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Abstract

The "race for talent" forces firms in a globalized world to become attractive employers. But what does being "closed", i.e. being coined by protectionism or conflict, imply for the competitive position of an economy in the global race for talent? In this paper, we elaborate on this question and indicate what economies should do – and avoid – if they do not want to fall behind in the global race for the best talent in a turbulent world.

Keywords: employees, globalization, race for talent, open economy, closed economy

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The race for talent and globalization: a short overview

The global "race" (or "war") for talent has become a distinct characteristic of our globalized world (Abeuova and Muratbekova-Touron 2019; Frank, Finnegan and Taylor 2004; Wanniarachchi, Kumara Jayakody and Jayawardana 2022). With economies globalizing, employees in general, and skilled employees in particular, have become more mobile and willing to seek professional success beyond the borders of their home country (Lewin, Massini and Peeters 2009). Economies, and herein firms (as employers) alongside governments setting the framework (as legislators), depend on skilled employees. However, as skilled labour is a scarce resource (Fasani, Llull and Tealdi 2020), employers (as well as legislators) are forced to figure out ways to attract the best talent in an interdependent world.

Therefore, what can firms and governments do to make a specific economy an "attractive" place to work in a globalized world? For firms, despite obvious factors like compensation or career opportunities, many additional factors have gained importance. In this regard, studies such as Dauth, Schmid, Baldermann and Orban (2022) point out the relevance of employer attractiveness: nationality diversity in the top management team or efforts of firms to promote diversity (and the communication thereof) signal to skilled job seekers that the organization is a worthwhile employer, no matter from where an employee originates. In terms of the general conditions in an economy that governments could try to affect, skilled individuals from different parts of the world might favour working in those economies that promise them (professional) developmental space irrespective of their origin, ethnicity, religion, etc. and advocate candidness towards (skilled) labour migration.

Apparently, in recent years, the globalized, interdependent world has revealed some cracks (Ciravegna and Michailova 2022; Witt 2019). An increasing number of economies is, more or less, closed.[1] Some economies that used to be passionate proponents of free trade have engaged in protectionism, i.e. limiting the free flow of goods and services into and from their market[2], and still do so ("America first").[3] Moreover, armed military conflict has returned to the European continent. In the midst of this turmoil and the pressing issues

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[1] In this impact paper, being described as « closed » shall not imply that an economy is completely secluded from the rest of world ; « closed » is here used as an expression that describes economies that do not have a free, but limited flow of goods and services into and from the economy (where the degree of « closedness » may vary between economies).

[2] Of course, protectionism as a contributor to the closedness of an economy comes in many forms (tariffs, quotas, barriers to foreign direct investment (FDI), and many more). Accordingly, the « configuration » of protectionist measures may differ from country to country. This paper follows the (simplified, yet valid) notion that all forms of protectionism directly or indirectly contribute to an economy's closedness by limiting the free flow of goods and services, which in turn can cause similar outcomes for an economy irrespective of the configuration of protectionist measures (for an overview on protectionism, see Bhagwati 1988; see also the remainder of this impact paper).

[3] In this connection, however, it also has to be noted that no economy has ever advocated an entirely free flow of goods and services. Interests of individual countries or groups of countries have always played a decisive role in trade agreements etc. (Kohl 2014). Nevertheless, the degree of protectionism and the tendency to communicate protectionist measures openly has increased over the past few years.

associated with it, one may ask: what does being closed, as opposed to openness, imply in the global race for talent?

Open and closed economies: implications for the race for talent

A fundamental notion of foreign trade theory is that the openness of an economy favours its productivity growth and therefore, eventually, its output and GDP (Alcalá and Ciccone 2004; Edwards 1998). Openness thus stimulates economic development, especially in the long term (Kim, Lin and Suen 2010; Sarkar 2008). So, what does openness imply in the race for talent in a world in which an increasing number of economies is "closing"? If qualified individuals from closed economies decide to leave, they might turn to economies that are considered open. Open economies could thus, in general, benefit from the "brain drain" of protectionist or conflicted countries – in particular if they convincingly convey that they are attractive places to work for people from abroad. The latter means that openness is no end in itself. An economy could be open and yet fail to provide favourable conditions for skilled job seekers from abroad. Only to mention a few examples, there could be resentment towards foreigners entering the domestic job market, i.e. a diverse workforce may not be cherished, or firms in the open economy may have no jobs available at all. Such factors could contribute to a situation in which an open economy may not necessarily have a disadvantage in the race for talent, but in which it could also not "benefit" in terms of attracting foreign talent from economies in other parts of the world that are closing off. A good example of an open economy which, nonetheless, must find incentives to attract skilled employees from abroad is "modern" Germany in its endeavour to counter its "Fachkräftemangel" (shortage of skilled specialists) with international talent.

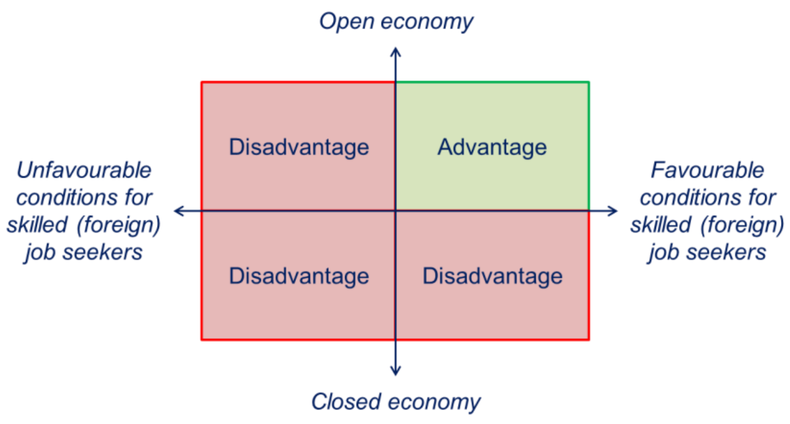
Turning to closed economies, protectionism is a means to deliberately seclude the market from parts of or the entire rest of the world. Protectionism limits the free flow of goods and services as well as the general access to an economy from abroad (Fajgelbaum, Goldberg, Kennedy and Khandelwal 2020; Gunnella and Quaglietti 2019). To evaluate protectionism's implications in the race for talent, one may differentiate between its short-term and long-term consequences. In the short term, an economy with a protectionist agenda might be able to prevent a brain drain. For instance, stimulus packages could be issued by the government that enable firms to retain or attract talent (with financial or other benefits). Immediately after the introduction of protectionist measures hindering the free flow of goods and services, domestic firms might also find themselves in a better position because, for instance, international competitors are forced out of the market – which naturally improves their position in the race for domestic talent. However, in the long term, a protectionist economy will likely experience problems in retaining talent domestically, let alone attracting talent from abroad, especially in case of a high degree of protectionism. Accordingly, firms from protectionist countries will also not have the same opportunities to offer their goods and services that firms from open economies have. In this connection, their competitive position will deteriorate, and firms will not have leeway to attract or retain talent, e.g. with financial incentives such as compensation. The economy will also increasingly struggle to support its firms, as the general economic decline limits its options to provide stimulus packages etc. Consequently, aside from applying force, the protectionist economy will have no tools to avoid a brain drain of skilled employees to other (open) economies. A textbook example of the "brute avoidance" of a brain drain is the "Mauerbau" (i.e. building a wall at the border to Western Germany) executed in the former GDR starting in 1961.[4] It is very likely that a protectionist country will fall behind in the race for talent, at the latest in the long run.

An economy may, however, also close involuntarily, as a result of military conflict. Military conflict has significant growth implications and involves an even worse outlook for retaining and attracting talent – in the short run and also, potentially, in the long run (Jalili et al. 2019; Koubi 2005). As military conflict ensues, a significant proportion of the population – including skilled talent – will leave the economy, if possible, to seek refuge in safer places. A short-term brain drain is the consequence. The long-term consequences are uncertain, but they could become likewise problematic. In a best-case scenario, after a conflict stops or cools off, skilled individuals might return to their home country and aim to "rebuild" the economy. However, depending on the length of the conflict and the extent of destruction the military conflict has left behind, a significant proportion of (unintentionally) migrated talent might also be reluctant to return. This is especially the case if they have managed to build a successful existence in the economy to which they fled, and if prospects at home are not promising. In the worst case, the conflicted economy therefore faces a long-term brain drain of skilled talent. This unfavourable condition sets the economy on the losing track in race for talent, harming its development for years and decades to come.

Conclusion

Figure 1 provides a simplified visual summary of the consequences of economies being open as opposed to closed in the global race for talent. It is apparent that, depending on whether an economy is either open or closed, there are different opportunities for firms and governments to improve their position or fall behind in the global race for talent. In a nutshell, an open economy is the best starting position to make the most of the race; being closed, in turn, can be considered a severe handicap in the global race for talent.

Fig. 1: Advantages and disadvantages in the global race for talent.



Source: authors' own representation.

[4] Of course, secluding the domestic labour market, i.e. applying force to prevent a brain drain, could also be considered a (harsh) kind of protectionism. However, this paper considers such "harsh protectionism" as an ultimate consequence of prior protectionist measures that limit the free flow of goods and services from and into an economy.

Arguably, current tendencies of economies deliberately or involuntarily closing, via protectionism or conflict, will most likely not stop globalization – albeit they might slow it down or set it back to some degree for a certain time (Contractor 2022; MacIsaac and Duclos 2020). Findings in studies about a globalized labour market, as in Dauth, Schmid, Baldermann and Orban (2022), will thus remain relevant. Accordingly, economies are well-advised to be "open" to qualified talent from abroad and to support (potential) employees (from abroad) in their endeavour to enter the respective domestic job markets. However, openness is no guarantee of winning in the global race for talent. Without sustained efforts to actually ensure the material and immaterial wellbeing of international talent, even economies that label themselves as "open" will fail in the race for talent. International talent will feel welcome not only through monetary incentives, but also especially, for instance, by being provided mentoring and guidance in a new environment. Understanding this will put economies on the "fast track" in the race for talent, which is arguably the most valuable resource in the global knowledge economy (Lewis and Heckman 2006; Valenti and Horner 2019).

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