



# Forex and Labour Arbitrage

Arbitrage was earlier restricted only to commodities that could be traded easily in the markets. It is a phenomenon born out of the financial markets. However, the recent developments in the world have created a situation wherein arbitrage has become possible even in the labour markets and this arbitrage is directly influenced by the Forex rate. In this article, we will provide more details about labour arbitrage and its effects.

## What is Labour Arbitrage?

The barriers to international trade have been removed. Nowadays, there are multinational corporations that have business interests all over the world. As a result, these multinational corporations also prefer to have a global workforce. Companies like Accenture, IBM, Wal-Mart and the like have majority of their workforce situated on foreign soil. The question arises as to why is this the case? Why is it that companies prefer to operate on foreign soil and use their labour?

The offshoring happens because of many reasons. However, the foremost amongst these reasons is labour arbitrage. **Arbitrage means a “risk free” profit.** Traders earn this profit by buying a commodity in a market where the prices are low and selling it in another where the prices are high. In the modern world, labour prices are low in developing countries and therefore capitalists can simply save a lot of money by moving their operations overseas whereas selling their goods i.e. output of that labour in developed economies!

## How Forex Rates Affect Movement of Labour?

Labour is attracted towards maximum wages. Therefore, since the price of the United States Dollar is high as compared to the Indian Rupee, producers from the United States can pay Indian workers higher salaries and still end up saving money. Hence if Indian workers produce goods to be consumed by Americans, both of them can benefit! Low costs and high wages can arise simultaneously.

However, over a period of time, the wage rates of employees in the United States should fall whereas the wage rates of employees in India should rise and the arbitrage should ideally come to an end. This is what is expected to happen in theory. However, in reality, certain other factors affect the outcome and ensure that the labour arbitrage persists.

For instance, the United States government has strong laws regarding minimum wage. This prevents the wages from falling beyond a certain level. At the same time, countries like India have a huge population and no minimum wage laws. Therefore, the intense competition for employment in these countries ends up keeping the wage rate lower. Hence, the price differential between the two country's wages remains, despite there being efficient and free foreign market operations.

As a result, the labour arbitrage persists and multinational corporations still get the opportunity to earn money by simply moving their work around!

## Enablers of Labour Arbitrage

Labour arbitrage could have been implemented centuries ago. However, has only become a reality in the past two decades or so. This is because of the technological developments that have enabled it to become a reality. Some of the enablers of labour arbitrage are as follows:

1. **Telecommunications and Technology:** Technological advancements like the internet and e-mail have been a major factor behind the development of labour arbitrage. It is only because of such developments that data can be transmitted anywhere within a few seconds. Therefore, intellectual work which earlier had to be retained in one country is now diffused across the world. Labour arbitrage has allowed the modern multinational to work tirelessly in a 24 by 7 environment.
2. **Government Policy:** Secondly, there were a lot of restrictions on international trade in the past. However, in the past few years, the world has adopted globalization and allows free movement of capital and labour. As a result, these liberal policies have allowed companies to set up their operations across the globe on purely business terms and without any nationalistic fervour.

## Forms of Labour Arbitrage

Labour arbitrage is present in the world in many forms. Some of the most prominent ones have been listed in this article.

1. **Outsourcing:** Countries like India and China have witnessed an economic boom in the past few years. This boom has been created purely because developed countries in the West have outsourced their productive activities to low cost locations here. In the modern economic system, Western countries like the United States and Europe are largely consumers and production is taking place in low cost countries thanks to labour arbitrage!
2. **Temporary Workers:** Countries like the United States are full of workers from other nations. These workers also represent a form of labour arbitrage and are used by multinationals to hire workers cheaply. The salaries paid out to these employees are lower than what is paid out to their local peers and therefore they represent a form of labour arbitrage too.
3. **Immigrants:** Lastly, countries like Mexico and Bangladesh are sources of low cost labour for developed countries. These countries experience massive movements of their labour force to other countries wherein they can obtain better employment opportunities and better standard of living. Some of this movement of labour is legal whereas the other is illegal. However, in either case, it is still the result of labour arbitrage.