

# **INTERNATIONAL LABOR MIGRATION FOR THE BALTIC STATES IN THE CONTEXT OF EU EASTWARD ENLARGEMENT**

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## **ABSTRACT**

*Increased labor migration, which is explicated by various socio-economic and political factors, is one of the expected consequences of the European Union's (EU) eastward enlargement scheme. Causal labor flows will inevitably impact the composition and other characteristics of human capital markets for both current EU members as well as anticipated accession nations. Valuable lessons in international labor migration, found in Europe in the 1960s and 1970s and particularly during the EU's previous round of enlargement, can be guardedly relied upon to formulate some projections for international labor migration outcomes germane to impending EU as well as Eurozone enlargement processes.*

## **INTRODUCTION - EU EASTWARD ACCESSION**

Today the EU is comprised of 15 countries (EU15): Austria, Belgium, Britain (UK), Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden. The European Commission's (EC) latest annual reports on the progress of the mostly Central and Eastern European countries (CEEC) toward EU accession indicated that the 10 leading countries (CC10) - the Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia

- could join the European Union in 2004. The two Balkan candidates not included in that schedule, Bulgaria and Romania, were offered encouragement to make further progress (O'Rourke, 2002). Among the 10 countries named to accede in 2004, 2 are non-CEEC, Cyprus and Malta. This paper also considers a subset of candidate countries, namely CC8, which refers to the 8 CEEC approved for accession in 2004: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia. Despite accession's promise of a unified Europe, the work of transforming the societies and economies of the region will go on, and will bring with it scores of new challenges for the augmented EU. Labor migration is a palpable one.

### **LABOR MARKET FLEXIBILITY**

Flexibility of labor markets is a salient feature of well-functioning market-based economy. Davis and Haltiwanger (1999) report that in most western economies roughly one in ten jobs is created and one in ten jobs is destroyed every year. Strong labor mobility permits the rapid reallocation of resources to where they can attract their highest worth in a world of rapid changes in technology, and thus is vital for economic growth. At the same time, high-pace job reallocation involves substantial worker displacement with associated significant earnings losses for the impacted workers (Jacobsen, et al, 1993). The flexibility of labor markets is a key channel that will yield nominal and real convergences of less and more advanced economies.

Free movement of labor will have rather conspicuous pressure on the labor markets of the Baltic States due to the potential exodus of the better-qualified and more flexible labor force participants. Movers will also include young people possessing a secondary school (gymnasium) education, who are unable to find jobs at home commensurate with their educational attainment. They are prepared to work abroad as blue color workers, securing salaries that are relatively higher than those obtainable in their home countries. By and large, reallocation of resources, job creation and losses, as well as flows between labor market states are extremely important for

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transition economies. It shows the flexibility of these labor markets. A high labor market flexibility leads to higher economic growth, it will also lead to a more rapid transition.

### **EMU AND EU15 LABOR MARKETS**

Labor markets of the CC10 differ notably from the labor markets of the EU15. With regard to the EMU member states (Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain, or the EU15 minus Denmark, UK and Sweden), a leading hypothesis of high structural unemployment rates in the EU15 can be explained to a large extent by the type of labour market institutions prevailing in the member countries, such as hiring and firing costs, unemployment benefits, collective bargaining regulations etc. The leading explanation for the lack of reform is that existing institutions represent a social equilibrium. Any deviation from that equilibrium will bring about significant political costs to governments, unions and employers, which they consider to be unbearable.

The Economic and Monetary Union (EMU) is a complement to the European single market, the objective of which is the free movement of people, goods, services and capital within the European Union. With a single currency, the single market is intended to operate better due to the removal of the transaction costs brought about by currency conversions, the elimination of exchange rate variations which disrupt trade and investments, and the transparency of prices in euro (Quest, 1998).

Further developments of the EMU might lead governments to modify labor market regulations in the EU15. Conventional wisdom is that the EMU eventually removes some barriers to labor market reform, a process backed by stronger labor market competition due to eastward enlargement. Research should concentrate on wage flexibility, taking into account the wage bargaining system, relative wage flexibility (dispersion of wages) and working-time flexibility; geographical/job-mobility (focusing on increased transparency and large transaction costs); as well as reforms of labor market

institutional frameworks (regulation of hiring and firing with regard to costs and unemployment benefits).

### **FDI IMPACTS ON CC8 AND CC10 LABOR MARKETS**

The challenges facing labor markets of accession countries are even more severe than those which EU members have to endure. Increasing FDI flows from the euro-zone to transitional countries, which distorted mutual trade relations and pushed the economies in transition to rapid restructuring, has considerably influenced labor market developments of these countries. The effects of capital movements from the EU member states to applicant countries also include the relocation of labor-intensive production from the EU to the CEEC, hurting wages and employment of unskilled workers in specific enterprises and branches. FDI have significant spillover effects in countries in transition. FDI not only generate an inflow of capital, but also provide local firms with managerial skills and often involve a transfer of technology. These processes certainly support the adjustment of transitional labor markets with the EU requirements.

### **MIGRATION THEORY**

Theoretically, labor migration is a consequence of rational choice, oriented within a certain system of values. To wit, if a person's minimal needs within one social context are not satisfied, she or he tends to emigrate to a new locale within a more attractive social context. She or he aspires to experience improved conditions that either fulfill needs, reduce depravity and/or enhance the potential for development (see also Mangalam & Morgan, 1968). This is but one of the many possible explanations for labor migration, which, even if plausible, cannot on its own accord afford a comprehensive explanation for labor movement.

Indeed, there exists no single, coherent theory of migration, but rather a fragmented set of disparate theories. Many of the theories have developed

in isolation from the rest. Theories that attempts to explain migration processes include the neoclassical theory of migration, segmented labor market theory, world system theory, human capital theory, new economics of labor migration theory, dual labor market theory, and gravity model approaches.

According to neoclassical economic theory, international labor flows are prompted by real wage disparities among nations. International labor mobility is thought to be the key to the maintenance of a single, international equilibrium real wage for all countries (Borjas, 1989; Öberg, 1997). Per Keynesian theory, labor supply depends on the nominal wage, as well as the real wage. This distinction is made in light of the distinctive views toward the role of money. Money is not only a medium of exchange but also a medium of saving and, therefore, potential migrants consider relatively high nominal wage regions attractive. The intent to re-emigrate or to remit funds bolsters the relative significance of the nominal wage-level vis-à-vis the real wage level. From this aspect of Keynesian theory, it follows that unemployment differences between a sending country and a receiving country has a positive effect on the volume of labor migration between said countries (see also Jennissen, 2002).

Piore (1979) posits three possible explanations for the demand of foreign workers in modern industrial societies: a) general labor shortages, b) the need to fill the bottom positions in the job hierarchy, and c) labor shortages in the secondary sector, which is characterized by a labor-intensive method of production and predominantly low-skilled labor market.

The dual labor market theory explores reasons for and consequences of international labor migration and stipulates that low- and high-skilled labor flows need be analyzed independently. (See case studies "Migration from Portugal to Switzerland: Low skilled, classical labor migration" and "Migration from Sweden to Norway: High skilled post-industrial labor migration"; Jennissen, 2002.) The dual labor market theory affords a semblance of suitability for exploring and predicting changes for the EU labor markets during and in the aftermath of eastward enlargement.

### **MIGRATION PATTERNS IN THE 60S, 70S, AND 80S**

International labor migration in Europe in the 1960s and early 1970s was largely characterized by low-skilled labor migration. The domestic labor force in many Western European countries had been unable to accommodate the inordinate demand for manual labor. Consequently, many labor migrants moved from Southern Europe (Greece, Italy, Portugal, Spain) and Turkey to Western Europe, as well as from Ireland and Finland to UK and Sweden. The end of the mid-1970 economic recession essentially halted these labor flows, and many labor migrants returned to their respective countries of origin. Labor migrants who chose to not return, were often joined by their families from abroad, a flow which was characteristics of international labor migration in the second half of the 1970s and early 1980s. The second half of 1970s also saw some post-colonial migration, particularly in the cases of Portugal and the Netherlands. Post-industrial international labor migration, consisting of a combination of high- and low-skilled labor (including clandestine and asylum migration), emerged in the 1980s.

### **ECONOMIC DETERMINANTS OF MIGRATION**

A paper by Jennissen (2001) focuses on 4 economic determinants of international migration in Europe: GDP per capita, unemployment, educational level and migrant stock. The study concludes that each variable except unemployment has a positive effect on international net migration. Generally, the rationale for international migration can be divided into push and pull factors (revisited later in Table 2), depending on whether these factors characterize the source (home) or destination (host) country, respectively. Either factor can contribute to the promotion or restraint of migration. The main pull factors include relatively favorable employment opportunities and high income potential in the host destination country. Conversely, the main push factors are relatively high unemployment and low earnings in the home country.

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## OTHER DETERMINANTS OF LABOR MIGRATION

In addition to economic determinants of international labor migration, there are also legislative (legislation that regulates labor movement between countries, i.e., labor legislation), demographic (number and structure of country population), political, social, psychological, cultural, and historical determinants. Of singular import is the influence of migrant networks, which help potential migrants of the same ethnic origin to locate jobs and to dispense information about accommodation, proper labor and social policy measures, etc. Differences in educational levels between sending and receiving countries also influence labor migration. For instance, the high educational level of a sending country may have a negative effect on low-skilled labor flows from the same country.

## POST EU ENLARGEMENT MIGRATION FORECAST STUDIES

In the second half of the 1990s, numerous studies were conducted on the prospects of international labor migration behavior after EU eastward enlargement (expected in 2004), when the current regime will be replaced with the right of free labor movement. The forecasts, in absence of administrative restriction, vary considerably depending on methodology and assumptions used within the studies (Brücker & Boeri, 2000; Sinn, et al, 2001; Walterkirchen & Dietz, 1998; Bauer & Zimmermann, 1999; Hille & Straubhaar, 2000).

The main methodological distinction is between implementations of surveys versus quantitative models. Surveys that record intentions and desires do not pretend to predict actual labor movement. Model-based studies' outcomes remain relatively ambiguous due to the complexity of imbedded factors influencing migration and the reliance on strong assumptions. These studies, for example, attempt to adopt historic patterns observed in major recent migrations and embrace them as assumptions in projection studies of forthcoming Eastward enlargement labor migration. Uncertainty in explaining outcomes is exacerbated by necessarily relying on

very long-term forecasts of economic developments in the EU and candidate countries (EC, 2001).

Eurostat studies (2000a and 2000b) afford further evidence of the uncertainty that surrounds migration predictions. Two critical assumptions are made in these studies: that the present distribution of candidate country nationals among member states will not change; and that the share of employees is based on the present (rather low) share of employees among residents. These assumptions could distort the predictions insofar as the present distribution of employment and employment rate may have resulted from historical circumstances and migration patterns different than those that will prevail after accession and in a context of free movement.

### **MIGRATION STUDY ESTIMATES**

Estimates based on various research studies place the long-run migration potential from CC10 at roughly 1% of the EU15 population, hence, a flow of 3.8 million persons. (The population of EU15 is estimated at 380,000,000.) Surveys intimate a strong preference among candidate country nationals for temporary work, which foretells of important subsequent flows of return migration to the CC10 candidate countries. Based on some predictions in absence of administrative restriction for labor movement, the initial emigration from the CC8 into EU15 is approximately 70,000 workers annually or 0.05% of the CC8 population. (The CC8 population is approximately 14,000,000.) If family members are included, the total swells to approximately 200,000 persons (EC, 2001, pp.7-8).

According to the study by Brücker and Boeri (2000), labor migration will be concentrated to only a few current EU member states, and enlargement will not significantly affect wages and employment in the EU. Two-thirds of the estimated 70,000 labor migrant flows from the CC8 is expected to be absorbed by Germany in the first few years. Austria will absorb about 20% of the labor flows coming from the CC8. The forecasts show that the share of the CC10 people in the population of the present EU member states would rise from 0.2% in 1998 to 1.1% in 2030 (Ibid., p.9). In sum, according to



predictions, the movement of labor between the EU countries after eastward enlargement will not be significant.

The stock of labor force in EU15, which emigrated from non-EU countries is not significant. In 1999 the figure was about 5.3 million or only 3.1% of the EU15's total labor force. The number of non-EU residents was about 12 million or 3.2% of total EU residents. Beyond those persons officially working in the EU member states, some estimates show that there is also about 600,000 working tourists from the candidate countries (Eurostat, 2000a and 2000b). Apparently, the stock of emigrants from the candidate countries is not large and, furthermore, there are no well-developed and institutionalized migrant networks that could support East-West labor migration.

Table 1 shows that the number of residents in the selected EU member countries from the Baltic States alone is also insignificant. The 1998 data show (summing across columns for each of the 9 EU member countries listed) approximately 15,000 from Estonia, 7500 from Latvia and 8500 from Lithuania.. Table 1 also shows the miniscule share of Baltic State nationals in 3 selected EU countries: about 1% of Baltic State nationals live in Germany, 0.3% in Finland, and 0.2% in Sweden. Also shown for selected EU member countries are the shares of EU member population comprised of Baltic State nationals. For Germany, 0.02% of its population is attributed to Baltic State nationals. Very small numbers are also associated with Finland (19%), Sweden (.02%), Denmark (.03% ), Holland (.002%), Italy (.001% ), and Greece (.002% ). It can be surmised that changes in the Baltic States' labor markets and labor flows from these countries will not have a significant impact on the EU labor market as a whole. (Total Baltic States' population is about 7.6 million: 1.45 million in Estonia, 2.44 million in Latvia and 3.70 million in Lithuania.)

**Table 1. Stock of Baltic Citizens in Selected EU Member States in 1998**

	Ger.	Fin.	Swe.	Den.	Hol.*	Italy	Gre	Spain	Por.
Estonia	3173	9689	1124	384	100	98	36	31	2
Latvia	6147	134	387	449	110	168	73	36	1
Lithuania	6631	163	358	555	260	174	109	65	10
Total	15951	9986	1869	1388	470	440	218	86	13
Baltic Nationals in the EU in % of Total Baltic States' Population									
	1.01	0.31	0.22						
Baltic Nationals in the EU in % of Selected EU Member's Population									
	0.02	0.19	0.02	0.03	0.002	0.001	0.002		
Source: Eurostat, (2000a & 2000b); Authors' calculations.									
* The study assumes accession in 2002 of all candidate countries. Its often-quoted estimate of 335,000 refers to the total number of people migrating from all candidate countries in 2002, of which 35% would be employees. The year 2004 is the new projection date for CC10 accession.									

### **BSR MIGRATION FLOWS BETWEEN EU MEMBER COUNTRIES AND THE BALTIC STATES**

The integration of the Baltic Sea Region (BSR) countries (Denmark, Finland, Germany, Estonia, Latvia, Lithuania, Poland, Russia, and Sweden) into the EU has more than twenty-five years of history starting from January 1, 1973 when Denmark became a member of the EU. The collapse of the Berlin Wall and German unification shifted the EU border to the East, and Germany became the largest BSR country. Sweden and Finland joined the EU in January 1, 1995 (the northern enlargement). As the BSR countries with developed market economies strove for the EU membership, transitional countries of the region (Poland, Estonia, Latvia, and Lithuania) embarked on the creation of networks to promote integration. The first initiative advanced international trade networks: free trade areas with EFTA countries, the Baltic

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Free Trade Area (covering Estonia, Latvia and Lithuania), CEFTA, and others.

The chief hosts for the Baltic States' migrant labor force are their fellow BSR countries, Denmark, Finland, Germany, Poland, Russia, and Sweden. Of these 6 countries, 4 are members of the current EU15, Denmark, Finland, Sweden and Germany. And in the context of Eastward enlargement, whereby the integration of border regions appears to be a relevant consideration, an analysis of labor migration problems of the Baltic States calls for an emphasis to be placed on the potential for labor movement within the four BSR countries of the EU15.

According to the Eurostat data (2000), more than 90% of Baltic States' nationals in the EU15 are living in the BSR countries (98.2% of Estonians, 91.8% of Latvians and 92.6 of Lithuanians). According to the survey information of the Ministry for Social Affairs and Labor of Lithuania (2001), Lithuanians have mainly worked in the following countries in the recent years: Russia - 20.3%, Germany - 18.6%, Great Britain - 9.9%, US - 8.1%, Denmark - 7.6%, Italy - 6.4%, Sweden - 4.1%. Hence, more than 50% of Lithuanians that temporarily worked outside of the home country worked in the BSR countries.

At the same time, due to the very small population size of the Baltic States, the share of the Baltic nationals in the population of these countries is insignificant; it in no case exceeds 0.2%. Of the total number of Estonian citizens living in the EU15, 66% live in Finland. Of the total number of Latvian and Lithuanian citizens living in the EU15, 82% and 80%, respectively, reside in Germany. Given the relative prominence of Baltic State nationals in Finland and Germany, it is tempting to think that migrant networks may support migration of the Baltic States' labor force to these two BSR countries. In reality, these networks are not sufficiently institutionalized to allow them to play a significant role in attracting migrant labor from the Baltic States.

### **PULL AND PUSH FACTORS REVISITED - APPLICATION TO THE BALTIC STATES AND BSR**

Important economic pull and push factors that influence labor movement within the BSR countries are presented in Table 2. They are GDP per capita using purchasing power parity (PPP) conversion factors, GDP per capita using market exchange rates (MER), Population, Unemployment Rate, and Distance between the BSR country capitals. Distance is not only a determinant of the economic costs of migration but also denotes cultural proximity and the extent of historical relationships between the countries. For example, due to their historical and cultural associations as well as geographic proximity, the migration of the Baltic States labor force will be mainly to fellow BSR countries.

Table 2 data indicate lower GDP per capita and higher unemployment rates for Baltic State relative to other BSR countries that are current members of the UE15. This, along with the proximity of Baltic States to fellow BSR members of the EU15, are driving forces in the positive growth of cross-border emigration from the Baltic States.

### **LEGAL ENVIRONMENT**

The consequences of EU enlargement for international labor migration depend also on the prevailing legal environment. If citizens of the candidate countries are allowed to work in any EU country immediately upon joining the EU, then significant East-West labor flows may occur during the first years of EU eastward enlargement. Germany and Austria are especially prone to substantial (and unwanted) labor migration. Therefore, it is likely that, similar to the arrangement implemented during a prior EU enlargement phase involving Greece, Portugal and Spain, a transitional agreement with respect to free labor movement will be formulated to mitigate the expected flows between CC10 and present EU members, Germany and Austria.

<b>Table 2. Factors Influencing the BSR Countries' Labor Migration, 2000.</b>		
Factor	The Baltic States	The BSR Countries that are Current EU Members
GDP (PPP) per capita, (\$USD)	Estonia - 10068; Latvia - 6893; Lithuania - 7094	Denmark - 27404; Finland - 25154; Germany - 25290; Sweden - 24288
GDP (MER) per capita, (\$USD)	Estonia - 3577; Latvia - 2938; Lithuania - 3044	Denmark - 30400; Finland - 23418; Germany - 22829; Sweden - 25627
Number of Population (Mil.)	Estonia - 1.45; Latvia - 2.4; Lithuania - 3.7	Denmark - 5.3; Finland - 5.2; Germany - 82; Sweden - 8.9
Unemployment Rate (%)	Estonia - 13.9%; Latvia - 14.7%; Lithuania 15.9%	Denmark - 4,6 %; Finland - 9,7 %; Germany - 10% ; Sweden - 4,7
Distance (Kilometers between capital cities)	Est-Den.: 842; Est-Ger.: 1045; Est-Swe.: 383; Est-Fin.: 84 Lat-Den.:733; Lat-Fin.:361; Lat-Ger.: 850; Lat-Swe.: 450 Lit-Den.:826; Lit-Fin.:611; Lit-Ger.:828; Lit-Swe.: 686	Den.-Est.: 842; Den.-Lat.: 733; Den.-Lit.: 826; Fin.-Est.: 84; Fin.-Lat.:361; Fin.-Lit: 611 Ger.-Est: 1045; Ger.-Lat.: 850; Ger.-Lit.:828; Swe.-Est.:383; Swe-Lat: 450; Swe-Lit: 686
Sources: IMF, Financial Statistic Yearbook, 2001; World Bank, 2001 (www.worldbank.org); Statistical Office of Estonia, 2001; The Baltic and the Nordic Countries. Central Statistical Bureau of Latvia, 2000. International Labor Organization 2002 (www.ilo.org), Estonia, Latvia, Lithuania in Figures 2000, Statistical Office of Estonia, Tallinn, 2000.		

The conditions of labor market accessibility for the 4 BSR countries that are also members of the EU15 are presented in the Table 3. Accessibility varies somewhat among the countries, and in two cases (Denmark and Finland), candidate migrants are not assigned to any special Regime.

Long-term permits are allotted by each of the countries except Germany. Restrictions on accessibility are somewhat superfluous in the case of Baltic State migration. Due to very small size of the Baltic State labor markets, the Baltic influence on the EU labor market will not be significant even if people from the Baltic States were to immediately gain unfettered access to all EU15 labor markets after joining the EU. Finland might sustain some impact since it is a BSR industrialized country with relatively small open economy.

### **EDUCATION AND MIGRATION**

The average level of educational attainment in the Baltic States is high. Because other CEECs are on par with Baltic State educational levels, education assumes a comparatively insignificant role as a determinant in labor migration in the region. If recognition and credence are given to diplomas of the accession countries' people, it is probable this will prompt some increase of high skilled labor force movement between East and West (both directions), and the wages of highly qualified persons will readily yield a new equilibrium wage level.

Educational levels in some accession counties including the Baltic States are even approaching the natural upper limit. Thus, with respect to educational levels, former low skilled labor migration from less developed regions in the EU cannot be viewed as fair parallels to future low skilled migration from accession countries. It is somewhat predictable that due to significant differences in real and nominal wages and structural unemployment among most accession countries including the Baltic States, comparatively well educated people will move to the industrialized EU countries in order to work there, albeit as blue color workers.

**Table 3. The Conditions of The Labor Market Access In The BSR Countries,  
The Current Members Of EU in 2000.**

Country	Access of Third Country Nationals To The Labor Market	Special Regime For Candidate Countries	Long-Term Residence Permits
Denmark	Very limited access. Work permit needs to be obtained prior to entering the country. Labor market need has to exist. Total number of permits in 1999: 73,092	No special regime.	In general, if a work permit is granted, a residence permit will also be granted.
Finland	Work permit needs to be obtained prior to entering Finland. Labor market has to exist. Privileged regimes for qualified workforce.	No special regime.	Usually for 1 year; after 2 years a permanent residence permit may be granted.
Germany	Residence permits (granted up to 5 years) and work authorization needed. Work permit normally requires existence of need in labor market. Total number of permits in 1999: 1,083,268.	Quota-based agreements on trainee workers with Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia.	- none -
Sweden	Different countries jointly decide with national authorities on the issuance of temporary work permits, which are only issued in the case of labor shortage. Total number of foreign workers in 1999 was about 220,000.	Bilateral agreements on trainees.	After 2 years of residence, a permanent residence permit may be applied for.

Source, EC, 2001.

### **CROSS-BORDER MIGRATION IN THE BSR: THE REAL WAGE GAP**

It is highly probable that once free movement of labor is attained, cross-border movement in border regions of the Baltic States will significantly increase. Cross-border movement includes commutes by employed persons and workers contracted to perform occasional jobs, some lasting days, weeks, or months. Cross-border workers maintain their dwellings and family in their home countries and thus avoid the high transaction cost of moving and adaptation to foreign country. Cross-border workers ordinarily take their wages back to the home country, and hence, the wage gap should be assessed in real terms, accounting for the relatively higher home-country purchasing power of their earned wages.

### **HOME AND HOST COUNTRY COSTS AND BENEFITS OF MIGRATION**

Prior experience and research studies show that labor migration processes have had little effect on host country unemployment and wages (Sinn, 2001). Migration of labor from a home country to a country of destination can even provide gain for the host country, since migrants generally receive a wage below the gain in value added to the host economy. From a long-term perspective, labor migration for the host country can be seen as a welcome measure to mitigate the problems of a declining and aging European population.

Cross-border workers can be costly to the country of residence (home country), which may not receive income tax revenue from cross-border workers, yet which is obligated to finance social expenditures and local infrastructures for the benefit of the workers' families. Nonetheless, studies (Sinn, 2001) indicate that income earned by immigrants produces additional investment income, rents and increased consumer spending, and, in general, does not tend to impose an inordinate burden on the domestic population. As for timing and the budgetary burden of the CEEC's accession, a paper by



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Kandogan (2000) uses a game theory model to show that under current voting rules, costs of eastern enlargement will be quite significant no matter when the CC10 join.

## CONCLUSION

The free movement of labor is expected to induce growth in cross-border migration between the EU15 and CC10. Economic factors, such as lower GDP per capita and higher unemployment rates for Baltic State relative to other BSR countries, as well as physical proximity of Baltic States to fellow BSR members of the EU15, will promote growth of cross-border emigration from the Baltic States.

Given the very small size of the Baltic States' labor markets relative to the EU15, labor migration flows from the Baltic States into the EU15 are not expected to be significant in the nascent stages of CC10 accession. Cross-border migration costs to the home country are countered by home country benefits, including additional investment income, rents and increased consumer spending.

Borrowing on experiences of prior rounds of EU enlargement and the predictions that labor migration will not exceed 0.2% of the population, estimates of migration flows in the initial years of free labor movement from each of the Baltic States into the EU15 can be conceived. Estonian emigration could be estimated at 2500 to 2800 migrants per year or about 10,000 to 14,000 persons during the first half decade. Latvia can be expected to emigrate roughly 5000 to 6000 nationals per year or 15,000 to 23,000 persons during the first half decade. The numbers that can be projected for Lithuania are, respectively, 7000 to 8000 persons per year or 27,000 to 37,000 emigrants during the first half of the decade. Over a longer term (10 years period), labor migration is expected to decline.

Further cogitation on historic labor migration experiences germane to previous rounds of EU enlargement lends itself to the following suppositions. Firstly, it is predictable that migrating laborers will belong mainly to a relatively qualified and flexible labor force. Secondly, due to the

very small size of the Baltic labor markets compared to the EU as a whole, labor migration from the Baltic States into the EU15 countries will be insignificant and will not impose noticeable pressure on the EU15 labor markets. Thirdly, free movement of labor will not produce sufficient pressure on EU15 labor markets to disturb their levels of unemployment and wages. Fourthly, the main absorbers of the labor flows from CC8 will be Germany and Austria. Fifthly, due to somewhat shared historical and cultural conditioning and neighborhood effects, Baltic States' labor force emigrants will primarily converge on their fellow BSR countries.

The import of labor from the Baltic States might alleviate the dilemma of a declining and aging European population, but it cannot be solely relied on to solve demographic problems in the long run. Growth of labor flexibility is critical in order to achieve sustainable development in all European countries in the context of EMU and EU eastward enlargement.

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