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EU ENLARGEMENT AND MIGRATION: ASSESSING THE LABOUR MARKET EFFECTS ON EU MEMBER STATES

EU enlargement has raised concern among scholars and politicians about the migration flows from Central and Eastern European countries and its impact on the labour markets of EU member states when the EU decided to accept the 10 CEE countries as new EU members. This paper aims to highlight the recent EU migration policy and assess the labour market effects of potential migration flows from CEE on current EU members. We find that the EU enlargement migration flows from CEE has only a limited impact on the labour market of the EU member states. Employment opportunity, geographic distance, and human capital endowment are the key factors determining the size of migration flows from CEE.

Keywords: EU enlargement; migration flow; labour market; employment opportunity; geographic distance; human capital endowment.

Вайфенг Жоу

РОЗШИРЕННЯ ЄС ТА МІГРАЦІЯ: ОЦІНЮВАННЯ ВПЛИВУ НА РИНОК ПРАЦІ КРАЇН-ЧЛЕНІВ ЄС

У статті показано, що процес розширення ЄС викликав чимало досліджень щодо міграційних потоків з країн ЦСЄ та їх впливу на ринку праці у межах ЄС після включення даних країн до складу Євросоюзу. Описано нинішню міграційну політику ЄС та оцінено потенційні потоки трудової міграції з країн ЦСЄ до старої Європи. Продемонстровано, що міграційні потоки у результаті розширення ЄС чинять не настільки суттєвий вплив на ринки праці Євросоюзу, як багато хто побоювався. Ключові фактори, що визначають об'єми міграційних потоків з ЦСЄ, – це можливості працевлаштування, географічна відстань та забезпеченість трудовими ресурсами на місцях.

Ключові слова: розширення ЄС; потоки міграції; ринок праці; можливості працевлаштування; географічна відстань; забезпеченість людськими ресурсами.

Табл. 2. Рис. 4. Літ. 11.

Вайфенг Жоу

РАСШИРЕНИЕ ЕС И МИГРАЦИЯ: ОЦЕНКА ВЛИЯНИЙ НА РЫНОК ТРУДА СТРАН-ЧЛЕНОВ ЕС

В статье показано, что процесс расширения ЕС вызывал множество исследований касательно миграционных потоков из стран ЦВЕ и их влияния на рынки труда в пределах ЕС после принятия данных стран членами Евросоюза. Описана нынешняя миграционная политика ЕС и дана оценка потенциальным потокам трудовой миграции из стран ЦВЕ в старую Европу. Показано, что миграционные потоки в результате расширения ЕС оказали не настолько серьезное влияние на рынки труда Евросоюза, как многие опасались. Ключевые факторы, определяющие объемы миграционных потоков из ЦВЕ, – это возможности трудоустройства, географическое расстояние и обеспеченность трудовыми ресурсами на местах.

Ключевые слова: расширение ЕС; потоки миграции; рынок труда; возможности трудоустройства; географическое расстояние; обеспеченность человеческими ресурсами.

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1. Introduction. Integrating a number of Central and Eastern European countries (CEECs) into the European Union is the greatest challenge the EU is facing since its inception. The integration process enlarges the area of regional peace, economic prosperity and social equilibrium and this process will result in a united, stable and prosperous Europe. During the process of EU economic, social and political integration, not only the opportunities but also potential problems should be identified and the solutions must be offered. In the accession negotiations, a considerable issue is the free movement of labour and its impact on the EU member states. The debates are split among scholars and politicians. The proponents consider the conditions of EU enlargement to be inappropriate and dismiss problem by playing down the expected number of immigrants, while the opponents seek to postpone the EU accession of the Central and Eastern European countries by painting horror scenarios. Against this background, an unbiased analysis of opportunities and challenges of the EU enlargement has significance for successful integration of CEECs into the EU.

During the accession negotiation, free movement of labour remained one of the most sensitive issues. The EU-15 are concerned that the accession of 10 CEE countries¹ with much lower per capita income levels will have a range of adverse effects. They fear that mass migration will have pressures on welfare systems and industrial relocation since lower labour costs from the CEECs will cause job losses for unskilled workers in the current EU members. According to the Eurobarometer Survey, an opinion poll was conducted by the European Commission among all the EU members and roughly 40% of the population of the EU-15 voted overwhelming against the Eastern enlargement. The supposed impact of immigration plays a significant role in generating such an attitude, but other factors must be at work as well. First, the evidence for the impact of immigration on wage and employment is at best weak. Second, it is difficult to identify a strong link between immigration and unemployment². Third, economic factors alone cannot explain why previous migrants, who are most negatively affected by additional immigration, tend to be quite supportive of a freer immigration policy³.

This article attempts to provide valuable insights into European enlargement and the labour market effects of immigration. Second section presents the overview of evolution of the EU migration policy regarding Eurointegration. The third section will examine the impact of migration flows from CEECs on the labour market of the current EU member. The fourth section presents the conclusions.

2. Overview of the EU migration policy. Given the fact that regional integration always comes together with a possible migration wave, caused by free movement of production factors such as goods, services, capital and labour. From the historical overview, there are at least 3 systems in Western Europe with different focal points of migration policy before the 1970s.⁴ The first is the Nordic model, which was intro-

¹ Including Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia.

² Borjas, G.J., Freeman R.B. and Katze L.F. (1997), How Much Do Immigration Affect Labour Market Outcomes? Brookings paper on Economic Activity, No. 1, pp. 1-90.

³ Fetzer, J.S. (2000), Public Attitudes toward Immigration in the United States, France and Germany. (Cambridge: Cambridge University Press).

⁴ Biffi, G. (2001), Increasing Coordination of Migration Policies. *Intereconomics*, July/August 2001, pp. 171.

duced in 1954 and granted free labour mobility within Scandinavia. It was recognized that maximum economic benefit can be obtained from regional integration through free mobility of factors of production including capital and labour. The second model refers to the EFTA countries. The rights of the foreign worker, such as access to labour market, to social assistance, to housing and to political participation were limited within a restrictive legal system which negatively influenced the integration of foreign workforce. The third model relates to the establishment of European Community with 6 founding members (France, Germany, Italy, Belgium, the Netherlands and Luxembourg), from 1958 and onwards. The barriers to labour mobility in certain industrial sectors were eliminated till 1970.

The EU migration systems introduced after the 1970s became more complex. Some instruments to control short-term labour migration were developed by traditional immigration countries. For example, France controlled sizes and tendency for migration from abroad by granting work permits to seasonal and temporary foreign workers. In Germany, as the new paradise for migrants since the 1970s, an integration of 2 types of immigration (permanent vs. short-term residence) was introduced as the key policy. Since 1986, free labour movement was in principle carried out in all the sectors within 6 members but the access to public sector was still limited due to security. After the introduction of European Single Market in 1992, most of the barriers to labour mobility within the EU were removed. Given the fact that EU enlargement would potentially lead to mass migration and cause labour market tensions and social cohesion, the accession negotiations between European Commission and the CEECs reached the consensus that the Eastern enlargement will involve free labour movement only after a transitional period lasting up to 7 years. Hence, if the first candidates joined in 2005, the citizens of new members will only be free to move and work in the current EU after 2012.

The Europe Agreements (EAs) have played an important role in common and realistic regulation of labour migration within the EU while not impairing the authority of the individual EU members with regard to entry and stay of workers and their family members from the CEECs. The EAs provide grants to workers who have been employed in the EU member states by the "non-discrimination" rule, under which all grant workers have equal access to labour market as natives and other foreigners. Further, enterprises from the CEECs within the EU are entitled to employ citizens of their own countries as key personnel. In general, the right of nationals from the CEECs to establish companies in EU member states is ensured under the EAs, but the right to self-employment in the EU is not guaranteed under that. Furthermore, carrying out the regulation on labour migration is under the authority of the EU member states. A tight rule was introduced in 1993 to cope with the wake of immigration inflow during the transition that had negatively affected most immigrants from the CEECs.

The single market is based on the precondition that free movement of all production factors must be guaranteed in order to maximize economical benefits. By reallocating the production factors within all the countries involved, it becomes possible for all the EU citizens to have equal treatment on employment, occupation, remuneration, dismissal and other conditions of work. Nationals from the EU members have the right to stay in another member state for 3 months in order to look for

a job and accept employment. According to the EC treaty, citizens from other EU members are also entitled to a 5-year residence permit. National legislation and practices favouring domestic workers must be abolished. Tito Boeri argued that "the presence of more immigrants will help the EU have a more mobile labour force, thus EU governments should not restrict this mobility through excessive regulations on employment protection, which raise the cost to firms of dismissing workers, or by maintaining the current obstacles to intra-EU migration"⁵. However, many EU politicians are increasingly concerned that they will face greater challenges, dividing big "welfare cake" of the current EU members within all the countries under the single market programme.

3. Labour market effects of immigration. Establishment of the European single market encourages free movement of capital, goods and services. It will surely cause adjustments in wages and employment opportunities at the EU labour markets. With rising unemployment rates and relative decline of unskilled wages in Western Europe, Eastern enlargement is likely to be a threat to native labour. This section will discuss the labour market effects of immigration.

Impact on wages and employment. There is a large number of empirical studies on the impact of immigration on wages and employment.⁶ Most scholars agreed that increased inequality in the distribution of incomes is the key factor of immigration (Table 1). According to the economic theory, the impact of immigration on wage and employment can be neutral in open economies, inter-industrial wage differentials and displacement risks are still on the cards.⁷ It means that an equal distribution across of wages and employment across migrants workers is impossible under the realistic assumption: the group of low-skilled workers can be affected by migrants from CEECs.

The assumption has been testified by examining the labour market effects in Austria and Germany which are the main EU receivers of migration from the CEECs. The differentials in wage are slightly reduced by 0.25% in the Austrian sample and 0.6% in the German sample⁸. The unemployment risk increased respectively by 0.8% age points in the Austrian sample and 1.6% age points in the German sample. It indicated that blue-collar workers with lower qualification will be most affected compared to white-collar workers with higher qualification (Figure 1). The former is mostly concentrated in such sectors as construction, manufacturing, the latter in such sectors as banking and insurance.

The question of whether the labour force mobility leads to an increase in unemployment is the key point. According to the trade theory, labour migration is neutral for relative wages if the marginal demand for labour is determined by an elastic

⁵ Tito Boeri et al. (2002), *Who's Afraid of the Big Enlargement? Economic and Social Implications of the European Union's Prospective Eastern Expansion*, London: Centre for Economic Policy Research (CEPR), Policy Paper No. 7, June 2002.

⁶ For example: Pischke, J.-S. and Velling, J. (1997), *Employment Effects of Immigration to Germany: An Analysis Based on Local Labor Markets*. *The Review of Economics and Statistics*, Vol. 79, pp. 594-604; Winter-Ebmer, R. and Zimmermann, K.F. (1998), *East-West Trade and Migration: The Austro-German Case*. Bonn, IZA Discussion Paper No. 2; Okkerse, L. (2005), *The Impact of Immigrants on the Labour Market. Unexpected Approaches to the Global Society*. de Smedt, H., Goossens, L. and Timmerman, C. Antwerpen, Garant: pp.37-59; Dustmann, C., Fabbri, F. and Preston, I. (2005), *The Impact of Immigration on the UK Labour Market*. *The Economic Journal*, Vol. 115, No. 507, pp. F324-F341.

⁷ Friedberg, R.M. and Hunt J. (1995), *The Impact of Immigrants on Host Country Wages, Employment and Growth*. *Journal of Economic Perspectives*, Vol. 9, No. 2, pp. 23-44.

⁸ Source: Eurostat Database, <http://europa.euro.int/comm/eurostat>.

demand for labour intensive goods at international markets. Thus, immigration is likely not to affect wages and employment of native workers. However, the marginal demand for labour may be determined by the sectors having an inelastic demand for goods and services. According to Dickens and Katz's study, the inter-industrial employment refers to 3 categories: workers working within the same industry, workers moving into other industries, and workers moving into non-employment⁹. As to inter-industrial differences in unemployment risk under realistic assumptions, it can be caused by limited labour mobility across the sectors and an inelastic adjustment in labour supply of a specific industry. It is based on the condition that immigrant labour can act as either a substitute or a complement to native labour, and depends on human capital endowment and other individual characteristics.

Impact on specific countries. Significant income difference between the new and old EU members and geographic distance are the two key factors of immigration. The specific EU members will be inevitably affected by migration of foreign labour from the CEECs. Due to geographical and historical ties, Germany and Austria have disproportionately received more immigrants than other EU countries. According to the Eurostat (Figure 2), there were 727 thousand residents from the CEEC-10 in the current EU-15 (excluding Austria, France, Greece, Italy, Ireland and Portugal) in 1998, and the cumulative immigration from the CEECs to the current EU members between 1990 and 1997 amounted to 642 thousand. According to the Eurostat Labour Force Survey, approximately 240 thousand workers from the CEEC-6 (excluding Slovenia and the Baltic countries) in the current EU (excluding Ireland, Portugal and Sweden) in 1995, representing 0.2 % of the total employment of the EU¹⁰.

Bounding with CEECs, Austria and Germany are the main countries receiving immigration from the CEECs. 73% of the working-age population and 80% of the employees immigrated from the CEECs into the EU reside in Austria and Germany. Migrants from CEECs in the total employment reached 1.1% in Austria, 0.5% in Germany, 0.2% in Sweden and Greece in 1995. In addition, the main candidate countries from the CEECs have a high share of migration in current EU member. The ratio of employees working in the EU members to the working age population is 0.6% in Hungary, 0.4% in the former Czechoslovakia and 0.3% in Poland. Total employees from the CEECs exceed the figure of 300,000 workers. However, nearly half of foreign employees from the CEEC-6 originate from Poland, followed by Romania (17%), Hungary (16%), the Czech Republic and Slovakia (11%) and Bulgaria (9%).

The share of residents and employees from the CEEC-10 in Austria and Germany (Figure 3) is relatively higher than in other EU members and it is implied that geographic distance plays a key role in the immigrants' decisions, together with a larger gap in per capita income and wages between the EU and CEECs, migration flows from CEECs would be larger than the previous South-North migration. For example, eastern parts of Austria (Burgenland, Vienna und lower Austria) will be most affected by the migration flows from the CEECs. The picture in Germany is more complex. The share of migrants from CEECs of Eastern Germany is lower than

⁹ Dickens, W.T. and Katz L.F. (1987), Inter-Industry Wage Differences and Industry Characteristics, in: Lang, K. and Leonard, J.S. (eds.), Unemployment and the Structure of Labour Markets, (Longdon: Basil Blackwell), pp. 48-89.

¹⁰ Euro-CAN statistics (2003), Luxemburg: Office for Official Publication of European Community.

in Western Germany. For example, the migration flows from Czech Republic are concentrated mostly in Bavaria and Baden-Wuerttemberg regions which are the most industrialized regions of Germany. In this respect, economic motive instead of geographic distance plays the central role in immigrants' decisions, and the size and tendency of migration flows will be relatively large rather than moderate.

Impact on specific sectors. Sectors within the current EU members that will be affected by migration flows from CEECs mostly rely on human capital characteristics of migrants from the CEECs. Comparing differences in personal and human capital endowment and employment behaviour between present EU countries and CEECs (Eurostat, 1996), we can find that, first, the average age of employees from the CEECs shows that immigrants from CEECs are significantly younger than those native and foreign workers in the EU. Almost 70% of the workers from CEECs are aged 25 to 44, while only 55% of all the EU workers belong to this age group¹¹.

Table 2 shows the differences in educational levels of migrants from CEECs which are higher than other foreigners and natives. Immigrants from CEECs seem to have an advantage in human capital over other immigrants. Immigrants from CEECs have higher shares of employment in such sectors (Figure 4) as tourism, construction, electricity and manufacturing than in such sectors as agriculture, banking and insurance, energy and mining, and education. The former is above average but the latter is below average. In general, distribution of immigrants from CEECs across sectors is largely similar to those from other countries.

The share of immigrants from CEECs at the labour market has declined over time and was lower than the average of the EU in 1998. According to European Labour Force Survey, the ratio of labour force to working age population (activity rate) and the ratio of employees to working age population (participation rate) reached 63% and 53% in 1998 respectively. At the same time, average activity rates of the EU reached 68% and average participation rate was 61%. Unemployment rates of immigrants from CEECs reached 16.5% which is significantly higher than average unemployment rates in the EU (10.3%) in 1998¹². Finally, high-skilled migrants from CEECs are mostly concentrated in the labour intensive sectors, this implies that competition among immigrants mainly focuses on blue-collar jobs in construction and manufacturing and low-skilled jobs in service sectors and agriculture irrespectively of their education.

5. Conclusion. EU enlargement is seen as not only a political necessity, but also a historical opportunity and common challenge. The expanded trade and investment opportunities promise considerable advantages for the current EU member states. Labour division in Europe can be extended significantly and all the countries are beneficiaries of the integration process. From economic perspective, labour migration can bring considerable welfare gains to both sending and receiving countries, because migrants generally receive wages from host countries that are higher than the losses in added value in their home countries and lower than the gains in added value from host countries. Furthermore, freedom is strongly anchored in the legal system and the philosophical fundament of Europe. However, free labour movement may trigger a mass migration wave from CEECs and distort the labour markets in the current EU members.

¹¹ Source: Eurostat Database, <http://europa.euro.int/comm/eurostat>.

¹² The temporary migration is not completely covered.

The above analysis suggests that migration flows from CEECs to current EU members is relatively small rather than medium, as the size and tendency of migration strongly depends on income difference, human capital endowment and the labour market situation in receiving and home countries. Firstly, the impact of immigration on wage and employment is neutral if the marginal demand for labour is determined by the elastic demand for labour. Secondly, due to geographical and economical factors, Germany and Austria will be affected most by migration flows from boundary countries such as Poland and the Czech Republic. Sizes and tendency for migration from CEECs is larger than the previous South-North migration. The labour migration is mainly concentrated in Eastern Austria and in Bavaria and Baden-Wuerttemberg in Germany. Finally, wages and employment of native blue-collar workers are negatively affected by migration flows from CEECs as the decline in wages in such sectors as construction and manufacturing increases the rate of substitution in human capital endowment.

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Appendix

Table 1. CEEC-10: Per Capita GDP at Current Exchange Rates 1992-1998

	1992	1994	1996	1998
Bulgaria	1,058	1,196	1,129	876
Czech Republic	2,713	3,831	5,448	5,340
Estonia	699	1,557	2,964	2,656
Hungary	3,436	3,961	4,303	4,688
Latvia	565	1,432	2,017	1,923
Lithuania	238	1,140	2,096	2,052
Poland	2,194	2,399	3,455	2,334
Romania	851	1,323	1,571	976
Slovak Republic	2,213	2,576	3,529	2,561
Slovenia	6,275	7,233	9,471	6,468
CEEC-10	1,931	2,384	3,172	2,524
EU-15	20,736	19,871	23,063	23,003

Source: IMF International Financial Statistics, Yearbook 1999.

Table 2. Formal Education Levels of Employees in the EU, %

Highest completed level of education	Employees from the CEEC-6 ¹	Total foreign employees	Total employees
Primary schooling and no degree	4.6	22.8	18.6
Secondary education (1st stage)	55.1	51.1	45.4
Secondary education (2nd stage)	16.9	10.3	15.5
Tertiary education	23.4	15.9	20.5

1) Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovak Republic.
 Source: Eurostat Labour Force Survey, background report by Honekopp (1999).

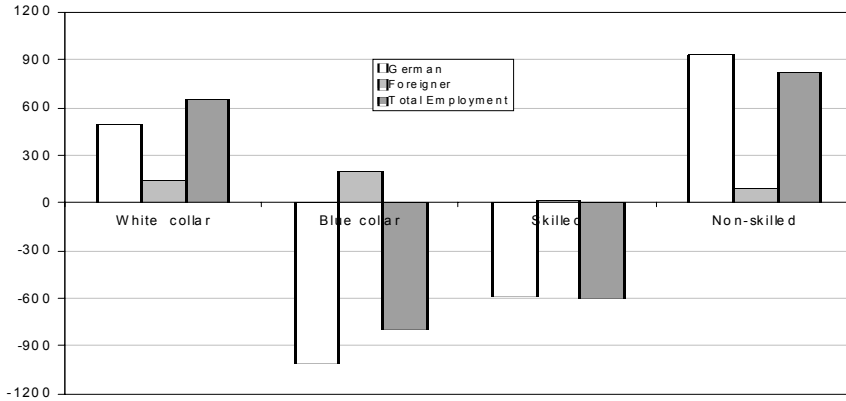


Figure 1. Job Losses and Gains: German and foreigners (in thousand)

Source: Schultz (1996)

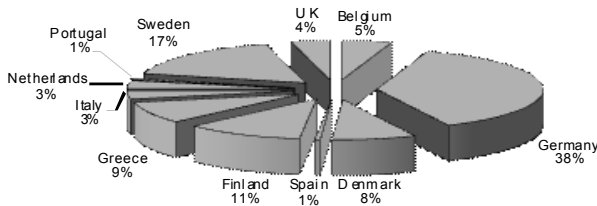


Figure 2. Share of Population from the CEECs in EU Member Countries (1996)

Source: European Union Report, Part A of Analysis.

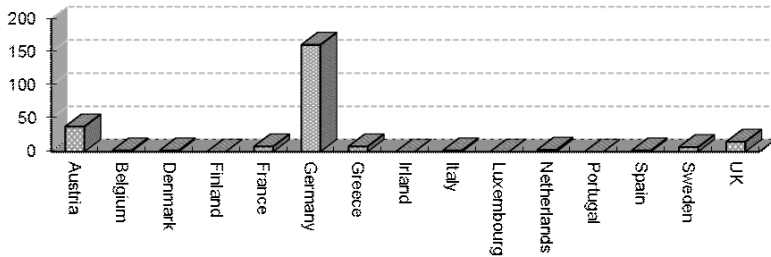


Figure 3. Cumulative Net Employees from the CEECs in the EU-15 (in thousand)

Sources: Background Report by Honekopp (2000).

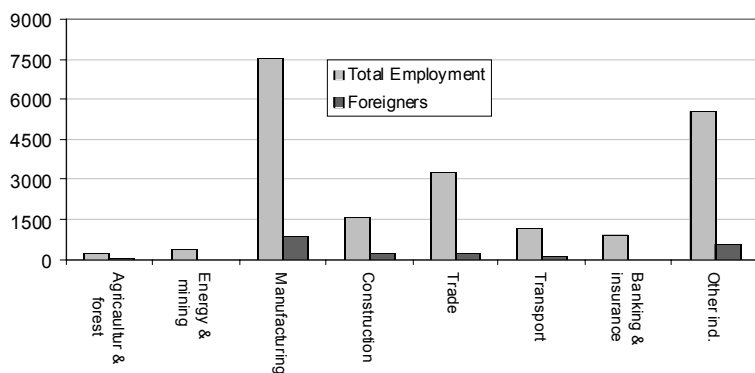


Figure 4. Foreigner in different sectors of German Economy, 1995 (in thousand)

Source: Statistisches Bundesamt (1995)

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