

**T.C.
MARMARA ÜNİVERSİTESİ
AVRUPA BİRLİĞİ ENSTİTÜSÜ
AVRUPA BİRLİĞİ İKTİSADI ANABİLİM DALI**

**IMPLICATIONS OF IMMIGRATION ON EU COMPETITIVENESS
IN THE CONTEXT OF LISBON STRATEGY**

YÜKSEK LİSANS TEZİ

LEVENT ERAYDIN

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DANIŞMAN: Yard. Doç. Dr. M. Sait AKMAN**

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by
LEVENT ERAYDIN

**Submitted to the Department of EU Economics
in the European Union Institute
in partial fulfilment of the requirements for the degree of
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ONAY SAYFASI

AB İktisadı Anabilim Dalı Yüksek Lisans öğrencisi Levent ERAYDIN'ın "IMPLICATIONS OF IMMIGRATION ON EU COMPETITIVENESS IN THE CONTEXT OF LISBON STRATEGY" konulu tez çalışması 3 Eylül 2008 tarihinde yapılan tez savunma sınavında aşağıda isimleri yazılı jüri üyeleri tarafından oybirliği/oyçokluğu ile başarılı bulunmuştur.

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to my mother...

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ABSTRACT

By taking the social and economic tensions of European people towards foreigners into account, the main objective of this thesis is to determine what extent “immigration” brings benefits to the European Union economy. As in the United States experience, it can be said that immigrants have been making great contributions to the US economy and today, the US has a leading economy in the world by immigrants’ significant role. From the point of this view, this thesis relates the immigration policies to competitiveness of nations and intends to answer the following question: Whether the European Union can achieve the Lisbon goals by stimulating economic migrants into the Union?

This study shows that there are strong economic reasons in Europe to introduce a common immigration policy at the European Union level. This study also tries to explain that an economically motivated immigration policy would increase the Union’s ability to attract well qualified brains into Europe. This means that this policy not only encourages the skilled immigrant workers but also discourages unskilled foreigners in European labour markets.

More importantly, this thesis argues that the accomplishment of the Lisbon Strategy of the Union is closely linked to creation of knowledge based economies in the EU and as a consequence of this evidence, it is strongly emphasized that “economic migration” can be used as a key instrument to transfer the knowledge (brain gain) and strengthen the economic competitiveness of the EU.

ÖZET

Bu tezin temel amacı, Avrupa'daki sosyal ve ekonomik gerilimlere dayanan yabancı karışıklığını göz önünde tutarak, ne ölçüde bir göçün Avrupa Birliği ekonomisine fayda getireceğini saptamaktır. Birleşik Devletler deneyiminden hareketle, göçmenlerin Amerikan ekonomisine büyük katkı sağladıkları ve bugün Birleşik Devletler'in dünya'nın önde gelen ekonomisi olmasında önemli rol oynadıkları söylenebilir. Bu tez, bu bakış çerçevesinde, devletlerce uygulanmakta olan göç politikaları ile ulusların rekabet güçlerini ilişkilendirmekte ve Avrupa Birliği'nin Lizbon hedeflerine iktisadi göçmenler yoluyla ulaşım ulaşamayacağı sorusuna cevap aramaktadır.

Bu çalışma, Birlik düzeyinde ortak göç politikasının yerleştirilmesi yönünde Avrupa'da güçlü ekonomik gerekçelerin bulunduğunu göstermekte ve ayrıca iktisadi esaslara dayanan bir göç politikasının nitelikli beyinleri Avrupa Birliği'ne çekme konusunda becerisini arttıracaklarını ortaya koymaktadır. Böyle bir politika sadece nitelikli göçmen işçileri gelmeleri konusunda teşvik etmekle kalmayıp aynı zamanda, Avrupa emek piyasalarındaki vasıfsız yabancıların da piyasada yer alma isteklerini olumsuz yönde etkileyecektir.

Daha da önemlisi, bu tezde Avrupa Birliği'nin Lizbon Stratejisi'nin gerçekleştirilmesinin Avrupa'da bilgiye dayalı ekonomilerin oluşumu ile yakından bağlı olduğu gösterilmektedir. Bu argümana dayalı olarak, Avrupa Birliği'nin iktisadi rekabet edebilirliğinin güçlendirilmesinde ve bilgi birikimi transferinde "iktisadi göçün" kilit araç olarak kullanılabileceği kuvvetle vurgulanmaktadır.

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LIST OF ABBREVIATIONS

A:	Austria
B:	Belgium
BRIC:	Brazil, Russia, India and China
CLP:	Community Lisbon Programme
D:	Germany
DG:	Directorate General
DK:	Denmark
E:	Spain
EL:	Greece
EEA:	European Economic Area
ERA:	European Research Area
EU:	European Union
E7:	Emerging Economies: BRICS plus Mexico, Indonesia and Turkey
F:	France
FA:	Fast Ageing
FIN:	Finland
FDI:	Foreign Direct Investments
G7:	Canada, France, Germany, Italy, Japan, the United Kingdom and the US
GCI:	Global Competitiveness Index
GDP:	Gross Domestic Product
I:	Italy
ICT:	Information, Communication and Technologies
IRL:	Ireland
IT:	Information Technology
L:	Luxembourg
NL:	Netherlands
OECD:	Organisation for Economic Cooperation and Development
P:	Portugal
R&D:	Research and Development
RCA:	Revealed Comparative Advantage
RTB:	Relative Trade Balance
S:	Sweden

SA: Slow Ageing
UK: United Kingdom
US: United States
WW2: World War II

INTRODUCTION

It is frequently stated in many official reports and studies that the European Union (EU) is faced with various economic challenges which are pressing the European leaders to take radical decisions in order to strengthen the EU Economy. Developments in “*globalisation, enlargements and knowledge driven economy*” are presented as only three of these challenges that have great impacts on European economic integration. In addition to these challenges, different national regulatory regimes, divergences in business culture, non-homogeneous national markets, lack of innovation policies and skill gaps across the EU are shown as the other internal barriers to the EU Economies.

Since the early 1980s the economic growth in the United States (US) has significantly exceeded the EU growth. This success of the US Economy and the increasing gap in growth rates between the EU and the US has given rise to questions about the primary reasons of this gap. Efficient production techniques, innovative capital markets, low inflation and inflationary expectations, highly capitalized banking systems, relatively low tax and regulatory burdens, sustained strong productivity gains and low unit labour costs, highly flexible labour markets with healthy population growth increased by favourable migration trends in the US are pointed out as the main reasons of this gap.¹

According to some researchers and the EU officials like Barysch, Dierx and Ilzkovitz; the weakness of the EU relies on lack of fast growing and knowledge intensive sectors. As a general opinion, a productivity problem exists in the EU and this problem is strongly based on the EU ability to move resources (highly skilled labour, information and communication technology and capital) into knowledge based industries which have significant potential for productivity growth.

If the reasons of high growth rates in the US are well analyzed, it can be noticed that one distinguishes itself from other fundamental reasons. This factor is defined as economically motivated “migration”. It can be argued that immigrant population in the US has provided positive impacts on economic competitiveness of the US. However, migration itself is a

¹ Mickey D. Levy, “Why does the US grow faster than the EU? A View From America”, *Oesterreichische Nationalbank 31st Economics Conference, Fostering Economic Growth in Europe*, Vienna, Austria June 2003, p. 1.

controversial subject in the field of economic theory that includes many significant questions: Do migrants take jobs away and adversely affect the wages of native labours or do they make any contribution to the creation of jobs in the host country and increase the general wage level? Are they a burden on the social security system or do they bring economic gains through increased productivity and higher tax revenues? Do they adjust to the receiving countries' labour market as well as natives or even better than natives?²

In 2000, the European leaders launched the Lisbon Strategy to make the EU by 2010 “*the most dynamic and competitive knowledge-based economy in the world, capable of sustainable growth with more and better jobs and greater social cohesion.*” Within the context of this strategy and abovementioned issues, this thesis intends to relate the EU competitiveness policies to immigration strategies of the EU.

Main hypothesis of this thesis may also be broadly presented as:

“The European Union achieves the Lisbon goals that aim to make the EU most competitive and dynamic knowledge-based economy in the world by attracting economic migrants into Europe.”

It can be inferred from the hypothesis mentioned above this thesis is based on four relevant and significant concepts which are used to explain the main issue of this study. These concepts are *international competitiveness, the Lisbon Strategy, knowledge-based economy and economic migration.*

International Competitiveness: Despite the widespread usage in the field of economic theory, the notion of “competitiveness” does not respond to a certain meaning due to various classifications and factors used in international economics. However, a great many of economists define the term of competitiveness to measure the prosperity level of a country. According to them competitiveness in particular depends on productivity. In shorthand, productivity allows countries to strengthen their economies, thus an increase in productivity improves the competitiveness of a country. Under the light of this brief description and in the

² Klaus F. Zimmermann, “European Labour Mobility: Challenges and Potentials”, *IZA Discussion Paper*, No: 1410, November 2004, p. 10.

face of economic and demographic challenges, the European competitiveness issue has been taken into consideration by including the Lisbon Strategy.

The Lisbon Strategy: This concept which plays an important role in this study constitutes the main issue of the thesis. “The Lisbon Strategy” is defined as a policy initiative of the European leaders to stimulate economic growth and employment and make the EU Economy more competitive in the world by 2010. Not only the strategy itself but also implementation of the strategy are substantially important for the future of European economy and therefore it requires more attention at national and the EU level.

The Knowledge-based Economy: The term “knowledge-based economy” covers advanced activities in science, technology and innovation in an economy which leads to new products, production methods and productivity growth in a country. In order to be more competitive and leading economy in the world markets, an economic transition from resource-based economies to knowledge-based economies is needed. General acceptance is that knowledge-based economy requires some primary elements. These are; educated and highly skilled population, a stable economic and institutional regime that provides incentives for efficient use of existing knowledge, a dynamic information infrastructure that can facilitate the effective communication, credible research centres and strong relations between universities and industry.

Economic Migration: It can be deduced from hypothesis of the thesis that, for this study, the concept of “economic migration” correspond the highly skilled immigration as a result of economic needs of Europe. In the logical framework of this work and other three concepts, highly skilled immigration is seen as a source of knowledge transfer for a receiving country and a factor that provides productivity increases in that country. This explains why the concepts of economic migration and the Lisbon Strategy are simultaneously focused under this thesis.

Under the frameworks of these four significant concepts this study consists of three main chapters and a conclusion section. Intention of first chapter is to provide an economic survey on European Union and highlight the European competitiveness issue regarding to the Lisbon Strategy of the Union. In the face of economic and demographic challenges in Europe, the impacts of globalization and international competition on EU Economy are taken into

consideration in this chapter and the concept of international competitiveness and its drivers are examined. The competitiveness issue of the EU requires a comprehensive focus on the Lisbon Strategy, therefore a great part of this chapter is devoted to the aim, the development and the assessment of the strategy. In the framework of this chapter, the concept of economic migration will be a controversial subject at both national and EU level because of costs and benefits of migration that it is questioned whether economic migration can be used as a strategic policy tool in the Lisbon Strategy in order to achieve the objectives defined in the strategy.

Second chapter is based on a theoretical approach to the labour mobility and economics of immigration. Geographic mobility and overall economic effects of labour immigration are discussed - under the light of empirical studies related to the US and the EU Economies - with various aspects including the reasons, the determinants and the consequences of immigration. The main purpose of this chapter is to demonstrate direct and indirect effects of labour immigration on competitiveness and to provide a healthy background for the discussions on economic migration in the EU.

Third chapter combines the term of knowledge-based economy and need for highly skilled persons in the EU under the light of current economic position and industrial structure of the Union. In this section, European immigration policies of post war period are analyzed and how the concept of economic migration has been accepted as an essential instrument for the success of the Lisbon Strategy is tried to be presented. The overall aim of this chapter is to emphasize the need for a strategic immigration policy in the EU to attract highly skilled labour in order to enhance the competitiveness of the EU.

In the last part - conclusion section - the main findings of the thesis are summarized, the concluding remarks are made and some subjects for further investigations are highlighted.

CHAPTER 1: INTERNATIONAL COMPETITIVENESS, THE EUROPEAN UNION AND ECONOMIC MIGRATION

1.1. The European Challenges

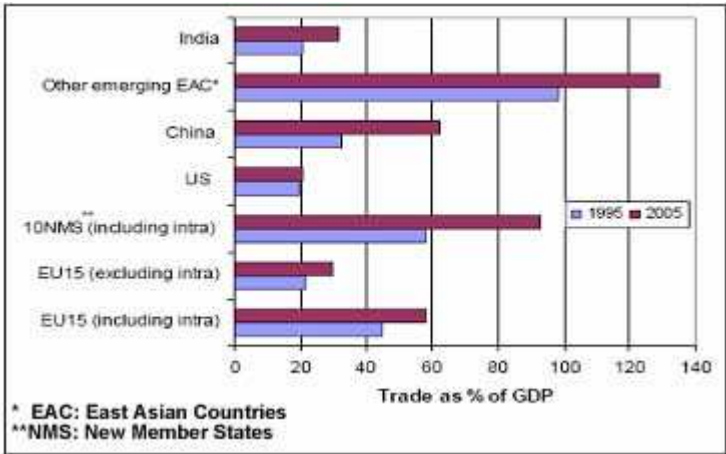
Competitiveness of the European Union and economic impacts of immigration into Europe take great part in debates on future of European economy. These issues have always been concern to researchers and policymakers in the EU. Integration of ten Central East European States and East Europe - Bulgaria and Romania - and as a candidate country, Turkey is making these issues more complex at the level of the EU. Particularly in many studies and official reports, it is stated that the EU faced with many challenges but three of them are standing out: Globalisation, enlargements and knowledge based economy. In spite of their benefits, these are pressing the EU to make radical transformations to strength the EU Economy.³

Globalisation is not a new fact but in recent years, its impacts have increased noticeably as natural consequences of multilateral trade liberalisation, successful economic reforms in emerging markets, technological progress and decreasing trend in communication and transportation costs. On the one hand these drivers provide many opportunities for states, firms and workers, on the other hand high degree of openness, significant increases in world trade and capital flows, and international migration associated with globalisation affect economies intensively; and therefore, for governments, make it necessary to take some measures in product, labour and financial markets as well.⁴

³ Presidency Conclusions, Lisbon European Council, 23 and 24 March 2000, Article 1

⁴ European Commission, "Responding to the Challenges of Globalisation", *European Economy, Occasional Papers*, ECFIN REP/54448, No. 21, December 2005, pp. 3-9.

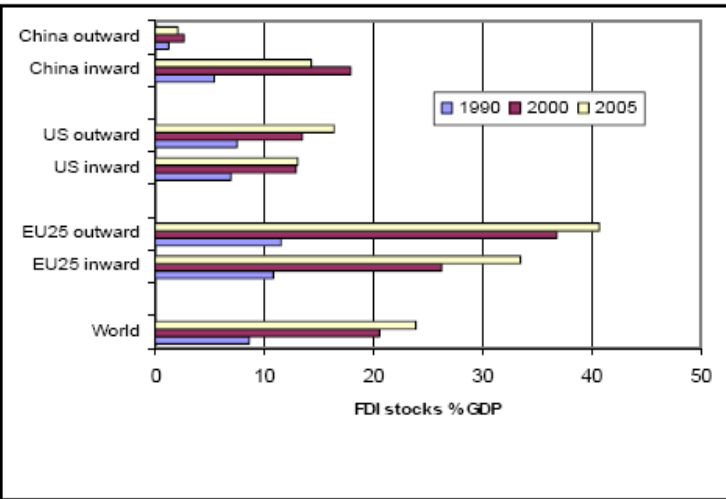
Figure 1.1: Trade Openness across Selected Countries and Regions, 1995-2005



Source: European Competitiveness Report, 2007, p. 36

Figures from European Competitiveness Report (2007) demonstrate the current wave of globalisation in world trade. Figure 1.1 illustrates the acceleration of globalisation in the last decades and presents the increases of trade openness across countries and regions between 1995 and 2005. Removal of trade barriers is the key factor behind this picture. The increasing trade openness has been accompanied by a strong rise in foreign direct investment. Figure 1.2 illustrates the inward and outward FDI stocks as a share of GDP for selected countries and regions.

Figure 1.2: FDI Stocks over GDP, 1990-2000-2005



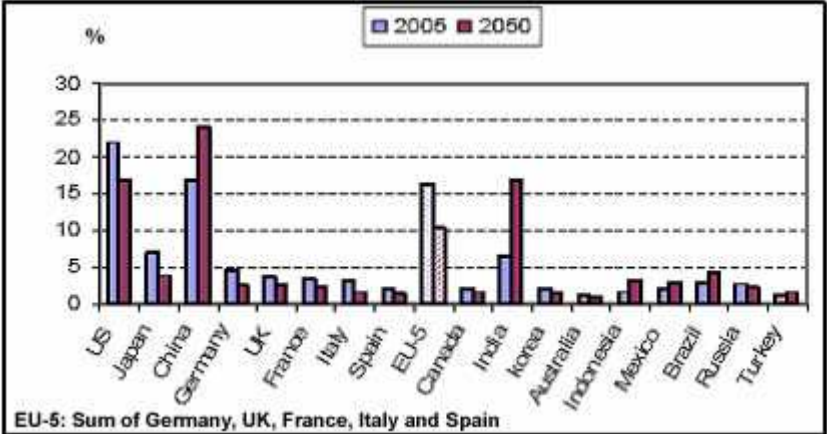
Source: European Competitiveness Report, 2007, p. 37

Arising new competitors in the world economy, in particular the BRICs (Brazil, Russia, India and China), ageing population, climate change, diminution in natural resources and regulatory

environments have also been accepted as the other factors that have a strong potential to shape the European economy in the longer-term future.⁵

In order to analyse the impacts of enhanced economic relations and openness, PriceWaterhouseCoopers (2006) has made a projection for the world economy to 2050 and published a report that highlights the global significance of the “E7” emerging economies (BRICs plus Mexico, Indonesia and Turkey). The report estimates that by 2050 China will be the world’s biggest economy, followed by the US and India. It is stated that three of the four largest economies in 2050 potentially will reside in Asia and “E7” economies will be around 25% larger than current G7 (Canada, France, Germany, Italy, Japan, the United Kingdom and the United States) countries. Assumption in this report basically depends on E7 countries’ current growth-supportive policy applications.⁶

Figure 1.3: Projected Relative Size of Economies in 2005 and 2050



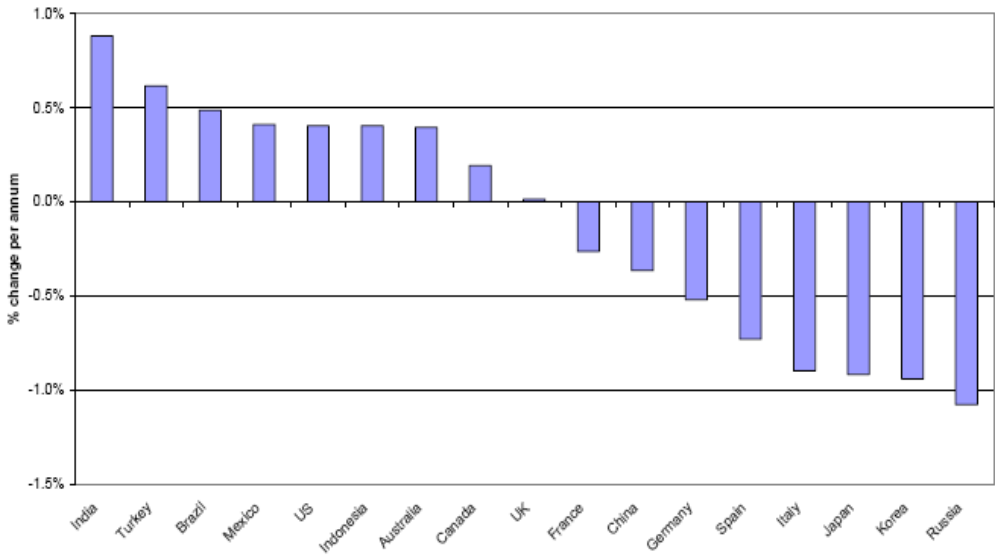
Source: European Competitiveness Report, 2007, p. 156

The report also points out that, China, Russia and all of the OECD countries in Europe are expected to face significant declines in their working age populations in contrast to India, Indonesia, Brazil, Turkey and Mexico. As a result of demographic trends, India has the highest growth potential over the period to 2050. Figure 1.4 illustrates a comparison on projected growth rate of working populations among these countries and it is obviously seen that India, Turkey, Brazil, Mexico, the US, Indonesia, Australia and Canada would have positive growth rates until 2050 while European countries face with population declines.

⁵ European Commission, “Raising Productivity Growth: Key Messages from the European Competitiveness Report 2007”, COM(2007) 666 final, p. 153.

⁶ PriceWaterhouseCoopers, The World in 2050, March 2006, p. 40.

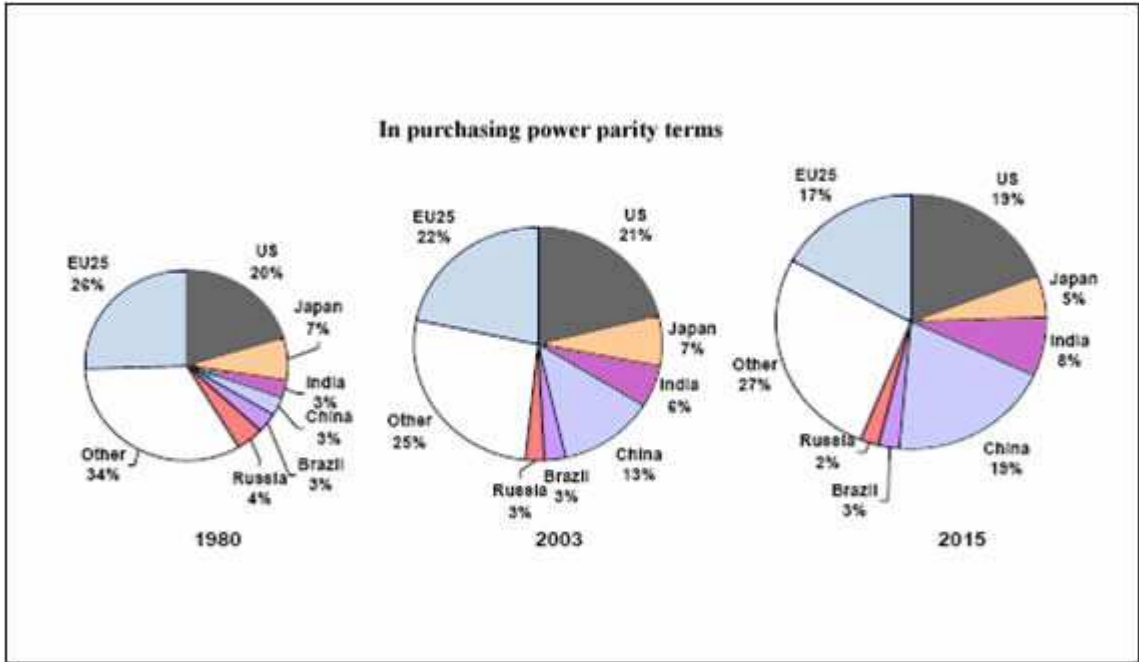
Figure 1.4: Projected Average Growth Rate of Working Population, 2005-2050



Source: PriceWaterhouseCoopers, 2006, the World in 2050, p. 15.

According to the figure 1.4 it can be deduced that differences in factors of production (particularly labour and capital) will be main reasons of output changes in the world economy. Figure 1.5 demonstrates a future prospect of global output for selected countries.

Figure 1.5: Shifting Shares in Global Output, 1980-2015



Source: European Commission, Responding to the Challenges of Globalisation, 2005, p. 6.

In addition to expected developments in emerging economies, some internal issues in the EU raise the questions on future of European economy. As stated by Solbes, enlargement implies much a deeper level of economic integration, policy coordination and institutional convergence. He argues that over the medium term, the economic impact of enlargements of last members will be positive, but limited because of low economic performance of these countries and difficult external environments.⁷ Georghio emphasizes that existence of 27 different national regulatory regimes, divergences in business culture, non-homogeneous national markets, lacks of demand side innovation policies in the EU are the most important issues which must be discussed by the policy makers.⁸ Beside this cited factors Europeans see unemployment as their primary worry and difficulties in pension systems and healthcare expenditures as a nature result of ageing are the other problems that wait solutions.

Many studies demonstrate that the weakness of the EU in economic activities relies on lack of fast-growing, research and development intensive sectors.⁹ Dierx and Ilzkovitz argue that decline in productivity performance of the EU can be attributed in equal parts by a lower investment per employee and a slowdown in the rate of technological progress. They emphasizes that there is a link between low performance of the EU Economy and industrial structure which is based on more low and medium-tech industries.¹⁰ In the engine states of the EU, France and Germany, R&D investments are increasingly focusing on mature slow-growing sectors in contrast to Ireland, the United Kingdom, the Netherlands and the Nordic Countries.¹¹ Figure 1.6 demonstrates the research and development expenditures by sectors in the US, Japan, Germany, France and the UK respectively. As it is demonstrated in the figure 1.6, the great proportion of R&D expenditures in Germany and France are allocated to mature and slow growing sectors such as automotive. However in the United States and Japan expenditures are being made to fast growing and value added sectors such as pharmaceuticals, software and technology and hardware.

⁷ Pedro Solbes, "The European Union: Economic Prospects, Structural Reforms and Enlargement", *International Economics and Economic Policy*, Vol: 1, No: 1, March 2004, p. 109.

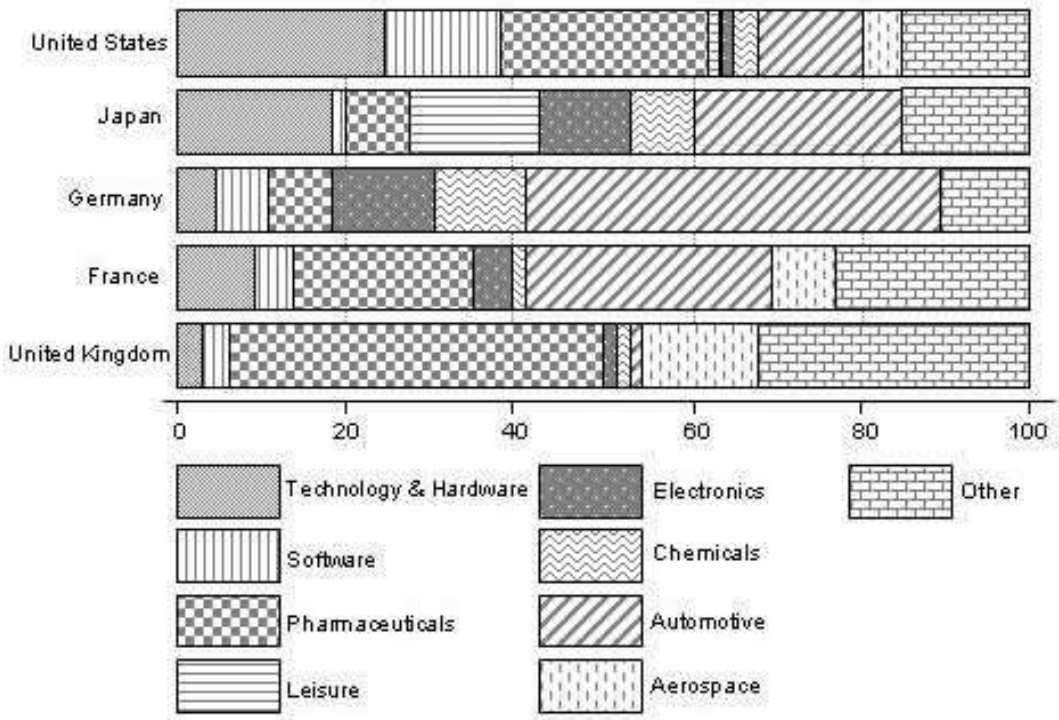
⁸ Luke Georghiou, "Europe needs demand-side innovation policies." *The Lisbon Scorecard VII: Will Globalisation Leave Europe Stranded?* in eds. Katinka Barysch **et al.** CER, London, February 2007, p. 32.

⁹ For detailed analysis **ibid.**, pp. 23-29.

¹⁰ Adriaan Dierx and Fabienne Ilzkovitz, "Economic Growth in Europe: Pursuing the Lisbon Strategy", *UACES 35th Annual Conference and 10th Research Conference: The European Union: Past and Future Enlargements*, 2005, pp. 15-16.

¹¹ Katinka Barysch **et al.** *The Lisbon Scorecard VII: Will Globalisation Leave Europe Stranded?* CER, London, February 2007, pp. 26-28.

Figure 1.6: R&D Expenditure by Sector (As a Percentage of the Total)



Source: Katinka Barysch, The Lisbon Scorecard VII, 2007, p. 27

Grilo and Koopman underline that the European competitiveness problem is strongly based on the EU’s ability to move resources (such as highly skilled labours, information-communication technologies and capital) into knowledge based industries which have significant potential for productivity growth.¹² A work of European Commission (2005), underlines that Europe’s economies need to be able to move resources both workers and capital, more swiftly to alternative uses to take advantage of new opportunities and potential income gains.¹³ European Competitiveness Report (2007) highlights that firms need to develop their workforce to adapt to the technological changes. Transformation from a resource-based to knowledge based economy leads experts to rate knowledge and skills as absolutely crucial to future growth and competitiveness.¹⁴

It is obviously seen that all transformations on the European agenda are concerned to improve competitiveness of the EU. To overcome aforesaid issues, on 23-24 March 2000, The European Council launched the Lisbon Strategy of the Union and announced an agreement on

¹² Isabel Grilo and Gert Jan Koopman, “Productivity and Microeconomic Reforms: Strengthening EU Competitiveness”, *Journal of Industry Competition Trade*, Vol. 6, No: 2, June 2006, p. 75.
¹³ European Commission, “Responding to the Challenges of Globalisation”, *European Economy, Occasional Papers*, ECFIN REP/54448, No. 21, December 2005, pp. 9.
¹⁴ European Commission, COM(2007) 666 final, p. 165.

a set of strategic goals for the Union “*to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion*”.¹⁵ In order to make a healthy analysis on European competitiveness issue, what the term of competitiveness defines and what to become more competitive and dynamic economy in the world for Europeans reflects must be discussed first.

1.2. The Concept of International Competitiveness and Its Drivers

International competitiveness provides a framework that gives references to assess how countries manage their economic futures. As a matter of fact, there is no unique measure of competitiveness in the economics and there are different definitions and concepts of competitiveness. According to IMD’s World Competitiveness Yearbook (2006), competitiveness is defined as “a field of economic theory which analyses the facts and policies that shape the ability of a nation to create and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people”.¹⁶ To make an assessment on country performances, the yearbook uses four factors of competitiveness: Economic performance, government efficiency, business efficiency and infrastructure. The yearbook combines these four factors with their subtitles, calculate competitiveness scores of nations and draws a general picture for annually. In addition to these factors; impacts of culture and technology, knowledge level, behavioural models and value systems of countries are taken into account as other factors that affect the competitiveness of nations.¹⁷

In *Creating an Internationally Competitive Economy*, Bloch and Kenyon (2001) try to make a focus to the discussion of international competitiveness by realting its meaning and measurement to the economic analysis of the factors that determine international trading patterns. They highlight the concept of competitiveness by giving examples from long history of economic thoughts which are based on trade relations among nations. Bloch and Kenyon emphasize that their aim is to utilize economic analysis to identify a range of factors that might affect patterns of international trade and distribution of gains from this trade. Then they conclude that how to quantify the influence of these factors to obtain measures of

¹⁵ Presidency Conclusions, Lisbon European Council, 23 and 24 March 2000, Article 5.

¹⁶ Stéphane Garelli, “Competitiveness of Nations: The Fundamentals”, *IMD World Competitiveness Yearbook*, Lausanne, 2006, p. 2.

¹⁷ *Ibid.*, pp. 3-7.

international competitiveness.¹⁸ Bloch and Kenyon analyse the traditional approaches, Krugman's pop internationalism, general equilibrium analysis, endogenous growth theory, modern trade theory and finally determine 11 measures that affect the international competitiveness from the perspective of the forces that determine the pattern of international trade. The measures stated in their work as the following: Absolute labour productivity, comparative labour productivity, relative factor endowment, balance of payments, real foreign exchange rates, relative product price adjusted for exchange rate, relative profit margin, relative research and development (R&D) intensity at product level, relative R&D activity at national level, relative strategic industry policy expenditure and relative labour productivity at national level.¹⁹

The most importantly, Bloch and Kenyon argue that concept of international competitiveness is multidimensional and situation-specific and a single measure can not capture all the relevant aspects for any product, industry or aggregate economy.²⁰

The Global Competitiveness Report, which is developed by the World Economic Forum is another comprehensive study that analyses the competitiveness of countries around the world at all stages of development and provides detailed assessments on productivity level of nations. The Global economy has been transformed in recent years and due to this transformation process, the World Economic Forum has redefined its definition of competitiveness. At the mid of 90s while competitiveness has a condensed definition as "the ability of a country to achieve sustained high rates of growth in GDP per capita", today it meets a broader meaning as collection of factors, policies and institutions which determine the productivity level of a country and determine the level of prosperity that can be attained by an economy.²¹ It is obviously seen from definitions mentioned there is a transition from "ability of a country" to "collection of factors, policies and institutions". This also reflects the dynamic and multidimensional structure of the concept of international competitiveness and also impacts of globalisation on competitiveness of countries.

¹⁸ Harry Bloch and Peter Kenyon, eds. *Creating an Internationally Competitive Economy*, Gordonsville, VA, USA: Palgrave Macmillan, 2001. pp. 16-17.

¹⁹ *Ibid.*, pp. 18-30.

²⁰ *Ibid.*, p. 32.

²¹ World Economic Forum, *The Global Competitiveness Reports*, 2005, p. 1, (1996, p. 19.)

1.3. The Lisbon Strategy and European Competitiveness Issue

1.3.1. Aim of the Strategy

The Lisbon Strategy is a step which was taken by the member states of the EU–15 with broader commitment to overcome the economic ills and to strengthen the Union’s economic position for the next decades and forthcoming enlargements. For this reason, as it is mentioned before, The European Council held a meeting on 23–24 March 2000 in Lisbon and determined the main targets of the Union including economic, social and environmental aspects in order to “*become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion*”.²²

To analyze and understand the main purpose of the EU and what lies behind this definition, it is useful to break down this definition into its individual elements.

“to become the most competitive and dynamic knowledge-based economy in the world...”

While the member states are discussing the future strategies of the Union, the EU is faced with many challenges coming from globalisation and knowledge driven economy. In the light of the economic improvements in emerging economies (the BRICs) and economic activities in the US, Europe had no other choice to improve its economy. In particular, China and India benefit from low labour costs. Rate of information-communication technologies utilisation is relatively high in Korea and Japan. As stated in the presidency conclusions (2000), these developments are affecting every aspect of people’s lives and require a radical transformation of the European economy.²³ In order to achieve this target, the EU took the responsibility to act as a catalyst in this process, by establishing an effective framework for mobilising all available resources for the transition to the knowledge-based economy and by adding its own contribution to this effort under existing Community policies.²⁴ The transition to a knowledge-based economy accompanied by new products and services with highly

²² Presidency Conclusions, Lisbon European Council, 23 and 24 March 2000, Article 5.

²³ *Ibid.*, Article 1.

²⁴ *Ibid.*, Article 41.

skilled labour will be the most efficient way for enhanced competition and to raise the competitiveness of the EU.

“...capable of sustainable economic growth...”

Building sustainable economic growth in the EU is the core point of the strategy. Improving knowledge infrastructures, enhancing innovation, making economic reforms and modernising social welfare and education systems are the key policy options to increase the growth rates and sustain them. To improve the quality of life and reduce the poverty, the achieving sustainable growth is significant for governments. Sustaining economic growth is at centre of the heart of the Lisbon Strategy because the growth differences with the US and emerging economies have widened since the 90s.

“...with more and better jobs and greater social cohesion.”

Bringing people into the workforce and improving the living standards of people are other important concepts of this strategy. There is no doubt that employment level is one of the most important figures for a country that hopes to achieve high growth rates. Because employed workforce is a key driver of competitiveness. In spite of fact, there is a lack of job creation in the EU. As it is stated in the presidency conclusions (2000) more than 15 million Europeans were out of work in the EU-15 in 2000. European Commission figures demonstrate that between 2000 and 2006, the EU-27 managed to create 11,6 million jobs for the people, however even on current trends, employment rate is still low and far from the targets defined in the strategy as a result of enlargements and due to the differences within the labour markets of the European countries.²⁵ According to Lisbon Presidency Conclusions (2000), the strategy has designed to enable the Union to regain the conditions for full employment and strengthen regional cohesion in the EU. Beside this, it is strongly emphasized in the Lisbon presidency conclusions (2000) that the new knowledge-based society offers big potential for reducing social exclusion both by creating the economic conditions for greater prosperity through higher levels of growth and employment. As a result

²⁵ Katinka Barysch et al. *The Lisbon Scorecard VIII: Is Europe Ready for an Economic Storm?* CER, London, March 2008, pp. 81-82.

of this, efforts related to employment must tend to improve skills and provide more and better jobs in order to avoid social exclusion, income disparity and poverty across the Europe.²⁶

1.3.2. The Development of the Strategy

Brian Ardy suggests that development of the Lisbon Strategy is a consequence of long various initiatives driven by the member states that includes many processes on economic and social policy coordination at the Treaty of Amsterdam (1997), The Luxemburg European Council (1997), The Cardiff European Council (1998) and the Cologne European Council (1999). Before the Lisbon European Council, economic challenges related to employment, productivity performance and competitiveness of the EU were discussed at those meetings.²⁷

In March 2000, the European Council launched the Lisbon Strategy for the Union and approved the ambitious goals to be achieved by the end of 2010. These targets have four main topics: Employment, economic reform, social cohesion and environment. One year later, the council held a meeting in Gothenburg (2001) and replaced the employment and economic reform together in the context of competitiveness.

Implementing this strategy required introducing a open method of coordination at all levels, coupled with a stronger guiding and coordinating role for the European Council to ensure more coherent strategic direction and effective monitoring of progress.²⁸ Coordination task was assigned to the European Commission therefore this method adopted many measures at the EU level, however at the member states' level, its impact is rather limited because of weak voluntary cooperation of member states due to the different priorities on their economic agendas. In 2004, a high level group chaired by Wim Kok made a report - that is called today as Kok Report - for European Commission in order to assess the Lisbon process.²⁹ With this report, it was obviously understood that reaching the Lisbon Strategy's objectives does not seem possible. The Kok Report stresses the insufficient progress and the significance of commitment to create the conditions to meet the objectives. Although, the report suggests

²⁶ Presidency Conclusions, Lisbon European Council, 23 and 24 March 2000, Article 6 and 32.

²⁷ Brian Ardy, "Industrial and Competitiveness Policy: the Lisbon Strategy", *The European Union Economic and Policies* in ed. Ali M. El-Agraa, Cambridge University Press, Eight Edition, 2007, p. 275.

²⁸ Presidency Conclusions, Lisbon European Council, 23 and 24 March 2000, Article 7.

²⁹ Wim Kok, *Facing the Challenge: The Lisbon Strategy for Growth and Employment*, November 2004, <http://ec.europa.eu/growthandjobs/pdf/2004-1866-EN-complet.pdf>

making a new start for the Lisbon Strategy, hypercritical approaches were made to the report. Zgajewski and Hajjar emphasize that the report does not question any basic element of the Lisbon Strategy such as its objectives, its global approach, and its large use of open coordination method. According to them, “nothing new under the sun” and the group of experts was mainly unsuccessful. Only the issue stated in the report is the weakness of the will. The report does not really offer any concrete proposition to get the strategy back on track.³⁰ Moreover, not only the Kok Report, but also the Lisbon Strategy, itself, is criticised. Ardy suggests that the Lisbon strategy encompasses so many things from investment, research, enterprise to social inclusion, environment and etc. It covers more than one hundred objectives and indicators. Some countries believe liberalisation is essential in many areas of economy, while others insist on protection. As a consequence of this wide and somewhat contradictory strategy, it is hard to determine what is vital for the EU.³¹

In February 2005, the European Commission made a proposal on a new start for the strategy under the light of the Kok Report. In this proposal, the Commission recommends to the council to focus on a new partnership for growth and jobs. Making Europe a more attractive place to invest and work, enhancing knowledge and innovation and creating more and better jobs are indicated as the three priorities for the Commission. Social and environmental aspects of the strategy lost their priorities in this regard, but not removed. Beside this, it is recommended to the council to endorse a community action programme and the Commission calls for member states to establish their own national action programmes and approve the new arrangements for governance of the Lisbon Strategy.³² In March 2005, the European Council relaunched the strategy by refocusing on growth and employment in accordance with the Commission’s proposal. Upon the decision of the European Council, the Commission proposed the first “*integrated guidelines*” for growth and jobs for the period 2005-2008 in April 2005.³³ This proposal calls for a focus on reforms to raise the Union’s growth and employment potential. The integrated guidelines consist of broad economic policy guidelines and employment guidelines. The broad economic policy guidelines include macroeconomic policies for growth and jobs and microeconomic reforms to raise the growth potential.³⁴ In

³⁰ Tania Zgajewski and Kalila Hajjar, “The Lisbon Strategy: Which Failure? Whose Failure? And Why?”, *Royal Institute for International Relations (IRRI-KIIN) Egmont Paper*, No: 6, Brussels, May 2005, pp. 9-10.

³¹ Brian Ardy, “Industrial and Competitiveness Policy: the Lisbon Strategy”, *The European Union Economic and Policies* in ed. Ali M. El-Agraa, Cambridge University Press, Eight Edition, 2007, pp. 276-278.

³² European Commission, COM(2005) 24 final, pp. 8-11.

³³ European Commission, COM(2005) 141 final.

³⁴ For the full list of integrated guidelines for growth and jobs, see **Annex I**.

July 2005, the Commission presented a “*Community Lisbon Programme*” which covers all actions at community level.³⁵ This programme was introduced to provide a common legal and policy framework based on the structure of the integrated guidelines for growth and jobs.³⁶ Close partnership between member states and the community is the core point of the renewed Lisbon Strategy for growth and jobs. By the end of 2007, the European Commission proposed the second Community Lisbon Programme (for the period 2008-2010) based on the integrated guidelines defined in the spring European Council in 2006, and highlighted the 10 key objectives to be accomplished by 2010.³⁷

1.3.3. Assessment of the Strategy

As already mentioned, the Lisbon Strategy is an action plan to improve the competitiveness of the EU. It combines economic and structural reforms on reshaping the future of European Economy. According to an optimistic view, if this strategy achieves its targets by 2010, expected gains of reaching objectives are estimated as 13% increase in GDP and 11% increase in employment. Beside these gains, strategy, itself, brings other benefits such as harmonisation of regulatory regimes, transformation the economy from resource-based to knowledge based. A comprehensive analysis on economic impact of reaching Lisbon targets made by Gelauff and Lejour (2006) indicates strong figures. Their analysis concerns employment, human capital (skills), research and development, the internal market for services and the administrative burden.³⁸ They have simulated the effects of reaching the objectives under two employment scenarios, a lower bound and upper bound scenario. Table 1.1 and Table 1.2 demonstrate the GDP effects of five Lisbon goals under two different scenarios in the EU. Reaching the goals across the EU implies nearly 12% and 23% increases in GDP respectively. It should be noted that, the GDP effect of employment is limited in the countries which are relatively close to employment target like Austria, Denmark, Sweden, the UK and the Netherlands. Growth rates in GDP could be attributed to impacts of other goals for those countries.

³⁵ European Commission, COM(2005) 330 final.

³⁶ For the full list of measures of the Community Lisbon Programme, **see Annex II.**

³⁷ European Commission, COM(2007) 804 final. For the full list of objectives of the second Community Lisbon Programme, **see Annex III.**

³⁸ George M. M. Gelauff and Arjan M. Lejour, *The new Lisbon Strategy, An estimation of the impact of reaching five Lisbon Targets*, Enterprise and Industry Directorate-General, January 2006 pp. 12-28.

Table 1.1: GDP Effects of Five Lisbon Goals in 2025: Lower Bound Scenario*

Lower Bound Scenario						
Column	Employment	Human Capital	Services	Administrative Burden	R&D	Total
EU	6,3	0,5	0,2	1,4	3,5	11,9
Germany	4,9	0,5	0,2	1,5	3,1	10,3
France	7,9	0,4	0,2	1,5	3,2	13,1
United Kingdom	2,3	0,7	0,1	1,1	2,8	7,0
Italy	11,8	0,5	0,2	1,3	4,5	18,4
Spain	8,8	0,7	0,1	1,4	4,7	15,7
The Netherlands	0,6	0,3	0,2	1,5	3,5	6,1
Belgium and Luxembourg	12,3	0,6	0,3	1,5	3,9	18,6
Denmark	0,4	0,6	0,4	1,2	2,2	4,8
Sweden	1,9	0,3	0,3	1,3	0,7	4,5
Finland	5,1	0,1	0,4	1,4	2,0	9,0
Ireland	4,2	0,4	0,2	1,3	4,5	10,7
Austria	2,3	0,2	0,4	1,5	3,4	7,8
Greece	10,9	0,9	0,2	1,7	4,3	18
Portugal	2,5	2,4	0,1	1,3	4,5	10,9
Poland	17,2	0,6	0,2	2,0	5,7	25,7
Czech Republic	6,4	0,3	0,4	1,7	5,1	13,9
Hungary	10,4	0,4	0,7	2,0	5,9	19,4
Slovakia	11,9	0,3	0,9	1,8	8,1	22,9
Slovenia	9,9	0,4	0,4	1,9	5,1	17,8
Rest EU	6,5	0,2	0,3	1,9	6,3	15,2

Table 1.2: GDP Effects of Five Lisbon Goals in 2025: Upper Bound Scenario*

Upper Bound Scenario						
Column	Employment	Human Capital	Services	Administrative Burden	R&D	Total
EU	9,2	0,5	1,5	11,6	0,2	23,0
Germany	7,2	0,5	1,5	9,6	0,3	19,1
France	10,6	0,4	1,5	10,1	0,2	22,8
United Kingdom	3,8	0,7	1,1	8,0	0,1	13,6
Italy	18,2	0,6	1,4	15,6	0,2	36,0
Spain	14,0	0,8	1,5	16,7	0,1	33,1
The Netherlands	2,7	0,3	1,5	10,0	0,2	14,8
Belgium and Luxembourg	18,2	0,6	1,6	13,8	0,3	34,5
Denmark	0,9	0,6	1,2	7,3	0,4	10,4
Sweden	2,0	0,3	1,3	3,9	0,3	7,8
Finland	6,1	0,1	1,4	6,0	0,4	14,0
Ireland	7,6	0,4	1,4	18,0	0,2	27,6
Austria	5,1	0,2	1,5	11,0	0,4	18,2
Greece	14,6	1,0	1,8	16,9	0,2	34,4
Portugal	4,8	2,5	1,3	17,4	0,2	26,1
Poland	20,0	0,6	2,1	23,1	0,2	46,0
Czech Republic	8,1	0,3	1,8	19,5	0,4	30,0
Hungary	14,6	0,4	2,1	25,4	0,7	43,2
Slovakia	15,2	0,3	1,9	35,1	0,9	53,4
Slovenia	14,5	0,5	1,9	20,1	0,4	37,3
Rest EU	8,0	0,2	1,9	25,1	0,3	35,5

Source: *Gelauf and Lejour, 2006, The New Lisbon Strategy pp. 15-28.

Another comprehensive work measuring the Europe's progress in reform is the World Economic Forum's the Lisbon Review. In this work the Lisbon Strategy is evaluated in eight distinct dimensions for reaching the goal of becoming the most competitive economy in the world. The analysis gives scores to the countries and global actors between the points of 7 and 1 under the eight dimensions. These dimensions are information society, innovation and research, liberalisation, network industries, financial services, business environment, social inclusion and skills, and sustainable development.³⁹

Table 1.3: Ranking and Scores of EU Countries

	<i>Subindexes</i>									
	<i>Final Index</i>	<i>Information Society</i>	<i>Innovation and R&D</i>	<i>Liberalization</i>	<i>Network Industries</i>	<i>Financial Services</i>	<i>Enterprise</i>	<i>Social Inclusion</i>	<i>Sustainable Development</i>	
	<i>Rank Score</i>	<i>Rank Score</i>	<i>Rank Score</i>	<i>Rank Score</i>	<i>Rank Score</i>	<i>Rank Score</i>	<i>Rank Score</i>	<i>Rank Score</i>	<i>Rank Score</i>	
Countries EU-25	<i>Rank Score</i>	<i>Rank Score</i>	<i>Rank Score</i>	<i>Rank Score</i>	<i>Rank Score</i>	<i>Rank Score</i>	<i>Rank Score</i>	<i>Rank Score</i>	<i>Rank Score</i>	<i>Rank Score</i>
Denmark	1 5,76	4 5,53	4 5,15	5 5,58	2 6,24	5 6,28	1 5,63	1 5,49	3 6,17	
Finland	2 5,74	6 5,41	1 5,90	4 5,58	8 5,93	4 6,29	4 5,24	2 5,35	1 6,23	
Sweden	3 7,74	1 5,93	2 5,73	6 5,43	5 6,14	3 6,36	7 5,07	3 5,09	4 6,15	
Netherlands	4 5,59	2 5,63	5 4,82	2 5,62	6 6,01	6 6,23	2 5,48	4 5,06	6 5,87	
Germany	5 5,53	10 4,98	3 5,31	1 5,71	1 6,38	2 6,39	12 4,69	10 4,53	2 6,23	
United Kingdom	6 5,50	3 5,61	6 4,82	3 5,59	7 5,97	1 6,47	5 5,13	9 4,74	8 5,69	
Austria	7 5,30	7 5,24	9 4,55	7 5,35	9 5,87	8 6,15	15 4,43	8 4,75	5 6,09	
Luxembourg	8 5,29	9 5,05	12 3,96	9 5,26	4 6,16	9 6,14	8 4,91	5 5,05	7 5,82	
France	9 5,21	11 4,91	8 4,66	11 5,17	3 6,18	7 6,19	9 4,87	15 4,25	10 5,44	
Belgium	10 5,15	14 4,44	7 4,67	10 5,25	10 5,84	11 5,91	11 4,77	6 4,83	9 5,47	
Ireland	11 5,09	12 4,55	10 4,47	8 5,34	18 4,95	10 6,13	3 5,35	7 4,82	11 5,10	
Estonia	12 4,93	5 5,49	11 4,06	12 4,98	17 5,01	12 5,72	6 5,10	12 4,37	16 4,69	
Portugal	13 4,64	17 4,06	17 3,81	15 4,74	12 5,37	13 5,66	14 4,50	17 4,10	14 4,90	
Czech Republic	14 4,53	15 4,10	16 3,85	13 4,96	13 5,16	21 4,84	21 3,99	11 4,44	13 4,90	
Spain	15 4,49	20 3,93	15 3,89	16 4,62	11 5,41	14 5,65	16 4,33	23 3,63	18 4,48	
Slovenia	16 4,44	13 4,50	13 3,96	22 4,30	15 5,07	20 4,88	23 3,76	19 4,02	12 5,00	
Hungary	17 4,40	23 3,74	14 3,92	17 4,55	21 4,80	17 5,22	19 4,18	16 4,16	17 4,61	
Slovak Republic	18 4,38	19 3,97	23 3,44	14 4,82	22 4,76	22 4,84	17 4,33	18 4,09	15 4,76	
Malta	19 4,38	8 5,22	25 3,23	19 4,46	23 4,64	15 5,44	22 3,83	13 4,35	25 3,84	
Lithuania	20 4,31	18 3,97	20 3,69	24 4,18	19 4,86	19 4,96	13 4,57	20 3,95	21 4,26	
Cyprus	21 4,26	21 3,90	24 3,30	18 4,46	16 5,02	18 5,12	18 4,25	14 4,30	24 3,86	
Latvia	22 4,25	22 3,76	21 3,63	20 4,32	24 4,57	24 4,79	10 4,78	21 3,87	20 4,29	
Greece	23 4,19	25 3,17	18 3,77	21 4,32	14 5,09	16 5,27	20 4,14	22 3,79	23 3,98	
Italy	24 4,17	16 4,06	19 3,73	23 4,29	20 4,82	23 4,80	24 3,71	24 3,54	19 4,40	
Poland	25 3,76	24 3,32	22 3,57	25 4,02	25 3,86	25 4,23	25 3,60	25 3,41	22 4,10	
EU-25 Average	.. 4,84	.. 4,58	.. 4,24	.. 4,92	.. 5,36	.. 5,60	.. 4,59	.. 4,40	.. 5,05	
United States	.. 5,45	.. 5,63	.. 6,01	.. 5,21	.. 5,72	.. 5,97	.. 5,21	.. 4,58	.. 5,26	
East Asia*	.. 5,28	.. 5,41	.. 5,23	.. 5,13	.. 5,96	.. 5,54	.. 5,11	.. 4,87	.. 5,02	

* Average of five competitive East Asian economies: Japan, Hong Kong, Republic of Korea, Taiwan and Singapore

Source: The World Economic Forum, The Lisbon Review 2006, p. 6.

³⁹ World Economic Forum, the Lisbon Review 2006, pp. 1-3.

Table 1.3 provides an opportunity to make healthy comparisons between the countries and regions. It presents overall ranks and scores of EU-25, the US and East Asia countries including Japan, Hong Kong, Korea, Taiwan and Singapore in each eight Lisbon dimensions. As the table demonstrates, the three best performing countries in the EU are Denmark, Finland and Sweden in the overall scores. It is strongly emphasized in the review that the significant figure of the table is the US position. The US is outperformed overall by the top six EU countries: Finland, Denmark, Sweden, the Netherlands, Germany and the UK however, it is notable that the US outperforms all EU countries by a rather wide margin with regard to innovation and R&D, a critical dimension driving the productivity of countries at advanced stages of development.⁴⁰

Table 1.4: Comparing the EU, the US and East Asia

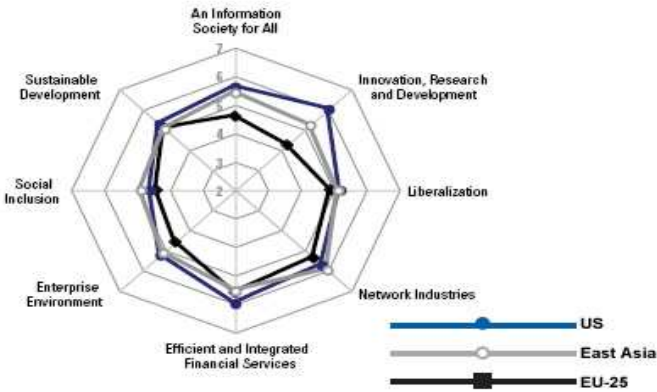
	EU-25 Average	US Average	East Asia Average	EU relative to the US	EU relative to East Asia
An Information Society for All	4,58	5,63	5,41	-1,05	-0,83
Innovation, Research and Development	4,24	6,01	5,23	-1,78	-0,99
Liberalization	4,92	5,21	5,13	-0,29	-0,21
Network Industries	5,36	5,72	5,96	-0,36	-0,59
Telecommunications	5,59	5,48	5,81	0,10	-0,22
Utilities and Transportation	5,14	5,96	6,11	-0,81	-0,96
Efficient and Integrated Financial Services	5,60	5,97	5,54	-0,37	0,06
Enterprise Environment	4,59	5,21	5,11	-0,63	-0,52
Business Start-up Environment	4,98	5,94	5,11	-0,98	-0,15
Regulatory Environment	4,21	4,49	5,11	-0,28	-0,89
Social Inclusion	4,40	4,58	4,87	-0,18	-0,47
Returning People to the Workforce	4,35	4,77	5,08	-0,41	-0,73
Upgrading Skills	4,61	5,17	5,23	-0,56	-0,62
Modernizing Social Protection	4,23	3,81	4,29	0,43	-0,05
Sustainable Development	5,05	5,26	5,02	-0,21	0,03
Overall Lisbon Score	4,84	5,45	5,28	-0,61	-0,44

Source: The World Economic Forum, The Lisbon Review 2006, p. 7.

Table 1.4 gives more detailed comparison between the performance of the EU with the US and East Asia countries. It is obviously seen that the US outperforms the EU average in all eight dimensions which are introduced to measure the progress of the Lisbon reforms for the EU. Not only the US but also the East Asia countries outperform the EU in six dimensions. Besides, the progress in other two dimensions, financial services and sustainable development, there is not any huge differences between the EU and East Asia countries.

⁴⁰ The World Economic Forum, The Lisbon Review 2006, p. 7.

Figure 1.7: The Lisbon Diamonds of Regions



Source: The World Economic Forum, The Lisbon Review 2006, p. 16.

The Lisbon Diamond (Figure 1.7) illustrate that first two dimensions of Lisbon Subindexes refer insufficient usage of information communication technologies across the Europe and lack of research and development activities. The huge differences in these subindexes may highlight why the US is still the most competitive economy in the world.

Table 1.5: Global Competitiveness Index Rankings and 2006-2007 Comparisons for top-15

Country / Economy	GCI 2007-2008		GCI 2006-2007
	Rank	Score	Rank
United States	1	5,67	1
Switzerland	2	5,62	4
Denmark	3	5,55	3
Sweden	4	5,54	9
Germany	5	5,51	7
Finland	6	5,49	6
Singapore	7	5,45	8
Japan	8	5,43	5
United Kingdom	9	5,41	2
Netherlands	10	5,40	11
Korea	11	5,40	23
Hong Kong	12	5,37	10
Canada	13	5,34	12
Taiwan, China	14	5,25	13
Austria	15	5,23	18

Source: The World Economic Forum, Global Competitiveness Report, 2008.

Table 1.5 and Table 1.6 demonstrate the competitiveness rankings of top-15 countries in the world according to different calculations which were made by two important institutions. According to the World Economic Forum’s Global Competitiveness Index and IMD World Competitiveness Yearbook, the common result is the United States’ top position in 2006-2007

and 2007-2008 rankings. In the World Economic Forum's index Switzerland, Denmark, Sweden, Germany and Finland are following the US respectively. The World Economic Forum strongly emphasizes that *“the efficiency of US markets and business community and the impressive capacity for technological innovation that exists within a first-rate system of universities and research centres, all contribute to making the United States a highly competitive economy”*.⁴¹

Table 1.6: IMD World Competitiveness Yearbook Index and 2007 Comparisons for top-15

Country	Score 2008	Rank 2008	Rank 2007
United States	100,0	1	1
Singapore	99,3	2	2
Hong Kong	95,0	3	3
Switzerland	89,7	4	6
Luxembourg	84,4	5	4
Denmark	83,9	6	5
Australia	83,5	7	12
Canada	82,9	8	10
Sweden	82,5	9	9
Netherlands	80,5	10	8
Norway	79,5	11	13
Ireland	77,6	12	14
Taiwan	77,4	13	18
Austria	75,0	14	11
Finland	75,0	15	17

Source: IMD World Competitiveness Yearbook, 2008.

1.4. Economic Migration: Can be a Key Instrument for the EU?

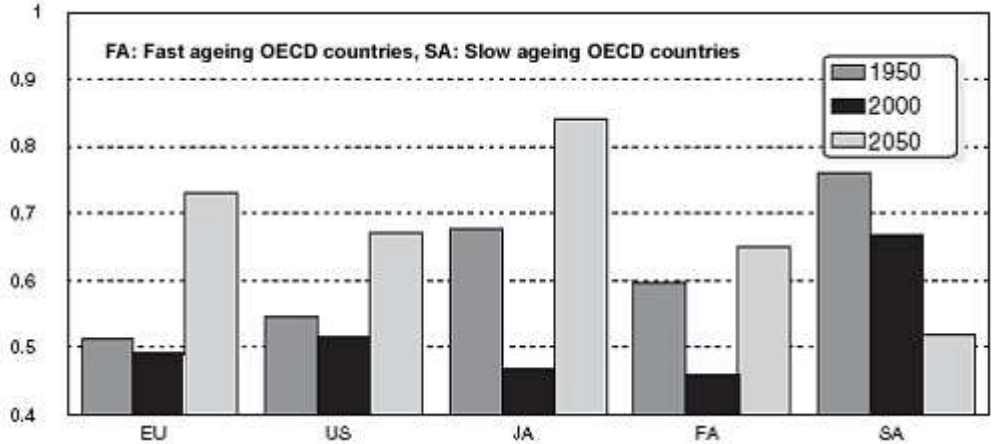
It is obviously seen from the picture drawn above that the EU has to struggle against not only challenges coming from the global actors but also insufficient progress taken in the Lisbon Strategy. Beside this, it is widely known that European population is ageing rapidly and population growth is showing a decreasing trend. Dependency ratio⁴² is increasing due to the increased ageing and low rates of employment. Hence, it is estimated in many works that demographic changes would increase the public expenditures. More importantly, there will be

⁴¹ The World Economic Forum, Press Release, <http://www.weforum.org/en/media/Latest%20Press%20Releases/GCR08Release> 31 October 2007.

⁴² The ratio of the economically dependent part of the population (number of people aged 0-14 and 65-over) to the productive part (number of people aged 15-64).

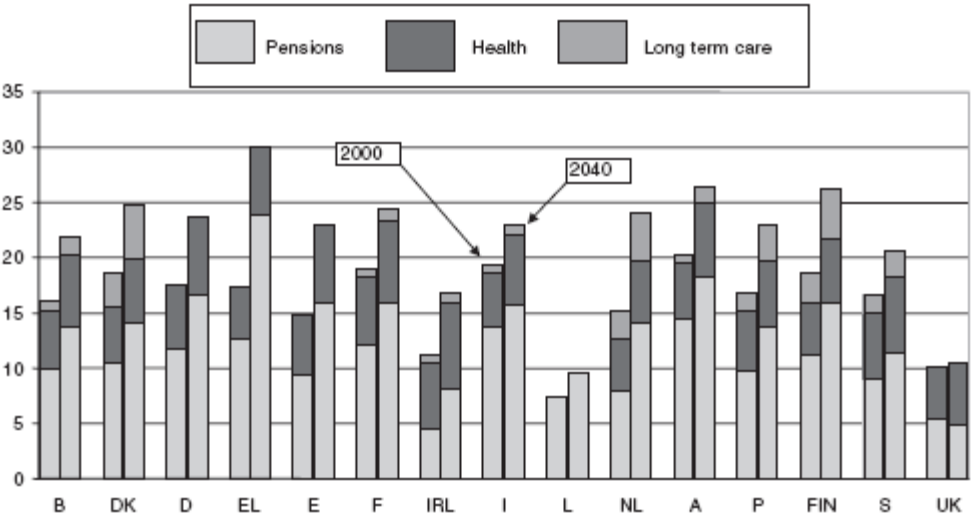
negative results on skill acquisition, skill development, organizational flexibility and openness to innovation and labour mobility because of ageing.⁴³

Figure 1.8: Dependency Ratio Developments in Selected Countries and Regions



Source: Pichelman and Roeger, 2004, p. 223.

Figure 1.9: Impacts of Ageing on Public Expenditures in the EU-15 (percentage of GDP)



Source: Pichelman and Roeger, 2004, p. 227.

The other issue is to increase the education level of the workforce however present developments show that improvements are not sufficient in the Union. Gros emphasizes that, there is a strong relation between education and competitiveness. Reducing the labour market rigidities still remains a big problem for most members of the EU but another aspect which is

⁴³ Karl Aiginer and Michael A. Landesmann, “Longer-term Competitiveness of the Wider Europe”, *Draft paper to 2nd Annual Berkeley-Vienna Conference on US and European Economies in Comparative Perspective*, Vienna, September 2005, p. 5.

at least as important for Gros is linkage between employment and education. He suggests that a great part of disparities between the US and the EU lies in the skill level of population. It is strongly underlined that if the European workforce had the same skill composition as the US, the employment rate in the EU could reach the Lisbon targets.⁴⁴ Lambert and Butler argue that creating and implementing innovation requires highly trained workforce accompanied by skills in science and technology.⁴⁵ Contrary to economic theory, in knowledge-based economies labour and capital tend to be complementary in production and are less substitutable.⁴⁶ Therefore it is understood that, knowledge intensive industries require high qualified workers and researchers. Barysch and et al. emphasize that EU skill levels (excluding the Nordic countries Ireland, the Netherlands and the UK) are generally suited to produce capital intensive goods rather than knowledge based products. Increased competition in world economy makes it necessary to become more successful in knowledge-intensive industries. This is creating a dependency on the availability of high-trained researchers. The lack of high qualified researchers in Europe is driving the EU companies to make their research and development activities to non-EU locations.⁴⁷

Dell'Olio suggests that the immigration into Europe has always been a controversial issue for European public and labour market stability. Building a secure environment for life in Europe has been core point of the integration process that during the last two decades immigration and asylum have increased into Europe. Therefore immigration becomes a security question in discussions about security within the area of migration. It refers that why immigration has been placed within the policy area of justice, freedom and home affairs by the policy makers. Security concerns has focused on zero-immigration policies but after various meeting it is clearly emerged that zero-immigration policy is no longer appropriate for Europe because these policies do not take into consideration labour market needs. A more open approach has been started to discuss and market necessities have taken into account.⁴⁸ Dell'Olio highlights a conflict of interest between the security discourse and the market discourse. According to

⁴⁴ Daniel Gros, "Employment and Competitiveness: The key role of education", Katinka Barysch **et al.** in eds. *The Lisbon Scorecard VIII: Is Europe Ready for an Economic Storm?* CEP, London, March 2008, pp. 89-90.

⁴⁵ Richard Lambert and Nick Butler, "*The Future of European Universities: Renaissance or Decay?*", CER, London, May 2006, http://www.cer.org.uk/education/index_education_new.html

⁴⁶ Harry Bloch and Peter Kenyon, eds. *Creating an Internationally Competitive Economy*, Gordonsville, VA, USA: Palgrave Macmillan, 2001, p. 30.

⁴⁷ Katinka Barysch **et al.** *The Lisbon Scorecard VII: Will Globalisation Leave Europe Stranded?* CER, London, February 2007, pp. 28-29.

⁴⁸ Fiorella Dell'Olio, "Immigration after Nice: From 'Zero Immigration' to Market Necessity", in eds. Anthony Arnull and Daniel Wincott, *Accountability and Legitimacy in the European Union*, Oxford University Press, 2002, pp. 469-471.

him, the former typically concerns low-skilled immigrants and is more restrictive in nature, while the latter concerns high-skilled immigrants and is more permissive in the EU.⁴⁹

From the point of these views, paragraph 41 of the Lisbon Presidency Conclusion is becoming more significant. According to this paragraph, achieving the targets will rely primarily on the private sector as well as on public-private partnership. This will depend on mobilising the resources available on the markets, as well as on efforts by member states. The EU's role is to act as a catalyst in this process, by establishing an effective framework for mobilising all available resources for the transition to the knowledge based economy.⁵⁰

In the Commission's proposals on growth and jobs and the Community Lisbon Programmes, the concept of economic migration is cited. The Commission emphasizes that one of the needs of the Union is to develop an approach to legal migration because of shrinking labour force. In a white paper (2000), the Commission emphasizes that migration may never be a solution in itself to the problems of the labour market but migrants can make a positive contribution to the labour market, to economic growth and to the sustainability of social protection systems.⁵¹ The Commission also stresses the importance of more mobile workforce. In order to target specific problems, the Commission states to remove obstacles to labour mobility arising from occupational pension schemes and work on the coordination of admission policy for economic migrants.⁵² In the Community Lisbon Programmes both the periods 2005 – 2008, and 2008 – 2010, common framework for economic migration takes place in a number of key actions to be taken into consideration.⁵³ At the last spring summit of the European Council (March 2008) it is explicitly highlighted that, economic migration can play a role in meeting the needs of the labour market and contribute to help reduce skill shortages in the EU.

“[...] In view of increasing skills shortages in a number of sectors, it invites the Commission to present a comprehensive assessment of the future skills requirements in Europe up to 2020, taking account of the impacts of technological change and ageing populations, and to propose steps to

⁴⁹ *Ibid.*, p. 473.

⁵⁰ Presidency Conclusions, Lisbon European Council, 23 and 24 March 2000, Article 41.

⁵¹ European Commission, COM(2000) 757 final p. 21.

⁵² European Commission, COM(2005) 24 final pp. 10-26.

⁵³ European Commission, COM(2005) 330 final and COM(2007)804 final.

*anticipate future needs. Economic migration can play a role in meeting the needs of the labour market and can contribute to helping reduce skills shortages. The European Council therefore considers that the employment and social impact of the migration of third-country nationals needs to be addressed in the context of the Commission proposals for a common policy on migration.”*⁵⁴

⁵⁴ Presidency Conclusions, Brussels European Council, 13-14 March 2008, Article 14.

CHAPTER 2: LABOUR MOBILITY AND THE ECONOMICS OF IMMIGRATION

Before making an analysis on role of economic migration in the EU from the perspective of Lisbon Strategy, the concepts of labour mobility and economic consequences of immigration are critically important to understand the impact of economic migration to the international competitiveness. In this chapter, geographic mobility and economic effects of immigration is discussed with various aspects including reasons, determinants and consequences. Then, the relationship between regional competitiveness and immigration is examined.

2.1. Forms of Labour Mobility

Factors of production have always been at the heart of all economic activities because of the necessity to produce goods and services in anywhere. Labour is one of the four factors of production such as land, capital and enterprise. Labour consists of skill, knowledge and experience embodied within individuals that should be evaluated as human capital in production processes.⁵⁵ Due to the significance of labour in economic systems, labour mobility is one of the leading topics in labour economics. Not only economists but also sociologists, politicians, demographers and geographers are interested in labour mobility.

There are several forms of labour mobility which are mainly classified as geographic mobility and occupational mobility. As it is already stated in one of Jovanović's studies that labour mobility should not always be taken in its technical meaning of pure movement persons from one place to another.

“Labour mobility is not only a movement but also movement of skills, knowledge, experiences and organisational competence.”⁵⁶

Therefore labour mobility - by its nature - has many economic, political and cultural consequences for sending and receiving countries. As it is mentioned above mobility take several forms. McConnel and others summarize these forms by making an illustration. The figure 2.1 is formed with boxes I through IV that categorize several important kinds of labour

⁵⁵ Campbell R. McConnel, Stanley L. Brue and David Macpherson, *Contemporary Labour Economics*, McGraw Hill International Edition, 5th Edition, 1999, p. 277.

⁵⁶ Miroslav N. Jovanović, *The Economics of European Integration*, Edward Elgar Publishing, 2005, p. 755.

mobility. These boxes identify geographical and occupational characteristics of the mobility that the columns refer locational characteristics and the rows indicate occupational characteristics.

Figure 2.1: Forms of Labour Mobility

		Location	
		Same	Different
Occupation	Same	I	III
	Different	II	IV

Source: Contemporary Labour Economics, 1999, p. 276.

Box I refers mobility accompanied by a job change, but no change in occupation and residence. This classification also includes transfers of employees from one of a firm’s units to another in the same local area. Box II refers an occupational change but no change in residence. The mobility among economic sectors in the same region or a location can be included in this type of mobility. Box III and IV indicate the local or national geographical mobility hence, immigration is subject of this type of mobility. Box III demonstrate a geographic move to a job in the same occupation however, box IV refers both a geographic move and an occupational change.⁵⁷

2.2. Reasons for Immigration and the Determinants of Immigration

However, the concept of immigration which is a process that has been coming from ancient times is an issue including debatable questions for both developed and developing countries. Only the difference in concept of immigration is changing structure of reasons for immigration. Immigration flows primarily depend on economic, political and social factors in

⁵⁷ Campbell R. McConnel et al. pp. 276 – 277.

origin country and destination country. Political instability, level of economic activity, economic problems such as unemployment, low living standards and the possibility of finding better jobs offering high living conditions and demand for labour can be considered one of the reasons for immigration. It is obviously seen that migration decisions are determined by not only internal factors but also external factors. These factors, all together, are categorized as push and pull factors of migration respectively and illustrated in Table 2.1. Additionally, age, family circumstances, education level, distance are the other factors that affect the decision of individuals to migration.

Table 2.1: Push and Pull Factors of Migration

	Push Factors	Pull Factors
Economic and Demographic	Poverty Unemployment Low Wages High Fertility Rates Lack of Basic Health and Education	Prospects of Higher Wages Potential for Improved Standard of Living Personal or Professional Development
Political	Conflict, Insecurity, Violence Poor Governance Corruption Human Rights Abuses	Safety and Security Political Freedom
Social and Cultural	Discrimination based on Ethnicity Gender, Religion and the like	Family Reunification Ethnic (diaspora migration) Homeland Freedom from discrimination

Source: The World Bank, Migration and Remittances, 2006, p. 78.

McConnell, Brue and Macpherson show in their work that migration does not occur in all situations where a potential exists for increased lifetime earnings. Because there are costs (transportation expenses, forgone income during the move, psychic costs of leaving family and friends, loss of seniority and pension benefits) associated with the migration that undermines the expected gains of migration. According to them, if the present value of the expected gains of migration exceeds the present value of these costs, the person will choose to move.⁵⁸

⁵⁸ **Ibid.**, p. 277.

Economic modelling for migration decision is defined as the following equation.

Equation 2.1: Net Present Value of Migration

$$V_p = \sum_{n=1}^N \left[\frac{E_2 - E_1}{(1+i)^n} \right] - \sum_{n=1}^N \left[\frac{C}{(1+i)^n} \right] - Z$$

where

V_p = Present value of net benefits

E_2 = Earnings from new job in different place in year n

E_1 = Earnings from existing job in year n

N = Length of time expected on new job

i = Interest rate (discount rate)

n = Year in which benefits and costs accrue

C = Direct and indirect monetary costs resulting from move in the year n

Z = Net psychic costs of move (psychic costs minus psychic gains)

In equation 2.1, if net present value of migration is more than zero ($V_p > 0$), it implies that the expected earnings gain exceeds the combined monetary and net psychic costs, hence the person will migrate. If, conversely net present value of migration is negative ($V_p < 0$), the person will not choose to move.

It should be noted that, the decision of migration is not defined as simple as in the equation because migration has its obstacles.⁵⁹ Apart from economic and psychic costs, Jovanović defines these obstacles all together in the same title: Socio-psychological obstacles. It will be more beneficial to classify these obstacles under three different categories such as socio-psychological obstacles, technical obstacles and physical obstacles. Language, cultural differentials, national and historical experiences, religious belief and perceptions can be given as socio-psychological obstacles. Recognition of certificates, immigration quotas and prohibitions imposed by the governments can be included in technical obstacles and lastly, variations in climate, clothing and wars can be called as physical obstacles that affect the migration in addition to economic and psychic costs which are mentioned in the equation.⁶⁰

⁵⁹ Miroslav N. Jovanović, *The Economics of European Integration*, Edward Elgar Publishing, 2005, p. 755.

⁶⁰ Classifying factors as economic and non-economic determinants might be the other way to categorize the factors affecting the decision of migration.

2.3. The Economic Consequences of Immigration

In recent years, the economic implications of immigration between countries have always taken part in debates related to globalization and future of world economy. The changing structure of international trade (enhanced economic activities) and political relations between nations keep the immigration issue up to date. In particular, as a natural result of decreasing structure of population in developed countries and increased competition across the world economy raise the questions to immigration policies of states. The governments discuss on appropriate migration policies in order to gain expected benefits and minimize the costs of immigration. There is no doubt that immigration itself has inevitable consequences on both individuals and countries including sending and receiving.

George Borjas who is a well known economist in the field of labour economics in the US, emphasizes the discussions about immigration by referring three crucial questions. First, how do immigrants perform in the host country? Second, what impact do immigrants have on the employment opportunities of natives? Third, which immigration policy most benefits the host country?⁶¹ Another economist, Kleinman examines the impact of migration by referring the changes in employment rate and wage of both native and immigrant workers. He also underlines that migration has economic consequences on productivity and the growth rate of economy, entrepreneurialism and innovation and lastly the fiscal balance of government.⁶²

Before analysing the aforementioned issues, it should be taken into consideration that what the economic theory says. Various studies show that if both the sending and receiving countries are assumed as part of the same world, increased migration brings economic benefits at the global level. Kleinman explains the reason:

“The reason for this is that migrant goes from a place where he or she is less productive to a place where he or she is more productive. The increased production benefits the standard of living of the community as a whole, as well as that of the migrating individual.”⁶³

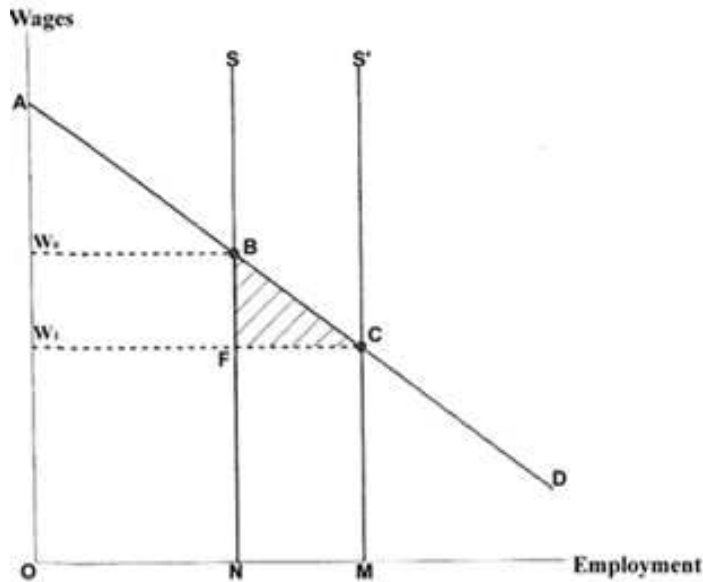
⁶¹ George J. Borjas, “The Economics of Immigration”, *Journal of Economic Literature*, Vol. 32, December, 1994, p. 1667.

⁶² Mark Kleinman, “The Economic Impact of Labour Immigration”, *The Political Quarterly Publishing Co. Ltd.*, 2003, p.60.

⁶³ *Ibid.*, p. 60.

Kleinman refers that the overall effect of migration on the average standard of living of the world's people will be positive as a result of migration.

Figure 2.2: The Economic Effects of Labour Immigration, Receiving Country Case



Source: George J. Borjas, Labor Economics, 1996, p. 301.

Figure 2.2 which depends on standard supply – demand analysis, demonstrates the economic benefits from immigration in a receiving country. Before immigration, it is assumed that N amount native workers are employed in the economy and the supply curve of labour (S) is inelastic. Line D presents the demand curve for labour and gives the value of marginal product. This means that each point on the demand curve equals to the contribution of last worker in the labour market. Therefore, the area under the demand curve (prior to migration, $ABNO$) gives the total output, in other words it refers the value of national income. According to labour market equilibrium (point B), N native workers are employed at a wage of w_0 . With immigration flows, the supply curve for labour moves to S' and amount of workers in that economy increases from N to M . The difference $[NM]$ presents the amount of immigrant work force in the economy. By entering immigrants, the new labour market equilibrium occurs at point C where the supply curve S' and demand curve D intersect and the market wage falls to w_1 due to the new equilibrium point. As it is explained above, the national income is given by the area under the demand curve and after immigration flows, the new income level is $ACMO$. It can be seen from the figure that total wage paid to immigrants equals to the area $FCMN$ ($w_1 \times [NM]$). The increase in total income is $BCMN$ so that the difference between the area of $BCMN$ and $FCMN$ shows the increase in national income accruing to native workers. The

level if both sending and receiving countries are taken as a part of the world. Appleyard, Field and Cobb explain it by using the figure 2.3.

“[...] given the existence of diminishing marginal productivity of labour in production, other things being equal, output in country I falls at a slower rate than the decrease in the labour force, leading to an increase in per capita output. In country II, output grows more slowly than the increase in the labour force, leading to a decrease in per capita output. Finally the world as a whole gains from this migration since the fall in total output in country I (area LACM) is more than offset by the increase in output in country II (area LABM) by the shaded area ABC.”⁶⁵

Appleyard, Field and Cobb also refer the impact of migration of unemployed persons on general welfare. Market imperfections within the countries lead to an excess supply of labour prior to immigration. In addition to circumstances indicated in the Figure 2.3, some labour might remain unemployed in *country I* due to various reasons such as labour market failures, traditional wage rate, minimum wage rate laws and demands of labour union induced downward wage rigidity in sectors.

In the Figure 2.4, $[ML']$ represents the unemployed workers (surplus labour) and $[OL']$ demonstrates the employed workers in *country I*. The excess supply is called as surplus labour and migration of these unemployed workers from *country I* to *country II* leads to an expansion of income ($L'DBM$) in *country II* without any reduction in *country I*.⁶⁶

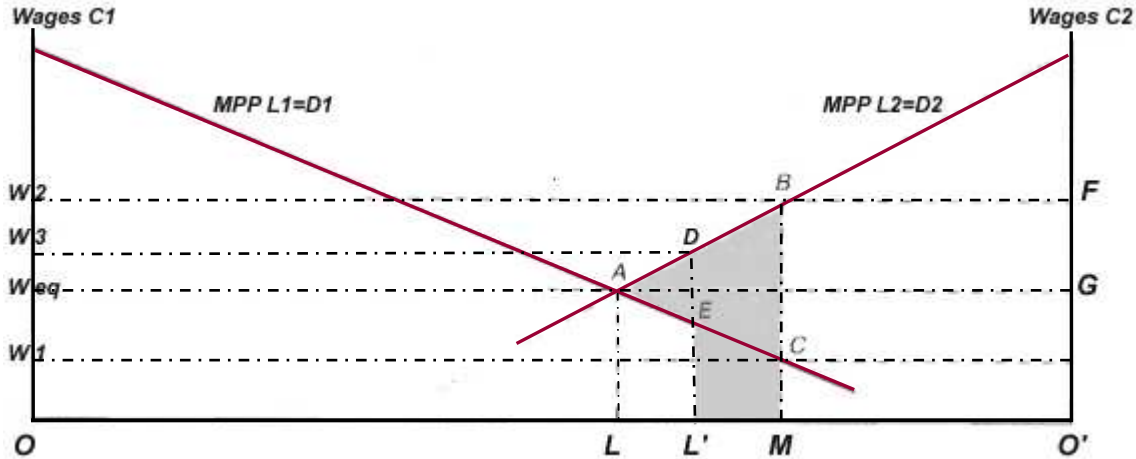
If second migration flow occurs due to the completing equalization of wages, $[L'L]$ workers will move to *country II* and will be employed there. Shaded area ($L'EABM$) shows the net world gain from first and second flows of migration together. The figure points out removing distortions coming from market imperfections and differential wage rates across countries raises the potential gains from immigration.⁶⁷

⁶⁵ Dennis R. Appleyard, Alfred J. Field and Steven L. Cobb, *International Economics*, McGrawHill International Edition, 2006, 5th Edition, pp. 236 – 237.

⁶⁶ *Ibid.*, p. 237.

⁶⁷ *Ibid.*, p. 238.

Figure 2.4: The Economic Effect of Migration of Surplus Labour



Source: Appleyard, Field and Cobb, *International Economics*, 2006, p. 237.

Economic theory accepts that mobility of labour - in other words immigration of workers- makes significant contributions to economic growth. As it is illustrated by figures 2.2, 2.3 and 2.4, immigration leads to economic gains. However, at this point, two crucial questions are always discussed. First, what are the factors that affect the size and distribution of the gains from migration? Second, If the effects of immigration on the overall economic welfare of the receiving country are positive, why are some countries and people against immigration? Actually these questions come from an uncertainty about impacts of migration which relates to being either good or bad.⁶⁸

The existing literature claims that openness of a country to trade will affect the size and distribution of benefits from migration. Highly regulated economies find it harder to reap the benefits that migration can bring. In addition to openness, the skill characteristics of immigrants also affect the size of benefits. Kleinman emphasizes another point related to skill levels of workers that economic gains from migration are also higher if migrant workers are complements and not substitutes to the existing workforce.⁶⁹ It is obvious that the impacts of a high qualified worker would not be same as a low qualified worker’s impact and the concept of brain drain is matter in question for countries losing their well educated people but, it does not mean that less skilled labour is harmful to economies. In various type of economic activities, their complementary structure might be used. However, Borjas states that if

⁶⁸ For an interesting econometric study on individual attitudes toward immigrants, see Anna Maria Mayda, “Who is Against Immigration? A Cross-Country Investigation of Individual Attitudes towards Immigrants” *The Review of Economic and Statistics*, August 2006, pp. 510 – 530.

⁶⁹ Mark Kleinman, *ibid.*, p. 61.

immigrants lack the skills that employers demand and find it difficult to adapt working conditions, immigration may significantly increase the costs associated with income maintenance programs.⁷⁰ Beside these factors, market imperfections, level of labour mobility and immigration restrictions on across regions, impose economic costs and reduce the expected benefits of migration for both developed and developing countries.

Immigration includes economic costs and benefits for receiving countries. If the net benefit of immigration is positive, the gains will be more than the expected benefits from migration because of the multiplier effect (or spillover effect) of immigration. Once immigrants enter the destination country, they do not usually stay in a particular place. Therefore immigrants are very mobile segment of the labour force. Their mobility affects the labour market positively to reduce the some kind of market imperfections. Majority of studies find that mobility of native workers in host countries is quite low due to the family reasons such as living nearby relatives and friends, children who are well settled in local schools and living home which may be still mortgaged.⁷¹ Immigrants are highly motivated to move than natives.

Apart from that, at the most basic level, immigrants increase the supply of labour and help to produce new products and services. Low qualified immigrants usually take unattractive jobs that natives do not accept low wages. In this way, employers find a resource to reduce the price of inputs and hence, they partially increase the competitiveness of their tradable goods and services in the short time.⁷² Immigrants pay taxes, benefit from public services and demand for housing and goods so they increase the compulsory consumptions in the host country.

When economic costs of immigration are analyzed, the impact of immigration on native wages and employment are the most controversial and questionable issues for researchers. It is often believed that immigration has an adverse affect on wages and employment of native workers. In other words, it is claimed that immigration increases the unemployment and reduces the wage level in the host country. However there is no strong evidence to strengthen the abovementioned effects. Contrarily, Borjas and Kleinman emphasize common findings. According to them, particularly in the US labour markets, there is only a weak relationship

⁷⁰ George Borjas, "The Economics of Immigration", *Journal of Economic Literature*, Vol. 32, December 1994, p. 1667.

⁷¹ Miroslav Jovanović, *ibid.*, p. 758.

⁷² *Ibid.*, p. 758.

between native wages and the number of immigrants. Kleinman explains this relation by referring the mobility differentials of local and immigrant workers. In opposite to common belief, he argues that high level of mobility in the US reduces the adverse effect of immigration on wages.⁷³

Zorlu and Hartog (2005) who made a detailed study on relation and impact of immigrants on the local wages for three European countries, find similar results as Kleinman and Borjas. They argue that the impact of immigrants on the local wages in the United Kingdom, the Netherlands and Norway, have very small effects.⁷⁴ This finding also supports the rigidity structure of wages in Europe.

As a result, it can be deduced from discussions and studies related to literature on immigration, economic impacts of immigration vary by time, by place, by skill composition and by policies and can be either beneficial or harmful.

2.4. Competitiveness and Immigration

It can be perceived from economic consequences of immigration that the concept of immigration has many dimensions and various impacts to be assessed. General acceptance on migration in economic literature is it affects productivity and growth in income per capita of origin and destination countries through changes in aggregate demand, aggregate supply and changes in composition of factors of production.⁷⁵ The figure 2.5 illustrates the overall economic effects of migration.

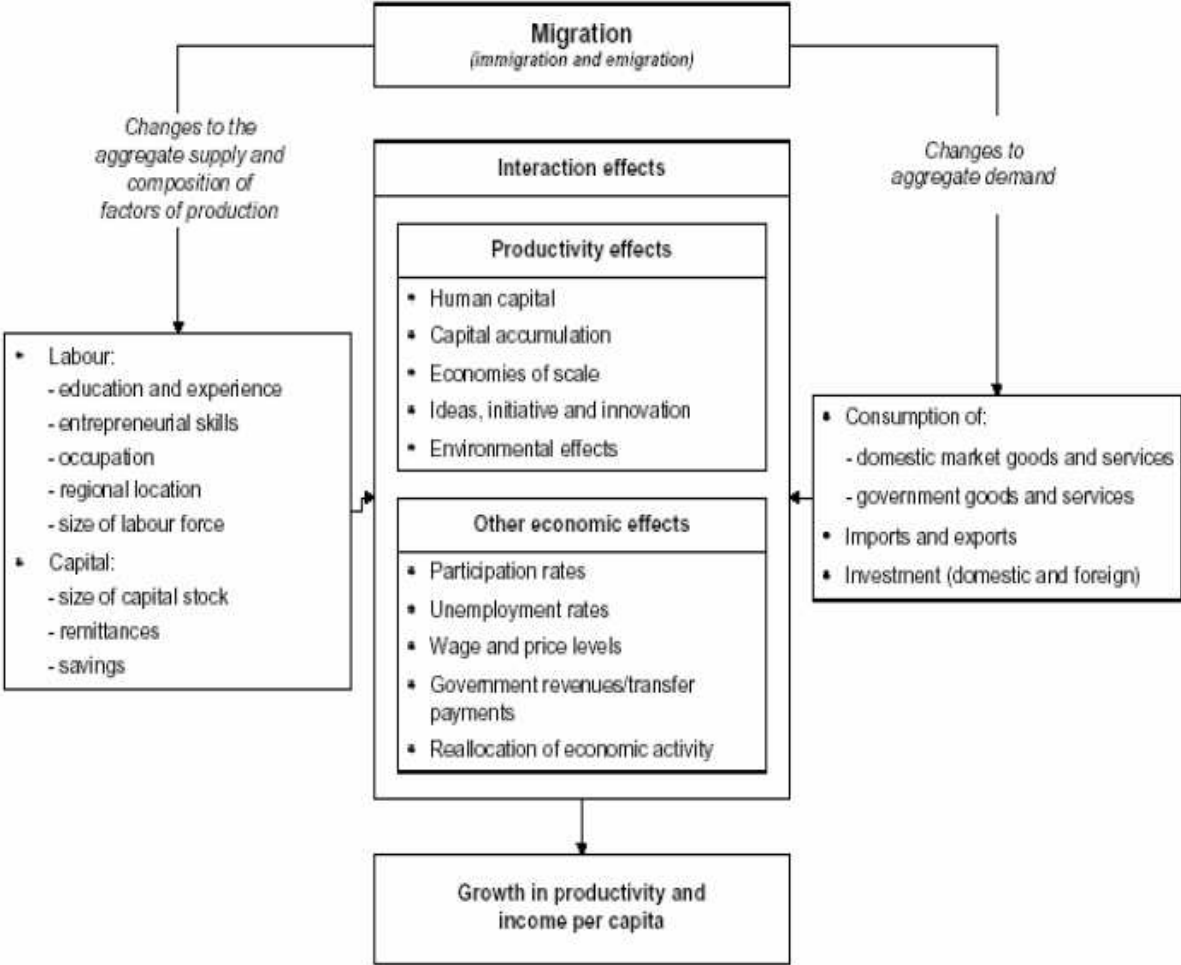
Although the concepts of competitiveness and immigration are always interesting study fields in economics, the relationship between competitiveness and immigration either has been often overlooked or has been taken into consideration with development issue related to developing countries. As it is mentioned in chapter 1, the concept of competitiveness refers the collection of factors, policies and institutions which determine the productivity and prosperity level of a country.

⁷³ Mark Kleinman, *ibid.*, p. 62.

⁷⁴ Aslan Zorlu and Joop Hartog, "The Effect of Immigration on Wages in Three European Countries", *Journal of Population Economics*, Vol. 18, 2005, p. 134.

⁷⁵ Jacques Poot, "Demographic Change and Regional Competitiveness: The Effects of Immigration and Ageing", *Population Studies Centre (PSC) Discussion Papers*, No: 64, February 2007. p. 4.

Figure 2.5: The Overall Economic Effect of Migration (Immigration and Emigration)



Source: Jacques Poot, Demographic Changes and Regional Competitiveness, 2007, p. 5.

From the point of this framework, immigration can be accepted as a factor or a policy tool which is able to enhance economic outcomes of countries or regions. In recent years various studies provide evidences that immigration particularly of entrepreneurs and highly skilled workers who make great contributions to enhance the competitiveness of regions.

Poot (2007), in his study focuses on the impact of immigration on aspects of regional competitiveness such as innovation, entrepreneurship and productivity in addition to the impact of ageing population. He argues that immigration including high skilled persons creates positive results to enhance the regional competitiveness and can be used a policy solution to offset the economic impact of ageing.⁷⁶

⁷⁶ Ibid., p. 11.

According to Poot, the immigration can improve competitiveness through three ways. These are through increasing in total factor productivity, through increasing innovation and entrepreneurship and through increasing economic efficiency.⁷⁷ Poot explains them as the following.

First way, immigrants make a contribution to labour force of receiving countries and in this way, return to capital increases. An increase in return to capital due to the growth in labour force stimulates investments. If these investments are made in high-tech sectors, the economy will be positively affected. Therefore immigration can enhance total factor productivity but this effect is dependent due to the sectoral allocation of additional investment.

Second way, immigration can enhance competitiveness through increasing innovation and entrepreneurship. It is directly related to knowledge level and qualification of immigrants. It is also significance that sectors in which the immigrants work. If immigrants bring new ideas and work in knowledge-based industries or create new businesses, competitiveness of that country will increase. With respect to knowledge, Allan Williams (2007) refers that immigration plays a key role in the overall transfer of knowledge (particularly in transfer of tacit knowledge) in the economies and immigrants are called as knowledge carriers (or brokers) in Williams study because of the role in knowledge exchanges.⁷⁸

Third way, immigration can affect economic growth through improving economic efficiency. As it is mentioned before immigrants are usually younger and tend to be more mobile than native workers in the labour market. They usually take risks easily because of the adjusting capability to economic changes. Therefore immigrants can lead to more competition and allocation effects which increase efficiency in a region or a country.

In addition to these ways, Poot emphasizes two indirect effects coming from immigration which affect regional competitiveness. These are through international trade and international linkages with their home country resulting from diaspora. Firstly, immigrants tend to buy their home country products (demand for import products from origin country) due to taste or

⁷⁷ *Ibid.*, p. 5-6.

⁷⁸ Allan M. Williams, "International Labour Migration and Tacit Knowledge Transactions: A Multi-Level Perspective", *Global Networks*, Vol. 7, No: 2, 2007, pp. 29-45.

emotional behavioural. As a consequence of this, trade balance of host country is negatively affected. Secondly, immigrants can help to reduce transaction costs of bilateral trade between host and home countries (such as removing of communication difficulties due to the language and business culture differentials). Poot also points out that there may be some dynamic gains from increased trade between home and host countries and emphasizes that the competitiveness may show upward signal in the long run if enhanced trade encourages innovation and entrepreneurship in sectors where migrants are employed.⁷⁹

It can be conceived from literature on the effects of immigration on economic relations that there has not been a common consensus on what extent immigration affects economic activities and economic actors. Ottaviano and Peri who made a study on the long run impacts of immigration on productivity in the US economy suggest that flow of immigrants into the US generates positive and significant gains to productivity and wages of US born workers as a result of their “diversity” in education and experience. According to them, this diversity leads to complementarities that make the inflow of immigrants beneficial to the productivity of native workers.⁸⁰ Therefore an increase in labour productivity will promote the competitiveness.

⁷⁹ Jacques Poot, **Ibid.**, p. 7.

⁸⁰ Gianmarco I.P. Ottaviano and Giovanni Peri, “The Long Run Effect of Immigration on Productivity: The Theory and Evidence from the US”, April 2005, p. 2.
<http://www.economics.uci.edu/docs/colloqpapers/s05/Peri.pdf> Available on July 14, 2008.

CHAPTER 3: A COMPREHENSIVE APPROACH TO ECONOMIC MIGRATION

The intention of this chapter is to highlight the concept of economic migration in the current economic framework for Europe and to relate competitiveness issue of the EU to immigration policies that have been discussed since the launching of the Lisbon Strategy. It is fact that unless new policies are implemented and new approaches are introduced in member states, EU will face with adverse effects of demographic decline and ageing of its population in near future. Beside this there has been a growing race between developed countries (especially the US and emerging countries in which economies which are driven by knowledge) in order to attract the highly skilled migrants to their countries. Therefore, these developments make the competitiveness issue of the EU more complex at both Union and national level.

3.1 Brief History of European Migration

History of Europe teems with many migration waves. Apart from migrations of pre-historic and early modern times as a result of the climate changes in Europe, wars and discoveries of new continents are only some reasons of migration waves in history of Europe. Therefore European migration issue can be classified and examined according to various factors such as economic, political, sociological, geographical and environmental. Zimmerman (2004) decomposes European migration challenges into six channels. These are unskilled migration, skilled migration, migration of mix of skilled and unskilled workers, factor mobility, the expansion of the European Union and lastly family reunification and asylum seekers.

A common picture to European migration for the period of post-world war II is drawn by researchers studying on European integration. In this picture, there are four relevant phases: Periods of post-war adjustment and decolonisation (1945 – 1960), labour migration - guest workers (1955 – 1973), restrained migration (1973 – 1988) and dissolution of socialism and afterwards (1988 – 1998).⁸¹ Jovanović also mentions in his book that a fifth stage of labour movement may start around the year 2010 due to demographical trends and imminent labour shortages in the EU.⁸²

⁸¹ Klaus F. Zimmermann, “*European Labour Mobility: Challenges and Potentials*”, *IZA Discussion Paper Series*, No: 1410, Bonn - Germany, November 2004, pp. 2-7.

⁸² Miroslav N. Jovanović, *ibid.*, p. 761.

The first period of the years between 1945 and 1960 covers a strong inflow of people who were displaced by the world-war II. Colonial powers such as Great Britain, France, Belgium and the Netherlands were affected by return migration from European colonies and overseas territories. According to Jovanović, 12 million ethnic Germans were forced to leave Central and Eastern Europe, most of them settled in Germany.

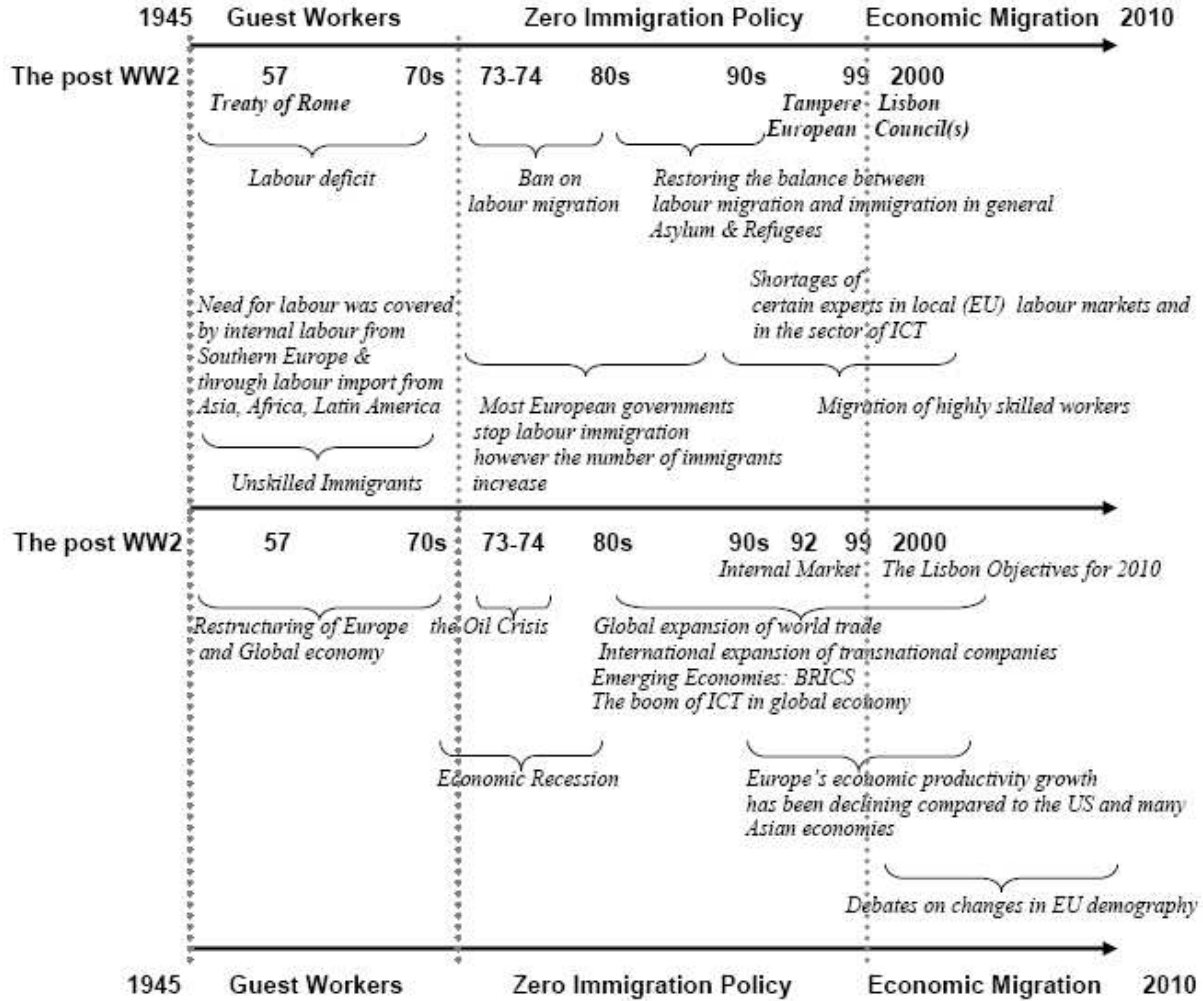
The second phase of migration covers the period between 1955 and 1970s until the oil crises. These years were driven by demand side factors and strong economic growths as a result of reconstructing of Europe. Countries needed to labour force and opened their economies to guest workers temporarily. Zimmermann refers that labour migration in this period was mainly motivated by wage differences between the South and North. Beside this point Akkoyunlu and Vickerman indicate that *“a dual labour market was created which preserved a separation between immigrant and local workers. This allowed the wages of immigrant workers to rise relative to their country of origin whilst not impacting so much on the wages of indigenous groups in the recipient countries.”*⁸³

In the face of economic crises and recession, the third phase from 1973 to 1988 was characterised in Europe by restrained migration because of restrictive immigration policies. Foreign population increased due to family reunifications despite the fact that guest worker system was designed for return migration. Zimmermann identifies the fourth phase of migration as a result of changes in global political system in former socialist countries. With the dissolution of communism, economic transition and ethnic wars, the inflow of asylum seekers and refugees from these countries increased significantly in the 1990s.⁸⁴

⁸³ Şule Akkoyunlu and Roger Vickerman, *“Migration and the Efficiency of European Labour Markets”*, *Spatial Change of Interregional Flows in the Integrating Europe*, in eds. Johannes Bröcker, Hayo Herrmann, Physica-Verlag, Springer 2000, p. 159.

⁸⁴ Klaus F. Zimmermann, *ibid.*, p. 9.

Figure 3.1: Evolution of Immigration Policy in Europe



Source: Adapted from Kvamme (2005) pp. 8-9, Peixoto (2001), pp. 37-39, Mahroum, (2001) pp. 28-31.

The figure 3.1 illustrates the evolution of migration policies of the Europeans with notable developments in the world economy from the post World War II to the 2000s. The overall aim of this illustration is to highlight the economic and political realities and reasons which are shaping the decisions on migration policies in the EU and to simplify the wide extent of European migration issue. As it is already mentioned, the figure enables to see the evolution of migration policies in the EU within the framework of global competition.

The figure is formed with two main components categorizing several important developments in world economy and European migration policies. The time period which is drawn by horizontal line identifies the positions of European governments to the migration issue in three titles: Guest workers period, zero immigration policy and economic migration.

The years between 1945 (the post WW2) and the 70s refer the labour deficits in European markets. In order to cover this deficit and to reconstruct the European economic life guest workers were invited to work in Europe. Therefore this deficit was filled by international labour force who came from various Asian, African, Latin American countries and Southern Europe. The common properties of these workers are firstly that they are coming from relatively less developed countries and secondly they are largely composed of unskilled workers. The years between 1970 and late 90s are defined as the period which was shaped by zero immigration policies in the EU. Many Western European governments stopped labour immigration due to social and political costs of immigrants in their countries and economic conditions of global economy. They had not taken into account the integration issue of immigrants to their society while guest workers were being invited. The numbers of immigrants were increasing as a result of family reunions, asylum, refugees and illegal immigrations. Furthermore, in the beginning of 70s, the oil crisis and economic recession also made difficult to control the political and social costs of large numbers of immigrants. It can be deduced that zero immigration policy in the EU was based on security concerns. During the mid 1980s and the 1990s, European countries tried to restore the balance between labour migration and the numbers of asylum seekers and refugees because of collapse of the communism and wars in former Yugoslavia. In the global economic arena, the world trade has expanded and transnational companies have increased their shares in global output. While new global actors (BRICS) are rising in the world economy, productivity growth of EU economy is declining compared to the US and many Asian countries. As is it stated in chapter 1, the decline in productivity performance of Europe is attributed to a lower investment per employee and a slowdown in the rate of technological progress.⁸⁵ On the one side, information and communication and technologies (ICT) improve the competitiveness of emerging countries and the US, on the other side the EU experiences shortages of certain experts in the sector of ICT. In the late 90s, both economic and demographic structure of the EU makes economic migration necessary to put on their agenda in order to fulfil the Lisbon objectives for future of Union's economy.

⁸⁵ See Chapter 1, p. 9.

3.2. Towards a New Immigration Agenda as a Necessity of Globalised Economy: The Concept of Economic Migration in the EU

By putting into force the Treaty of Amsterdam in 1998, Community competence for immigration and asylum was established in the EU for the first time. In October 1999 the European Council held a special meeting in Tampere for the creation of an area of freedom, security and justice in the EU. The overall aim of this meeting was to discuss the EU's future role in a common policy on migration and asylum, justice, combat with crime and stronger external action that make the Union more open and secure place. For a common EU migration and asylum policy, the four basic elements were taken into consideration in this meeting. These were; partnership with countries of origin, a common European Asylum System, fair treatment of third country nationals and lastly management of migration flows.

In this meeting, economic migration was not clearly mentioned in talks on common migration policy. Moreover, it can be seen from the article 20 of the presidency conclusions that the member states had gave their priorities to security issues rather than the economic concerns.

“The European Council acknowledges the need for approximation of national legislation the conditions for admission and residence of third country nationals, based on a shared assessment of the economic and demographic developments within the Union, as well as the situation in the countries of origin. It requests to this end rapid decisions by the Council, on the basis of proposals by the Commission. These decisions should take into account not only the reception capacity of each Member State, but also their historical and cultural links with the countries of origin.”⁸⁶

As already stated in chapter 1, in 2000, the Lisbon European Council emphasized two important concepts for European economy that affect economic life in every aspect and require radical transformations of the EU: Globalisation and knowledge driven economy. In order to strengthen the Union's economy, the Council agreed to launch the Lisbon Strategy for a ten year period. On the one hand the presidency conclusion gives various details about

⁸⁶ Presidency Conclusions, Tampere European Council, 15 and 16 October 1999, Article 20.

overall strategy of the Union for the next decade on the other it highlights a number of weaknesses of the EU implicitly demanding for economic migrants in some economic sectors.

“[...] there is a widening skills gap, especially in information technology where increasing numbers of jobs remain unfilled. With the current improved economic situation, the time is right to undertake both economic and social reforms as part of a positive strategy which combines competitiveness and social cohesion.”⁸⁷

In November 2000, the Commission strongly underlines an issue in a Communication to the Council and Parliament that admission and integration of third country nationals should be discussed openly and a consensus on the objectives of the common immigration policy should be reached by the member states in spite of divergent reactions of public and different political points of views. The Commission gives some certain evidences such as projected decline in EU population, difficulties as a result of labour shortages in some sectors and changing structure of immigration flows in the world due to the globalisation of the economy in order to revise existing immigration policies of the EU.

“[...] it is clear from an analysis of the economic and demographic context of the Union and of the countries of origin, that there is a growing recognition that the “zero” immigration policies of the past 30 years are no longer appropriate.”⁸⁸

The Commission suggests that a more flexible approach to existing immigration policies should be taken into consideration and the channels for immigration for economic purposes to meet urgent needs for both skilled and unskilled workers should be provided by the Union. The Commission strongly emphasizes that admission policies of economic migrants must enable the EU to respond quickly and efficiently to labour market requirements at national, regional and local level. In addition to these suggestions, The Commission also highlights the changing directions of migratory movements depending on the evolution of the economic and demographic situations both in receiving and sending countries and stresses the need for a coordinated approach and close partnership with the countries of origin in order to regulate

⁸⁷ Presidency Conclusions, Lisbon European Council, 23 and 24 March 2000, Article 4.

⁸⁸ European Commission, COM(2000) 757 final pp. 3-6.

the flows and reduce the illegal immigration successfully.⁸⁹ Kvamme who made a comparison on immigration policies of Norway and the EU (2005), argues that since the publishing the communication in 2000, immigration has been integrated as a policy area of the Lisbon Strategy. According to her, the concept of economic migration has become an essential component to the success of the Lisbon Strategy and has brought an external dimension to the strategy as attracting the highly skilled labour migrants into the EU.⁹⁰

After 2000, the Commission has maintained its work on immigration policy and made many proposals and policy papers on this issue. The most comprehensive analysis which focuses on immigration, integration and employment was made in 2003. In this Communication, the role of immigration in meeting the Lisbon goals is deeply analysed. According to the Commission:

“While immigration should be recognised as a source of cultural and social enrichment, in particular by contributing to entrepreneurship, diversity and innovation, its economic impact on employment and growth is also significant as it increases labour supply and helps cope with bottlenecks. In addition, immigration tends to have an overall positive effect on product demand and therefore on labour demand.”⁹¹

The Commission re-emphasized the need for well designed immigration policies for the longer term competitiveness issue in a green paper with the title “*An EU Approach to Managing Economic Migration*” in 2005. The Commission refers that an economic migration strategy would have positive effects on competitiveness and entrepreneurship therefore on the fulfilment of the Lisbon objectives. Additionally the Commission strongly underlines that the Union must acknowledge of the fact that the main world regions (the US and emerging economies) are already competing to attract migrants to improve their economies.

⁸⁹ **Ibid.**, pp. 13-15.

⁹⁰ Ingunn Kvamme, *The Immigration Agenda of the Knowledge-based Economy A Regulationist Approach to Norwegian Immigration Policy*, 2005, p. 49.

⁹¹ European Commission, COM(2003) 336 final p. 10.

“[...] in the absence of common criteria for the admission of economic migrants, the number of third country citizens entering the EU illegally and without any guarantee of having a declared job will grow.”⁹²

This quote presents that, not only the admission of economic migrants but also the ensuring the legal status and integration of those who are admitted are much important for the future of the European economy. Both this green paper and Kvamme’s thesis (2005) clearly point out that “economic migration” reflects the motivation for encouraging immigration of the member states. It can be inferred that the new profile on immigration is increasingly based on European economic concerns.⁹³

In the green paper above mentioned, degree of harmonisation, admission procedures for paid and self employment, residence permits, possibility of changing employer or sector, legal rights, integration and cooperation of third country nationals (economic migrants) are outlined as a key issues for introducing a new EU approach to managing migration by the Commission.

Zaletel (2006) in her study defines the migration policy initiatives of the Commission as an attempt to achieve the main objectives of the Lisbon Strategy. She relates to the migration of highly skilled people to competitiveness policies of the EU under the light of Lisbon Strategy and as a necessity of knowledge based economy. According to Zaletel and the Commission, this issue directly relates to specific policies mainly research policy and employment policy. Achieving the ambitious goal of the strategy as “to become more competitive economy in the world” depends on removal of all obstacles to the mobility of researchers of Europe and pulling the high qualified researchers into Europe in the field of research policy. In that case, in the field of employment, it is also crucial to respond to needs of European labour market for skills and labour in the current demographic and economic context of the EU.⁹⁴

⁹² European Commission, COM(2004) 811 final. pp. 3-4.

⁹³ Ingunn Kvamme, *ibid.*, p. 50.

⁹⁴ Petra Zaletel, “Competing for the Highly Skilled Migrants: Implications for the EU Common Approach on Temporary Economic Migration”, *European Law Journal*, Vol. 12, No: 5, September 2006, p. 632.

3.3. Economic Migration in Knowledge Based Economy: Research and Technology as an Important Field

3.3.1. EU Industrial Structure: Need for High Skills

As it is underlined in previous sections of this thesis that productivity and its sources are leading conceptions for countries that aim to improve their economies and to strengthen their competitiveness in the global economy. Capital intensity, labour quality and total factor productivity are often accepted as the most important sources of productivity which have direct relation or in other words, impact on improvements of productivity in a country. If the Commission's staff working document (2007) entitled with "*Raising productivity growth: Key messages from the European Competitiveness Report 2007*" is well analyzed, it can be obviously seen that the most important question in this document is how the EU raises its productivity and closes the gaps in productivity and skills between the US and the EU. The document emphasizes that the EU should give its policy priorities to ICT, innovation, competition, product market reform and better regulations. According to the Commission, these areas have high potential impact on overall labour productivity.⁹⁵

In order to become more competitive economy, the most significant point which is strongly referred by the Commission is the necessity of technological progress and innovation in the EU.⁹⁶ R&D, innovative capacity, future key technologies (micro-systems, advanced materials and bio-technologies and nano-technologies), non-technological innovation and knowledge can be attributed as crucial drivers of European competitiveness and will shape the industrial structure of Europe.⁹⁷

In 2007, DG Enterprise and Industry of European Commission prepared a report which analyzes the challenges and opportunities of EU industrial structure and assesses the competitiveness of the EU economy from a sectoral perspective. The most interesting and crucial findings are given in the fifth section of this report. In this section, the EU economy is categorized in 28 strong sectors and economic performances of these sectors are examined by

⁹⁵ European Commission, COM(2007) 666 final, p. 25.

⁹⁶ The Commission has adopted a proposal to declare 2009 "*The European Year of Creativity and Innovation*." For more information see press release; <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/482> 31 March 2008.

⁹⁷ European Commission, COM(2007) 666 final, p. 161-165.

using two indicators which are used to describe EU competitiveness in external trade. These indicators are called as “revealed comparative advantage” (RCA) and “relative trade balance” (RTB) and defined as the following equations.

Equation 3.1: Revealed Comparative Advantage (RCA) & Relative Trade Balance (RTB)

$$RCA_i = \frac{\frac{X_{EU,i}}{\sum_i X_{EU,i}}}{\frac{X_{W,i}}{\sum_i X_{W,i}}} \quad RTB_i = \frac{(X_i - M_i)}{(X_i + M_i)}$$

where

X = Exports

M = Imports

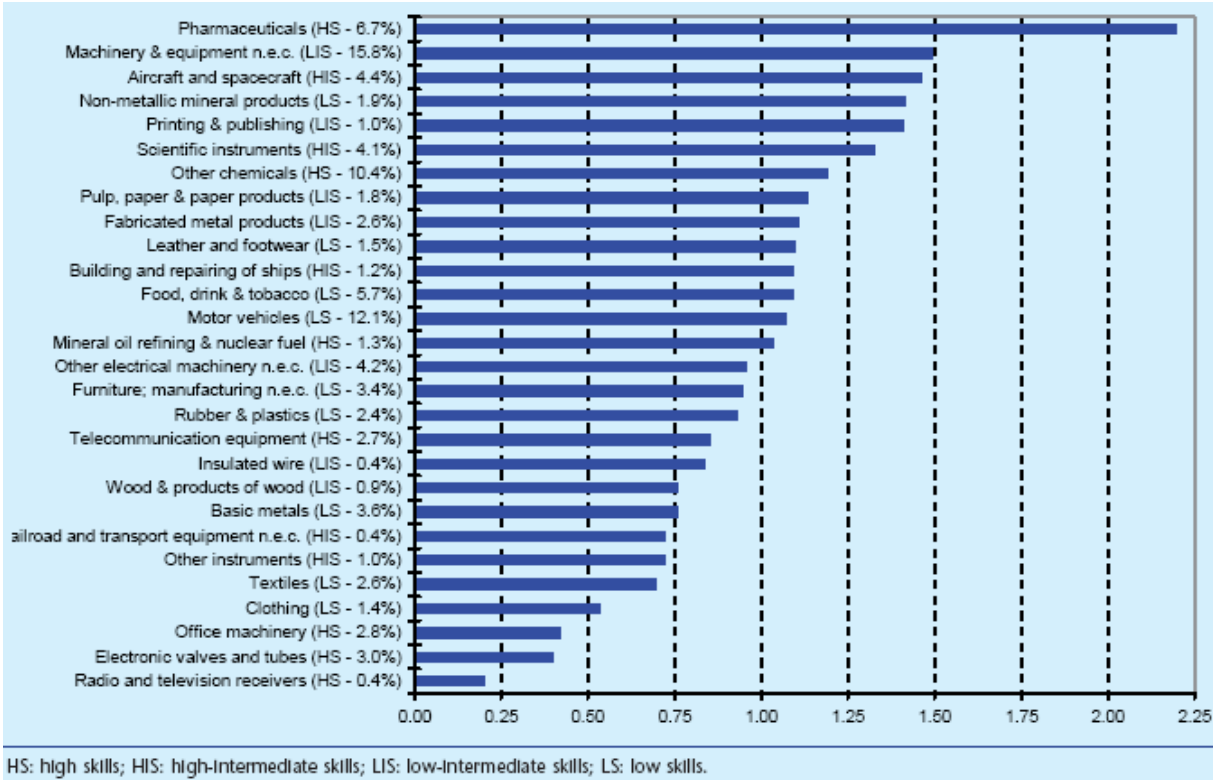
i = Sector

W = World

In equation 3.1, if value of RCA indicator is higher than 1 ($RCA > 1$), it implies that a given industry performs better than the reference area and are interpreted as a sign of comparative advantage. Contrarily if the value of RCA indicator is lower than 1 ($RCA < 1$), it implies that a given industry performs worse than the reference area. If the value of RCA is close or equal to 1, it means that in a given industry there is neither comparative advantage nor disadvantage.

The RTB indicator is used to compare the trade balance for a group of products to the total trade in that group of products. As an assumption; If a country only exports and does not import anything in that sector, the value of RTB indicator will equal to “1”, contrarily if this country only imports and does not export anything, the value of RTB indicator will equal to “-1” hence the value of RTB can not exceed 1 and -1 ($-1 \leq RTB \leq 1$). If exports and imports are equal to each other, the value of RTB will be zero “0”.

Figure 3.2: EU-25 Trade in Manufactured Products – RCA index, 2002 – 2004



Source: European Commission, EU Industrial Structure 2007: Challenges and Opportunities, 2007, p. 86.

Figure 3.2 presents a ranking of 28 sector’s products according to their comparative advantage in the EU-25 by using RCA index for the period between 2002 and 2004. The figure also demonstrates for each sector the labour skills to which it belongs and the share in total manufacturing exports. The products at the top of the ranking are characterised by high RCA value. Pharmaceuticals, machinery and equipment, aircraft and spacecraft, non-metallic mineral products, printing and publishing and scientific instruments take place at top of the list and account for an average of 34% of total manufacturing exports. Eight products which are under or close to the RCA value 0,75 find themselves at the bottom of the ranking that these products are produced in disadvantaged sectors in the EU manufacturing exports: Radio and television receivers, electronic valves and tubes, office machinery, clothing, textiles, other instruments, railroad and other transport equipment, and basic metals are placed at the bottom of the list.

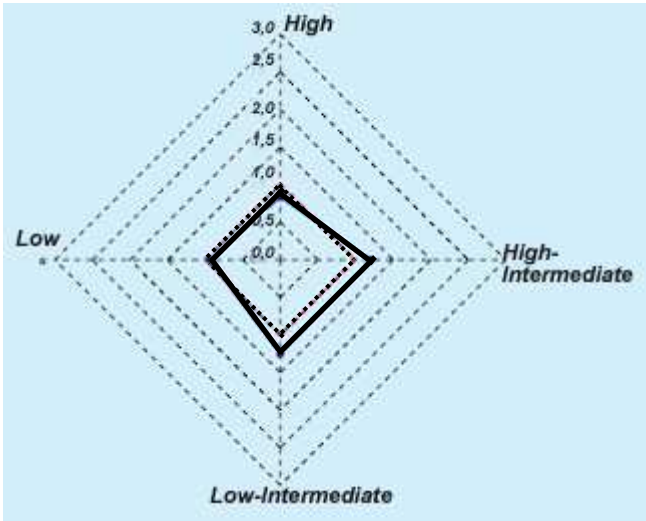
Table 3.1: EU-25 Distribution of Manufacturing Industry Value Added and Exports by Labour Skills Categories

Labour Skills	EU-25 Value Added (%) 2001-2003	EU-25 Exports (%) 2002 – 2004
<i>High</i>	16,5	27,3
<i>High-intermediate</i>	6,0	11,1
<i>Low-intermediate</i>	35,8	27,0
<i>Low</i>	41,8	34,6
<i>Total</i>	100	100

Source: European Commission, EU Industrial Structure 2007 p. 95 (calculated from Figure 3.2)

By taking into consideration of these results, some important interpretations can be made. First, products which require high and high intermediate skills in production process in the EU account for an average of 38,4% of total manufacturing exports. This refers that industrial or manufacturing structure of the EU as whole is based on more low or low intermediate skills and techniques. As it is illustrated in the table 3.1, the products of low and low intermediate labour skills account for a significant share value added in manufacturing and products of low and low intermediate labour skills account for 77,6% of value added and 61,6% of total exports. Second, although the three products at the bottom of the ranking require high skills in production, they are performing the worse advantage of EU-25 trade in manufactured products. This result may be attributed to insufficient supply of skilled labour in the EU labour market and low R&D investments in given industries.

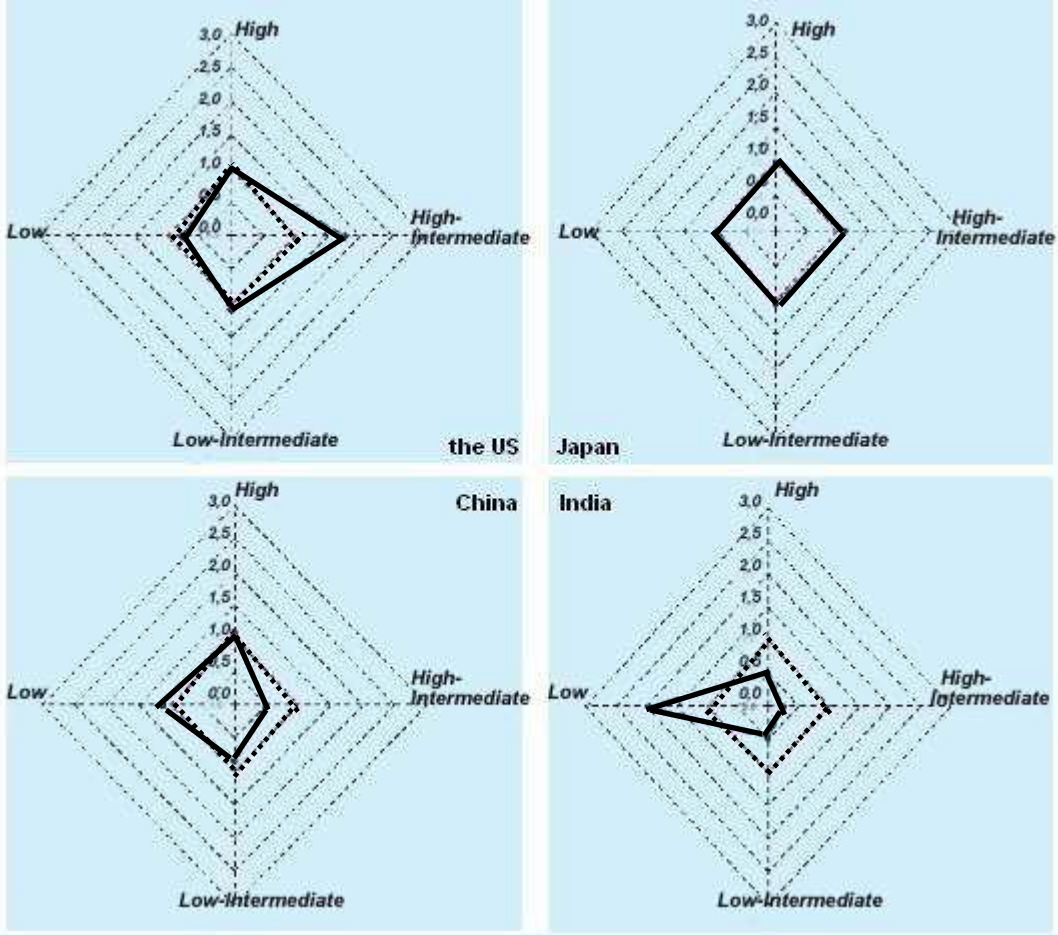
Figure 3.3: EU-25 RCA index by Labour Skills Category, 2002 – 2004



Source: European Commission, EU Industrial Structure 2007: Challenges and Opportunities, 2007 p. 97.

Figure 3.3 and Figure 3.4 illustrate the RCA index of the EU and other global actors including the US, Japan, China and India according to the labour skills categories. It can be seen from figure 3.3, the RCA index for high intermediate and low intermediate labour skills of the EU is greater than 1 however, the RCA for high labour skills is lesser than 1. It is obviously indicated that the US and Japan are specialized in high intermediate labour skills and exhibit more balanced profile. The differences in RCA index by labour skills categories between the US and the EU (specialization in high intermediate labour skills) may help to assess why the US outperforms the EU in international competition. The RCA index for China is demonstrating the performance of Chinese Economy and its developments. China exhibits dual specialisation in both high and low labour skills.⁹⁸

Figure 3.4: the US, Japan, China and India RCA index by Labour Skills Category, 2002 – 2004



Source: European Commission, *EU Industrial Structure 2007: Challenges and Opportunities*, 2007, pp. 97-99.

⁹⁸ European Commission, *EU Industrial Structure 2007: Challenges and Opportunities*, 2007, pg. 99.

Table 3.2: EU-25 trade by Labour Skills and Technology Category, RTB Index, 2002 – 2004

Labour Skills	Income Level of EU-25 Trade Partner Countries							
	High		Upper-medium		Low-medium		Low	
	Total Trade	RTB index	Total Trade	RTB index	Total Trade	RTB index	Total Trade	RTB index
High	31,6	0,023	29,9	0,02	26,1	-0,142	18,8	0,533
High-intermediate	18,1	-0,050	6,3	0,393	6,5	0,291	8,3	0,303
Low-intermediate	20,5	0,237	21,1	0,567	25	0,246	20,2	0,595
Low	29,8	0,296	42,7	-0,059	42,4	-0,258	52,7	-0,492
Total	100	0,135	100	0,125	100	-0,066	100	-0,01
Product Types	Income Level of EU-25 Trade Partner Countries							
	High		Upper-medium		Low-medium		Low	
	Total Trade	RTB index	Total Trade	RTB index	Total Trade	RTB index	Total Trade	RTB index
High-tech	35,3	-0,052	20,1	0,229	23,2	-0,167	14,7	0,686
Medium-high tech	38,1	0,227	35,5	0,476	34,5	0,382	25,9	0,626
Medium-low tech	13	0,142	23,4	-0,292	14,8	-0,154	16,3	0,003
Low tech	13,6	0,357	22,9	-0,057	27,4	-0,499	43	-0,635
Total	100	0,135	100	0,124	100	-0,066	100	-0,01

Source: European Commission, EU Industrial Structure 2007: Challenges and Opportunities, 2007, pp. 95-100

Table 3.2 presents the EU-25 trade with four groups of countries that have different income levels by using RTB index for the period between 2002 and 2004. Trade partners are categorized as high, upper-medium, low-medium and low income level countries. Beside these classifications, the products which are subject to foreign trade are also classified according to skill intensity and technology which are required in the production. The Commission especially emphasizes that as the income level of trade partners increases the share of trade in products embodying higher levels of labour skills and technology increases. And the Commission also draws attention to the trade balance of the EU with low and low-medium and upper-medium income level countries is negative for products embodying low labour skills and techniques (RTB index for labour skills, -0,492, -0,258, -0,059 and RTB index for technology level, -0,635, -0,499, -0,057 respectively) but notably positive for other product categories with some exceptions. Among these exceptions, the most interesting result is the trade balance for products of high skills and high tech against low medium income countries (RTB index -0,142 and -0,167 respectively).

Another point that the reasons which are not clearly explained in the report is the trade balance of the EU with high income level countries for products in which high labour skills and high technology is needed. While the trade balance of the EU for the products embodying high labour skills is positive (0,023), for high tech products is negative (-0,052).

This may imply that, highly qualified labours in the EU may not find sufficient conditions to work in high tech industries and a skill gap may exist in the EU. As it is stated at different times that European competitiveness is strongly based on the EU's ability to move resources (such as highly skilled labours, information-communication technologies and capital) into knowledge based industries which have significant potential for productivity growth and income gains.⁹⁹ In addition to these evidences, supply of skilled labour is also indicated as a key challenge for European manufacturing industry as a result of demographic change (ageing) and underinvestment in education and training by the Commission as a key message in European competitiveness report.¹⁰⁰

3.3.2. The Immigration of Highly Skilled Labour and the EU

“There is a significant mismatch between real migration flows and policy lines designed to regulate them. On the one hand, there is a weak correlation between real EU internal mobility and growth in the formal possibilities for moving on the part of skilled professionals. On the other hand, many highly skilled internal flows occurred before the EU regulations were set, and occur nowadays independently of policy regulations.”¹⁰¹

Joao Peixoto who evaluates the relationship between highly skilled mobility and migration policies of the EU in his study (2001), claims that significant part of skilled migration seems to be unrelated to political integration of the EU. According to him other variables such as growing need for highly skilled workers in contemporary economies, growth in foreign investments, student mobility, the supply and demand mechanisms occurring at local and national levels, the degree of economic internationalization play key roles on determining the skilled movements in the EU.¹⁰²

Peixoto also emphasizes that despite various policies related to free circulation and recognition of skills, increased internal movement within the EU has not been directly

⁹⁹ Isabel Grilo and Gert Jan Koopman, **ibid.**, p. 75.

¹⁰⁰ European Commission, COM(2007) 666 final, p. 165.

¹⁰¹ Joao Peixoto, “Migration and Policies in the European Union: Highly Skilled Mobility, Free Movement of Labour and Recognition of Diplomas”, *International Migration*, Vol. 39 No: 1, 2001, p. 34.

¹⁰² Highly skilled mobility can be classified in six main groups according to the type of works. Movements of senior managers, executives, engineers and technicians, scientists, entrepreneurs and students compose highly skilled mobility. [see Mahroum (2001), p. 29.]

proportional to legislative output. He underlines that in some cases total migration has been on a downward trend due to the obstacles which still exist in the legal and political field.¹⁰³ Not only governmental resistances but also linguistic capabilities and national character of professions and skills eliminate a great deal of migration potential. Peixoto refers an interesting point that a great amount of highly skilled flows has generally occurred in the absence or corresponding legislation. This is mainly based on the framework of transnational firms and organizations.¹⁰⁴

Peixoto's findings are very crucial to analyze the evolutions of the policy attempts of the member states to introduce a common immigration policy and to remove obstacles to free movements in the Union. As it is mentioned before by launching the Lisbon Strategy, the concept of economic migration in recent years has become an external dimension and a political instrument to attract high skilled labours into Europe.

Contrary to Peixoto, Mahroum (2001) refers in his study that there is a strong competition for highly skilled labour among developed countries and this competition is taking more institutionalized pattern in the world including the changes in policies, legislations and procedures at the national level to make their participation in the international labour markets more gainful.

“There is widespread agreement in Europe that economic competitiveness is increasingly linked to the quality and quantity of skilled human resources available for any given economy. European policymakers are showing a growing interest in tapping the emerging global market for highly skilled human capital.”

This quote obviously indicates that competitiveness of a nation in global economy goes hand in hand with its resources (labour) and this requires being more open to highly skilled immigrants.¹⁰⁵ Mahroum highlights that the majority of immigration flows to the EU is coming from Eastern Europe and Africa but only a minority of the immigrants from these regions can be classified as highly skilled. Therefore European governments are introducing

¹⁰³ **Ibid.**, pp. 37-42.

¹⁰⁴ **Ibid.**, p. 47.

¹⁰⁵ Sami Mahroum, “Europe and the Immigration of Highly Skilled Labour”, *International Migration*, Vol. 39, No: 5, 2001, pp. 27-28.

and developing new methods similar to the point-based immigration systems of Australia and Canada and selective immigration policies of the US in order to attract highly skilled labours into the EU. French “scientific visa” as fast track procedure to allow scientists from in the non-European Economic Area (EEA) to work in France, German “green cards” for IT professionals from non-EEA countries, “entrepreneur visa” in the UK, tax discounts applications in Sweden and Netherlands to highly skilled foreign labours including persons from the EU, work permit applications as a result of recognition of the skills shortages in Ireland, tax reductions based on residence permits to foreign experts in Denmark are given as only several examples about changing legislations in the member states. According to Mahroum, the reason of these changes is to make the EU more flexible to cope with globalization and changing demographic trends in Europe.¹⁰⁶

One of the most comprehensive comparative studies on economic migration related to highly skilled labour is published by Petra Zaletel (2006). Zaletel argues that the EU has a particular role in the global competition for the highly skilled labours. She claims that an EU common policy for highly skilled migrants would make the EU more attractive as a whole and increase the Union’s competitiveness in the global economy.¹⁰⁷

“Schemes for highly skilled migrants do determine a country’s attractiveness, as they introduce important benefits to potential immigrants. The final result, nevertheless, depends on both on the right legislative approach and the right combination of external factors – mainly those related to the research and innovation climate in the relevant country.”

Zaletel underlines that the US is the most successful country in stimulating highly skilled persons into the country as consequences of not only several entry channels (particularly H-1B visas) but also quality of education system, credible research centres and high income differences. In these four classifications, the US outperforms the EU.

According to Zaletel, increasing human capital of the EU where foreign skills are available (or a necessity) seems to be vital for the future of European economic competitiveness. To this end, highly skilled migration can significantly contribute to the stock of human capital

¹⁰⁶ **Ibid.**, pp. 31-34.

¹⁰⁷ Petra Zaletel, **ibid.**, p.613.

and thus to the economic growth if member states take necessary steps at national and the EU level.¹⁰⁸

*“While the EU is promoting the idea of mobility pushing toward a European science model, different member states maintain their own protectionist practices. Unlike the United States, such a model [European Research Area] does not exist yet. [...] In reality, a number of barriers to mobility such as taxation, pension, and recognition of qualifications still exists and are deterrents, particularly for women with children. Moreover, the establishment of an ERA requires full application of the principle of complementarity between EU and Member States’ research activities. However, some contradictions still persist. Member States’ domestic research and employment policies differ in relation to their priorities, investments, and also recruitment procedures in the R&D public sector.”*¹⁰⁹

Sonia Morano-Foadi (2005) who supports the creation of the European Research Area (ERA) playing an important role in free movements of knowledge and encouraging the interchange of skills in the EU, argues that there is “*a need*” in Europe to coordinate science and migration policies at European and member state level to enhance the attractiveness of European receiving countries and facilitate return of scientist to their sending nations because there is still significant migration of highly skilled to outside of the Union in particularly to the US and adds that “*while mobility is supported and promoted in the US, the same does not necessarily happen in Europe, despite the creation of the ERA.*”¹¹⁰

Kutasi argues that it is crucial for the EU to reverse the outflow of highly skilled European researchers from the US. Moreover, removal of financing problems of the East Central European research institutions should strongly be taken into consideration at both national and European level. Otherwise, Eastern European experts and researchers will fulfil the

¹⁰⁸ **Ibid.**, pp. 614-615.

¹⁰⁹ Sonia Morano-Foadi, “Scientific Mobility, Career Progression, and Excellence in the European Research Area”, *International Migration*, Vol. 43, No: 5, 2005, pp. 154-155.

¹¹⁰ **Ibid.**, pp. 133-134.

empty jobs left by highly skilled researchers who migrated to the US from leading EU countries and the eastern member states will not be able to catch up to the EU average.¹¹¹

Another interesting point has been underlined by Van Winden, Van den Berg and Pol (2007). They find that European cities in which economic activities based on knowledge intensive industries (Munich, Amsterdam, Helsinki) are more successful in attracting human resources and investments, creating high level jobs and showing high growth rates and innovation levels in a country. With regard to skilled immigration, it is crucial to note that, these cities have relatively high shares of highly skilled immigrants with well paid jobs in firms. Moreover their wealth attracts lower-skilled immigrants who hope to find a job in the expanding personal services sectors.¹¹²

3.4. Economic Migration in the Field of Employment

*“If we increase the number of H-1B visas that are available to US companies, employment of US nationals would likely grow as well. For instance, Microsoft has found that for every H-1B hire we make, we add on average four additional employees to support them in various capacities.”*¹¹³

(Bill Gates, Testimony before the Committee on Science and Technology, US House of Representatives, March 12, 2008.)

“[...] since they (additional skilled immigrants) are in demand, the wages in the skilled labour market will not rise, but their employment will cause additional demand for native unskilled.”

(Klaus F. Zimmermann, 2004)

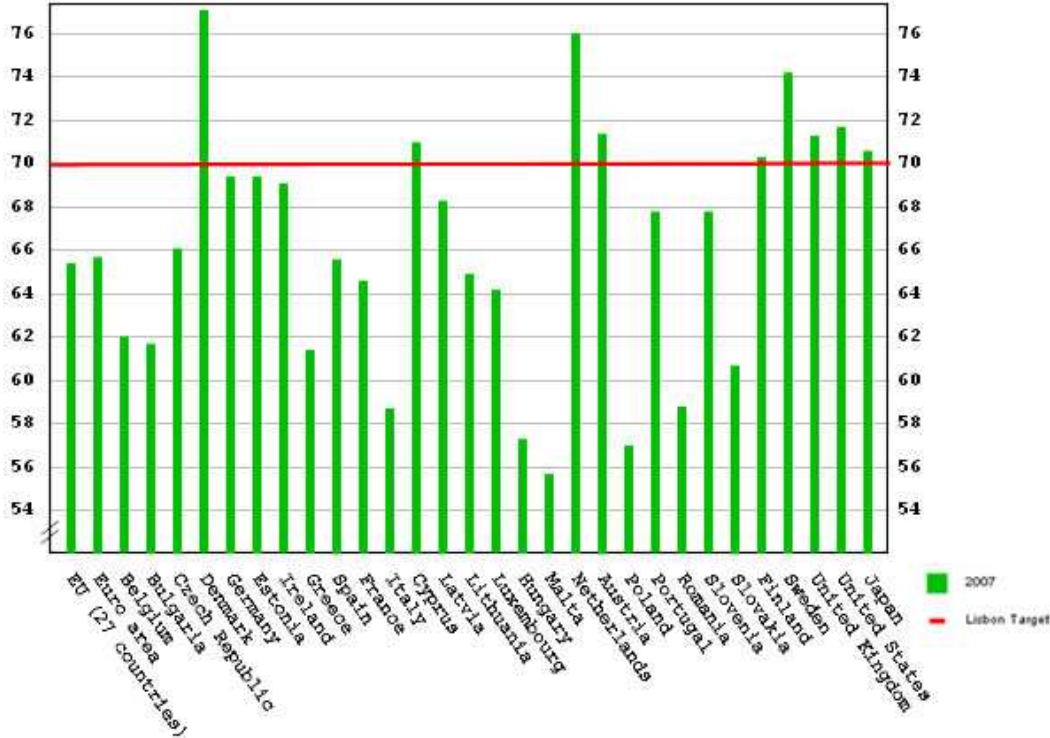
¹¹¹ Gabor Kutasi, “Labour Migration and Competitiveness in the European Union”, *Transition Studies Review*, Vol. 12, No: 3, 2005, p. 524.

¹¹² Willem Van Winden, Leo Van den Berg and Peter Pol, “European Cities in the Knowledge Economy: Towards a Typology”, *Urban Studies*, Vol. 44, No: 3, March 2007, p. 540.

¹¹³ http://democrats.science.house.gov/Media/File/Commdocs/hearings/2008/Full/12mar/gates_testimony_12mar08.pdf p.14, (Available at June 2008)

It is mentioned in previous sections that the ultimate aim of the Lisbon Strategy is to raise the Union’s growth and employment potential. As a result of this initiative, broad economic policy and employment guidelines were put into action by the European Union by 2005. Zimmermann (2004) suggests that in order to achieve the Lisbon goals, the labour market implications of immigration have to be taken into account. Even if the Lisbon employment objectives for 2010 (70% for the population aged between15-64, for women to more than 60%) are achieved by the end of the first decade of 21st century, according to predictions, employment in Europe will started to fall significantly afterwards due to the ageing of population as a result of demographic changes. Providing a greater increase in productivity will become more sophisticated issue to achieve sustained economic growth under certain circumstances. Therefore it is important to mobilize the current stock of migrants to enter the labour market, and to prepare for new immigration by implementing better integration strategies.¹¹⁴

Figure 3.5: Employment Rates (%) the EU, the US and Japan



Source: Eurostat, 2008.

¹¹⁴ Klaus F. Zimmermann, *ibid.*, pp. 15-16.

Zimmermann strongly believes that a selective immigration policy can make contributions in order to achieve the Lisbon targets like reducing the inflow of low skilled people and obtaining a creditable position on the international labour markets for high skilled and well trained workers.¹¹⁵ It can be deduced that an economically oriented immigration policy is required in the Lisbon Strategy for the future of European Economy. Zimmermann explains rationale of this argumentation in his study as the following:

“Immigration can successfully increase the flexibility of the labour market, provide incentives to slow down wage growth, and thus allow more people to obtain gainful employment. Immigrants are typically more flexible than natives. They may ease labour shortages in areas in which natives do not want to work and even create their own work opportunities. [...] Immigrants tend to be more responsive to labour market conditions and may help to smooth the adjustment of labour markets to regional differences or shocks. The increase in human capital that can be achieved by a selective immigration strategy can also contribute to long-run growth. However in many countries there are strong differences in the economic performance of EU and non-EU migrants. Given these possible gains, more openness of the European Union towards non-EU labour migration seems desirable, but also an economic approach to determine a more selective entry policy is required.”¹¹⁶

In a common study (2001), getting Zimmerman and other researchers from various centres across Europe together it is obviously underlined that an economically motivated immigration policy which relies on labour market needs not only brings benefits and contributes to the development of the economy but also increases the popularities of European governments and reduces the social and economic tensions of natives towards foreigners.¹¹⁷

In a later work, Tassinopoulos and Werner (1999) emphasize that after the completion of the Single European Market and the creation of a common currency, there is no reason to occur

¹¹⁵ **Ibid.**, p. 17.

¹¹⁶ **Ibid.**, pp. 19-20.

¹¹⁷ Herbert Brücker, Gil S. Epstein, Barry McCormick, Gilles Saint-Paul, Alessandra Venturini and Klaus F. Zimmermann, *Managing Migration in the European Welfare State*, June 2001, pp. 35-55.

mass immigration flows into Europe. Hereafter, the type of mobility in the EU will depend on economically motivated migration and can be managed easily. According to authors, inner EU mobility increasingly becomes a migration of the highly skilled persons and contracted immigrant workers in specific sectors such as construction.¹¹⁸ Werner (2000) replicates this in another study that, “*the pressure to migrate has decreased the more Europe has become integrated*”. Enhanced trade and transfers of structural funds between member states “*create a convergence in living standards and therefore trade and capital (direct investments) serve as a substitute for worker migration*” and decrease the migrations due to income differentials.¹¹⁹ However, despite the establishment of Common Market in the EU, labour mobility is quite low. The lack of flexible high-skilled workers and ageing process can be attributed as the reasons of immobile labour force in Europe. As a result of this, removal of barriers to non-EU highly skilled migrants would be beneficial to ensure efficient adjustment and larger welfare across all EU member states.¹²⁰

Quotes given at the beginning of this section present that in the case of the immigration of skilled labour, a dynamic effect occurs. Demand for unskilled labour increases due to complementary structure of high skilled immigrations. Furthermore Zimmermann argues that immigration also creates demand for goods and services produced by natives and therefore induces a multiplier effect. These findings show that there is no certain evidence that immigration will lead to lower wage or higher unemployment in an economy. In comparison to the US, the EU has a higher unemployment rate despite the fact that the US labour market composes more foreign born population relative to the EU.¹²¹

Hooghe, Trappers, Meuleman and Reeskens (2008) have made an interesting econometric study that aims to define the pull factors or in other words, incentives of immigration into Europe. This study includes 21 OECD European member countries and their migrant inflows between the years of 1980 and 2004.¹²² The results demonstrate that both economic and cultural incentives determine the structure of European migration patterns. First, with regard

¹¹⁸ Alexandros Tassinopoulos and Heinz Werner, “*To Move or Not to Move: Migration of Labour in the European Union*” *IAB Labour Market Research Topics*, No: 35, 1999, pp. 14-15.

¹¹⁹ Elmar Hönekopp and Heinz Werner, “Is the EU’s Labour Market Threatened by a Wave of Immigration?”, *Intereconomics*, January/February 2000, p. 5-6

¹²⁰ Klaus F. Zimmermann, “European Labour Mobility: Challenges and Potentials” *IZA Discussion Paper Series*, No: 1410, Bonn - Germany, November 2004, pp. 29-30.

¹²¹ Klaus F. Zimmermann, “Tackling the European Migration Problem”, *Journal of Economic Perspectives*, Vol. 9, No: 2, 1995, pp. 53-56.

¹²² See Annex IV.

to the economic factor, it is seen that, unemployment level of a country is the only variable with a significant impact on migration flows in the EU. According to the results, European countries receive more immigrants if their unemployment rates are lower. Beside this result, it is obviously seen that neither gross domestic product (capita) nor percentage of social expenditures play a significant role in attracting immigrants to the richest European countries. Secondly, with regard to cultural factor, the colonial past of a country (where a common language is being spoken dominantly) seems to play an important role in migration flows into Europe.¹²³

Hooghe and others argue that “*immigrants do not settle randomly or in the “easiest” country and are clearly attracted by shortages in the labour markets and by historical ties to a host country.*” From these findings, if colonial ties are ignored, “*immigration seems to be an efficient mechanism to restore imbalances on the labour market in the EU*”.¹²⁴ Venturini and Villosio (2006) support these results in their work as well. They have examined the labour market effects of immigration into Italy and have found that immigrants do not exclude native workers in Italian labour market but also have a complementary effect in all level of educations and they are concentrated in areas where there is excess demand for labour and where the unemployment rate is low.¹²⁵

¹²³ Marc Hooghe, Ann Trappers, Bart Meuleman and Tim Reeskens, “Migration to European Countries: A Structural Explanation of Patterns, 1980 – 2004, *The International Migration Review*, Summer 2008, Vol. 42, No: 2, pp. 485-500.

¹²⁴ *Ibid.*, p. 502.

¹²⁵ Alessandra Venturini and Claudia Villosio, “Labour Market Effects of Immigration into Italy: An Empirical Analysis”, *International Labour Review*, Vol. 145, No: 1-2, 2006, pp. 96-98.

CONCLUSION

The future of the EU Economic competitiveness is closely linked to accomplishment of the Lisbon Strategy. In order to achieve the Lisbon objectives, the EU needs to revise its both macro and micro level economic policies by taking into account all kind of socio-economic challenges that Europeans face. For this reason, the EU should determine its vital priorities as being a knowledge-based economy and create new approaches (new policy instruments to be used) in meeting the Lisbon goals.

In the mid-term failure of Lisbon process in 2004, the European Commission has started to give its energy to focus on crucial and appropriate ways that guarantee the longer term competitiveness of the Union. According to the Commission, spreading knowledge through high quality education system and high qualified researchers is the best way to enhance the economic performances of the EU. As a result of this, European Research Area was established to support the research and development activities across the EU.

As it is stated above, the EU is faced with some structural and demographic problems. First, as an economic integration, the EU depends on a common market that allows the free movements of goods, capital, services and labours among the member states. Nevertheless, Europe has a weak labour mobility and low employment rates. This means that it is important to provide a more mobile workforce for the EU in order to remove the market imperfections coming from weak mobility. Beside this, greater labour participation and productivity growth require a continued investment in a high skilled and adaptable workforce in the EU. It is precise that the economies including highly skilled labours are able to enhance the productivity growth easily. Secondly, ageing population in the EU causes risks to the long term sustainability of the EU Economy. According to the some projections (Pichelman and Roeger, 2004), by 2050, under given circumstances, the EU's working age will have been sharply decreased and the dependency ratio of the EU will increase three times more than the level of 2000. This result implies that there will be increased public expenditures, debt burden, higher real interest rates and lower potential output in the EU.

In the face of given challenges and after the 8 years of launching the Lisbon process, key measures has to be taken at the community level as soon as possible in order to ensure the credibility of the renewed Lisbon Strategy. One of the key actions such as economic and

political reforms is managing the economic migration in accordance with the needs for knowledge-based economy.

In the framework of this study, it is obviously seen that the EU is slowly recognizing the necessity of highly skilled immigration within two different but connected fields: research and employment. It can be said that economic migration (highly skilled immigration into the EU) can play a major role to make the EU the most dynamic and competitive region in the world if the European leaders (Council of the EU) take necessary steps. At this point, it is very important to underline the Commission's role in the policy making process of the EU as an interest seeker for the whole Union as a result of its early actions in 2000 and 2004. In 2000, the Commission emphasized that zero immigration policies of the past years are no longer appropriate for the future of the EU Economy, and in 2004, the Commission highlighted the need for well designed immigration policies for the longer term competitiveness issue of the EU. And as a consequences of these and another initiatives, in the last spring council of the EU (March 2008), it is explicitly denoted that economic migration can play a role in meeting the needs of the labour market and contribute to help reduce skill shortages in the EU.

Not only the official documents but also many academic studies demonstrate that the need for highly skilled labours ought to be seen as a permanent need for the knowledge-based economies. However, in many years, Europeans have faced with many problems related to integration of immigrants to their society as a result of immigrants' different socio-cultural origins and low qualifications. Therefore, some negative attitudes still remain among natives in Europe towards foreigners due to these reasons. Almost half of the EU citizens consider the immigration issue as their primary worry that immigrants will take their jobs and depress their wages. If expected benefits of economically motivated immigration policies relying on labour market needs are well explained to the receiving countries' people at both national and the EU level, European leaders not only reduce the social and economic tensions of natives towards immigrants but also increase their popularities in their national elections.

This thesis has shown that highly skilled immigrants create opportunities for employment and improvements in productivity in knowledge-based economies. Common result is a selective immigration policy can brings dynamic effects to the EU Economy. An economically motivated immigration policy or point-based immigration system on the one hand encourages the skilled immigrant workers on the other hand discourages unskilled foreigners.

As it is emphasized by many researchers that common policy on immigration would increase the EU's attractiveness for the highly skilled immigrants. However, the economic benefits of immigration can only be realized if a higher degree of successful integration of migrants can be achieved. Therefore it is crucial to improve the pull factors of highly skilled migrants in the EU. The creation of European Research Area, recognition of qualifications and diplomas, quality of the universities, credible research and innovation policies and length of work and residence permits, knowledge cities and industrial structures are some of the most effective determinants that help to attract the economic migrants to the EU.

As Petra Zaletel (2006) states in her study that;

“[...] the attractiveness of a country to the highly skilled people and the accomplishment of the Lisbon Strategy are interconnected issues.” (p. 634)

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ANNEX I

Integrated guidelines for growth and jobs (2005-2008)

Macroeconomic guidelines

- (1) To secure economic stability.
- (2) To safeguard economic sustainability.
- (3) To promote an efficient allocation of resources.
- (4) To promote greater coherence between macroeconomic and structural policies.
- (5) To ensure that wage developments contribute to macroeconomic stability and growth.
- (6) To contribute to a dynamic and well-functioning EMU.

Microeconomic guidelines

- (7) To extend and deepen the internal market.
- (8) To ensure open and competitive markets.
- (9) To create a more attractive business environment.
- (10) To promote a more entrepreneurial culture and create a supportive environment for SMEs.
- (11) To expand and improve European infrastructure and complete agreed priority cross-border projects.
- (12) To increase and improve investment in R&D.
- (13) To facilitate innovation and the take up of ICT.
- (14) To encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth.
- (15) To contribute to a strong industrial base.

Employment guidelines

- (16) To implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion.
- (17) To promote a lifecycle approach to work.
- (18) To ensure inclusive labour markets for job-seekers and disadvantaged people.
- (19) To improve matching of labour market needs.
- (20) To promote flexibility combined with employment security and reduce labour market segmentation.
- (21) To ensure employment-friendly wage and other labour cost developments.
- (22) To expand and improve investment in human capital.
- (23) To adapt education and training systems in response to new competence requirements.

ANNEX II

3. THE COMMUNITY LISBON PROGRAMME – AN AGENDA FOR GROWTH AND JOBS

The design and implementation of macroeconomic, microeconomic and employment policies lies primarily with Member States and will be set out in national reform programmes this autumn. The Integrated Guidelines for Growth and Jobs provide guidance for such policies.

The Community contributes to the overall economic and employment policy agenda by completing the internal market and by implementing common policies and activities that support and complement national policies. It will in particular **concentrate on a number of key actions** with high value-added:

- the support of knowledge and innovation in Europe,
- the reform of the state aid policy,
- the improvement and simplification of the regulatory framework in which business operates,
- the completion of the Internal Market for services,
- the completion of an ambitious agreement in the Doha round,
- the removal of obstacles to physical, labour and academic mobility,
- the development of a common approach to economic migration,
- the support of efforts to deal with the social consequences of economic restructuring.

ANNEX III

3. 10 KEY OBJECTIVES FOR THE NEW CLP IN THE FOUR PRIORITY AREAS

The Commission proposes that the 2008-2010 CLP should contain ten key objectives and corresponding actions based on the integrated guidelines and fully resting on the four priority areas.

10 Key Objectives to be accomplished by 2010

1. The Commission will propose a renewed Social Agenda by mid-2008 and will help to address the skills gap.
2. The Commission will make proposals for a common policy on immigration in 2008.
3. The Community will adopt a Small Business Act to unlock the growth potential of SMEs throughout their life-cycle.
4. The Community will move towards the target to reduce EU administrative burdens by 25 % by 2012 and implement an ambitious simplification programme.
5. The Community will strengthen the single market, increase competition in services, and take further steps to integrate the financial services market.
6. The Community will make a reality of the fifth freedom (the free movement of knowledge) and create a genuine European Research area.
7. The Community will improve the framework conditions for innovation.
8. The Community will complete the internal market for energy and adopt the climate change package.
9. The Community will promote an industrial policy geared towards more sustainable production and consumption.
10. The Community will negotiate bilaterally with key trading partners to open up new opportunities for international trade and investment, and create a common space of regulatory provisions and standards.

ANNEX IV

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INTERNATIONAL MIGRATION REVIEW

TABLE 1
MIGRATION TRENDS IN OECD EUROPEAN MEMBER COUNTRIES

	Stock Foreign Population			Inflow Foreign Population		
	1980	2004	Trend 1980–2004	1980–1990 (avg/year)	1991–2004 (avg/year)	Trend annual evolution ^d
Austria ^c	3.82	9.59	+5.77	–	81,586	+8,046
Belgium	8.92	8.41	–0.51	40,447	59,830	+1,470
Czech Republic	1.73	2.48	+0.75	1,352	14,657	+1,518
Denmark	1.78	4.97	+3.20	14,457	20,906	+493
Finland	–	2.08	–	12,618	9,857	–208
France	6.89	5.47 ^b	–1.42	64,248	102,378	+2,777
Germany*	5.69	8.16	+2.47	515,455	748,312	+10,767
Greece ^c	1.87	6.92 ^b	+5.05	36,167	30,538	+15
Hungary	–	1.40	–	8,136	16,900	+808
Ireland ^c	2.59 ^a	5.63	+3.05	21,000	27,979	+565
Italy	0.37	3.89 ^c	+3.51	90,364	175,899	+1,765
Luxembourg	24.68	39.42	+14.75	7,261	10,343	+231
Netherlands	3.68	4.32	+0.64	55,434	79,681	+1,559
Norway	2.02	4.64	+2.62	16,158	23,334	+688
Poland	0.13	0.13	+0.00	1,704	16,627	+1,248
Portugal ^c	0.52	4.32	+3.80	–	24,842	+4,576
Slovenia ^c	0.06 ^a	2.30	+2.24	–	5,069	+483
Spain	0.49	4.63	+4.14	21,782	185,847	+17,696
Sweden	5.07	5.18	+0.10	36,082	43,710	+640
Switzerland	4.13	20.42	+6.30	72,543	91,085	+1,095
United Kingdom	3.14 ^a	4.81	+1.67	–	231,585	+26,085
OECD Europe	3.32	5.30	+1.97	1,068,695	2,000,965	+84,130

Source: OECD, Eurostat, and own calculations by the authors. Stock in percentage of total population; flow in absolute numbers.

*Before 1989 this is the sum of the scores for East and West Germany.

^aData for 1990 instead of 1980 are used due to missing values.

^bData for 2000 instead of 2002 are used due to missing values.

^cSome missing values are present. Averages per year are calculated on the figures for the available inflow statistics.

^dResults from an OLS-regression analysis. Virtual annual evolution of the migration inflow to the country (absolute numbers).