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### How Visa Free Regime for Albanians Affect the EU Labor Market?

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**Abstract:**

*In literature and surveys, the issue of economic impacts and consequences of immigration from non-EU countries like Albania to the EU labor market have been much debated especially in the EU side. According to the theories of migration, a major incentive to migrate is a real income or wage differentials between regions or countries. Also, the economic impact of immigration on wages and employment levels will obviously differ with the skill levels of migrants. If migrants mainly are unskilled and native workers skilled, like in the case of emigration from Albania to the EU especially to the neighbors and main receiving countries of Greece and Italy, we can easily say that Albanian and the EU workers are complements because of Albanian immigrants and the EU native workers are not substitutes in production. So, an increase in the number of Albanian immigrants raises the marginal product of the EU natives, shifting up the demand curve for the EU native-born workers. This increase in the EU native productivity raises the EU native wages. Moreover, some EU natives now see the higher wage rate as an additional incentive to enter the labor market, and the EU native employment also rises. On the other side, the empirical literature on this issue does not agree on the size of the potential immigrants from Albania to the EU labor market. Although, it is not clear what the sources were or the methods used to arrive at these estimates, there is reason to believe that the figures for the main countries such as Greece and Italy are very probable. According to the historical background size of the Albanian migrants to the especially Greece and Italy the size of migration after accession is estimated between 600 thousands and 1.1 million. As a result, considering this number of potential migrants, we can easily say that the public fears concerning the occupation of the European labor markets especially in Greece and Italy by the Albanian immigrants seems to be exaggerated. We can clearly state that estimations show the potential number or size of migration after possible accession of Albania to the EU. Unfortunately, these estimations do not show the impact of this potential size of migrants on the EU labor market like especially the effects of immigration on wages and employment opportunities. Up to now in literature we do not have any empirical study or result which gives the impact of this size of potential migration on wages or employment opportunities of native workers in the EU labor market.*

**Key words:** immigration, Albania, the European Union, labor market, wages and employment.

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### 1 Introduction

The Ministers of Interior of the European Union put into practice visa free travel for citizens from Albania and Bosnia and Herzegovina at the end of the last year. Cecilia Malmström, European Commissioner for Home Affairs welcomed the Council's decision, said:

*Today is an historical event for Albania and Bosnia and Herzegovina. The citizens of these two countries will be able to travel with a biometric passport without visa to the EU countries participating in the common visa policy and those associated to the Schengen area. Visa free travel will facilitate people-to-people contacts, enhance business opportunities and give the possibility for the people of the region to get to know the EU better. But a visa-free regime also comes with responsibilities for both the governments and the people of the countries benefiting from this freedom. I am confident that the efforts made by the authorities of the two countries, together with the monitoring mechanism, will offer an effective response to these worries and will allow citizens from Albania and Bosnia and Herzegovina to fully benefit from this historical opportunity". Štefan Füle, European Commissioner for Enlargement, commenting that decision said: "The visa-free regime is the best proof that reforms at home bring tangible benefits for citizens and progress in relations with the EU. We can build on this in order to further the reforms needed to bring the two countries closer to their European aspirations.*

The subject of potential migration flows from Albania and its effects on the EU labor market after free movement of labor is a considerable issue in Albania-EU future full membership process. In 1997 Albania was included in EU's 'Regional Approach' programme, predecessor to today's 'Stabilisation and Association Process' (SAP) (European Council, 1997; 1999). Under the terms of the SAP, the EU offers Albania the possibility of future EU membership (European Council, 2000: Art. 69). On 12 June 2006, Albania signed in Luxembourg the Stabilisation and Association Agreement (SAA) and the Interim Agreement with the EU. As of December 2006, the Interim Agreement for trade and related issues has come into force. According to the European Commission, the implementation of the Interim Agreement has been successful. The Government of Albania has prepared and is implementing the National Plan for the Implementation of the Stabilization and Association Agreement as the main monitoring instrument of the political, economic, legal and institutional reforms and is considered an integral part of the National Strategy for Development and Integration. The SAA is the instrument which will enable gradual integration of Albania into the European Union. The Agreement creates the necessary framework for strengthening the rule of law, increase its effectiveness, and assist institutional and economic reforms with the aim to raise the standards of living for all citizens. Through this Agreement, Albania aims to attain the standards that will guarantee its status as a candidate state and subsequently association with the European Union. The SAA envisages the principle of national treatment, according to which an Albanian worker, legally employed in the territory of an EU member state, must be treated equally to the citizens of this EU member state with respect to working conditions, remuneration or dismissal. Further, the spouse and children of a legally employed worker in the territory of an EU member state, when they reside legally in this state, have the right to education and labor market access in this member state during the period of that worker's authorised stay of employment. However, access to employment for Albanian workers in the European market is limited because they remain at the willingness of the EU member states, which recognise free movement of worker through bilateral agreements, which they sign with Albania (IMF, 2008).

The issue of the impact of emigration from Albania to the EU after free movement of labor on the EU countries' labor markets is now being heatedly debated in Albania-EU membership process. In fact, the entrance into the EU means the removal of all barriers to free movement of labor. According to the European opinion pools, the European labor market may be flooded with millions of unskilled

non-EU workers. If substantial and uncontrolled, these immigration flows could lead to important disturbances in the EU labor market. The direction of migration flows will also be impacted on by the location of existing Albanian migrants especially in Greece and Italy. Each of the EU annual reports goes deep into the technical details of inadequate legislation and procedures not yet conforming to EU norms. What is however lacking is empirical data on the evolution of migratory movements. One feature common to all reports is a blatant EU-centrism, completely neglecting the side-effects of migratory movements on the EU's partner country Albania. 'Progress' is defined more or less in terms of the permeability of Albania's borders and corresponding EU-style legislation, essentially disregarding the context of its implementation. Often there is a resort to vague statements leading to similarly vague suggestions: "Albania appears to have made progress regarding the control of illegal migration/trafficking towards the EU [...], but events [...] in early January demonstrate that further efforts are needed [...] However, border management continues to require substantial improvement" (European Commission, 2005: 35).

This paper summarizes the impact of potential migration flows from Albania on the EU especially Greece and Italy labor market after free movement of labor and it also presents a survey of theoretical and empirical literature.

### **2 Historical Background of Albanian Migration**

As widely documented in previous studies (Carletto *et al.* 2004; INSTAT 2004; King *et al.* 2005; King and Vullnetari 2003), Albania is a country on the move, with massive levels of both internal and international migration (Azzari and Carletto 2009: 2-3). When the communist government eventually fell, the end of the controls on internal and external migration and the collapse of the centrally planned economy unleashed a demographic shift at an unprecedented pace, as individuals and entire households started migrating to the cities or leaving the country altogether. By many accounts, within a decade the number of Albanians abroad swelled to at least 600,000 individuals (King and Vullnetari 2003) or as high as 800,000 (Barjaba 2000). More recent estimates increase the figure to over 1 million (Government of Albania 2005).

After the collapsing of communist system, migration flows can be broken down into the 1991-1992 stream, which was wholly uncontrolled, when approximately 300,000 Albanians left the country; the 1992-1996 stream, when a similar number migrated, most illegally, despite the temporary improvement of the economy and better border controls; and the 1996-1997 stream, immediately after the collapse of various pyramid schemes, which wiped out the savings of hundreds of thousands of people. In the national unrest that followed, a combination of unemployment, poverty, and economic hardships led to the migration of around 70,000 people within a few months. Finally, since 1998, a gradual improvement in economic, political, and social conditions and favorable immigration policies in two key receiving countries, Greece and Italy, have increased legal migration and reduced illegal flows (Barjaba, 2004; Vullnetari, 2007).

### **3 The Size and Structure of Current Immigration Flows**

Albanian contemporary migration is taking place under very different circumstances than the other sending countries of migration. In particular, its massive concentration over a short period of time as the country moved almost overnight from total closure to large-scale out-migration, marks Albanian migration as a significant and unique case. Albanian migration movement described as 'a new migration order' and a 'laboratory for the study of migration and development'. Taking into account these circumstances and special features, post-1990 Albanian emigration is a 'new' type of international migration. Based on research and studies carried out throughout the first post communist decade, Barjaba first suggested an 'Albanian model' of emigration in 2000. This model

has the following features: it is *intense* (a rate of emigration much higher than any other Eastern bloc country); it is largely *economically driven* – a form of ‘*survival migration*’; it has a *high degree of irregularity*, with many undocumented migrants; it displays lots of *to-and-fro movement*, especially with Greece; and it is *dynamic and rapidly evolving*, especially as regards new destinations and routes of migration (Vullnetari 2007: 40).

By the present day, approximately 25 percent of the total population, or over 35 percent of the labor force, has emigrated. The country has approximately 900,000 emigrants, now residing mainly in Greece (600,000), Italy (200,000), and most of the remainder in other Western European countries, the US, and Canada. Albania's migration flow has, since the early 1990s, been five times higher than the average migration flow in developing countries. In 2000 the Albanian Department of Emigration within the Albanian Ministry of Labour and Social Affairs estimated that, by 1999, there were 800,000 Albanians living abroad (Barjaba 2000). The majority of them, 500,000, were in Greece, 200,000 were in Italy, and the remaining 100,000 in other European countries and in North America. These figures combined documented and an estimate of undocumented migrants: in Italy documented migrants were in the majority; in Greece, until recently, most Albanians were undocumented. Some of the figures presented were likely to be underestimates, given the mobility of Albanian migrants, especially within Europe, and the rapid evolution of new migration channels and routes in recent years. Although it is not clear how these estimates were calculated, they are the most cited that apply to this period (1990-99), and they have remained largely unchallenged. A second and – in a sense – more reliable source of data on emigration was provided by the results of the 2001 Albanian Census (INSTAT 2002). The Census revealed an estimated net loss due to emigration of more than 600,000 between 1989-2001, calculated by the census residual method (calculating net emigration as the residual of inter-censal population change, minus the net difference between births and deaths). This figure, however, excluded short-term migration of less than one year's duration, and thus, much emigration to Greece, which is temporary. More recently, the Government of Albania has published revised estimates, which put the number of Albanians abroad at over one million by 2005 (Government of Albania 2005: 36). Although, it is not clear what the sources were or the methods used to arrive at these estimates, there is reason to believe that the figures for the main countries such as Greece and Italy are very probable.

**Table 1: Estimates of Albanians Living Abroad**

Country	1999	2005
Greece	500,000	600,000
Italy	200,000	250,000
USA	12,000	150,000
UK	5,000	50,000
Germany	12,000	15,000
Canada	5,000	11,500
Belgium	2,500	5,000
Turkey	1,000	5,000
France	2,000	2,000
Austria	2,000	2,000
Switzerland	1,000	1,500
Netherlands	NA	1,000
<b>Total</b>	<b>742,500</b>	<b>1,093,000</b>

*Source: Barjaba (2000) and Government of Albania (2005).*

The data in *table 1* show a clear increase of 350,000 in the number of Albanians living abroad between 1999 and 2005. It might be the case that they emigrated during these years, but not necessarily. Not knowing how these figures have been calculated makes it difficult to draw such

conclusions. One thing is for certain: they and the document they appeared in – the National Strategy on Migration – indicate an increased awareness on the side of the Government of Albania about the issue of emigration. Besides an increase in numbers, these figures also indicate a shift in the relative importance of various destination countries. Although Greece and Italy remain the main receiving countries, other destinations such as the USA, the UK and Canada have become attractive to an increasing number of Albanian emigrants. (Vullnetari, 2007: 35-36). The flows of (current) migrants have fluctuated considerably, more than doubling in the aftermath of the collapse of the notorious pyramid scheme in 1997, peaking in 2000 at about 50,000 new migrants per year, and steadily decreasing after that (Azzarri and Carletto 2009: 4). The potential for migration from Albania remains high due to such push factors as unemployment and poverty. Around 30 percent of Albanians are currently below the poverty line, and half of them live in extreme poverty, subsisting on less than \$1 per day. The unemployment rate remains high, despite a recent slow decline. In addition, illnesses are a major concern and access to medical care is scarce, especially in rural areas. Four out five poor people live in rural areas, and the poverty rate among young people is higher than average. Approximately 40 percent of the poor live in larger and younger households. These mostly economic hardships have at different points combined with episodes of political instability to boost migration flows. This was especially true in the period 1997-1998, when labor migration was coupled with forced migration (Barjaba 2004).

*Table 2* gives further evidence on some of the contrasts already noted, and introduces new variables into the analysis. Permanent migrants are generally younger, male and slightly more educated than the average adult left behind. They are also more likely to come from female- and single-headed households. As expected, migrants come from larger households (in 1990) which, largely as a result of migration, are now significantly smaller. Similarly, households with migrants are on average less educated, partly as a result of the migration of the more educated members in the household. Also, migrant households are significantly older, following the migration of the younger members in the family. Finally, households with a migrant are also wealthier, as illustrated by the different poverty indicators, although clearly the causality direction is ambiguous. As of education levels of Albanian migrants, the larger numbers of less educated individuals are migrating in recent years. Interestingly, female migrants are on average more educated than men, particularly in the 1990s; the gap narrows somewhat after 2000. The breakdown of the education trends by main destination and place of origin of the migrants reveals some interesting differences. The general downward trend in educational levels does not concern the flow of permanent migrants moving from Tirana and going to destinations beyond Greece and Italy. For this particular group of migrants only, educational levels of migrants have remained stable over the years, at levels significantly above the rest going to Greece and Italy, and originating from other parts of Albania (Azzarri and Carletto 2009: 8-9).

**Table 2: Characteristics and Education Levels of Permanent Migrants**

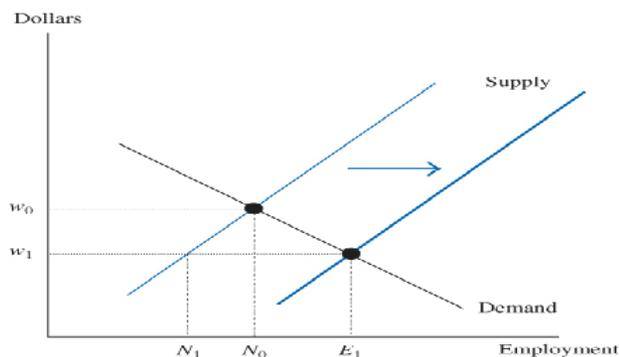
<b>Individual Characteristics</b>	<b>Non-migrants</b>	<b>Migrants</b>
<i>% of females</i>	0.69	0.35
<i>Age</i>	36.6	31.5
<i>Years of schooling</i>	9.8	10.1
<b>Education Levels</b>		
Adult years of education	9.23	8.36
Max. adult years of education	11.08	10.12

*Source: Azzarri and Carletto 2009.*

#### 4 The Labor Market Effects of Migration

In theory, migration mainly occurs because of geographical differences in the demand and supply of labor markets. *Hicks (1932)* argued that differences in net economic advantages, chiefly differences in wages, are the main causes of migration. Regions with a shortage of labor relative to capital are characterized by a high equilibrium wage, whereas regions with a large supply of labor relative to capital are faced with low equilibrium wages. This wage differential causes a migration flow from low wage to high wage regions. *Sjaastad (1962)* introduced the human capital model to migration research. This model, which probably became the most influential and widely used approach, treats migration as an investment decision of an individual. Practically all modern analysis of migration decisions uses this hypothesis as the point of departure and views the migration of workers as a form of human capital investment. A different approach challenges many of the foregone conclusions by postulating that families or households typically make migration decisions. *Mincer (1978)* examined the influence of an increased labor force participation of wives on the migration decision of families. Household size and the number of working family members increase the sources of costs and benefits from migration. Recently, a different starting point was chosen by *Stark (1991)*. In the new economics of migration, this approach models migration through the risk-sharing behavior of families. In contrast to individuals, households are able to diversify their resources, such as labor, in order to minimize risks to the family income. This goal is reached by sending some family members to work in foreign labor markets.

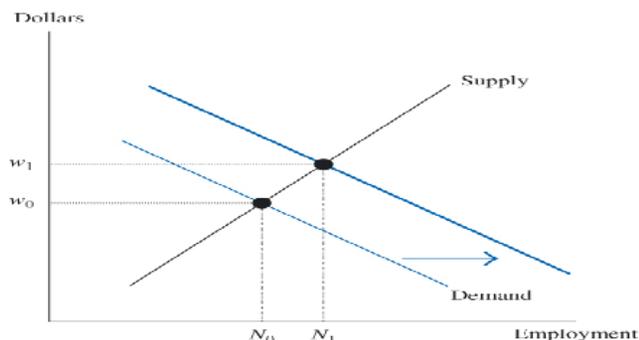
The simplest model of immigration assumes that immigrants and natives are perfect substitutes in production (Borjas, 2008: 181-184; Borjas, 1995: 3-22; Borjas, 1994:1667-1717; McConnell *et al.*, 2003: 287-293; Ehrenberg and Smith, 2009: 340-342). In other words, immigrants and natives have the same types of skills and are competing for the same types of jobs. The impact of immigration on this labor market in the short run (with capital held fixed) is illustrated in *Figure 1*. As immigrants enter the labor market, the supply curve shifts out, increasing total employment from  $N_0$  to  $E_1$  and reducing wages from  $W_0$  to  $W_1$ . Note that fewer native-born workers are willing to work at this lower wage, so the employment of native workers actually falls, from  $N_0$  to  $N_1$ . In a sense, immigrants “take jobs away” from natives by reducing the native wage and convincing some native workers that it is no longer worthwhile to work.



**Figure 1:** *The Short-Run Impact of Immigration When Immigrants and Natives Are Perfect Substitutes; Borjas, 2008:182.*

The short run impact of immigration when native workers and immigrants are perfect substitutes, therefore, is unambiguous. As long as the demand curve is downward sloping and capital is fixed, an increase in immigration will move the economy down the demand curve, reducing the wage and employment of native-born workers. Of course, the assumption that native workers and immigrants are perfect substitutes is questionable. It may be that immigrant and native workers are not

competing for the same type of jobs. For instance, immigrants may be particularly adept at some types of labor-intensive agricultural production. This frees up the more skilled native workforce to perform tasks that make better use of their human capital. The presence of immigrants increases native productivity because natives can now specialize in tasks that are better suited to their skills. Immigrants and natives thus complement each other in the labor market. If two groups are complement in production, an increase in the number of immigrants raises the marginal product of natives, shifting up the demand curve for native-born workers. As *Figure 2* shows, this increase in native productivity raises the native wage from  $W_0$  to  $W_1$ . Moreover, some natives who previously did not find it profitable to work now see the higher wage rate as an additional incentive to enter the labor market, and native employment also rises from  $N_0$  to  $N_1$ .



**Figure 2:** *The Short-Run Impact of Immigration When Immigrants and Natives Are Complements; Borjas, 2008:183.*

According to the simple model of labor market impact of immigration, immigrants are gross substitutes for some labor market groups, reducing the labor demand and wages for these groups. On the other hand, the immigrants are gross complements for other native workers, causing labor demand and wages for these groups to rise. Therefore, not all groups of workers are equally affected by immigration. In case of Albania, the PPP-adjusted income per capita in the EU is more than five times higher in Albania. The income differential will continue to be a strong incentive for migration from Albania to the EU. Therefore, the prospect of large-scale immigration from Albania is a source of considerable concern among the EU countries, where it is feared that the immigrants will depress wages and boost unemployment. When free migration is allowed, labor will move from Albania to the EU in order to earn the higher wage. Migration stops when the wage is equalized between the Albania and the EU. Thus, one effect of migration is that it raises the wage in sending country and reduces the wage in the receiving country. One assumption in this analysis is questionable; however, namely that labor is homogenous. In reality, labor is highly differentiated according to education, training, experience and many other characteristics.

A survey of empirical studies concludes that a 10 percent increase in the fraction of immigrants creates at most a 1 percent decrease in the wages of native workers (Friedberg and Hunt, 1995; Schultz, 1998). Immigrants appear to have the largest impact on the wage of high school dropouts and other immigrants (Borjas-Freeman and Katz, 1996; Enchautegui, 1997). Immigrants do not substantially affect the earnings of native-born workers, but instead reduce the earnings of natives who themselves were immigrants (Borjas, 1987). In sum, there is little evidence that immigration has a significant negative effect on the wage and employment levels of natives in United States (McConnell-Brue and Macpherson, 2003). On the other hand, a positive effect on the wage of skilled labor has been found in Europa (Zimmerman, 1995) and Germany (Haisken-De New and Zimmerman, 1996), as can be expected when unskilled immigrants are complements to skilled native workers.

In case of Albania, there is no empirical study or result which shows the impact of size of potential migration on wages or employment opportunities of native workers in the EU labor market. Because researchers have not enough and quality data (especially in sending country of Albania) to realize needed such complex and detailed empirical studies and they have some implications about econometric methods and models used in such empirical studies. It is clearly stated that the economic effects of immigration to Greece and Italy, host to the largest Albanian immigrant population among the EU-15 seems to indicate fairly small and, on the whole, positive effects; employment opportunities are not much affected, the wage of low skilled labor is somewhat depressed but that of skilled labor is raised, and the net present value of public transfers is positive.

The economic impact of immigration on wages and employment levels will obviously differ with the skill level of migrants. If migrants mainly are unskilled and native workers mainly skilled, like in the case of emigration from Albania to the EU especially Greece and Italy, native and immigrant workers in the production are not substitutes. According to the data which show much of Albanian migrants are mainly unskilled, Albania and the EU workers are complements. In other words, Albanian immigrant workers and native the EU workers have not the same types of skills and are not competing for the same types of jobs because of Albanian immigrants workers are mainly unskilled or lower skilled while the EU native workers are mainly high or upper skilled. Albanian immigrants and the EU native workers are complement in production, an increase in the number of Albanian immigrants raises the marginal product of the EU natives, shifting up the demand curve for the EU native-born workers. This increase in the EU native productivity raises the EU native wages. Moreover, some EU natives who previously did not find it profitable to work now see the higher wage rate as an additional incentive to enter the labor market, and the EU native employment also rises.

### 5 Conclusion

The literature does not agree on the size of the potential immigrants from Albania to the EU labor market. Although, it is not clear what the sources were or the methods used to arrive at these estimates, there is reason to believe that the figures for the main countries such as Greece and Italy are very probable. According to the historical background size of the Albanian migrants to the especially Greece and Italy the size of migration after accession is estimated between 600 thousands and 1.1 million. According to the existing data, the job quality of Turkish workers in Germany is mainly unskilled or lower skilled, and natives mainly skilled also. Empirical findings showed that if immigrants are mainly unskilled and natives mainly skilled there is little evidence that immigration has a significant negative effect on the wage and employment levels of natives in U.S. On the other hand, a positive effect on the wage of skilled labor has been found in Europa and Germany as can be expected when unskilled immigrants are complements to skilled native workers. In case of Albania, because of quality data and methodology problem there is no empirical result or impact in literature. A simple model of the labor market impact of immigration on wages and employment levels could differ with the skill levels of the migrants and labor demand in the EU. The economic effects of immigration to Greece and Italy, host to the largest Albanian immigrant population among the EU-15 seems to indicate fairly small and, on the whole, positive effects; the wage and employment level of low skilled labor is somewhat depressed but that of skilled labor is raised.

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