

# EaP workers in EU Labor Markets: Unleashing potentials for mutual gains

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EuropeAid/130215/C/SER/Multi

**Consortium partners:** CASE, CEU, IZA, LSEE



# Project background

# Project Background I

- **Project**: Costs and Benefits of Labour Mobility between the EU and the Eastern Partnership Countries
- **Consortium**:
  - CASE - Center for Social and Economic Research;
  - IZA - Institute for the Study of Labor;
  - CEU - Central European University;
  - LSEE - The London School of Economics and Political Science Enterprise
- **Funding**: European Commission DG DEVCO/EuropeAid, EuropeAid/130215/C/SER/Multi

# Project background II

- **Analysis serves to:**
  - Propose interventions to facilitate labour-matching between the EU and the EaP
  - Forecast labour migration flows and assess labour market impact
  - Contribute to the overall EU strategy towards partner countries
- **Project output:**
  - **11 Country studies** (EaP countries: Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine; EU member states: Germany, Italy, Poland, Spain, UK)
  - **2 General reports:**
    - **Labour Migration from EaP Countries to the EU: Assessment of Costs and Benefits and Proposals for Better Labour Market Matching** (Kahanec, Zimmermann, Kurekova and Biavaschi 2013)
    - **Labour Migration from the Eastern Partnership Countries: Evolution and Policy Options for Better Outcomes** (Barbone, Bonch-Osmolovskiy and Luecke 2013);
  - **Final Report: Migration from the Eastern Partnership Countries to the European Union – Options for a Better Future** (Barbone, Kahanec, Kurekova, Zimmermann, 2013)
- **Available at [www.iza.org](http://www.iza.org)**

# Key argument

- Europe needs mobility and immigration (aging, skill shortages)
- It is reasonable to expect steady, modest migration flows from EaP countries (mostly Ukraine) to the EU over the next decade
- Moderately, and temporarily, increased flows can be expected if a more liberal migration framework is put in place
- The effects of past and projected mobility generally positive
- More transparent and liberal migration framework provides for better matching and more favourable impacts on sending and receiving countries, and on migrants

**Potential for Win – Win – Win outcomes**

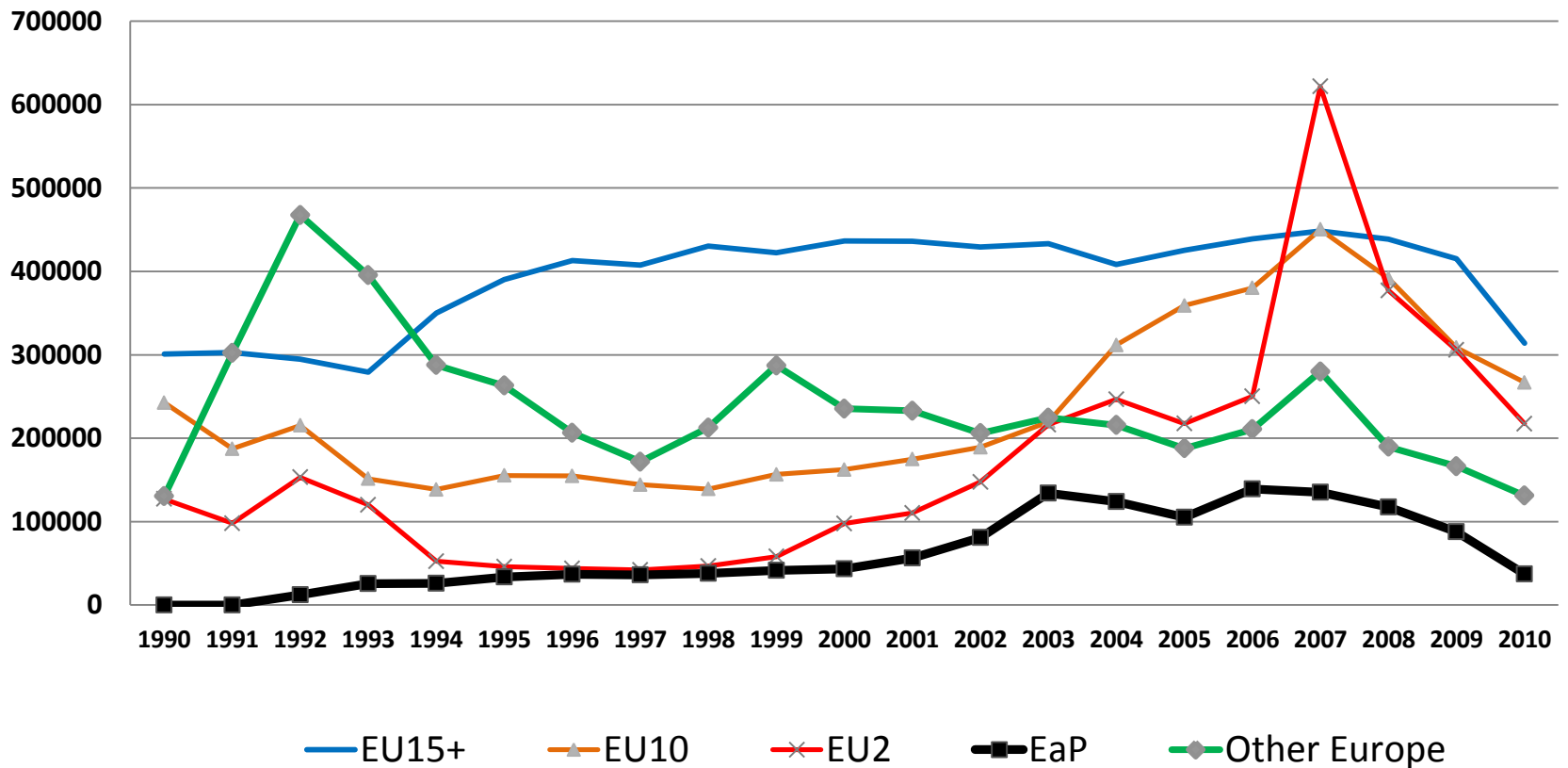
# Outline

- EaP migration in the EU
- EU labor market needs and key barriers to matching
- Measured impacts of mobility
- Projections of future flows
- Estimation of effects (simulations)
- Summary of key findings
- Lessons and policy conclusions

# EaP Migrants in the EU

General overview, lessons from EU  
enlargement and country studies

# Migration flows to EU27 destination countries from Europe, by European regions of origin, 1990-2010



Source: Own calculations using collected migration flows and stock database by Pytliková (2012).



# Scale of EaP migration and profiles

- About 1.5 million in the EU25 in 2010, 3.68% of total immigration
  - mainly from Ukraine
  - In Poland, Italy, Czech Rep., Spain, Germany, UK
  - historically larger EaP migrant presence in EU8 than in the EU15
- Segmentation along sectors, gender
  - males: construction and agriculture
  - females: domestic and care sectors
  - high-skilled sectors: IT (Poland), financial services (UK)
- Skilled, young and attached to the labor market
  - employment rates above immigrant average (60-70% in Spain, Italy, Poland)
  - well educated - often exceeding education attainment levels of natives and other immigrants
  - typically young

**Small, prospective, come to work**

# EU Labour Market Needs and Key Barriers to Matching

# Specific skill needs

- Replacement jobs and newly emerging jobs
- Over late 2010s: skill shortages highest in skilled-manual occupations in agriculture, health and education sectors
- Up to 2020:
  - Top bottleneck occupations— medium to high skills: health professionals, IT staff, engineers, sales representatives, accounting and finance staff
  - Shortages due to inefficiencies in job matching and skill deficiencies also in sales, services and elementary occupations, not attractive to native workers;

**Low skills and high skills to be in demand**

# Relevance of EaP Migration for the EU Labour Needs

- EaP migrants have been filling existing gaps in host countries' labour markets
  - agriculture, household services and personal care, construction, retail and hospitality
- Contribution to female labour market participation
- EaP migrants are generally well educated and so suited to fill high-skilled occupations

**EaP potential to fill EU skill needs at all levels is high, but better matching and integration is essential**

# Downskilling as a key obstacle

- Structural: type of labour demand
- Institutional:
  - Recognition of qualifications
  - Legal frameworks
    - Restrictions on transition to other jobs
    - Temporary migration frameworks
- Individual:
  - Poor language proficiency
  - Migration strategy and preferences
- **Costs of downskilling:** brain waste, vulnerability, inefficient use of human capital

**Barriers limit the potential**

# Measured Impacts of Mobility

# Impacts of EaP migration in the EU

- Effects are relatively limited due to small scale
- Provide productive capacity and human capital, fill up gaps
- Help to mobilise internal capacities
- Do not negatively affect wages
- Do not abuse welfare

**Impact is generally positive or neutral**

# Macro impacts of past mobility

- We follow an aggregate production function framework (Ortega and Peri (2009) and Docquier et al (2010))
- We use a unique dataset of past migration flows to evaluate their effects on:
  - employment rate and labour force participation (to account for the labor input),
  - capital services and capital to labor ratio (to account for the capital input),
  - total factor productivity (calculated as a Solow residual),
  - output per worker (to account for the average wage) and
  - output per capita.



# Macro impacts - findings

## Post-enlargement mobility

- We find positive effects on
  - GDP
  - GDP per capita
  - Employment rate
- And negative effects on output per worker
- The effects less positive for EaP immigration, perhaps due to barriers

**Macro impacts positive, barriers may harm**

# Do migrants grease the wheels?

- EU SILC and EU LFS over period 2004-2010 for 13 countries, define 9 industry and 4 skill groups
- Measure skill shortage in each industry/skill/country and measure whether migrants/natives reallocate in response to changing shortages

## Findings

- Immigrants at least as much and probably more responsive to changing shortages than the natives.
- More sensitive to unemployment changes, equally sensitive to GDP growth

**Migrants provide for efficiency**

# Benefits of migration for EaP countries

- Effect of remittances on the financial sector has been positive, contributing to financial deepening and emergence of new financial products
- Remittances have contributed to stronger public finances , in some cases higher revenues may have weakened fiscal discipline
- The effects proportional to the importance of migration with respect to the size of the economy

**Potential for benefits**

# Projections of future flows

# Scenario approach

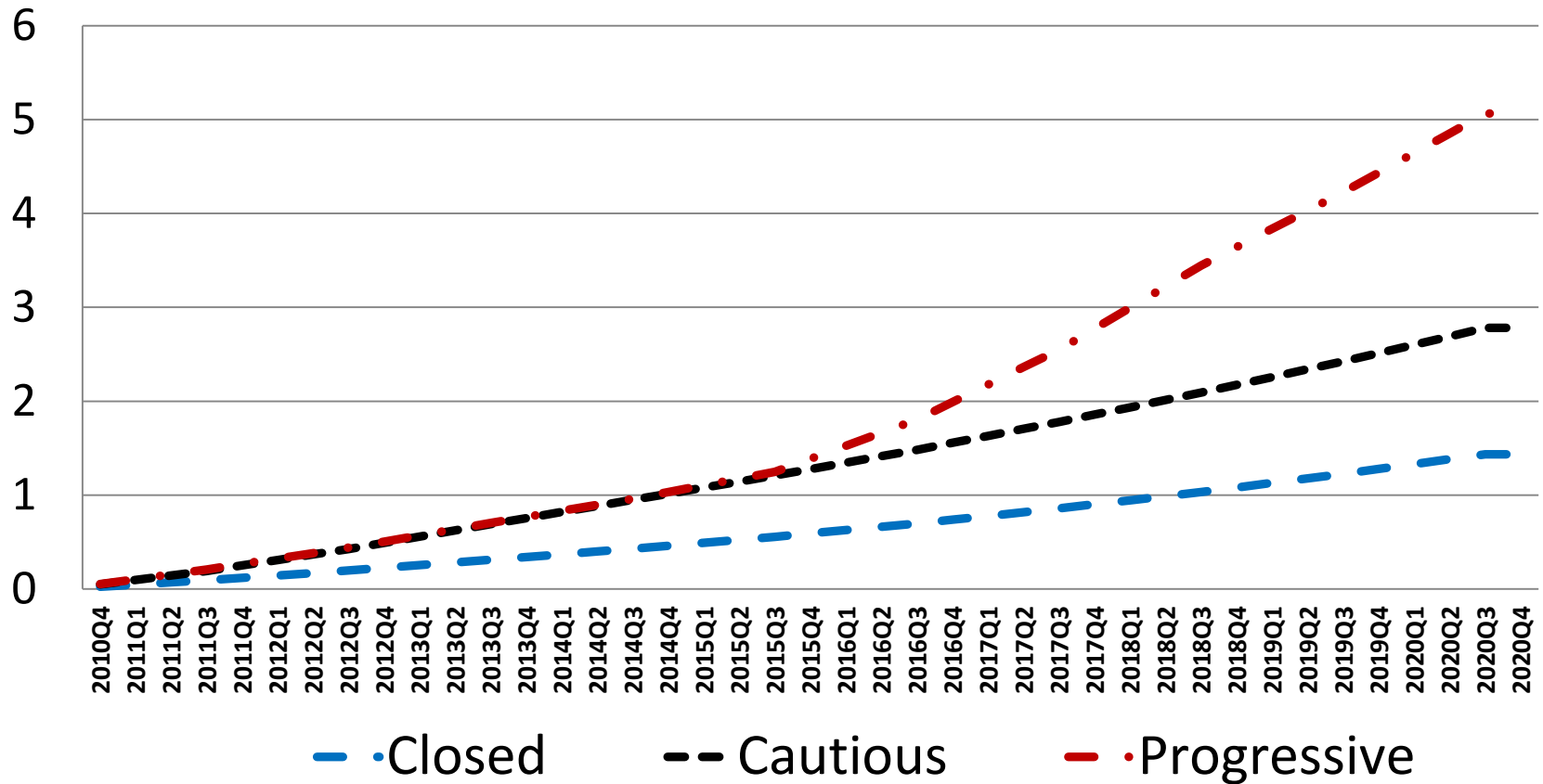
- Predictions up to 2020
- Different sets of variables:
  - Demographic
  - Economic
  - Policy
  - Network effects (diaspora)
- Variations in assumed growth in the EU and in EaP countries

# Modeled policy options

- **Closed Europe Fortress**
  - No liberalization / status quo
- **Cautious Europe**
  - Selective liberalization - eased access of specific categories of workers, Eased access based on shortage occupation list, Preferential schemes for temporary workers from specific countries of origin, etc.
  - Visa liberalization - cancellation of short-term visa
- **Progressive Europe**
  - Full liberalization - Free movement of workers allowed – no visa, no work permit needed

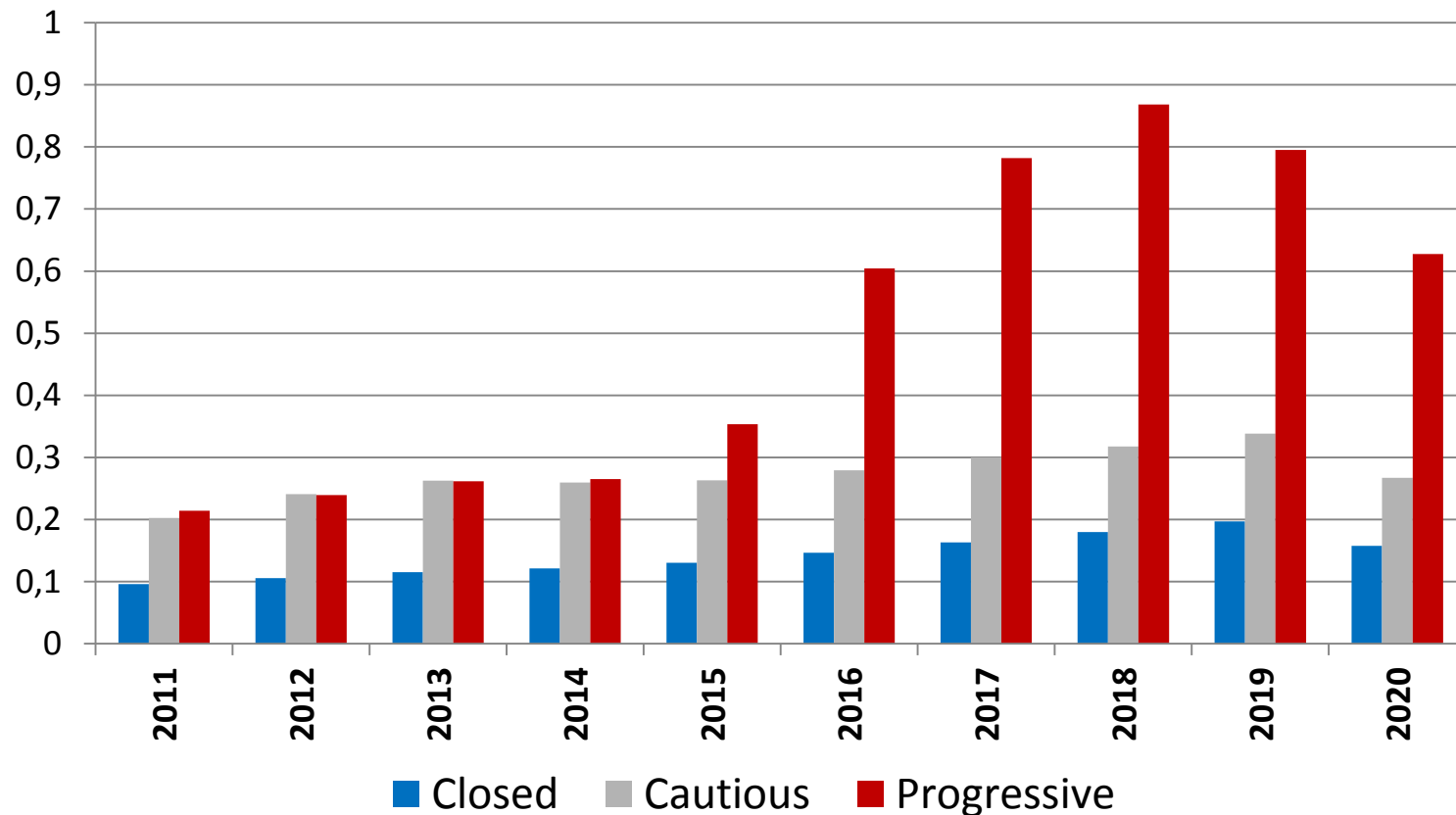
# Projected cumulative inflow of EaP nationals to EU25 under three scenarios

EU14 and EU8 as a whole, stock, in million



# Projected yearly inflow of EaP nationals to EU25 under three scenarios

EU14 and EU8 as a whole, flows, in million





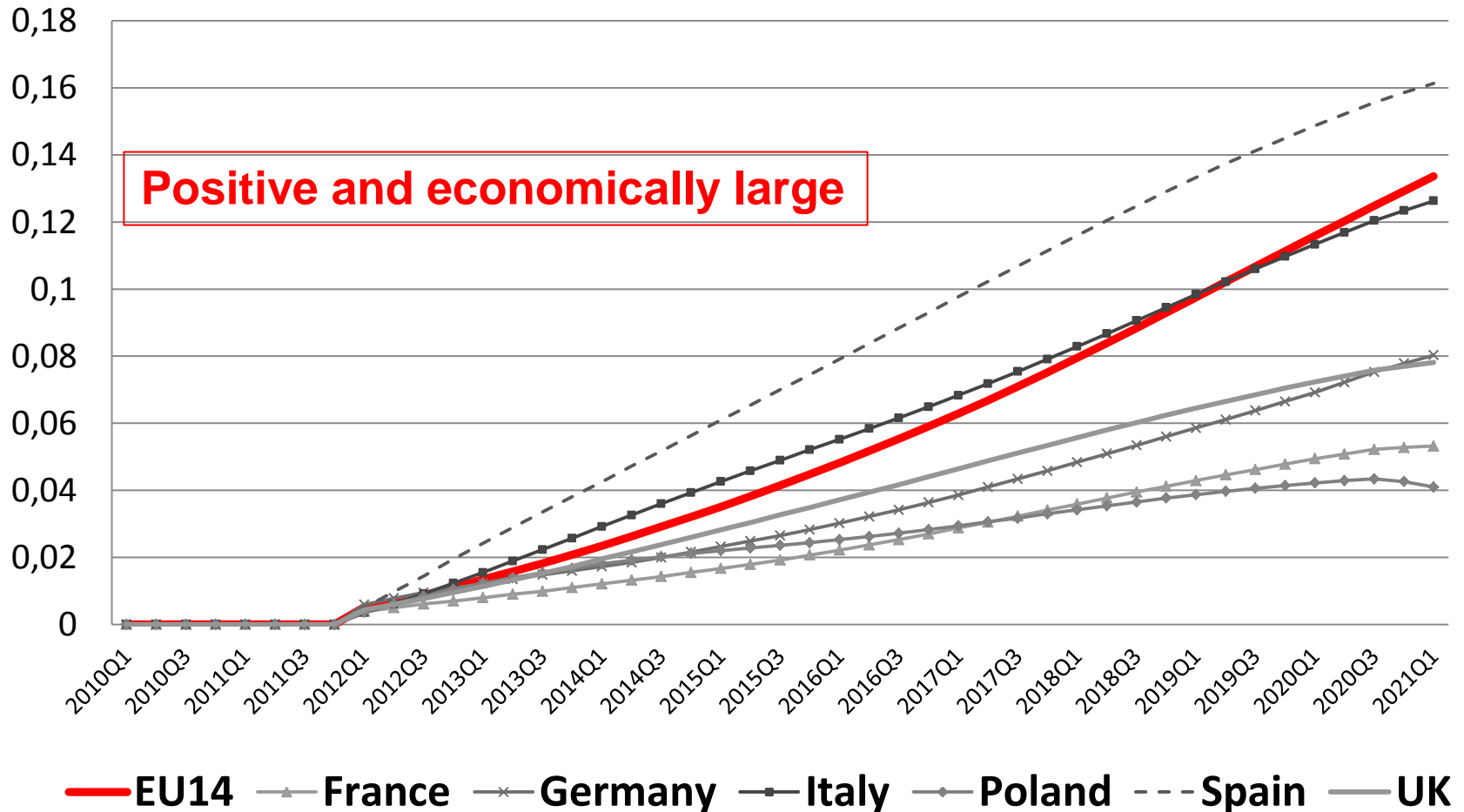
# Projections summary: 2010-2020

- No policy change: 1.43 million EaP migrants
  - 1.03 to EU14 and 0.4 million to EU8
- Liberalization of short-term visa leads essentially no additional migration
- Labor market liberalization likely to increase yearly inflow, but no massive EaP migration to ensue
  - EU 14: 0.98 to 3.03 million additional migrants over 2010-2020, depending on migration policies
  - EU8: 0.08 to 0.68 million additional migrants over 2010-2020, depending on migration policies and economic conditions

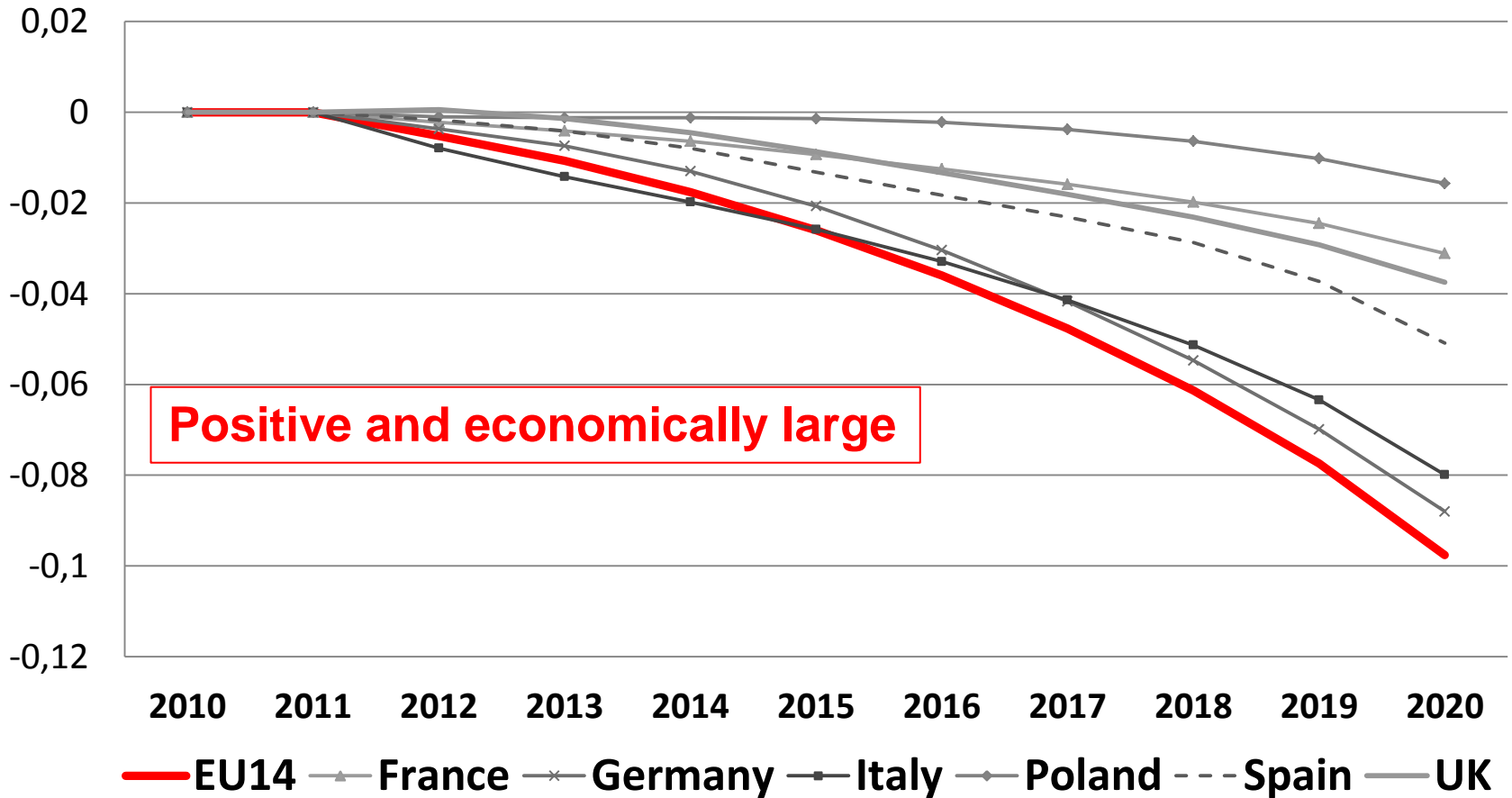
**Moderate EaP flow even under more liberal migration framework**

# Estimation of Effects (simulation)

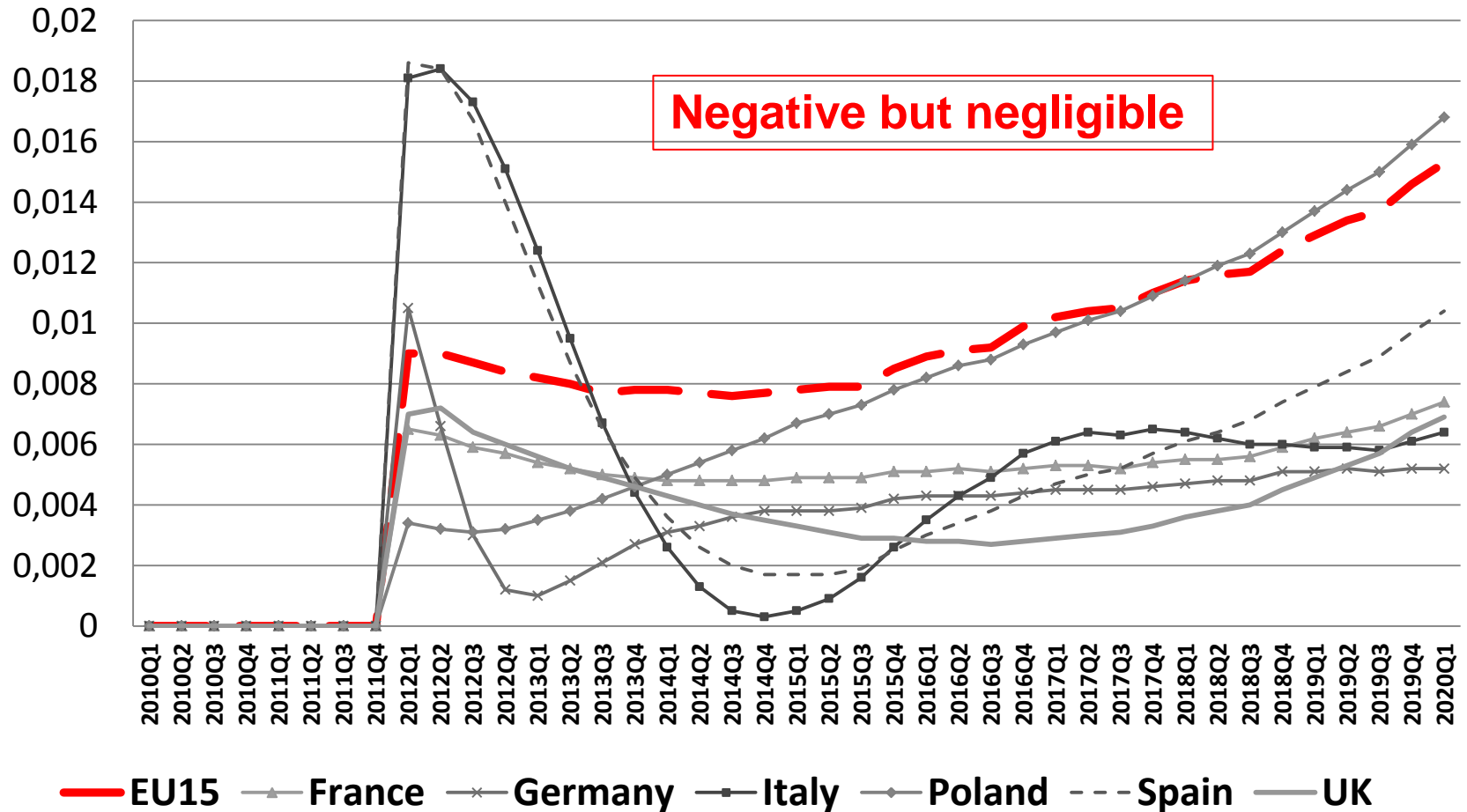
# 'Closed Europe' simulated migration effects on GDP (%)



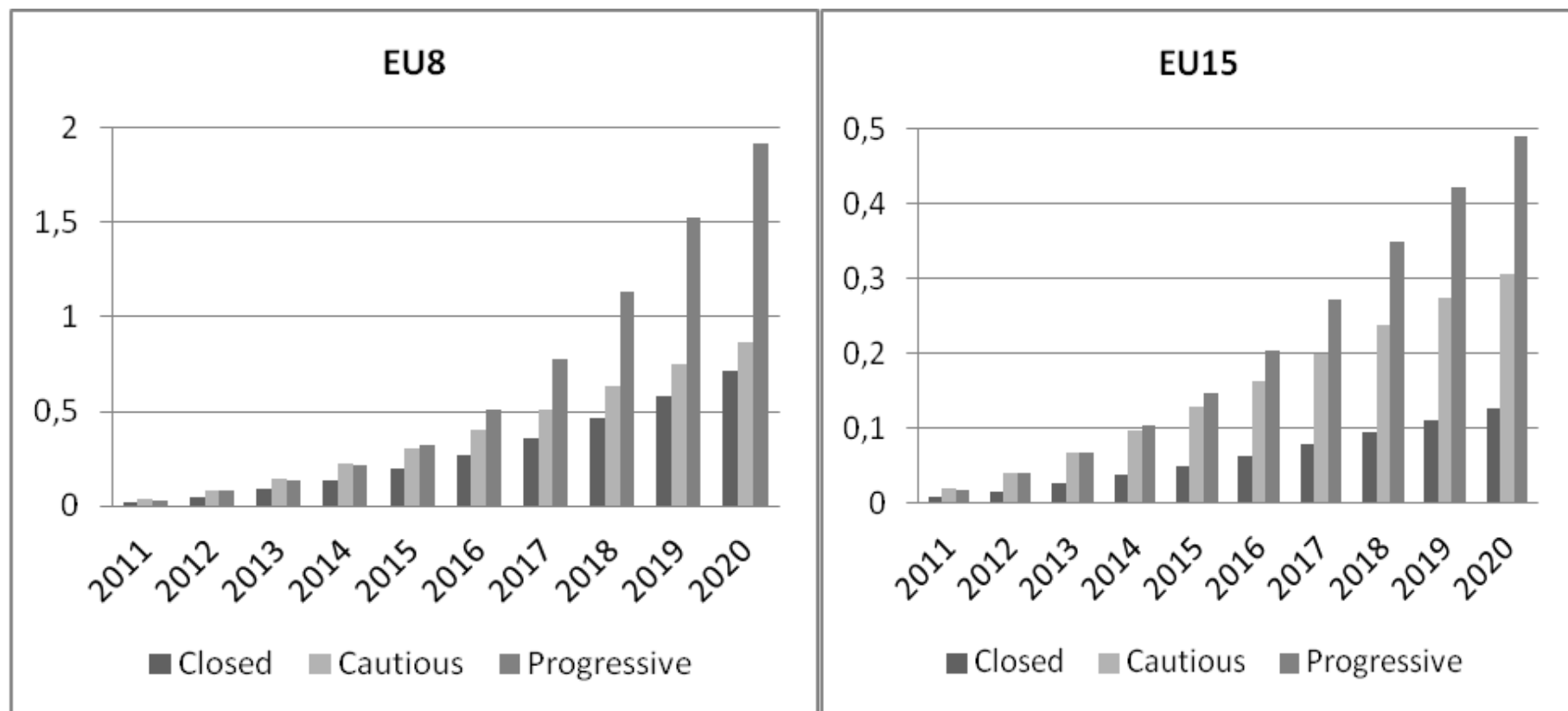
# 'Closed Europe' simulated migration effects on inflation (%)



# 'Closed Europe' simulated migration effects on unemployment (%)



# The role of migration policies towards the EaP nationals for GDP growth in Europe



**Magnitude of positive effects on GDP increases with more liberal scenario**

# Summary of estimated effects

- The projected migration from the EaP to the EU is likely to have a positive impact on host countries' GDP in the medium-term horizon 2010-2020
- A more liberal migration framework with EaP countries is likely to bring greater benefits to host EU countries, especially as concerns host countries' GDP and inflation.

# Summary of key findings



# Key findings I

- Migration from EaP countries is positive and desirable phenomenon
- EaP migrants exhibit characteristics that make them well suited to address labour market shortages in the EU both at the high-skilled and low-skilled spectrum
- We consistently identify that the effects of migration are more positive in case of liberalisation which generates better matching and so more favourable impact for countries and migrants

# Key findings II

- Temporarily increased flows can be expected if a more liberal migration framework between the EU Member States and Eastern Partnership countries is put in place
- More liberal migration framework provides for better matching and more favourable impacts on sending and receiving countries, and on migrants
- Policy improvements on multiple fronts should be considered in order to maximize benefits of EaP-EU mobility

# Lessons and Policy Conclusions

**We propose a gradual liberalisation of mobility between the European Union and the Eastern Partnership countries.**

Several policy initiatives include:

- **EaP countries:** a migration policy “lens”; better institutional coordination; negotiation of supplementary treaties aiming at the implementation of the Single Permit directive; measures to increase the role of diasporas in promoting investment and growth
- **EU member states:** adoption of a visa-free travel regime, stepped-up engagement with the EaP countries through EU-level, multilateral and bilateral mobility frameworks; enhancement of complementary migrant integration policies

## Read more: IZA Research Reports No. 55 and No. 56.

[http://www.iza.org/en/webcontent/publications/reports/report\\_pdfs/iza\\_report\\_56.pdf](http://www.iza.org/en/webcontent/publications/reports/report_pdfs/iza_report_56.pdf)

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