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## THE REFUGEES AND THE ECONOMIC GROWTH IN THE EU STATES: CHALLENGES AND OPPORTUNITIES

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**Abstract:** *Nowadays, one of the major concerns of the EU leaders is how to cope with the large inflows of refugees that are coming from the Arab region, because of the prolonged conflicts and civil wars. While some EU leaders consider that this is a humanitarian crisis and the member states should act accordingly, others consider that these people are migrants and not refugees. From the economic perspective, the opinions are also divided. Some analysts see this large influx of refugees as an opportunity for the economic and social environment, while others consider that the refugees can negatively influence the well-being of the host countries. In the present paper we investigate the impact of the refugees' inflows on the economic growth and development of the EU countries. In order to reach this purpose, our arguments are based on a multidisciplinary analysis of the specialised literature and of the empirical investigations.*

**Keywords:** refugees; migration; Arab region; EU states; economic growth

**JEL Classification:** F22; J15; O15

### Introduction

Nowadays, one of the major concerns of the EU leaders is how to cope with the large inflows of refugees that are coming from the Arab region, due to the prolonged conflicts and civil wars. Actually, compared to other parts of the world, the Arab region seems to be the most affected by conflicts, since they occurred in half of these countries, between 2009 and 2014 (UN ESCWA, 2014). Looking at the current dynamics of the conflicts from this region, it can easily be noticed that there are not only protracted but also they have reached global dimensions. In this context, Syria is one of the states with the most emigrants. It is followed by Afghanistan, due to the on-going violence, Eritrea, country facing lots of abuses and Kosovo, where the poverty determines people to look for new lives elsewhere.

According to the International Organization for Migration, between January and October 2015, more than 750,000 Arab people crossed Mediterranean to enter Europe, a number which is almost triple compared to the previous year. Looking at the EU statistics, one of the major fears is that most of these refugees have no intention to go back, since over 700,000 have already claimed asylum. The most popular destination for the refugees arriving in Europe is Germany, country that has received more than half of the total number of the asylum applications.

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The opinions regarding the impact of these refugees on the host countries are divided. While some EU leaders consider that this is a humanitarian crisis and the member states should act accordingly, others believe that these people are migrants and not refugees, since they want to go to the most developed EU countries, where they could have the best opportunities. In this case, the phenomenon is considered to be a challenge and a threat for the host states. While the first opinion belongs to the leaders of the Western EU countries, such as Germany, France or UK, the second one is embraced by the leaders of some Central and Eastern states of the EU, especially Hungary and Slovakia. In this context, the Hungary's prime minister argued that the great majority of the resettling people into Europe are not refugees but migrants, looking for a better life into the most developed states of the EU, such as Germany, Sweden, France, Italy, Austria or UK. This idea is also embraced by the Slovak prime minister who says that up to 95% of these people are economic migrants. Their status is very important because, according to the 1951 Refugee Convention and a series of EU laws, the European countries must offer protection to those asylum-seekers who can demonstrate that they are fleeing war or persecution. This obligation disappears in the case of the people looking to improve their future, even if they have left behind an extreme poverty.

From the economic perspective, the opinions are also divided. Some analysts see this large influx of refugees as an opportunity for the economic and social environment, because of the major demographic challenge faced by Europe: while the fertility rate has declined during the past decades, the life expectancy has improved by 12 years compared to 1950. Moreover, they argue that if it weren't for migration, the working age population would have already significantly declined in EU. However, other economists consider that the refugees can negatively influence the well-being of the host countries by generating disease outbreaks, food and land scarcity, wage competition, overburdened school and health care facilities, environmental degradation and increased criminality. Moreover, there are voices saying that the level of human capital of the refugees is, on average, much lower than that of the host countries, fact that will significantly influence the sustainable economic growth and development of the EU states.

Considering all these aspects, in the present paper we investigate the impact of the refugees' inflows on the economic growth and development of the EU countries. In order to reach this purpose, our arguments are based on a multidisciplinary analysis of the specialised literature and of the empirical investigations.

## **1. Socio-demographic trends in the EU states**

The phenomenon of aging population is one of the major issues currently facing most of the developed countries, including the EU ones. According to the statistics, in Europe the percentage of the population of 60 years or older was about 21.8% in 2010 and the estimations made by United Nations (2011) indicate that in 2020 this proportion will be of 25.4%. Meanwhile, the fertility rate has decreased in many EU states during the last decades, being around 1.5 children per woman (Eurostat, 2014), generating a so-called “ageing at the bottom” phenomenon, visible in the population pyramid through a reduction at the base. Considering this aspect, it is not surprisingly why in some European states, such as Germany, the economy is creating jobs faster than the natives can fill in.

Moreover, the population of the European countries is currently facing a second major trend: the emergence of a new group - the “fourth age” (“the oldest of the elders”, of over 80 years), which represents a high and growing proportion. If in 1975 they represented 1.8% of the total population, in 2010 they totalled 4.2% (United Nations, 2011). Comparing the statistics of 2013 with the ones of 1960, it can be seen a major difference regarding the proportion of the young and old people in the total population. If in 1960 there were about three young persons aged between 0 and 14 years for every individual aged 65 or over (Lanzieri, 2011), this ratio became one to one in 2013 (Eurostat, 2013).

Considering all these aspects, we may assume that if the EU socio-economic and institutional environment will remain the same, on long term, the demographic situation of the member states might worsen. Actually, the analysts have foreseen that, in the absence of the changes, the share of people aged 65 years or over in the total population will almost double, the number of people aged 80 years or over will almost triple until 2060 (Giannakouris, 2008). Under these circumstances, half of the population will be older than 47.9 years, which means that the age dependency ratio will significantly increase.

The ageing phenomenon and the decreasing number of the population of the EU states will lead to several negative socio-economic consequences. First of all, on long term, the pressure on the state budget will augment due to the increase of the public expenditure on pensions, social security and health services. This will mean a raise of the overall burden on the working population, who will pay higher taxes, which could create disincentives to work and disincentives for firms to invest, affecting the productivity and growth. Moreover, the growth rates will significantly diminish since the labour force will shrink.

Some economists that were looking for solutions to improve the demographic situation of the EU states concluded that one of the potential measures against the effects of ageing may be the immigration. The immigrants could increase not only the number of the population but also the share of the young age segments in the total population leading, on long term, to a more balanced age structure (Pollard, 1973; Espenshade *et al.*, 1982). However, in order to have such an impact on the population structure, the number of immigrants has to be very high (Feld, 2000; Saczuk, 2003).

## **2. The impact of migration on the European states: evidences from the past**

Analysing the migration during the last decades in EU, it can be noticed that this phenomenon has intensified especially after 2004, when a new enlargement stage of the Union took place and 10 states became EU members. However, the migration did not occur only among the member states, but also between them and other countries. In this last case, we talk about immigrants coming especially from North Africa.

Up to now, the impact of the migrants on the European states was considered to be, in general, a positive one, reflected especially on the labour market. A study conducted by OECD (2012) showed that, between 2001 and 2011, the immigrants represented 70% of the increase in the workforce in Europe. Even though migration is not mainly driven by the workforce needs, it was noticed that the immigrants can be found both in the dynamic sectors of the economy and in the declining ones. According to OECD (2014), during the first decade of the XXIst century, the immigrants totalled 15% of the entries into the strongly growing occupations in Europe, such as those from the health-care system or from the Science, Technology, Engineering and Mathematics' fields. Meanwhile, the immigrants represented almost a quarter (24%) of the entries into the most strongly declining jobs in Europe, such as those from specific trades and crafts or machine operators and assemblers. In these fields, the immigrants respond to the labour market needs by accepting those jobs considered by the domestic workers unattractive from the monetary point of view or from the career perspectives.

Regarding the education level of the immigrants, some analysts, such as Cuaresma, Huber, Oberdabernig and Raggl (2015), consider that the immigrants from North Africa generally have a lower education compared to the individuals born in the EU countries. Analysing the stock of human capital of the immigrants that have entered the European labour market during the last 15 years, it was noticed that while one third are tertiary educated, another third has not even completed the upper-secondary education, even if most of them are more than 20 years old (Eurostat, 2015). In 2014, according to the data offered by Eurostat (2015), the EU states that have attracted the largest number

of highly educated non-EU-born migrants were Ireland, Luxembourg and United Kingdom, with proportions of the tertiary education among the non-EU-born population of 64.0%, 53.2% and, respectively, 53.1%. Slovenia, Greece and Italy were in the opposite situation, having the lowest shares of tertiary educational attainment within the non-EU-born (10.0%, 11.9% and 12.1%). Meanwhile, the highest shares of the non-EU-born population having attained only pre-primary, primary and lower secondary education were registered in Italy, Greece, Spain and Belgium (Eurostat, 2015).

Regarding the fiscal impact of migration, a study conducted in 2013 by Liebig and Mo indicates that the impact of the cumulative waves of migration in the European OECD countries is rarely exceeding 0.5% of the GDP. The highest impact was noticed in Switzerland and Luxembourg, where immigrants have a net benefit of about 2% of the GDP. This situation could also be explained through the level of education. While the highly educated migrants contribute more through the taxes they pay than the individual benefits they receive, the lowest educated ones have a better fiscal position than the natives. However, these last cases are generated by the fact that the immigrants often receive lower wages than the natives and thus they contribute less.

Another country where immigration had a positive impact on the economy is United Kingdom. The migration inflows from 1997, 2004 and 2007 have substantially increased not only the number of the young persons but also the employment rate and, subsequently, the GDP of the UK. Meanwhile, the immigration did not have, as expected, negative impacts on the employment possibilities of the native-born persons. On contrary, they transmitted different skills and aptitudes to their non-immigrant colleagues, increasing in this way the competition in certain labour markets. The same consequences could also be found in Denmark, after the influx of the refugees from the end of the 1980s.

Considering the age of the immigrants, Gagnon (2014) has noticed that most of them belong to the younger age groups, fact that allows us to assume that they may reduce the dependency ratio and change the age pyramids of the receiving countries. This idea has largely been debated by Cuaresma, Huber, Oberdabernig and Raggl (2015) who concluded that the positive impact of the migrants' inflows on the age pyramid will be visible in the EU15 states (old Western European EU members, whose accession date is prior to 2004). Meanwhile, in the EU 13 (the countries that entered EU in 2004 or later) the ageing trends will accelerate. These assumptions are based on the fact that, between the EU adhesion moment and 2010, some states such as Bulgaria, Romania, Lithuania, Latvia, Estonia or Poland had more emigrants than immigrants. This fact has considerably diminished the number of population, especially in the youngest age segment.

### **3. Empirical evidences of the refugees' impact on various states of the world**

A recent study published by Calderón-Mejía, Cantú-Bazaldú and Chaitani (2015) underlines the impact of the refugees' inflows on the economic growth of the host countries with the help of a neoclassical growth model, improved with two more elements: human capital and the influence of a neighbouring conflict or catastrophe that leads to the arrival of refugees. The data was collected for the period 1962-2012. The results of their study reflect the fact that the arrival of the refugees in a country influences the rate of economic growth through two main channels. First of all, it increases the growth rate of the labour force, generating, in some cases, the decrease in the growth rate of the income per capita. Secondly, the refugees could reduce the human capital stock, by bringing comparatively inferior set of skills or one that only acts as a substitute for that already available in the hosting country. Therefore, Calderón-Mejía, Cantú-Bazaldú and Chaitani (2015) conclude that in the short run the refugees have a negative impact on the economic growth. In the long run, they might have no measurable influence on growth.

During time, the specialized literature has included several studies that underlined the fact that the refugees negatively influence the socio-economic, militarily and political environment of a country, violating the human and institutional rights and threatening the territorial sovereignty. From the economic perspective, it is considered that the refugees may lead to a price increase and to a decrease of the wages. Evidences regarding this aspect are brought by Calderón-Mejía and Ibáñez (2009) who present the case of Colombia, country that confronted with a large influx of refugees, which have generated a fierce competition for jobs, with a detrimental effect on wages and employment opportunities.

The pressure from the labour market, felt especially by the most vulnerable groups, could have negative impact on the political stability and social cohesion, leading to internal conflicts. This situation could be exacerbated by other factors such as the formation of the armed groups and the spread of transnational terrorist networks.

The increasing movements from the past years of the Syrian and Iraqi displaced persons have increased the consumption of the basic goods and services in the hosting communities, particularly in Jordan and Lebanon. These two countries were already confronting with both economic problems, such as weak growth caused by insufficient employment creation, low investment, external imbalances, political and security issues. Therefore, the large influx of the refugees has amplified the scarcity of the resources, usage of the existing infrastructure and the socio-political pressure. A Lebanese politician has mentioned in November 2015 that his country is struggling to cope with more

than one million refugees from Syria, which represents one quarter of the country's population. In an interview, he raised the alarm regarding the fact that Lebanon's major institutions could collapse because the country has been without a president for 17 months and the refugees' crisis amplifies this political tension (The Guardian, 2015).

A cross-national analysis of 154 states, conducted between 1970 and 2007 by Choi and Salehyan (2013), shows that countries with many refugees are more likely to experience both domestic and international terrorism. This conclusion implies that the states should find ways to adapt the number of people they receive to the possibilities of integrating them and providing safe and secure environments. Analysing the psychological dimension of the refugees, Wessells (2004) concludes that the difficult life conditions and the social injustice can lead the displaced people towards terrorism. The same idea has also been developed by Pickering (2004) who argued that the terrorist networks use the refugees in order to commit various terrorist attacks due to the fact that these displaced people are more vulnerable.

All these assumptions were used by some political leaders, especially from Poland, Latvia, Slovakia and Czech Republic, in order to link the nowadays Europe's refugee crisis to the terrorist attacks from 13<sup>th</sup> of November 2015, in Paris. Therefore, they urged for closing the Schengen border region and for limits on migrant movements, by reducing the refugees' quotas. Most of these leaders have already been sceptical of accepting refugees from the first place, arguing that the Muslim migrants could not be integrated into their societies and thus the risk of terrorist attacks could increase. After this incident from Paris, some countries, also from Western Europe (such as France, Belgium or Netherland) have significantly tightened the border security.

## Conclusions

Considering all these aspects mentioned before we may conclude that the refugees' impact on the economic growth of the EU states can be regarded from several points of view. *First of all*, from the point of view of the consequences on the level of the human capital of the host countries, we may assume that, even if some refugees are well educated or highly skilled, most of them are not. Significant differences between the educational performance of the children of natives and the children of immigrants/refugees can be noticed in some developed EU states, such as France, Germany or Finland. Moreover, unlike most of the highly skilled migrants, the refugees are not coming into the EU states because of a better job or a career opportunity. Actually, the future integration of these refugees into the host societies and labour markets cannot be foreseen. From this

*second perspective*, some EU states can be more successful in integrating the immigrants, in general, and the refugees, in particular. For example, if we take the case of UK or Germany compared to Spain or Greece, where the unemployment rate is very high, we may assume that the refugees will be more likely to become employed into the first two states. Moreover, the difficult integration into the host social environment is also related to the different cultural and religious backgrounds of the refugees. Related to this aspect, it can be mentioned, *thirdly*, that the risk of generating internal conflicts or even terrorists attacks might increase in those countries that receive a larger number of refugees.

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