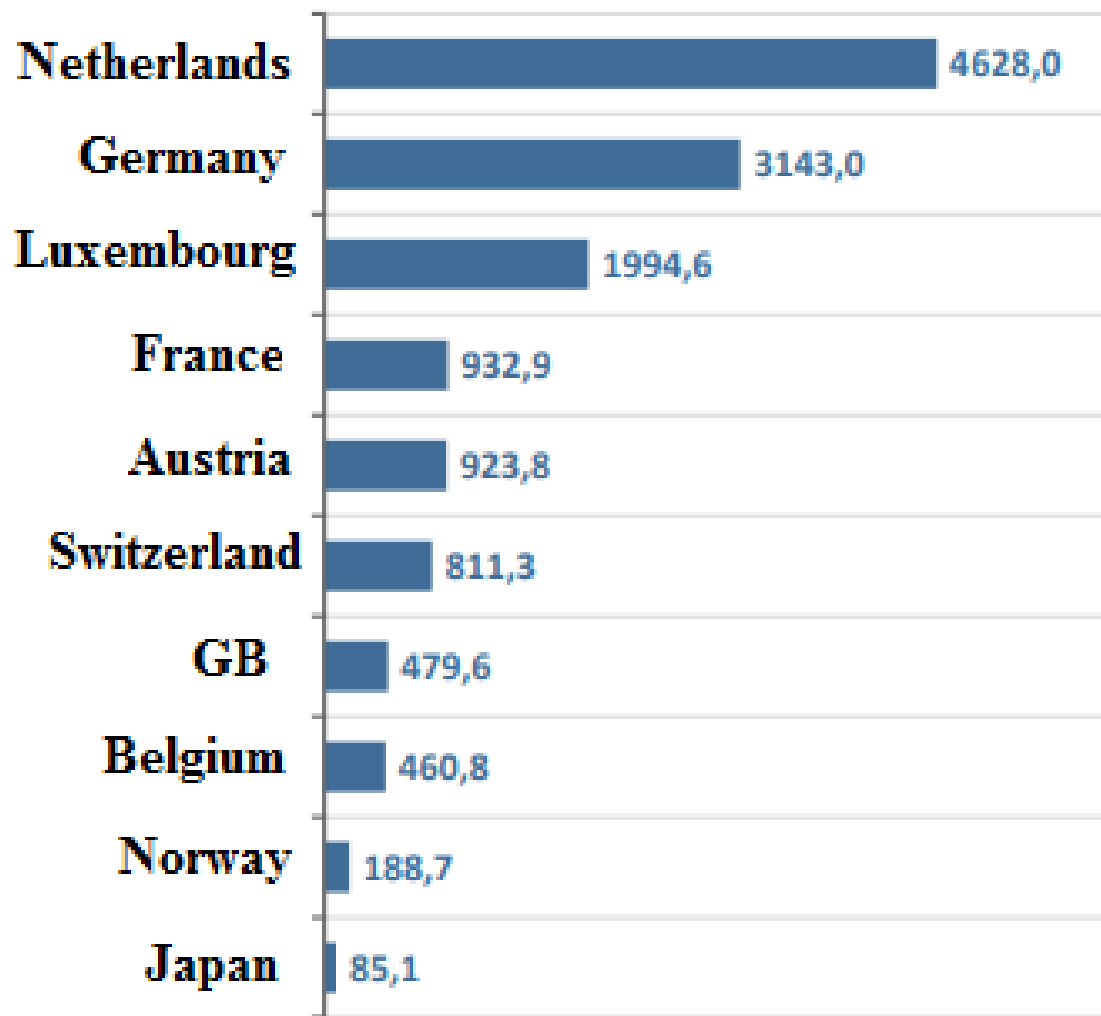
## Foreign direct investments in Poland, stock at the end of 2016, bln EUR

Source: [www.paiz.gov.pl](http://www.paiz.gov.pl) (Polish Information and Foreign Investment Agency)



## The main foreign investors in Poland at the end of 2016, mln EUR

Source: [www.paiz.gov.pl](http://www.paiz.gov.pl) (Polish Information and Foreign Investment Agency)



# The Balance of Payments (BOP)

- The balance of payments is a statistical statement that summarizes transactions between residents and nonresidents during a specific time period, usually a year.
- It is determined by country's exports and imports of goods, services, financial capital and financial transfers.
- BOP reflects all payments and liabilities to foreigners (**debits**) and all payments and obligations received from foreigners (**credits**).

**The Balance of Payments (BOP) comprises**

**The Current Account**

**The Capital Account**

**The Financial Account**

## The Current Account

- The current account is an important grouping of accounts within the balance of payments.
- It shows flows of goods, services, primary income, and secondary income between residents and nonresidents.
- The current account balance shows the difference between exports and income receivable and imports and income payable (exports and imports refer to both goods and services, while income to both primary and secondary income).

# The Current Account

- **The primary income account** – income is provided in return for providing temporary use to another entity of labour or financial resources.
- **The secondary income account** – redistribution of income when resources for current purposes are provided by one party without anything of economic value being supplied as a direct return to that party. Examples include personal transfers and current international assistance.
- **The current account** is the net change in current assets from trade in goods and services (balance of trade), net factor income (such as dividends and interest payments from abroad), and net unilateral transfers from abroad (such as foreign aid, grants, gifts, remittances etc).



# The Capital Account

- **The capital account** shows credit and debit entries for nonproduced nonfinancial assets and capital transfers between residents and nonresidents.
- It records acquisitions and disposals of nonproduced nonfinancial assets, such as land sold to embassies and sales of leases and licenses, as well as capital transfers, that is, the provision of resources for capital purposes by one party without anything of economic value being supplied as a direct return to that party.
- The capital account records the international flows of transfer payments relating to capital items. It therefore records a country's inflows and outflows of payments and transfer of ownership of fixed assets (capital goods).

## The Financial Account

- **The financial account** shows net acquisition and disposal of financial assets and liabilities.
- The financial account = foreign direct investment (increase in foreign ownership of domestic assets – increase of domestic ownership of foreign assets) + portfolio investment (which includes trade in stocks and bonds) + other investment (which includes transactions in currency and bank deposits).

## The Balance of Payments (BOP)

- The sum of the balances on the current and capital accounts represents **the net lending (surplus) or net borrowing (deficit)** by the economy with the rest of the world.
- This is conceptually equal to the net balance of the financial account.
- The financial account measures how the net lending to or borrowing from nonresidents is financed.
- The last component of the balance of payments is **net errors and omissions** and principally exists to correct any possible errors made in accounting for the three other accounts. These errors are common to occur due to the complexity of the calculations and difficulty in obtaining measurements.

### The balance of payments

Current account	Credits	Debits	Balance
Goods	462	392	70
Services	78	107	-29
<b>Goods and services</b>	<b>540</b>	<b>499</b>	<b>41</b>
Compensation of employees	6	2	
Interest	13	21	
Distributed income of corporations	36	17	
Reinvested earnings	14	0	
<b>Primary income</b>	<b>69</b>	<b>40</b>	<b>29</b>
Current taxes on income, wealth, etc	1	0	
Net nonlife insurance premiums	2	11	
Net nonlife insurance claims	12	3	
Current international transfers	1	31	
Miscellaneous current transfers	1	10	
<b>Secondary income</b>	<b>17</b>	<b>55</b>	<b>-38</b>
Current account balance			32

<b>Capital account</b>			
Acquisitions/disposals of nonprod. assets	0	0	
Capital transfers	1	4	
Capital account balance			-3
Net lending (+) / net borrowing (-) (from current and cap. accounts)			29
<b>Financial account</b>	<b>Net acquisition of financial assets</b>	<b>Net incurrence of liabilities</b>	<b>Balance</b>
Direct investment	-4	8	
Portfolio investment	17	7	
Financial derivatives (oth. than reserves) and Employee Stock Options	3	0	
Other investment	42	22	
Reserve assets	8	0	
Total changes in assets/liabilities	66	37	29
Net errors and omissions			0

# Current account balance, 2018 (IMF)

