



# The Political Economy of Governance in the Euro-Mediterranean Partnership

## **Deliverable No. 4**

Working Package III: The Political Economy of Labour and Migration in the Euro-Med Partnership

## **Summary of findings**

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Date: 31/12/2006

The Sixth Framework Programme  
Contract No. 028386



SIXTH FRAMEWORK PROGRAMME

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**Introduction**

When considering the zone formed by the European Union and the South and East Mediterranean countries (SEMCs), comparing it with the zone constituted by the American continent, a first stylized fact would seem to stand out: the unemployment rates appear a great deal higher in the Euro-Mediterranean region than in the American zone of influence. Table 1 (in Annex) can illustrate these facts, presenting the unemployment rates of several countries in the above two zones. Indeed, examination of this table seems to indicate that the unemployment rates are in fact higher in the European countries and in the countries of the Mediterranean basin than in countries on the American continent, whether one considers North America or the Americas as a whole (with certain exceptions such as the Argentinean economy).

Another particularity becomes apparent when one compares the unemployment rates of nationals and foreigners in the different economies. To wit, as is apparent from the table below, the unemployment rates of nationals and those of foreigners are approximately the same, not only in the United States and in Canada, but in Australia:

**Table 2: Extra-European differences in unemployment rates between foreigners and nationals**

Country	Unemployment rate of nationals (men)	Unemployment rate of foreigners (men)	Unemployment rate of nationals (women)	Unemployment rate of foreigners (women)
Canada	10.3	9.9	9.5	11.6
USA	4.9	4.4	4.1	5.6
Australia	6.7	6.6	5.8	6.9

Source: reference [E], 2000-2001 figures

Notice that masculine nationals in the USA or in Canada have a higher unemployment rate than foreigners and that the overall rates are similar for foreigners and for nationals. This situation contrasts sharply with the conditions found in the principal European countries. (We consider here only the countries in which the number of foreign workers surpassed a million in the year 2000, which is to say, Germany, France and the United Kingdom):

**Table 3: European differences in unemployment rates between foreigners and nationals**

Country	Unemployment rate of nationals (men)	Unemployment rate of foreigners (men)	Unemployment rate of nationals (women)	Unemployment rate of foreigners (women)
Germany	7.2	13.4	7.8	11.7
France	7.1	17.1	10.7	23.9
United Kingdom	5.5	16.1	4.4	7.9

Source: reference [E], 2000-2001 figures

We observe that not only the countries of Europe have a high unemployment rate but that the populations most often exposed to unemployment are foreign workers, whereas that difference in access to the labour market does not exist in other zones.

With this in mind, we might be pessimistic *a priori* about the perspectives for cooperation between the European zone and the Mediterranean basin and ask ourselves whether the issues related to the labour market and to immigration are the areas in which there is most to expect from Euro-Mediterranean cooperation. If we compare the Euro-Mediterranean situation with the zone composed of the United States and Mexico, we note that the unemployment rates are lower on both sides of the Rio Grande (cf. Table 1) and that the rates of unemployment in the destination country (the USA) are less differentiated between nationals and foreigners (Tables 2 and 3). In spite of this, the negotiation between the USA and Mexico on the subject of a bilateral agreement for managing migration fails to arrive at a conclusion, essentially because of the reticence of the United States to admit more migrants. We might ask ourselves in this case what possibility could exist for such an agreement in Europe, given that the association agreements are, for the time being, the most significant advance within the framework of the Barcelona process and in relation to the treatment of migration.

Be that as it may, the issue of migration in the partnership between Europe and the Mediterranean countries is a fundamental aspect of this relationship, and it is worthwhile considering it with a view to the following elements of reflection:

- a) First of all, it is worthwhile to speculate about the nature of the labour markets in Europe so as to verify if they do in fact create less employment structurally than these markets in other zones. It is useful to find out whether institutional structures and methods exist that are more prone to success than others in combating unemployment. As a result of this reflection, we can solve part of the problem, to wit: the eventual incapacity of European economies to create the employment that could ‘absorb’ the

migratory flux coming from the South. If this incapacity could be lifted, a new perspective would open for this migration.

- b) Moreover, it is necessary to speculate about the factors explaining the incapacity of the South Mediterranean economies to create on their own the jobs necessary to diminish their unemployment rate. Thus, understanding the structural problems of the economies of the South is the other facet that must be studied.
- c) In addition, it is probable today that the economies of the North no longer have need for unqualified workers (the economies of the North preferring to satisfy their need for unqualified labour-intensive goods by importing them and even by delocalizing certain service activities such as call centres to low-wage countries). The needs of industrialized countries are thus more oriented toward highly qualified workers. It may be feared then that this form of immigration could represent a 'brain drain' detrimental to the economies of the South. The issue of the migration of highly qualified workers is therefore a crucial aspect of the analysis.
- d) Finally, can or should the European Union have a unified migratory policy, and what form might that action take in the legal, political and economic spheres.

These are the issues treated within the WP3. The French contribution deals with the first two aspects (reference [A]). The third aspect is treated in the Moroccan contribution (reference [B]). The fourth aspect is discussed in the Spanish contribution (reference [C]) for the legal and political questions, and in a supplementary document (reference [D]) for the comprehension of the economic domain. We will now examine these aspects in three successive sections.

### **Section 1: Governance of Labour Markets in Europe and in the Countries of the South and East Mediterranean**

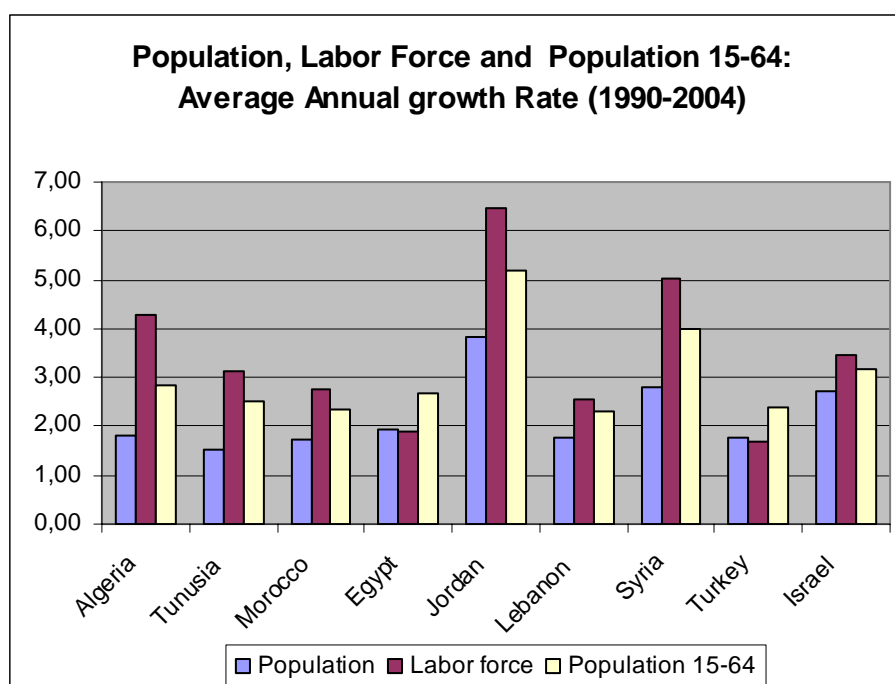
The central concern of the French contribution (reference [A]) is the functioning of the labour markets in Europe and in the South and East Mediterranean countries. In the case of the European Union countries, a first question is the issue of the persistence of unemployment in the European zone and the way to correct it. Do institutional forms exist that are more adapted than others to combating underemployment? Does the functioning of European labour markets make them incapable of generating enough employment to reach market equilibrium? It is not clear that the frequently presented diagnostic of a 'Euro-sclerosis', understood to be a structural weakness of European economies, is founded. The European

performances, in comparison to the performance of the United States, do not seem that bad, depending on the criterion of comparison selected. However, it is above all necessary to stress the existence of a great heterogeneity of institutional characteristics of the economies that have achieved success in their fight against unemployment. Thus, there seems to exist a certain variety among the forms of capitalism that are prone to success ('successful capitalisms') and not one single manner of imagining the capitalist institutions.

Moreover, with respect to the South and East Mediterranean countries, this study highlights two major characteristics of their labour markets. First, these are economies suffering from high rates of unemployment, primarily affecting youth. Second, these are economies in which the share of the public sector is particularly important in total employment, representing more than 20 per cent on the average, but eventually reaching more than 50 per cent of non-agricultural employment. In what follows, we will consider these two characteristics in detail.

First, the rates of unemployment of the SEMCs are high, notably in North Africa, as can be seen from Table 1 in Annex (nearly 15% in Tunisia, 20% in Morocco, almost 30% in Algeria). These rates of unemployment can be explained in part by the difficulties these economies have in creating employment, and in part by the demographic pressure exerted by their youngest members, to which is added the increase in the 'participation rate' (defined as the ratio of the 'economically active population' to the population of working age). The rise in the rate of activity of the feminine population may in turn explain this increase in 'participation rate'. Graph 1 illustrates the fact that the growth rates of the labour force generally exceed the growth rates of the working age population, which are themselves higher than the growth rates of the total population:

**Graph 1: Average annual growth rate of population and labour force**



Source: World Bank – World Development Indicators (WDI)

Secondly, the public sector plays a fundamental role in employment as Table 4 shows:

**Table 4. Government and Public Sector Employment, 1996–2000**  
(Percent)

	General Government Employment		Public Sector Employment	
	Percent of total employment	Percent of non-agricultural employment	Percent of total employment	Percent of non-agricultural employment
Algeria	25.7	32.0	31.3	39.0
Egypt	28.2	56.6	34.9	70.3
Iran, I.R. of	...	...	28.4	36.6
Jordan	33.9	39.5	36.1	42.1
Morocco	8.5	18.6	9.5	20.7
Pakistan	8.4	15.0	9.6	17.1
Tunisia	14.9	19.1	21.9	28.2
MENA7	...	...	20.0	33.1

Source: World Bank, Public Sector Employment database, 2002, in *Creating Employment in the Middle East and North Africa*, Edward Gardner, IMF, 2003.

It can be feared that the importance of the share of economic activity exercised by the public sector might negatively affect labour productivity and economic growth, notably due to the

necessity of deducting an important part of national wealth in the form of taxes to finance this employment that is sometimes moderately productive.

## **Section 2: The Problem of the Migration of highly-qualified Workers and the ‘Brain Drain’**

If developed countries select new migrants on the basis of the necessities of the labour market, it is probable that an important part of the migrants selected will be highly-qualified workers as the need for unqualified workers is modest, except for the most arduous or dangerous work for which a sufficient supply of labour from nationals does not exist. In this case, the danger exists that this form of immigration take place to the detriment of the countries of the South, which will find themselves deprived of their best-trained workers (‘brain drain’).

Study of the ‘brain drain’ began in the 1970s with the research carried out by Bhagwati<sup>1</sup> who insisted that the emigration of qualified workers was unfavourable to the source countries. In fact, these countries invest in education to train workers who then emigrate and whose knowledge benefits the economies of the North. It is thus the taxpayers of the South who pay to create the competences that later will benefit the countries of the North. Even if one imagines an entirely private education system in which individuals totally finance the cost of their training, it remains that the departure of the highly-qualified workers represents a shortfall in fiscal revenue for the government of the South since if these workers had remained in their country of origin, they would have generated tax revenue for the State that could have been redistributed to the poorer population. However, more recently models have seen the light of day that study the positive effects of emigration of qualified workers. These effects work through several channels:

- i. To begin with, the transfer of funds by workers who have emigrated (‘remittances’) enables the economy that receives them to benefit from important positive effects. These funds sent by emigrants constitute the second source of external financing for developing countries, just after Foreign Direct Investment (F.D.I.) and before Public Development Aid (cf. reference [E], p. 26). The remittances have the advantage of being less sensitive to fluctuations in the economic cycle, even increasing during periods of economic difficulties. The funds sent by emigrant workers generally reach

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<sup>1</sup> See in particular Bhagwati and Hamada, ‘The Brain Drain, International Integration of Markets for Professionals and Unemployment: A Theoretical Analysis’, *Journal of Development Economics*, 1974.

the families directly and are employed in consumption. They have important multiplier effects and contribute to the reduction of poverty in the developing world in a significant manner. It is however less certain that these remittances have positive effects on the economic performance of the countries receiving them.

- ii. Return migrations consisting of ‘home-comers’, those immigrants who are sometimes tempted to return to their country of origin once they have accumulated enough money. These return migrations have important effects on the receiving country, not only through the repatriation of savings but also through the qualifications occasionally increased during the migratory experience.
- iii. Upon occasion, emigrant workers constitute associations and networks abroad, in particular networks of scientific assistance to their country of origin, that contribute to transfers of knowledge from the North to the South. Examples are the Columbian network CALDAS, the South African SANSA (South African Network of Skills Abroad), the association ‘Brain Gain’ (Philippines), the Tunisian Scientific Consortium or the network ‘Arab Scientists and Technologists Abroad’ (cf. reference [E], p. 29).
- iv. Finally, positive effects can work through a greater incitation for individuals from the South to acquire qualifications. Along these lines, one can show a ‘brain gain’ in certain cases. The ‘brain gain’ then is associated with the possibility of emigrating, and thus of receiving a more important compensation in the form of remuneration of accumulated human capital, which renders the investment in education more profitable, and thus causes individuals to invest more in human capital than if they did not have this immigration perspective. Because of this phenomenon, and as long as the proportion of migrants is not too large, the source country of the migration benefits from the positive fallout from this investment. The accumulation of human capital will be globally greater than if the perspective of migration did not exist because the inhabitants invest more in that asset.

All these issues are the subject matter of the contribution of the Moroccan team (reference [C]), which carries out an exhaustive catalogue of the literature concerning the migration of highly-qualified workers and the ‘brain drain’ and, in addition, performs empirical research on a sample of 64 developing countries to verify the pertinence of certain models of the most recent generation, such as those of Beine *et al.* (2001 and 2003), Stark *et al.* (2005) and Duc Thanh (2004). The empirical results obtained confirm the validity of the theoretical analysis

in question; and in particular they demonstrate the existence of a 'brain gain' as defined in paragraph (iv) above.

### **Section 3: The Problematics of European Migration Policy**

The Spanish contribution (reference [B]) is particularly devoted to the issue of European migratory policy. In the first place, it is advisable to remark that this question is politically of the most delicate sort. Indeed, Member States do not seem desirous of entrusting a supranational entity with their migratory policy. It is nevertheless necessary to distinguish between two issues: the problem of illegal migration and the question of legal migration.

In the domain of legal migration, European countries have very diverse methods, each country having competency to establish the selection mechanisms they consider desirable. The criteria can be economic or derive from other forms of logic (family regrouping or other). Access to the labour markets of the Member States by nationals from non-member states is thus now almost exclusively the domain of national legislation. This corresponds to a certain logic since the necessities of different economies are heterogeneous. Nevertheless, policies could be designed to fully integrate migrant workers into the labour market of the receiving country and to ensure they are not victims of discrimination. Another policy that could be considered at the European level would be to collect information on the labour-market requirements of Member States as well as on the competences available from their Mediterranean partners with the intent of improving the transparency of the requirements and of the procedures to be followed for legal immigration to Europe.

In the domain of illegal migration, it seems that there might be greater scope for supranational action since it is essentially a question of preventing illegal immigration, in particular of border controls, which can be organized in joint fashion between Member States, and which can also be planned in co-operation with the countries that are the source of the migratory flows. Moreover, there is also ground for common action with the source countries relative to agreements for readmission. Such agreements, or clauses of readmission included in association agreements, can be negotiated by the European Union so as to contribute to the fight against illegal immigration.

The migratory issues of the European Neighbourhood Policy and the articulation of a migratory policy with Mediterranean countries are the subject of detailed study. Specific and

differentiated regulation of migration, within the framework of a regional approach, with the Mediterranean countries, could benefit the European Union as well as the Mediterranean partners. Probably the best option would be to deepen this regional approach. However, this course of action does not appear to be possible at the present time. Currently, it is the bilateral approach between the EU and each country that is working. Morocco is a clear example of the joint advances reached in the area of flow management.

We might add that other policies could be explored at the European level, not those dealing with migration properly speaking but with factors of expulsion ('push factors'), which are at its origin in the countries of the South. Along these lines, it may be that policies aiming at reducing inequalities in the source countries, or aiming at the reduction of risks inherent in agricultural activity that employs a great part of labour in the countries of the South, can act to diminish the migratory pressure by reducing its economic motivation. It should be clear that most of the time it is a rupture and a sacrifice for the families that consent to migration of some of their members, and that the ultimate goal should be to furnish jobs in the place where the population lives so as to be able to 'live and work at home'. Migration is rarely the first choice for migrants, and it is thus necessary to seek policies that address the individuals' fundamental motivations, avoiding expatriation if that is possible. It is worthwhile being prudent all the same since policies based on the rather naïve idea of the 'substitutability' between trade and migration can be counterproductive. One reason is that a greater development of the source country does not necessarily translate into a reduction of migratory flows because relatively more wealthy individuals will more easily be able to pay the cost of migration, which is sometimes high. Hence, development can initially encourage migration (a phenomenon of 'migration hump'). Another reason is that the liberalization of the agricultural sector can engender an increase of rural-urban migration in the countries of the South, which may result in a rise in international migration. Lastly, once the networks of migration have been established in the destination country, migration may continue even in the absence of real economic motivation. These issues are discussed in reference [D].

## **Conclusion**

It was not possible to treat in depth certain questions associated with migration in the framework of Working Package 3. On the one hand, the demographic evolutions contrast starkly in the North and in the South. We observe aging populations in the North, while in the South the population is young and unemployed. It could be imagined that South-North migrations could make it possible to resolve demographic disequilibria to the benefit of the South and the North. On the other hand, it should not be forgotten that the migratory phenomenon has an important cultural and social content and that it cannot be reduced to its economic dimension. In the source countries as in the destination countries the socio-cultural effects are not neutral: in the North it is necessary to create the conditions for better acceptance of immigration, while in the South an effect of ‘social capital drain’ should be avoided, a term designating the rupture of social relations and the development of an emigration culture in countries whose brightest individuals are captured by the charms of expatriation. We must also explore the question of the economic effects of money transfers, notably to determine if, beyond the effect on consumption and the reduction of poverty, ‘remittances’ of emigrated workers contribute to the improvement of the economic performance of the countries of the South (the rate of GDP growth for example). Thus, beyond the short-term effects, it is necessary to ask if the migrations really improve the situation of the countries of the South in the long run. Finally, once a certain volume of migrant labour has been selected, for example on the basis of demographic considerations, it is necessary to ask what profiles should be determined for the migrants so as to facilitate their social and cultural inclusion, as well as their integration into the labour market.

These issues are precisely the purpose of Working Package 9, devoted to the questions associated with ‘Demography, Migration and Culture’, and which will serve as an extension to the research carried out within the WP 3.