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## Article

# Together apart? Stocktaking of the process of labour market integration in the border region between Germany, Poland and the Czech Republic

Zeitschrift für ArbeitsmarktForschung - Journal for Labour Market Research

## Provided in Cooperation with:

Institute for Employment Research (IAB)

*Suggested Citation:* Schwab, Oliver; Toepel, Kathleen (2006) : Together apart? Stocktaking of the process of labour market integration in the border region between Germany, Poland and the Czech Republic, Zeitschrift für ArbeitsmarktForschung - Journal for Labour Market Research, ISSN 2510-5027, Institut für Arbeitsmarkt- und Berufsforschung (IAB), Nürnberg, Vol. 39, Iss. 1, pp. 77-93

This Version is available at:

<https://hdl.handle.net/10419/158625>

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# Together apart? – Stocktaking of the process of labour market integration in the border region between Germany, Poland, and the Czech Republic

*Oliver Schwab and Kathleen Toepel\**

This article explores the process of labour market integration in the border region of Saxony, Poland and the Czech Republic. The underlying understanding of integration is combining institutional factors and the behaviour of market players. The sources of this conceptual framework stem from political science on the one hand and economics on the other. This article has two aims: firstly, we want to identify the likely development of the labour markets in the region concerned, secondly, we wish to gain some information about the interrelation of the different factors mentioned. The article is based on a number of empirical studies with three main sources: firstly official statistical data, secondly surveys, and finally results from evaluation studies.

Concerning the prospects of the integration of regional labour markets, the article states that the integration process will take some time. Institutional thresholds consist not only of the transition regulations, but also of a misfit between the different national systems (e.g. of vocational education). In any case, the entire region is expected to be affected by common development trends, such as losing population due to the migration of mainly younger people. In the players' perception so far, a mutual understanding of the problems has not been reached. Whilst Polish and Czech players emphasise the opportunities to be gained from integration, the German players are cautious. However, some of their fears seem to be exaggerated: migration will most likely be oriented not towards the border region, but to the centres, only commuting might be a subject to deal with.

Efforts to support actively the integration of the labour markets have so far shown only very limited results. All in all integration processes will take time. Not only does the institutional misfit need to be overcome (or at least interfaces need to be defined), but also perceptions and attitudes (at least on the German side of the border) need to be changed.

\* For this paper only the authors are responsible.

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## 1 Introduction

When Gerhard Schröder together with the Polish premier Miller and the Czech president Spidla celebrated the accession of Poland and the Czech Republic to the EU in Zittau on 1 May 2004, they were standing at the centre of the case study region that we are looking at. It is the region covering the eastern part of Saxony, south-western Poland and the northern Czech Republic. The focus is on the districts (*Kreise*) located immediately on the border on the German side, the Wojwodship of Lower Silesia on the Polish side and the districts of Ustecky, Karlovarsky and Liberecky Kraj on the Czech side.<sup>1</sup> The core of the region is formed by the Euroregion “Neisse”, a co-operation structure of German, Polish and Czech municipalities, around the towns of Zittau in Germany, Jelenia Gora in Poland and Liberec in the Czech Republic.

Whilst the heads of the three national governments celebrated accession and Gerhard Schröder said that the division of the continent was now overcome, participants in this celebration expressed diverging perceptions. “Politicians are far away from our problems” one said. “Craftsmen will go bankrupt” said an unemployed German carpenter, expressing his fears.<sup>2</sup> These different perceptions of enlargement, between political desirability and concrete fear, give us reason to explore the process of

integration of the labour markets in the border region.

The discussion of integration in relation to the labour market mostly focuses on the likely migration and commuting from east to west. Estimations vary significantly but recently most experts have signalled “all-clear”, emphasising a limited potential for migration on the one hand and a growing need for qualified workers on the other. However, the central question of these studies concerns more the reaction of labour market participants to integration processes than the integration processes themselves. In this article, we take a more general perspective, asking how integrated the regional labour markets of Germany, Poland and the Czech Republic are and what the prospects for integration are. Instead of trying to examine the likely behaviour of labour market participants as the studies on migration do, we try to establish a picture of the integration process, which we see as a predominantly policy-driven process with a strong element of institutional change.<sup>3</sup>

Integration in general is a process of previously independent units growing together – more specifi-

<sup>1</sup> Depending on the availability of data, we will have to deal with a deviating territorial definition.

<sup>2</sup> Quotations from Berliner Zeitung, 3 May 2004.

<sup>3</sup> This article is based on information on the border region collected in several projects by the IFS Institut für Stadtforschung und Strukturpolitik GmbH. The latest was a project funded by the GD for Employment of the European Commission, which dealt with the impact of enlargement on the labour market. The co-ordination was with ÖIR. Furthermore, a series of evaluations of the funding under the Community Initiative Interreg over the past years is an important source for the ideas developed in this article.

cally economic and political units in this case. This process is associated with changes in the quality of borders between the respective units. Borders become permeable and may finally disappear completely. With regard to labour markets, we distinguish two aspects of the integration process. The first is the policy aspect, the process of setting the institutional framework for the market and providing incentives for market players. The second aspect is the behaviour of market players, influenced by their own preferences and expectations, thus also responding to the removal of institutional barriers and political incentives. The pattern of an integration process and its final result can, in our opinion, only be understood as the outcome of the interplay between the two aspects of the integration process: the policy process of market creation and the way that market players respond to this process.

Policy induces market integration by reducing or removing barriers between previously separated regional or national markets, or might support it by providing incentives and promoting initiatives to facilitate and encourage co-operation across borders. Of course, policy might also hinder integration by means of opposite activities. We subsume policy activities in relation to the regional labour markets under the categories of “negative” and “positive” integration, which were developed to describe the European integration process at macro-level. Negative integration, according to Fritz Scharpf, comprises “measures increasing market integration by eliminating national restraints on trade and distortions of competition” (1996: 15). Positive integration on the other hand constitutes policies “to shape the conditions under which markets operate”. Negative integration can be understood as ‘market-making’, positive integration as ‘market-shaping’.

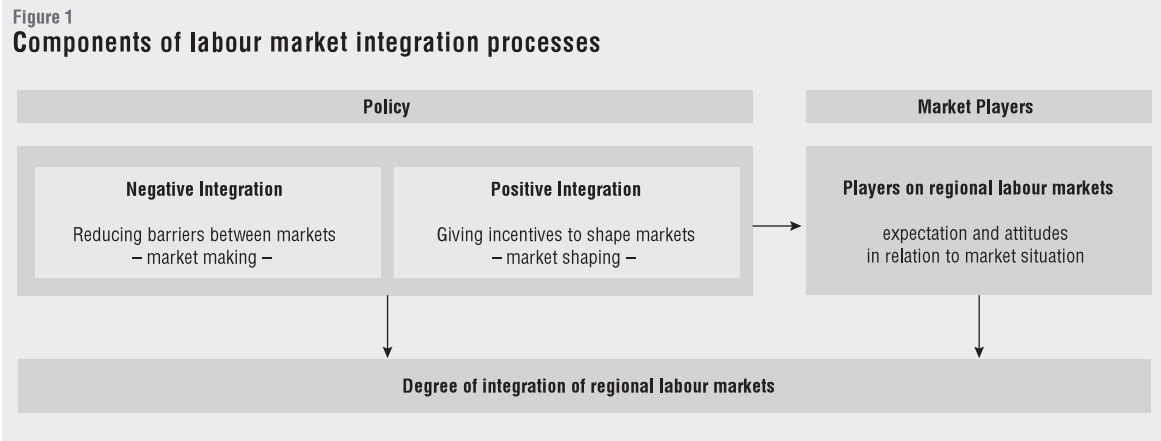
The removal of barriers – as an external shock – influences labour market participants, both employees and employers. But their behaviour also depends on market-related aspects that are not ruled politically. An important aspect in the case of the labour market is the question of wages and the relationship between the wage levels on the two sides of a border. Another aspect is the market situation: is there high unemployment or not? These factors, amongst others, certainly have an effect on the extent to which the labour market players tend to adopt a cross-border orientation or not. In addition there is a set of other factors influencing players: their opinions and expectations. Here, for instance also prejudices become relevant for the analysis of labour market integration processes.

The degree of integration of the regional labour market thus depends on political factors and mar-

ket-related factors. Thus, the cross-border orientation of labour market players, migration, commuting, but also direct investment by enterprises are influenced both by policy processes, and by the expectations and attitudes of the players as regards the market situation. Both aspects can influence the whole process of integration. In the case of the EU enlargement for instance, labour market integration is only possible within the limits set by the transition rules for the time being. The transition rules do not permit a fully integrated labour market for several years. On the other hand, even if the institutional barriers are removed entirely one day, other factors such as language problems or limited willingness to use the opportunities of the market on the other side of the former border might influence the degree of actual interaction. In general, the setting of the institutional framework determines the potential integration of regional labour markets. As long as institutional barriers remain in place – as in the case of the transition rules – full integration is not possible. Thus the progress in removing institutional barriers defines the speed of integration. On the other hand, the removal of institutional barriers does not automatically create a fully integrated labour market. The actual integration within the limits set institutionally is determined by the labour market participants.

When analysing the process of labour market integration, we need to take into account both aspects of the process: the policy-driven change in institutional barriers on the one hand, and the growing together of previously separated markets as a result of the behaviour of the market players on the other. A fully integrated labour market is a labour market where no institutional barriers hinder the movement of labour market participants, and where dominant patterns in terms of labour market performance (e.g. the unemployment rate) and in the movement of participants (e.g. commuting) are not caused by the effects of a (former) border, but by market mechanisms (e.g. the division of tasks between subregions). The following figure summarises the different components of the integration process and their interrelation.

By looking at these components of the process of labour market integration, this article becomes explorative. So far, there is no coherent theoretical framework available that permits a comprehensive look at the integration processes of labour markets as an interplay between the removal of institutional barriers and the reactions of labour market participants. Of course economic theory provides some insight into the behaviour of labour market participants in border regions and integrating labour mar-



kets (for instance Niebuhr/Stiller 2004, Janssen 2000). We also know something about the policy process of market creation. But the interplay of the two processes has not yet been explained under one coherent theoretical framework. One reason for this is that most studies of cross-border labour market integration deal with the EU-internal borders prior to the most recent enlargement round. Compared with our case-study region, the integration processes in these regions are far more advanced. When transferring the question of labour market integration to a region just experiencing political integration, the focus of analysis needs to be extended. The question as to how labour market mobility develops, which is typical of the studies of the internal borders of the EU15, needs to be supplemented by the question of how the scope for the labour market players is influenced by the progress of political integration. As the political integration process in fact changes the institutional framework of the labour market, the interplay between institutional factors on the one hand, and labour market participants on the other is crucial. Our aim here is therefore twofold: firstly, we want to identify the likely development of the labour markets in the region concerned, secondly, we want to gain some information about the interrelation of the different factors mentioned. Although our contribution can only illustrate the importance of linking the macro-level of policy-driven market making to the micro-level of actual market integration due to the behaviour of the players, we hope to show the importance of looking at this interplay in order to understand the integration process of markets.

To give an idea of how the integration process works in the German-Polish-Czech border region, we first present a snapshot of the merely separated labour markets on the German-Czech-Polish border on the eve of accession. Then we discuss the prospects for

integration in the light of the pattern of the policy-driven integration process. This part emphasises the importance of the transition rules slowing down the integration process and simultaneously buffering some of the differences between the previously separated markets. Whilst the institutional restrictions will limit labour market integration for the next years, we discuss the likely labour market trends for the coming years, taking a look at some of the essential developments in the region that affect the behaviour of the labour market participants. A first set of factors is related to the overall development of the labour market. Given some long-term developments such as demographic change or structural readjustment, we can identify some likely development paths of the regional labour market. A second set of factors is linked to the underlying perceptions and judgements of labour market participants and is reflected in prognostic studies on migration and commuting. A summary gives an overview of the pattern of labour market integration that is likely to evolve in the coming years.

## 2 Situation on the labour markets in the border region on the eve of enlargement

In general, access to the labour market in the neighbouring country must look very attractive mainly for Polish and Czech citizens. Given gross annual earnings of € 7,172 in Poland compared with € 39,440 in Germany (2002, Eurostat figures)<sup>4</sup>, finding a job in Germany is very profitable for Czechs and Poles.

<sup>4</sup> Eurostat does not provide similar figures for the Czech Republic. Gross annual earnings can be assumed to be a little higher than in Poland, but still significantly lower than in Germany.

However, the labour markets in the German-Polish-Czech border region were institutionally highly separated on the eve of accession. Being an EU-external border, the German-Polish-Czech border was actually impermeable. Free movement of services and people was still restricted. On the German side, access to the labour market was restricted by laws governing the rights of all foreigners in Germany in general as well as by the more specific legislation governing access to the labour market.

The number of Polish people receiving a work permit in Saxony increased constantly throughout the 1990s, but reached only 6,293 persons in 2004 (Agentur für Arbeit, Regionaldirektion Sachsen). A large share of nearly 90 percent of these people entered Saxony for the first time, indicating the predominant occupation of these Polish people: most of them are employed for only a few weeks per year, mainly as agricultural workers. Czech people in contrast received far fewer work permits, only 722 in 2004. This figure had been decreasing throughout the 1990s. The share of short-term employees was much smaller amongst the Czech.

The sectoral structure of Polish and Czech employees can only be described for employees subject to social insurance contributions at their place of work. Most short-term employees working less than two months in Germany do not fall in this category. According to the latest figures from June 2004 the remaining employees from Poland work predominantly in the health sector (18.6%), agriculture (16.8%) or manufacturing (11.0%). For the Czech employees, manufacturing (16.8%), health (16.1%), and education (14.6%) are the most important sectors. However, the absolute figures of Polish and Czech employees on the Saxon labour market are almost negligible: in June 2004 there were only 986 Poles and 453 Czechs working in Saxony, amounting to only 0.07% and 0.03% of the total labour force respectively.

Under the regulations governing access to the German labour market, few Polish and Czech people were allowed to commute across the border. In 2004 there were only 101 Polish people and 369 Czech people holding work permits allowing them to commute. These figures indicate that the official number of Czech people working in Germany is very small and does not affect the German labour market significantly. The German labour market was successfully protected against migrants and commuters from Poland and the Czech Republic. The field of illicit work is difficult to assess as, due to its nature, official figures are not available. Estimations assume a very limited number of illegal Czech workers in

Germany (Vavreckova et. al. 2002: 10–13), whereas there seemed to be more illegal Polish people.

There are no figures available on Germans working in the Polish or Czech border region, but the Czech Statistical Office (2002) reports only 537 German immigrants for the whole country in 2000 and 670 in 2001. The figure for Poland is much higher: about 11,500 Germans moved to Poland in 2001. Assuming that a large number of these movements were oriented towards the capitals and larger cities, it can be said that the border region has faced only very limited movement of German labour across the border so far.

The almost complete separation of the labour markets also resulted in significant differences in labour market performance. Hardly any mechanisms allowing for a cross-border compensation in the case of disequilibrium on either the Polish, German or Czech labour market have been initiated so far.

In Saxony, employment fell dramatically after German unification in 1990. Some districts lost as many as 50% of their jobs. As regards employment trends, the Saxon border region has fared even worse than the Saxon average. On the Czech and Polish sides, the development has been slightly different: the level of employment remained more or less constant throughout the 1990s. Labour market participation<sup>5</sup> is significantly higher in the Czech Republic (60.0%) and Poland (58.6%) than in Saxony (52.5%). The Czech border region shows a differentiation with a labour market participation of only 52.5% in Ústecký kraj. The activity rate on the Polish side is also lower (56.0%) in the border region than the Polish average.

The sectoral composition of employment is still different: in the Czech Republic, more than 30% of the working population is in the manufacturing sector and just under 20% work in services, with trade, hotels, restaurants and transport, at some 25%, being even more important. In Saxony the services sector provides nearly 30% of overall employment, followed by trade, hotels, restaurants and transport with some 23%. Manufacturing is only the third most important sector, with about 17%. In Poland, employment in agriculture is significantly higher than in Saxony. Declining employment in manufacturing could not be compensated by increasing employment in services.

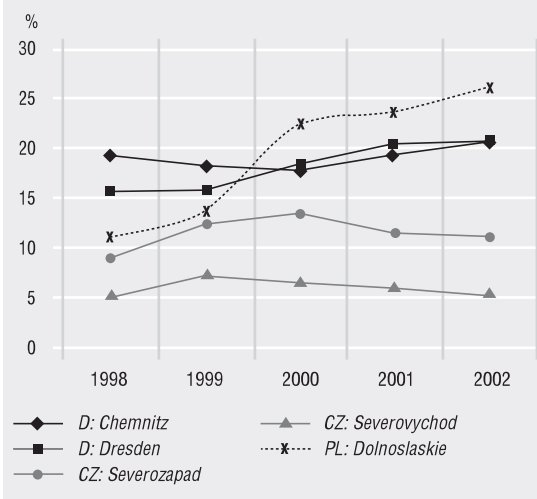
The unemployment rate increased from 18.8% to 21.3% in Saxony between 1998 and 2000 and now

<sup>5</sup> Employed persons as % of all inhabitants, population of the 14–64 age group.



remains at a level of above 20 % (cf. Figure 2). In the border region, half of the districts are below the average, and half are above it. The towns of Hoyerswerda and Görlitz reach more than 25 %. However, the region with the highest unemployment is the Polish region of Lower Silesia (26.1 %). Its unemployment rates have exceeded the rates in Saxony since 2000. Unemployment in the Polish border region is about five to six percentage points above the Polish average. It is higher in the rural areas than in the industrialized districts. On the Czech side, unemployment in the region of Severozapad (North-West) was above the Czech average between 1998 and 2002, in the region of Severovýchod (North-East) it was below the national average. Unemployment is still reasonably lower (about 11 %) than on the Saxon and Polish sides. Within the Czech border region, Karlovarsky (North-West) and Liberecky kraj (North-East) have unemployment rates below the national average, at 7.3 %, but the rate in Ústecký kraj (North-West) is nearly twice as high (13.4 %). All parts of the border region have still shown rising unemployment over the past years.

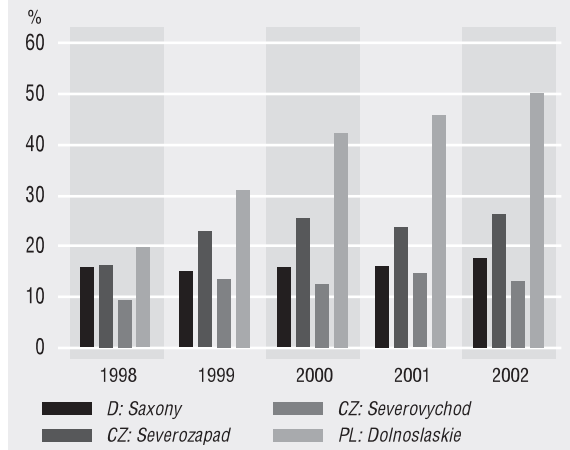
Figure 2  
Unemployment rates in the border region  
D-CZ-PL



The structure of unemployment on the Czech and Polish sides of the border shows a severe problem for the youngest unemployed (cf. Figure 3). For those under the age of 25, the unemployment rate is as high as 26.2 % in the Czech border region (rising to 36 % for those aged between 15 and 19). In the Polish border region every second person of that age is unemployed (50.2 %), whilst the national average is about 42 %. In Saxony, the share of younger unemployed people (17.7 %) is also above the na-

tional average (10.7 %) but looks almost satisfactory compared with the Polish figures.

Figure 3  
Youth Unemployment <25 years



A comparison of the structure of job-seekers shows one of the core problems of the Czech and Polish education systems: only 44.4 % of Czech job-seekers have completed an apprenticeship, whilst 31.5 % have not. In Poland 32.5 % of all unemployed persons have only lower secondary, primary or even incomplete primary education. In Germany the share of people who are looking for work and have not completed vocational training is only 16.6 %. These figures indicate a severe deficit in the apprenticeship system on the Czech and Polish sides of the border, which may also be responsible for the enormous unemployment rate in the youngest group of labour market participants. Well-skilled workers are threatened to a far lower extent by the risk of unemployment: only 2.1 % of the total unemployed in the Czech Republic hold a university degree and 3.9 % in Poland. Conversely, the largest share of the unemployed consists of low-skilled people (more than two thirds). Both tendencies show future threats: young people without formal qualifications and the low-skilled unemployed will be difficult to reintegrate into a labour market characterized by structural change towards the service sector and highly qualified jobs.

It is worth mentioning that meanwhile the stock of long-term unemployed is even higher in the Czech Republic (37.2 %) and Poland (40.4 %) than in Saxony (36.2 %). Nonetheless, in Saxony a growing stock of predominantly older and not so well skilled unemployed is the main problem.

On the eve of enlargement the situation on the labour markets in the German-Polish-Czech border

region was characterised by the almost insurmountable institutional threshold protecting the German labour market. Only a negligible number of Polish and Czech people had found access to the German labour market – and mainly the Polish were predominantly working in short-term jobs. Simultaneously, the separation of the labour markets was decisive for the development along different paths. In the years leading up to accession, both the Czech and Polish border regions had been facing an enormous increase in unemployment, with severe problems in integrating the younger and the long-term unemployed. Together with still significantly higher earnings in Germany, the incentives for migration or commuting were highly visible – although one might doubt whether the German labour market would be able to absorb the lower skilled migrants. For the time being, however, the institutional protection mechanisms at work are succeeding in preventing significant numbers of Czech and Polish people from entering the German labour market. The future development of the regional labour market integration depends predominantly on the duration of the period covered by the transition regulations.

### 3 How much integration is possible in the next years? – policy-setting framework conditions of labour market integration

Given the still separated labour markets with their different situations and problems, we now start exploring the road to integration. In this part, we deal with some of the factors influencing the overall direction of the integration process. Institutions establish a more or less stable framework for the players on markets. Of course, institutions can change, and integration is very much about changing institutions. But from the point of view of the individual players on the market – employees as well as employers – institutions define stable incentives and a framework in which the individual player works. Even after accession, the border between Germany, Poland and the Czech Republic is still a border between three institutional spheres. And even when the transition rules have expired, the labour markets on both sides of the national borders will still be embedded in different institutional spheres. Thus, institutional factors influence the progress of the integration process on two levels: firstly, the potential for labour market integration is determined by the duration of the transition rules. Secondly, even after the transition rules have been phased out, institu-

tional misfit between the different national labour markets might influence potential integration.

#### 3.1 Transition rules

As a result of the negotiation process, the Treaty of Accession as signed in Athens on 16 April 2003 provides for a number of transition arrangements.<sup>6</sup> Transition arrangements allow the accession countries more time to adjust to the *acquis*, and secondly, can serve to protect the old Member States from turbulences expected from the accession of the new states, mainly in specific sectors of certain markets.

As long as these rules apply, the access of Polish and Czech nationals to the German labour market is regulated under the previously existing national and bilateral agreements.<sup>7</sup> This is a severe restriction to the freedom of movement for labour and will certainly hinder the regional labour markets from growing together for some time. In general, Czechs and Poles are only accepted for jobs in Germany if there is no German to take this job. Transition rules are valid for an initial period of two years after the accession of the new states, Germany then has to notify the Commission if the regulation should be extended for another three years. After a maximum of seven years, this barrier to a joint labour market will be removed (2+3+2-rule). Germany and Austria, as Member States immediately adjoining the accession countries, are also permitted to restrict the free movement of services. Germany decided to use this possibility and restricts the access of service suppliers in the construction sector, the cleaning of buildings, and transport, as well as interior decorators.

The restriction to integration consists on the one hand of a non-sector-specific barrier to the free access of Czech and Polish people to the German labour market. The other restriction is a buffer for certain sectors, which mainly protects the construction sector against competitors from the accession countries for a certain time span. For the regional labour market in our region it means that for a transition period of between two and seven years, an unbalanced permeability of the border will prevail.

<sup>6</sup> See Treaty of Accession. The transitional measures relating to the Czech Republic are listed in Annex V of this treaty, measures relating to Poland in Annex XII. To be found under [http://europa.eu.int/comm/enlargement/negotiations/treaty\\_of\\_accession\\_2003/index.htm](http://europa.eu.int/comm/enlargement/negotiations/treaty_of_accession_2003/index.htm), 17 March 2004.

<sup>7</sup> An overview of the regulations concerning the access of workers from accession countries to the German labour market is given in Bundesministerium für Wirtschaft (2004).



For several years the Czech and Polish labour markets will be more open to Germans than<sup>8</sup> vice versa. Thus the integration of labour markets and of some services is delayed compared with the integration of other markets. Given the German policy in relation to the opening of the labour market it seems likely that the transition rules will be extended/prolonged once, perhaps even twice. This means that the institutional barrier separating the regional labour markets will not be removed before 2009 or even 2011.

### 3.2 Other institutional factors

In addition to the institutional framework of direct transition rules, the German, Czech and Polish labour markets are still embedded in different national institutional systems. Thus, there are also other institutional settings influencing the opportunities to move across the border. In particular a certain misfit between the labour market institutions on the two sides of the national borders will gain importance once the transition rules are phased out. Looking at the present situation, mainly the compatibility between the systems of vocational education might become a persistent institutional factor influencing the integration of labour markets. The question of compatibility relates to regulatory and institutional factors.

An important regulatory precondition for making use of the freedom of movement for workers is for instance the mutual recognition of professional qualifications. Only if it is guaranteed that one's qualifications are accepted in another country, is access to an adequate position possible. Mainly the Czech Republic remains to be criticised for a lack of preparation in this respect: "Significant work needs to be done in the field of mutual recognition of professional qualifications, where the Czech Republic's legislation is not in line with the *acquis*" (European Commission 2003a: 18). This is why the European Commission expresses "serious concerns" (ibid) about the Czech preparation in this field. In comparison, Poland has been assessed more positively in past years, but has recently been criticised in a similar way: "In the field of mutual recognition of professional qualifications, Poland's transposition of the *acquis* still presents serious shortcomings" (European Commission 2003b: 21). As the issue of the compatibility of qualifications can be solved by

legislative measures, there is a good chance that this problem can be overcome soon.

Besides the pure legal transposition of rules for acknowledging qualifications, these rules also need to be actually incorporated into curricula of vocational training and education and to be implemented by an effective system of vocational education and training. In this context, the shortcomings of the present Czech and Polish systems of vocational education and training (VET) create additionally severe institutional restrictions on a potential integration of the labour markets. In general, the VET systems of the accession countries are seen as one of the problematic factors with regard to the labour market. It is not so much the formal level of qualification, where accession countries are at least comparable with the old Member States, but that the ability to adapt to a changing situation and to meet the economy's needs is limited (Gerstenberger et al. 2002; Knogler 2002). The Czech system of VET is assessed as making insufficient use of links to social and economic partners, being inefficient and inflexible. It is blamed for "conservatism and resistance for change" (European Training Foundation 2002a). The situation in Poland is similar (European Training Foundation 2002b). This poor performance of VET systems not only contributes to the high unemployment of younger people, it also reduces the chances for these problematic groups of young people to escape their situation via migration or commuting to Germany. Overcoming this is not only a regulatory matter, but involves long-lasting reform processes to basically readjust a VET system. Institutional incompatibilities like this might therefore affect the performance of the cross-border labour market even after the period covered by transition rules.

Besides the transition rules and the VET, a number of other institutional factors affect the degree of integration of labour markets. These include factors such as the systems of taxation and social security or measures of active labour market policy. We can not go into detail regarding these factors here. At least at present the existing institutional misfit in areas such as the VET emphasises a certain distance between regional labour markets by limiting the possibility of free movement of labour. Weak performance of the VET system causes labour market problems that are immediately visible in the Czech Republic: high youth unemployment and many low-skilled unemployed. These problems will hardly be solved in an open regional market where the unemployment rates are high in all regional markets. But for those concerned, migration and commuting are

<sup>8</sup> Although at least with regard to the restriction on the free movement of services, the accession countries are allowed to take equivalent measures in response to the member states' limitations.

hardly options, either, as they find no access to German or Polish labour markets. The gradual adaptation of institutions e.g. by step-by-step progress in the mutual acceptance of qualifications will reduce the threshold between regional labour markets. But for the time being there remains a significant institutional threshold.<sup>9</sup> This threshold is expected to reduce the potential cross-border movement of employees and employers.

### 3.3 Activities and incentives to strengthen co-operation

Discussion of the prospects of labour market integration needs to take into account the policy interventions supporting cross-border co-operation. The overall integration process is governed by the removal of the institutional barriers, mainly the transition regulations. But within the scope of this institutional setting there are different efforts to improve the fit between the regional labour markets and to establish closer cross-border links (positive integration). The European Union and Saxony provide specific instruments to encourage and strengthen cross-border co-operation within the limits set by the institutional framework. Funds from the Community Initiative INTERREG are aimed at supporting projects that are designed and implemented with a cross-border orientation. From 2000 until the end of 2002, a total of 35 projects associated with the labour market have been funded by Interreg, with a total expenditure of € 12.1m (IfS 2003).

The main objective of Interreg is not to function as a general training and qualification programme with regard to cross-border co-operation. It is more a matter of providing a number of linkages that can perhaps evolve and contribute to reducing some of the barriers that still exist between labour markets. This is particularly true of those projects that touch upon institutional aspects and aim at establishing links or interfaces in fields where institutional misfits exist. A project example might illustrate the case.

#### **Project example: joint vocational training in the field of tourism**

The technical college in the field of hotel and tourism (Hotelfachschule) in Pirna has been working on the development of joint vocational training courses since the mid-1990s. Since 1997, first joint courses have been offered, which are two- or three-year vocational training courses. On successful completion of the course the participants are hotel or restaurant specialists (Hotelfachkraft/Restaurantfachkraft), with a certificate from the German and Czech Chambers of Commerce. This project requires not only the development of a curriculum which is accepted under both the German and the Czech regulations, but also a close co-operation of the different organisations involved (especially with the partner schools on the Czech side).

The field of tourism is one of the important sectors for development in the region immediately on the border between the Czech Republic and Saxony. Efforts for a joint marketing and organisation of hiking trails and biking routes have been underway for a couple of years. This is a sector with good prospects for the development of a real joint cross-border labour market.

This project establishes a link between the education systems on the German and Czech sides of the border by developing a mutually recognised job profile. Thus it creates an institutional link that facilitates cross-border movement and helps to overcome a misfit of job profiles on the two sides of the border. In doing so the project reduces the existing institutional misfit between the national systems, thus improving the opportunity of labour markets to grow together after the period of transition regulations.

However, the effects of efforts to strengthen co-operation are limited so far, as might be illustrated by the status of co-operation between Public Employment Services. A first joint seminar of the Public Employment Services (PES) of the two countries took place only in March 2002. The PES agreed to continue at six-monthly intervals. The second seminar was held in Dresden in March 2003 with a focus on the dual system of vocational training, on the work of the PES with universities and the services provided by the PES. The series of seminars aims to improve the services of the PES with regard to the joint training market in the EU. It intends to improve information on the training systems of the partners involved. The co-operation so far is there-

<sup>9</sup> Even at EU-internal borders such as that between Germany and the Netherlands, a certain institutional misfit remains. At the very least, working on the other side of the border requires additional administrative effort for the employees. The institutional misfit is unlikely to disappear entirely.

fore at the level of exchanging information on the different systems and the work of the PES, but the PES have so far not played an active role in providing information on the whole regional labour market or managing it.

#### **4 Integration of labour markets – what will labour markets look like in a few years?**

Given the schedule of the institutional integration process, we discuss future integration processes that will only fully materialise after the period covered by the transition regulations. With a look at the labour market participants, it would probably be misleading to make a guess or a prognosis based on the current labour market situation. But we can take a look at important factors determining the future readiness and willingness of labour market participants to make use of the freedom to move across borders. With a perspective of five to seven years, we can identify some trends of labour market development in the German, Polish and Czech border regions in the next years which are already quite visible. One of these trends is demographic change, which significantly influences the regional labour markets regarding the supply of labour and its age structure. The second trend is the effect of structural change by sectoral adjustment leading to a different employment structure. Whilst Saxony experienced a structural shock as early as the early 1990s, in this period economic structures in Poland and the Czech Republic were changing only incrementally in comparison. Accession is likely to put more pressure on sectoral adjustment.

##### **4.1 Demographic trends**

An important underlying factor for future labour market development is demography. In this respect, the prospects for Saxony, the Czech Republic and Poland are remarkably different: the Czech Republic is expected to face a decline in its population from 10.269m in 2001 to 9.957m in 2020 (–3 %). In the same period, Saxony is expecting a far more dramatic change in population by losing 15.9 %, from 4.384m inhabitants in 2001 to 3.688m in 2020 (Statistisches Landesamt Sachsen 2003). Mainly the districts on the Polish border in the eastern part of Saxony are affected by a decline in the population. The town of Görlitz will lose 25 % of its inhabitants, several other districts more than 20 %. After 2020, also the Czech side, too, will experience an accelerating

drop in population (Czech Statistical Office 2003). Poland expects only a very small decrease in population (–2 % until 2030; Polish Statistical Office 2003), but given the situation in the border region with its immense youth unemployment rate, we can expect a loss of population there due to internal migration.

Demographic change will shift some problems on the labour market: A shortage of well trained workers is expected to become a new problem on the Saxon labour market. Meanwhile the first age-groups of younger people born after unification are about to finish their apprenticeships and enter the labour market. As birth rates fell by about one third immediately after unification, the labour markets are entering a period with a lack of well qualified workers in certain fields. First signs of this development can already be detected.<sup>10</sup> But this new, demanding situation will not automatically solve the problem of high unemployment.

Firstly, highly skilled jobs are concentrated in the large central cities of Saxony and not on the periphery. The projection of population development shows that movement to the centre at the expense of the border regions will be one of the dominant trends of the coming years. The cities of Leipzig, Dresden and Plauen, together with other towns, are the only parts of Saxony with an expected positive balance from internal migration – at the expense of the border regions. It will be mainly the young and highly skilled who move. In the border regions a lack of jobs will remain and these regions face continuing migration towards centres – the threat of a downward spiral is rising.

Certain groups, in particular the older and less well-skilled will probably be unable to profit significantly from the new opportunities.<sup>11</sup> Whether a lack of skilled workers will become a problem or not depends on the extent to which the unemployed can be activated to take the jobs that are vacant then. However, this development has several potential consequences. It will require a well targeted training programme in Saxony. Training can not be stored. It needs to be provided “on demand”. This will be one of the guidelines for further policy development. Also the system of vocational training will need to

<sup>10</sup> Some firms in the automotive sector in Saxony are already experiencing problems in finding well-skilled workers and are starting to recruit in western Germany. See: *Süddeutsche Zeitung*, September 13th 2003. There is also a campaign like “Sachse, komm zurück” (Saxon come back) to motivate qualified people to come back to Saxony after their apprenticeship or job in the West.

<sup>11</sup> On the other hand, a lack of skilled workers may develop into a serious threat for future investments in Saxony.

be oriented towards professions with good prospects on the labour market. Even if the available labour force is used, some sectors will remain problematic: there is likely to be a continued shortage of highly skilled workers in the IT sector. This sector is of particular importance in Saxony. Furthermore health care services and cleaning are branches where a significant imbalance in domestic labour supply can be expected.

A conclusion from this discussion is that we may observe completely new issues for the Saxon labour market arising in the coming years, such as the matter of how to find the workers needed. The question is whether or not this will affect cross-border migration and commuting. It might even be inevitable for Saxony to attract well-skilled workers from abroad. But both the structure of the job-seekers and the institutional performance of the VET systems raise questions as to how far Polish or Czech people can help to fill this gap.

#### 4.2 Sectoral adjustment and regional differentiation

With regard to sectoral readjustment, a continuing drop in employment in the Czech and Polish manufacturing sector is very likely in the coming years. Another sector with negative employment prospects is agriculture. Training will have to be oriented towards the services sector in future. In Saxony, it is mainly the construction sector that has been under pressure recently. All in all, the sectoral shifts will be more severe on the Czech and Polish sides of the borders, as Saxony already experienced a similar process in the 1990s.

As to the likely development of unemployment, we have to state a growing regional differentiation on the Czech side of the border. This development depends to a certain degree on how structural readjustment in the region is managed and is thus influenced by the previously existing economic structure in the region. Mainly the regions which have traditionally been dominated by heavy industry (e.g. the Most area) are suffering from higher unemployment. But this factor does not fully explain the differentiation, as we also find districts that used to be dominated by the industrial sector but now have a comparatively low unemployment rate (e.g. Jablonec).

In the Polish border region, the large share of agricultural employment remains the main problem. There is a demand for structural adjustment within the agricultural sector too. The level of employment

in agriculture is relatively high, but it is technically impossible to organize agricultural production labour-intensively and to achieve productivity gains and an increase in per-capita incomes at the same time (Brück et al. 2004). Therefore, unemployment in the rural areas, where it is already tremendously high, is expected to increase.

Based on the given employment structure, one can expect dramatic economic restructuring mainly on the Czech and Polish sides of the border. The Czech and Polish economies have been increasingly exposed to competition during the enlargement process. The pressure for a shift in the economic structure from manufacturing and agriculture to services will grow even more in the coming years. As sectoral readjustment will be accompanied by gains in productivity, decreases in employment mainly on the Czech and Polish sides of the border are to be expected as a consequence.

The overall situation so far provides the following outlook. In the Czech and Polish border regions, we might expect a worsening situation on the labour market. Pressure for structural adjustment is increasing and mainly the agricultural and manufacturing sectors can profit from comparative advantages in wages for only a limited time. The stock of unemployed and specially the long-term unemployed might increase. Simultaneously, migration will be a solution mainly for younger and better skilled people.<sup>12</sup> There might be trends towards moving to the centre in one's own country first, to the capital of the region and other larger cities, or to other regions. Mainly young and well skilled people might also consider moving to Germany or elsewhere.

The Saxon labour market will experience a lack of well-trained workers soon. This is a problem that can not easily be solved from the stock of unemployed, as specific and demanding qualifications are needed. The border regions will face a serious decline in population and consequently in economic activity. The border regions will not attract much migration or commuting, but will have to struggle with depopulation. In this respect, the situation of the regions on both the German and the Czech and Polish sides might develop in a similar way. The removal of institutional barriers might even worsen the situation of the Czech and Polish border regions. The incentives and options for migration and commuting are higher for precisely those groups of more highly

<sup>12</sup> And, as we have learned from experience in eastern Germany, more for women than men.



skilled workers that are important for the successful management of economic restructuring. A 'youth drain' and 'brain drain' would affect the opportunities for the Czech and Polish parts of the region to successfully manage structural change.

## 5 How will labour market integration proceed – what influences the behaviour of labour market players?

How then do labour market players respond to institutional progress in integration and the changing situation on the labour markets? Besides the institutions defining the scope of potential action and the given situation influencing the preferences, it is the set of individual orientations and perceptions that affect the interests of players. A first indicator of possible responses are longer-lasting orientations of players. The way that they perceive the risks and opportunities of cross-border co-operation influences their cognitive openness to cross-border activities such as migration, commuting or foreign direct investment. Most of the prognostic studies on migration and commuting do not take account of this important factor influencing the labour market players' motivation for cross-border activity. Finally then, we take a look at the forecasts of migration and commuting given the background discussed so far.

### 5.1 Orientations of labour market players

The responses of labour market players are influenced by their interests and their perception of the current situation. But their perception of the situation is in turn also framed by more deeply rooted beliefs and values. These beliefs and values define, amongst other factors, whether or not a potential course of action is seen as a realistic option or not. Besides deeply rooted values, other factors are important for deciding to migrate or commute. For instance, a Czech or Polish worker who wants to take up a job in Germany needs to finance the relocation, he or she also needs to have language skills etc. So the set of eligible actions in a given situation is structured by different aspects. But simultaneously, a given situation and the player's interests do not determine the player's activities entirely. A specific influence comes from the longer-lasting orientations of an player. A precondition for a Czech or Polish worker to make the decision to move to Germany

is his or her general willingness to do so. There might be aspects in his/her orientations that do not allow him/her to accept moving to Germany as a realistic option. Whilst institutions define the available scope of action of individual players on the labour market, ultimately the preferences of the players themselves define whether or not for instance an employee considers making use of the available scope, e.g. by moving to the neighbouring country or whether an entrepreneur considers employing foreigners or transferring parts of his production to the neighbouring country. At this point, we are not talking about the decision to migrate or commute, but rather about some underlying perceptions relating to the neighbouring country. A certain general openness to co-operation with the neighbours is thus a precondition for labour market participants starting to co-operate or orient towards the other side of the border. Both prejudices and provisos or (lacking) perception of importance or opportunities of co-operation can influence the process of labour markets growing together.

The population on the German side of the border is not very open-minded about cross-border relationships. For the Saxon border region, a survey by Jurczek (2003) reports a decrease in the frequency of visits by Germans to the other side of the border (e.g. from 18 % visiting very frequently to 8 %). With regard to the accession of Poland and the Czech Republic, 31 % expect growing economic dynamics, 15 % a reduction in obstacles to development, and 11 % a growing exchange. As to the expected negative effects, the effects on the labour market (40 %), increasing crime (22 %) and negative effects on the economy (11 %) are the most important ones.<sup>13</sup> Nearly two thirds expect an increasing unemployment rate (61 %), but just under one third (32 %) assumes that the accession of Poland and the Czech Republic will provide opportunities to find new jobs, 15 % expect a reduction in the wage level. These figures reflect a rather sceptical view by the population in the border region. The accession of the neighbouring countries is perceived more with scepticism and this mainly relates to labour market development. Other research results emphasise that German and Czech inhabitants in the border region share the same fears: both sides fear for instance that migration from eastern Europe might worsen the situation on the labour market. This research

<sup>13</sup> This ranking of expected negative trends is supported by the latest surveys conducted by the Technical University of Chemnitz. An important aspect is that this survey shows that a general expectation of growing unemployment on the one hand is not directly linked to fear about one's own job. General scepticism meets personal optimism. Simultaneously, migration as such is only expected to change in 35 % of all answers.



project also shows that prejudices are deeply rooted in individual and collective identities and are not easily overcome.<sup>14</sup>

Language skills might serve as an indicator for the general openness and ability to act in a cross-border labour market. The picture is fairly one-sided. In 2001 only 1,007 pupils in Saxon schools were learning Czech (0.2 % of all pupils) and only 442 Polish (0.09 %; Statistisches Landesamt Sachsen 2002: 115). The most popular languages are English (78.5 %) and French (12.0 %). The pupils learning Czech in Saxony are concentrated mainly at primary level. Only 285 out of the 1,007 are learning Czech at secondary level, and 286 out of the 442 learning Polish are doing so at secondary level. Comparing these figures with Poland and the Czech Republic makes the differences clear. In the Czech Republic, 45.5 % of all pupils learn German at lower secondary level, with this figure rising as high as 81.3 % at upper secondary level. In Poland, 61.0 % of all pupils learn German at upper secondary level (Eurostat 2001).

This pattern of interest in the neighbouring country from the perspective of language skills is confirmed when looking at the enterprises in the border regions: Polish and Czech employers are much better prepared and more open-minded about doing business in Germany. Only 16.8 % of the Czech enterprises, and 8.1 % of the Polish ones were not preparing by improving their language skills. But two thirds of German enterprises are not preparing by providing better language skills in their firm (Chamber of Industry and Commerce Dresden 2003). Learning the language indicates the general attitude: the Czech and Polish enterprises are generally more optimistic about accession than the German ones: 55 % of the Czech and 59 % of the Polish enterprises see the opportunities that can be gained from EU accession, 45 % and 41 % respectively see the risks. The German firms emphasise the risks (63 %) against the chances (37 %). Only 20 % of the German, but 41 % of the Czech and 57 % of the Polish firms expect an improvement in their economic situation. With regard to their region, only 22 % of the German enterprises expect an improvement (60 % for the Czech and 68 % for the Polish ones), but 60 % expect the regional economic situation to deteriorate (only 17 % of the Czech and 18 % of Polish firms are of this opinion).

In a recent survey, a group of “economic agents” were asked to report their view on the status of co-

operation and the likely effects of enlargement (for selected results see IfS 2004). This group in the field of “economics” consists of a sample of firms and other organisations such as chambers of commerce and trade unions. These economic agents assess the relationships with the Czech Republic and Poland more optimistically than the overall sample. The share of players assessing the relationship as “good” or “very good” is larger and the share of “satisfactory” judgements is smaller. Simultaneously a comparatively large share of almost a quarter has no opinion on this. As to the frequency of contacts, the economic agents are far more active than the overall sample.<sup>15</sup> A fifth reports weekly contacts, which is more than twice as many as in the overall sample. This frequency is not fully reflected in the intensity of contacts. Although the share of economic agents with a stable partnership and frequent contacts is higher than in the overall sample, the more advanced forms of co-operation (co-ordination and joint development of projects) are underrepresented. This fits in with the larger share of economic agents assessing their contacts as rather unimportant for their day-to-day business. With regard to the likely effects of enlargement, economic agents are more or less as optimistic as the overall sample: half of them expect advantages and disadvantages to the same degree.

The results could be interpreted as follows: in the field of economic agents, the group of pragmatists prevails: they see contacts as necessary, but do not force co-operation too strongly; co-operation is frequent, but not intense and expectations from enlargement are not euphoric.

To sum up the results of these different surveys, we see a clearly unbalanced picture of cognitive openness. Czech and Polish players are better prepared for accession, a larger share of enterprises has language skills available, more pupils learn German. On the other hand, German players are obviously rather indifferent to eastern EU enlargement. In the German border region, language skills are the exception, only few pupils are learning Czech or Polish, and the accession of the Eastern European countries is predominantly seen with sorrow or even fear. German enterprises are less well prepared for the eastern enlargement of the EU than their Polish and Czech counterparts. If they have established contacts, these are not very intense. All in all, the idea of acting across the border seems to be more familiar to the Czech and Polish players than to their

<sup>14</sup> See <http://www.borderidentities.com> for an overview of this project.

<sup>15</sup> One must be aware of a certain “creaming” effect: those actively co-operating might be over-represented in the sample.

German counterparts. The players also differ in their assessment of co-operation efforts: Czech and Poles emphasise chances over risks, Germans the other way round.

## 5.2 Migration and commuting

How do the situation on the labour markets on the one hand and the general perceptions of players on the other now influence the mobility of labour market participants in an evolving cross-border labour market?

The macro-level estimations of the potential for commuting and migration usually start from the figures known from the East-West movement in Germany after unification and try to draw some conclusions on the future development with the accession countries. The overall potential for commuting is estimated at a maximum of 7 % of the population in densely populated regions. The realistic amount is affected by a number of additional factors: it is lower for rural regions with a poor economic situation and deficits in transportation infrastructure, it depends on wage differentials and distance, and so on. Migrants tend to move to where existing links and networks lead them. Migration to many border regions is mitigated by low population density and less favourable economic conditions relative to national averages. Along the eastern German borders to Poland and the Czech Republic, the employment shares of CEEC citizens are one-third of the national average, while along the Bavarian border to the Czech Republic, the share of citizens from the CEECs among total employment is reported as three times the national average in 1999 (Brücker 2003: 16). Based on assumptions like these, some likely patterns of future migration and commuting flows can be identified.

The main flow of Czech migrants is expected to go to western Germany, where 84 % of Czech people in Germany live, and mainly to Bavaria. Within Saxony, migration will focus on the larger cities and not on the more rural areas of the border region. A Czech source gives a maximum figure of only 3,600 people migrating per year for the whole of Germany (Bastyr 2001). For the labour market in the border regions, the effects of commuting are expected to be greater than those of migration.

In the case of commuting, wage differences are more important than they are for migration, where other factors gain comparative importance. In addition the overall population, the distance, and the dif-

ference between the unemployment rates play a role in most of the studies. The prognosis made by Al-ecke/Untiedt for instance assumes a potential for commuters of a maximum of 1 % to 2 % of the population (2001). Commuting is expected to be more common in the towns and cities closer to the border. The closer to the border, the greater is the likelihood of commuting. The estimation of commuting results in figures of between 80,000 and nearly 180,000 Czech commuters to Saxony. These estimations depend strongly on the assumption of the difference in income level. The figures are based on a 7:1 ratio between Germany and the Czech Republic<sup>16</sup> There is hardly any indication of significant movement in the other direction from Germany to Bohemia or Poland.

The methodological alternative to macro-level estimations are micro-level approaches, mainly based on surveys. Studies of this type are better prepared to cover the more deeply rooted factors influencing cross-border orientation such as basic beliefs and other factors discussed above. A study conducted by the European Foundation for the Improvement of Living and Working Conditions (EUROFOUND) is based on Eurobarometer data collected for the European Commission. The survey was conducted in early spring 2002 in the 13 acceding and candidate countries. An identical set of questions was asked of representative samples of the population aged 15 and older in each country. The volume of firm intentions to migrate in the Czech Republic is likely to be around 1.0 %, in Poland about 1.8 % of the population aged 15 and older (Krieger 2004: 11). The typical migrant from the acceding countries is young, well-educated or studying in tertiary education and living alone. An increasing number of migrants are female. The exception is Poland: men are more likely to migrate than women there. The sending countries face the prospect of a major 'youth drain' of some 2 %–3 % of the youngest age category. The potential youth drain is combined with a potential 'brain drain'. Looking at the 'firm' intention to migrate, there may be a 'brain drain' of around 2 %–3 % of graduates and students in the next five years (Krieger 2004).

One of the latest studies of the border area is the one by Vavrecková et al. (2002). Based on a survey of 2,277 people in the whole of the Czech Republic, a total of 14.3 % of Czechs indicates a willingness to migrate (meaning they can imagine living and working in a foreign country). People who have already

<sup>16</sup> The latest figures indicate, however, that the ratio has already fallen to 6:1.

collected general information on migration amount to 5.3 %, and first concrete steps (looking for work or housing in a foreign country) have been taken by 0.5 %. The share of people in the border area who are in principle open to migration is higher: 17.4 % can imagine migrating, 5.1 % have collected information, and 1.5 % are taking first steps. These figures mean that even in the border region, 82.5 % of the people are not at all interested in migration. Only 30 % to 40 % of the remaining 17.4 % may under certain circumstances take real steps to migrate (a share of about 7 % of the population). The people interested in migration are clearly the younger, well trained and predominantly male people. The potential for migration and/or commuting is higher in the Bavarian-Czech border region than in the Saxon-Czech region.

Given the likely pattern of migration flows oriented towards the larger towns, the studies on migration and commuting suggest that the likely major effect on the German-Polish-Czech border region might not be an inflow, but the loss of young, well skilled people. Already today high youth unemployment characterises the whole region. Deficits in the vocational education systems in Poland and the Czech Republic might raise the probability of migration. The loss of younger people due to migration from the border region can rather be expected to be a common characteristic of all three national parts of the region. Imbalances within the region will result from commuting: the same factors supporting migration also support commuting: differentials in unemployment, wage differentials etc. Certainly, in this case transition rules serve as a buffer for a certain time. Given the geographical situation, where the border mainly runs along mountains and rivers, this already extends travelling time within the border region and thus also limits commuting merely to the larger towns.

## 6 The patterns of labour market integration in the German-Czech-Polish border region

The process of labour market integration has been interpreted here as the interaction of the policy-driven reduction of barriers and the market-driven development of cross-border links between the previously separated markets. For the case of the German-Czech-Polish border region, the interplay of these two sets of processes will lead to an integration process characterised by two different phases:

As long as the transition regulations function as a barrier (Phase I) for the progressing integration of

the labour markets, the situation will generally be virtually unchanged: the labour markets will remain quite separated for up to seven years. Of course there are some processes linking the markets: cross-border commuting is not zero and there are some Czech and Polish employees present on the Saxon labour market. Some sectors, mainly services, are likely to suffer from an intensifying price competition, and some sectors will face problems caused by Polish and Czech people – mainly if these enter the German labour market as self-employed one-man companies. But the overall picture is more one of separated labour markets where the streams of exchange are comparatively small and can not contribute significantly to the compensation of labour market problems. During this period, the development of wage differentials, institutional reforms mainly on the Polish and Czech sides, and also the results of political efforts to improve cross-border co-operation will influence the starting conditions for the second phase of labour market integration.

As for migration and commuting, the transition regulations provide a buffer, but some distortions can be expected on the German side, too, from Czech and Polish people either commuting or offering their services on the German side. The border regions themselves will mainly be affected in the short run in specific sectors such as crafts, trades and services. German enterprises and self-employed persons will experience pressure on prices here. However, geography limits the effects mainly to the towns, whilst in the mountainous areas, the accessibility of a Czech hairdresser for instance is limited. Nonetheless, crafts, trades and household services will experience the greatest distortions.

Even when the transition regulations are not valid any more (Phase II), institutional factors might remain which hinder cross-border movements on the labour market. At the moment the incompatibility of the VET systems, which has been discussed as an important example of this kind of institutional aspect, is one of these factors. It is hard to predict what role this may still play in several years' time, but we expect some institutional factors to slow down labour market integration even after the transition rules have been phased out. These factors include not only those of immediate labour market relevance such as the mutual recognition of job profiles, but also differences in the social security systems and administrative procedures required for access to the German labour market, which can act as institutional barriers.

What players make of the growing opportunity to act on a cross-border labour market depends on the

current situation at the time. The general demographic trend and prospects of structural adjustment in the border regions suggest an enduring problem with high unemployment in the whole border region. Mainly the Czech and Polish sides can be expected to undergo a period not only of high unemployment, but also of severe problems with a stock of long-term unemployed who are hard to reintegrate into a labour market demanding new qualifications. A development that can be predicted with a high probability at least for the Saxon part of the border region is a continuing loss of population and more specifically a migration mainly of young people from the border regions either to the centres within Saxony or to other German *Länder*. Given the labour market development on the one hand and the demographic trend on the other, the migration of mainly younger people out of the region might be the dominating trend for the whole regional labour market. In this respect, the migration and commuting from Poland and the Czech Republic might contribute to weakening the basis for future development in the form of a "youth and brain drain" to Germany – but on the German side, it is unlikely to be the border region which is to profit from this trend in the first place. The largest share of Polish and Czech migrants will move to the centres, and not to the border region.

It might become problematic that German players seem rather unprepared for the eastern enlargement of the EU. The period governed by the transition regulations offers a time span to organise most important matters in order to avoid negative effects and to exploit positive effects linked with labour market integration. The steps required include the definition of minimum wages for several sectors to prevent wage dumping, strategies to attract those well skilled people that are needed by the German enterprises and co-operative strategies for labour market management that make it possible to detect fields of potential joint problem-solving. The Polish and Czech players seem to be better prepared than their German counterparts for the changes caused by their accession. Mainly German enterprises in the border region are surprisingly disregarding the options of cross-border co-operation. Meanwhile certainly, cooperation does not mainly relate to savings in production costs, but rather to expanding the markets and finding strategic partners for co-operation. There are some promising examples of co-operation potential in the border region in the field of component suppliers for the automotive industry for instance. Taking the demographic trend into account, commuting and migration might even provide the opportunity to limit the problems of the lack of well-skilled workers in the future.

To sum up, it is highly advisable to start to prepare better for the time following the transition regulations on the German side – otherwise there is a certain danger that the Polish and Czech players will be better aware of their opportunities resulting from integration than their German counterparts. In this respect it is important to take into account the persistent institutional differences such as the incompatibilities between the VET systems marked by the national borders. A better understanding of macro-level market-making policy processes and micro-level labour market participants' reactions could contribute to a successful integration process.

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## **Part III**

**Perspectives – economic, employment, social and migration policy to promote a further Europeanisation of the labour markets in an enlarged EU**

