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Jamal Bouoiyour, Amal Miftah, Refk Selmi

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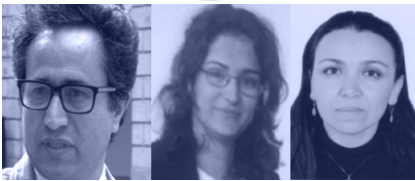
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FEMISE MED BRIEF

Forward Thinking for the EuroMediterranean region

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Dr. Jamal Bouoiyour is an associate Professor of Economics at University of Pau. He also serves on a number of college and University committees. IDEAS/RePEc ranks him among the top 5% economics researchers in its program (1% in Arab World). His publications appeared in well-ranked journals including *Economics of Transition*, *Economic Modelling*, *Economics Letters*, *Scottish Journal of Political Economy*. He is regularly interviewed by newspapers on current issues related to migration, geopolitics, among others. jamal.bouoiyour@univ-pau.fr

Amal Miftah is an associated researcher at the Pau Business School and a research fellow at DIAL, an IRD / University Paris-Dauphine research center on development economics. She holds a PhD in International Economics and Development from the Paris- Dauphine University. She is, or has been, involved in many research projects on migration issues and development cooperation initiatives in the Euro-Mediterranean countries and is the author or co-author of several publications in reputed scientific journals.

Dr. Refk Selmi is an assistant professor of statistics and big data at Pau Business School. She received her Ph.D. in Economics from the University of Pau. She has produced more than 30 articles in quality, refereed journals such as *Applied Economics*, *Economic Modelling*, *Energy Economics*, *Journal of Economic Integration* and *Scottish Journal of Political Economy*, etc. Her areas of research include, *International Macroeconomics*, *International Finance*, *Monetary and Financial Economics*, and *Applied Time Series Econometrics*.

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FEMISE

CMCI, 2, rue Henri Barbusse
13241 Marseille Cedex 01
Téléphone : (33) 04 91 31 51 95
Fax : (33) 04 91 31 50 38
www.femise.org

The economic impact of migrants and refugees on Europe*

by Jamal Bouoiyour, Amal Miftah
and Refk Selmi

in collaboration with : 

1. Summary

This policy brief presents some preliminary findings of a recent research regarding the economic impact of legal immigration in terms of growth and unemployment in a large panel of European countries. It sheds some light on a useful and interesting question for policy debate by explicitly distinguishing refugee and economic category immigrants. Our research reveals a non-negative effect of immigration on per capita growth and on employment. The results allow to consider particular implications for the collaboration of EU countries on the immigration issue and seek to inform more specific and actionable public policy interventions.

2. Introduction

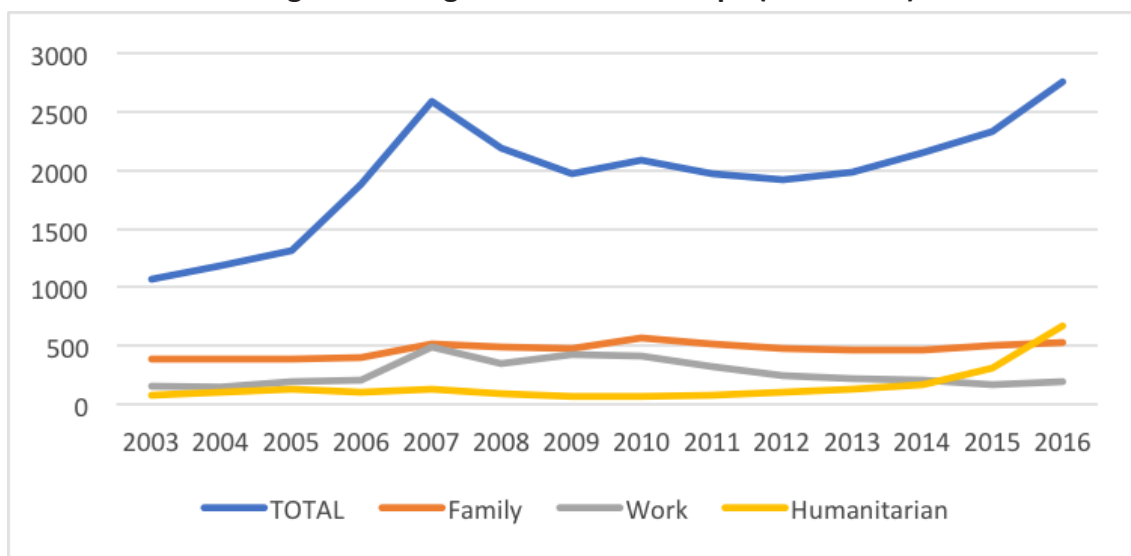
War, extreme violence, human right violations and persecution worldwide are prompting millions of people to be involuntarily displaced. In 2015, the number of forcibly displaced people in the world was the highest ever recorded, having reached 65.3 million.

According to the UN High Commissioner for Refugees, this number has risen sharply in five years, from 42.5 million in 2011 to 45.2 million in 2012, 51.2 million in 2013 and 59.5 million in 2014. Refugees abroad represent only a fraction of the population displaced by war and conflicts (nearly 21.3 million persons in 2015). Most of the increase happened between 2012 and 2015 was mainly driven by the onset of the Arab Spring and thus the new or reignited conflicts as in Syria, Iraq and Libya, together with older crises as in Afghanistan or South Sudan. This has made the refugee crisis a global crisis and has created from the beginning a climate of heightened uncertainty surrounding its political, economic and societal implications in many developed countries. But much international attention has focused on asylum seekers and migrants arriving in Europe during 2015 by sea and the dramatic increase in their number.

In the European framework, these refugees' inflows were led to controversial discussions about their long-term implications and marked a shift in the European position towards the arrival of refugees. This happened at time Europe seemed entangled in the economic crisis of 2008 with a long period of weak growth and high unemployment. Also, immigration issues have come to the forefront due to an anti-immigration sentiment that is on the rise across the continent. In this context, both forced migration and economic migration have become one of the core concerns in the public debate in many important receiving countries. As many of the key issues in the immigration policy debate are economic, the latter is often fueled by the perception that immigrants take away jobs from existing population, thus contributing to an increase in the unemployment level, or by the concern about immigrants as a drain on public service resources. These negative perceptions risk compromising efforts to adapt migration policies to the new economic and demographic challenges facing European countries.

Should European countries be concerned with the effects of immigration inflows? In order to answer this question, we examine the potential economic consequences of immigration for European economies by distinguishing between general migration, economic migrants and refugees. Labour migration represents only a fraction of all movements to the Europe, and more came through other channels, including family, humanitarian and free-movement migration (Figure 1). But even though most migration is not directly driven by workforce needs, immigrants are playing a significant role in the most dynamic sectors of the economy. New immigrants represented 15% of entries into strongly growing occupations in Europe (OECD, 2014). These include notably health-care occupations and STEM occupations (Science, Technology, Engineering and Mathematics). Also, in Europe, immigrants represented about a quarter of entries into the most strongly declining occupations (24%) including craft and related trades workers as well as machine operators and assemblers.

Figure1. Immigration influx to Europe (Thousands)



Source: OECD database

Notes: This figure shows the number of persons who moved for reasons humanitarian protection is still lower compared to other forms of immigration. The countries considered are: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Portugal, Spain, Sweden, United Kingdom.

While special attention has been devoted to the analysis of how such inflows of immigrants have affected some aspects of host economies such as labor markets and economic growth, the distinct impacts of the different types of immigration on the receiving country's economy have not received enough attention among policy makers and academic studies. Indeed, there are less than a handful of studies on macroeconomic contribution of refugee inflows to the European economies. The economic effects of humanitarian

migration are still understudied and not well understood because the context in which forced migration takes place is usually distinct from that of economic migration. In fact, in contrast to refugees, economic migrants not only decide whether or not to migrate but also which country to migrate and thus weigh the benefits of this decision. And countries that host refugees do so for humanitarian not economic reasons. Due to the different characteristics of refugee and economic migrants, a potential question is to assess whether these differences have any economic implications.

3. What is the evidence on the economic impact of immigration in Europe?

Our empirical analysis considered permanent immigration inflows toward Europe and two groups of immigrants: refugees or people fleeing war, violence and persecution in their home country, and economic migrants or people seeking an improvement in living standards. We also ask whether migration in general (workers, refugees, family migrants, etc.) can have an impact on host countries through our dependent variables economic growth and unemployment rate. The available data on immigration by category covers the period 2003-2016 for a panel of 10 countries (Belgium, Germany, Netherlands, France, UK, Italy, Spain, Denmark, Finland, and Sweden).

From a methodological point of view, we use a panel quantile regression approach to explore, from a new perspective, the relationship between specific migration sub-categories and economic growth and unemployment. A major feature of the quantile regression method here is to examine whether this relationship can vary with the quantile value of the economic growth and the unemployment rate. This would in turn help to provide accurate information on the impacts of immigration (all migrants, refugees and economic migrants) depending to the economic conditions: favorable (indicated by high economic growth and low unemployment) and unfavorable (indicated by low economic growth and high unemployment). The reciprocal can be also true, since both growth and employment can affect immigration. This can occur when migrants are attracted by host countries that are enjoying current economic success (i.e., high economic growth or low unemployment rate). Therefore, there is a potential endogeneity problem of immigration inflows, taking into account by performing an Instrumental Variable Quantile regression. In fact, in this study, we seek to identify in which part of the distribution of the dependent variables (i.e. economic growth and unemployment rate), the reverse association occurs. Concretely, it may be thought that migrants do benchmarking by choosing, for example, countries that are best for them (i.e., with high economic growth and / or low unemployment). This is the first time, to our knowledge, that we determine by means of a test for endogeneity in conditional quantiles, the parts where the relationship between migration and growth (or between migration and unemployment) is exogenous, and those where this association is rather endogenous. We call this model a “hybrid” quantile regression. Such accurate assessment permits to locate the quantiles where endogeneity is supported and the specific quantiles where endogeneity can be rejected.

Our results show that the impact of immigration on growth is generally positive, and its impact on unemployment is negative. In particular, for all migrants, a positive (negative) linkage between migration and growth (unemployment) is shown when the growth or unemployment is low or high. But labor migration is optimal when the growth is low or at the medium level and unemployment rate is low. On the other hand, the impact of humanitarian flows on economic growth (and unemployment) is positive (negative) and significant only when the growth and unemployment are relatively modest.

4. Conclusion

The findings in this brief confirm the benefits associated with the immigration inflows. Specifically, we show a positive relationship between migration and economic growth and find that migration flows do not increase

unemployment, on the contrary it reduces whereas some heterogeneity is captured depending to the economic conditions of host countries. Accordingly, it seems to be fair to conclude that on current empirical evidence fear of negative effects of immigration on growth or employment are not easily justifiable. Such findings are consistent with the empirical evidence from international research indicating the positive impacts of immigration on the host population through provision of skills currently unavailable or engagement in entrepreneurial activities that provide opportunities to residents. Also, one could think that immigrants who have high levels of productivity and who adapt rapidly to conditions in the host country's labor market can make a significant contribution to economic growth (Borjas, 1994).

Our research concerning humanitarian migration contributes to the existing studies in several dimensions. For many European countries, forced migration pose huge social and budgetary challenges but may also offer economic opportunities. To the best of our knowledge, this is the first attempt to address the possible impacts of some types of immigration, i.e. humanitarian and labour migration on the receiving countries. Also, most studies ignore the fact that the effect of immigration could vary throughout the distribution of the dependent variables such as economic growth and unemployment rate. Further empirical research is needed to better understand the channels through which refugee and economic category immigrants affect growth, and how these effects vary for different countries across different time spans.

5. Some policy implications

The findings in this brief imply that there are realistic routes by which immigration can affect economic outcomes in European countries. Informing public opinion in this regard might influence attitudes towards immigration and discrimination practices; this seems a relevant policy recommendation. On the other hand, the complexity of migration requires a global approach to policies in Europe. Some studies highlight the low geographical mobility of European workers as central in many explanations of unemployment whereas the mobility of migrants workers within the same host country or across European countries, in response to regional economic differences in labor market opportunities, is high (David et al., 2010, Røed and Schøne, 2012). This indicates that migration helps address labour market imbalances. Also, when choosing where migrants may settle, it seems quite prominent to consider where appropriate jobs that match their skills can be found based on their profile such as their education level and work experience. Concerning refugees, in several countries, the programming for resettled refugees is often short-term, and the measures that aim to ease their integration into the labor market do not take into account the particularity of refugees by considering whether the goal is short or long-term integration. Also, the economic integration of refugees can be harmed by the legal constraints since there are restrictions on taking up work during the asylum application. The rapid labor market integration is also a key to reducing the net fiscal cost associated with welcoming refugees.

Moreover, the implementation of European immigration policy requires taking into account the factors that attract migrants into the destination country. An example of such factors is the labour market condition in host countries that could considerably influence the policy efficiency. The severeness or the benevolence of this policy should be, at least, coordinated with the economic and social capacity of each European country, the degree of information dissemination in the society, and its level of anti-immigrant sentiment. Many European countries experience high levels of anti-immigrant opinions and poor boundaries of sociopolitical acceptability revealed recently when hosting a much smaller number of refugees has evoked a significant political backlash.

Before ending, we want to point out that the recent refugee crisis was a wake-up call to undertake the required coordination for great future challenges. With the climate change, the political instability, and the continued conflicts in many home countries, migration pressures on Europe seem likely to increase further over the coming decades.

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FEMISE is coordinated by the Economic Research Forum (Cairo, Egypt) and the Institut de la Méditerranée (Marseille, France) and gathers more than 100 members of economic research institutes, representing the 37 partners of the Barcelona Process.

Its main objectives are:

- to contribute to the reinforcement of dialogue on economic and financial issues in the Euro- Mediterranean partnership, within the framework of the European Neighbourhood Policy and the Union for the Mediterranean,*
- to improve the understanding of priority stakes in the economic and social spheres, and their repercussions on Mediterranean partners in the framework of implementation of EU Association Agreements and Action Plans,*
- to consolidate the partners of the network of research institutes capable of North-South and South-South interactions, while it sets into motion a transfer of know-how and knowledge between members.*

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