

The Role of Human Capital in International Competitiveness. Transatlantic Comparison of Experience with Migration in the US and the EU

INTERNATIONAL CONFERENCE

26 January, 2007

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Introduction

Dear Colleagues and Friends,

This is the volume of papers, delivered during the international conference on the “Role of Human Capital in International Competitiveness. Transatlantic Comparison of Experience with Migration in the US and the EU”. The event took place on January 26, 2007 in Sofia. It was organized by the Economic Policy Institute in cooperation with the Council on Social Work Education, Alexandria, VA; Katherine A. Kendall Institute, the Institute for World Economics of the Hungarian Academy of Sciences, Budapest, the Romanian Center for Economic Policies, Bucharest and thanks to the financial support of the German Marshall Fund of the United States, Washington.

The project’s main goal was to provide a closer look to the current state of the researched tendencies and through a transatlantic conference to create a forum for discussions and policy dialogue on the role of human capital in international competitiveness, with a special focus on migration. In order to identify policy recommendations and implications during the final event were presented several country case studies of Bulgaria, Hungary, Romania and USA, the EU perspective was also included. Conference speakers presented papers prepared in advance, which treated their country experiences and delivered information on national future policy actions.

You can find out more about the international conference (Program, List of Participants, etc.) on www.epi-bg.org.

The present volume contains contributions structured within the following main thematic panels and topics:

- Presentation of Case Studies on Bulgaria, Hungary, Romania;
 - Human Capital as a Key-Factor for the Competitiveness of Bulgaria. The Role of the International Migration
 - Vocational Training – An Essential Element for the Development of Human Resources
 - Economic Impact of Migration in Hungary

- Security, Legal and Human Aspects of Migration – Experience and Policies (Hungary)
- The Role of Human Capital in the International Competitiveness. The Romanian Policy Approach
- Assessing the Human Capital in Romania - Current State of Understanding and Expectations
- Presentation of Case Studies on the Experience of European Union and U.S.A.;
 - Human Capital: An EC Perspective
 - United States’ Migration Policies and Their Implications

We are aware of the limits of this effort to make you a part of the successful the international conference on the “Role of Human Capital in International Competitiveness. Transatlantic Comparison of Experience with Migration in the US and the EU”. Nonetheless, it is in EPI’s major goals profile and line of activity to publish and disseminate, and thus actively contribute to the widening of beneficiaries’ circles of those ones believing in and working for the future of Europe.

With this broader interdisciplinary “project”, going beyond the narrow research focus of the competitiveness and migration issue only, we hope to have provided some new insights on the researched topics. We would like also to contribute to the networking and international cooperation and thank to all the colleagues, friends and actors who have inspired, trusted and supported us. We thank once again our donor the German Marshall Fund of the United States.

Ivanka Petkova

*Chairperson & Chief Executive Officer
Economic Policy Institute*

Plamena Spassova

*Executive Director
Economic Policy Institute*

**Welcoming Address
by Georgi Pirinski,
Chairman of the 40th National Assembly
of the Republic of Bulgaria, Sofia**

TO THE PARTICIPANTS IN THE CONFERENCE

Ladies and Gentlemen,

Please, allow me to congratulate you and to wish successful work to the participants in the Conference on the Project “The Role of Human Capital in International Competitiveness. Transatlantic Comparison of Experience with Migration in the United States and the European Union”.

I am convinced that the fruitful discussions will be beneficial both for the participants themselves and the migration policies of their countries. I hope that the balanced scientific conclusions of the Conference will help the efforts of the institutions to solve the practical issues in this field.

The subject of the Conference is undoubtedly of particular present interest for Bulgaria because of its accession to the European Union and the tasks that Bulgaria has to deal with as part of the external border of the Union with regard to the migration processes on the Continent.

Wishing you fruitful discussions,

Yours truly,
Georgi Pirinski

26 January 2007

**STATEMENT BY NINA RADEVA,
DEPUTY MINISTER OF ECONOMY AND ENERGY**

TO THE PARTICIPANTS
IN THE INTERNATIONAL CONFERENCE

Dear Ladies and Gentleman,

It is a pleasure and honor for me to attend the conference and on behalf of the Ministry of economy and energy to welcome all participants in the international conference on „The Role of Human Capital in International Competitiveness. Transatlantic Comparison of Experience with Migration in the United States and the European Union”.

On 1 January 2007 Bulgaria became a full-fledged member of the European Union. It is said to be one of the biggest achievements of the Bulgarian policy and Bulgarian society as a whole. It is an evidence of the positive development of the country in the last few years and also of the acknowledgement of the European partners for the attained objectives and fulfilment of all criteria for EU membership.

Bulgaria has walked a complicated and a very hard way of reforms in the process of its EU-accession. The harmonization of legislation, adoption and implementation of the European requirements even before the date of membership has given an opportunity of the Bulgarian industry to adjust to the high requirements of the European Single Market in order face successfully the internal competitive pressure.

The process of EU-accession found expression in the implementation of some positive tendencies in the development of the Bulgarian economy. It has been recognized as a functioning market economy. In the last few years Bulgaria has been achieving a high economic growth – 5.5% in 2005 and 6.7% in the third quarter of 2006.

It turned out that the positive development of the economy is possible only due to the fact that the business environment in Bulgaria is predictable as a result of the sustained financial and macroeconomic stability. The accumulated inflation in 2005 in Bulgaria amounted to

6.5% no matter the drastic jump in the fuels prices (over 60% in the last year). The inflation in the end of November 2006 added up to 5.3%.

The overall improvement of the business environment and the growth of the FDI have reflected also in reduction of the unemployment rates which decreased from 18% in 2000 to 10.13% in the end of 2005. Thus, unemployment in 2006 has amounted to 9.61% which levels have approached the average rates in EU (8%).

In 2005 the investments, not based on privatization have reached 2.3 billion Euro. The amount of FDI within the period January-October 2006 is 3.2 billion Euro. The competitiveness of the Bulgarian business as a whole has improved due to these investments. The Bulgarian export for the mentioned period January-October has reached 9.96 billion Euro recording in this way a growth rate of 29.1%, compared to the same period in 2005. It is worth noting also the new tendency presenting that the export has been growing with bigger rates than the import, which in itself has increased with 25.6% for the first ten months of 2006.

The measures for competitiveness increasing of the Bulgarian business and for improvement of the business environment in Bulgaria are said to be in the spirit of the renewed Lisbon strategy achieving a higher growth and employment. The priority areas to be influenced include activities as building of attractive investment environment, growth based on knowledge and innovations development, creation of more and better jobs by the business.

The huge investment volume stands for an increased demand of qualified specialists on behalf of the business. The daily contacts to Bulgarian and foreign investors are showing that it is getting harder and harder for Bulgaria to reply to this increased demand. A long-lasting shortage of high skilled labour force has been outlined in a number of key economic sectors of the country. Except highly qualified specialists in the field of the IT and communications and engineers with different professional and educational backgrounds, on the labour market are also lacking specialists obtaining vocational secondary education and qualified workers for a lot of branches of the manufacturing industry, building sector, tourism, etc.

The practice of EU member countries shows that even those of them, which have imposed strong restrictions for entering of foreign citizens into their labour markets pursue a policy of attracting of professionals,

lacking in their domestic economies. The above mentioned necessitates a new meaning to be given to the current state policy towards migration of human capital towards the European countries and USA.

There are some reasons to be mentioned in this context:

First, it is said to be the emigration of qualified specialists in the 90s and the beginning of 21st century. Although, the dimensions of the emigration processes have been recently decreasing and the structure of the Bulgarian emigration has been changing towards low skilled workers, the big difference in remuneration does not create enough prerequisites for the qualified specialists to return back to the country.

Second, these are the unfavourable demographic processes – low birth rates and the rapid population ageing.

Third, the pool of unemployed people in Bulgaria preset a reserve of not sufficiently skilled labor force. In the last few years the unemployment in Bulgaria decreased rapidly, but unfortunately 60,1 % of the unemployed obtain diploma in primary education and 64,2 % are without any qualification and professional specialty.

Fourth, the already planned big investments for production extension in many key economic sectors will cause even acuter shortage of qualified employees in variety of professional specialties.

Fifth, the only one source of qualified specialist for the Bulgarian labour market remains the education system. Unfortunately, it is not oriented towards the needs of the labour market. The state admission to the vocational schools and universities is not appropriate to the labour market demands, because it has been planned with the aim to keep the schools and universities existing and the personnel there employed.

As a conclusion I would like to draw your attention to the actuality of this international conference's topic. I hope that the information provided by the lecturers' presentations and shared during the discussions and informal conversations would be of great use for all participants. Thus, the objective of this conference will be achieved.

I wish you successful and useful work!

Thank you for your attention!

**STATEMENT BY FERNANDO PONZ
FIRST SECRETARY, REPRESENTATION
OF THE EUROPEAN COMMISSION IN BULGARIA,
SOFIA**

Ms. Petkova,
Ms. Watkins
Dear Ambassadors,
Distinguished guests,

It is a privilege for me to welcome you on behalf of the Representation of the European Commission in Sofia and also to congratulate the Economic Policy Institute - the organisers of this event, our friends from the German Marshall Fund and certainly also the Bulgarian authorities. I think this is a particularly timely and intellectually provoking event. Let me explain you briefly why I think that it is timely and why I think that it is intellectually provoking. This is not an empty courtesy formula. It is intellectually provoking, because migration is most probably, at least in my view, the most significant social phenomenon of the 20th and the 21st century. It is full of promises; it is full of opportunities to improve competitiveness, but it is full of dangers as well. In that sense it is also irreversible and in that sense it is particularly important to reflect about it when we still have some time and now we have some time because Bulgaria and Romania, you are now countries of emigrants, you are both countries which have seen a part of the population going away, perhaps for lack of a better future within the country, not just because they wanted to. The situation has also evolved in other countries and it is important to start thinking about it from the beginning in order to manage migration as it has to be managed properly. But also I think, this is intellectually provoking, because of the transatlantic dimension of this conference. The European Union was created itself under the inspiration of the United States to a very large extent and I think that from day 1 the European Union has been looking at the United States for examples of

things to do, but also to avoid some mistakes, why not. In that sense we can also look at the United States for examples of the migration policy to copy what they have done well and to avoid what they have done not so well and perhaps database as well, because migration is a long-time phenomenon here in Europe, so I think, that this exchange of expertise will be mutually beneficent for both sides of the Atlantic. But also there is a last main reason, why I think this is particularly intellectually provoking, and that reason is the existence of a European Union citizenship, which sometimes is forgotten, but which exists. As you know from the time of the Maastricht treaty the European Union decided to give its citizens the citizenship of the Union. This involves rights for the EU-citizens and now also for the Bulgarians and for the Romanians, but also involves obligations and it also involves a dimension that has to be taken into account when we discuss migration: to what extent do we want to have common migration policies in the European Union. Also it is important to what extent it is interesting and important for our partners and in particular for the United States, that we have a common migration policy. I want to throw to you the question, if is it better or worse for the United States to deal with individual member states on migration issues or is it better for them with the European Union speaking with a single voice. From the way I ask this question you can already see what my response to this is, but this is not what is important. What is important is what your response is because you are the experts and I know that in the audience we have some of the most prominent authorities about this, so I wanted to launch this question to you. I am so glad this is going to be discussed during the panels.

Secondly, why do I think, that this is so timely. As I said it is not a courtesy formula. I think this event is very timely because from the 1 January 2007 everything has changed in Bulgaria and in Romania. I think that to some extent this is a little bit like saying that the international situation is intensifying. It doesn't really mean anything and in fact things have not changed overnight in Bulgaria and Romania, it is a process. But there is one thing that has changed in both countries. From 1 January 2007 both Bulgaria and Romania are fully bound by all the obligations of the European Union and they have also become full-fledged

member states. The obligations they are obliged now by, include the social acquis which is in general the lows and the body of legislation that the European Union has also on social affairs, so that is one of the reasons why this is also timely. As I said one moment ago if the future is as bright as we wish for Bulgaria and Romania, both countries will evolve from countries of emigrants to countries of immigrants. Right now it is a little bit difficult to envisage that, but it has happened. It has happened in the country that I know best, which is Spain, the country I come from, and it has happened very quickly. Then we went from a situation of having two million people or more abroad, to a situation, where between 5 to 10 percent of the population in Spain is of foreign origin. Bulgaria and Romania may be quicker than us, because the globalization is now more advanced. The migration cannot be stopped by physical barriers that we all have learnt. So better to prepare when we have the time

In conclusion, I would like to say, that when I read the remarkably long title of this conference it took me few minutes to think for my self what will be for me the ultimate objective of this conference. Of course, it is for the organizers to say, but for me one of the ultimate objectives, could be to make a useful contribution so that Bulgaria and Romania can prepare things in a way that makes it possible for those who want to stay, to stay and to have a decent, prosperous life in their countries and it also makes it possible for those who want to leave and to work abroad, to work abroad and to have a decent, prosperous life in another member state of the European Union or even in the United States.

I don't want to be any longer than this. Let me once again congratulate the Economic Policy Institute, the German Marshall Fund and the Bulgarian authorities for this timely and provoking initiative. I wish you all possible success for your conference.

PANEL: PRESENTATION OF CASE STUDIES ON BULGARIA, HUNGARY, ROMANIA

THE CASE OF BULGARIA **Human Capital as a Key-factor for the Competitiveness of Bulgaria. The Role of the International Migration**

Yasen Georgiev

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I. Introduction:

The Balkans and the SEE as a whole are said to be a migrant area. Traditionally, for economic and political reasons, outward migration is an option for most people in this region. Similarly after the collapse of the socialist system and the fall of the iron curtain, outward migration has become quite important. To this, the effects of civil and other conflicts should be added that have led to the large flow of refugees and internally displaced people, some of whom have ended up as migrants within and outside the region.

In this research, post conflict migration will be set aside, as fortunately Bulgaria was among the few Balkan countries, which underwent a peaceful transition. Examining the case of migration it is often difficult empirically to distinguish economic from political migration, theoretically and conceptually those are distinct phenomena. Liberalization as well as restructuring of production has opened up opportunities and released labour from their previous employment, thus increased labour mobility has been more or less expected. In addition, prolonged adverse economic circumstances, as the ones that can be found in SEE and particularly in Bulgaria, have made outward migration more attractive.

The above mentioned explains why the recent decades have seen far more research on immigration than on emigration. The quantitative study

of migration with a source country focus is aggravated by the paucity of internationally comparable or even national data beyond the census results: national authorities can keep track of only part of the people who move abroad, be it permanently or temporarily. Temporary migrants in particular are often unrecorded in their host countries where they tend to perform illegal work. However, existing researchs have revealed that causes and effects of emigration are highly context specific.

Thus, outward migration itself is crucial for the countries' overall competitiveness, domestic labour supply, for income generation and for public finances. Across the SEE region, migrant workers' remittances have become an important source of income. In some countries of Southeast Europe, officially recorded remittances make up for a substantial share of GDP.

However, the knowledge of determinants and effects of Southeast European and in particular Bulgarian migration is still insufficient to date. For instance, little is known about the effects of emigration on the public provision of services and social security. The capability of the state to provide services and social security may deteriorate as a result of a diminishing tax base due to emigration, or it may increase as remittances and self-employment of returning migrants promote economic activity. On the other hand, migration itself may be a reaction to a transient economic crisis against which the state fails to provide protection. The provision of public goods, notably infrastructure, may also be critical for investment from saved income abroad as a complement that enhances the returns from such investment. Turning to inequality, e.g. household income inequality may be increased or decreased by migration flows, depending on the draw of migrants from the total income distribution of the population, on different capabilities of migrants from households with higher or lower domestic income to remit, and on labour market and household adjustments to earnings abroad.

In the following research will be investigated some of these and other connections, presenting the Bulgarian perspective within the topic of role of human capital in international competitiveness.

II. Bulgaria - General Information and Trends:

Over the last few years Bulgaria has achieved considerable progress towards lasting stability and sustainable growth. The dynamic development of Bulgarian economy continues – in 2005 the real GDP growth rate was about 5.5 % and in the first half of 2006 reached 6.1%. More than 68% of GDP is produced by the private sector. The service sector also recorded a significant growth by 6.6% on annual basis in 2005 and by 5.3% on annual basis in the first half of 2006.

Table 1. Data and Statistics for Bulgaria (2005¹)

| | |
|--------------------------------------------------------------|-------|
| Population, total (millions) | 7.7 |
| Population growth (annual %) | -0.3 |
| Life expectancy at birth, female (years) | 76.0 |
| Life expectancy at birth, male (years) | 68.9 |
| Poverty headcount ratio at \$2 a day (PPP) (% of population) | 6.4 |
| GDP (current US\$) (billions) | 26.65 |
| GDP growth (annual %) | 5.5 |
| GNI per capita, Atlas method (current US\$) | 3450 |
| Inflation, consumer prices (annual %) | 5.0 |
| Foreign direct investment, net inflows (% of GDP) | 8.3 |
| Unemployment, total (% of total labor force) | 13.7 |
| Time required to start a business (days) | 32 |

Source: World Bank ²

In 2005 the labour productivity³ has accelerated its growth to 3.9% compared to the previous year and in the first half of 2006 this indicator increased by nearly 2%⁴ in real terms on annual basis. Labour efficiency in Bulgaria increases much faster compared to EU-25 (1.8% for 2004)⁵. At the same time, labour productivity measured by purchase power parity is approximately 33% or nearly three times lower com-

¹ World Bank data for Bulgaria from 2005 or most recent year (2002-2005)

² <http://www.worldbank.bg/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/BULGARIAEXTN/0,,menuPK:305464~pagePK:141132~piPK:141109~theSitePK:305439,00.html>

³ Calculated with the data for the GVA and the number of employed from the LFS.

⁴ This indicator has been calculated as ratio of the real GDP to the number of employed from the LFS.

⁵ Source: Economic Forecasts, Spring of 2006, European Commission

pared to the average for the countries in EU-25. For the period January – June 2006 average nominal wage marked an increase by almost 10%, thus this indicator reached its highest value for the last years. For the period in question the wages in the private sector displayed considerable growth of 3.7%, while the wages in the public sector registered a decline of 0.8% calculated on annual basis.

Despite the fact that income from employment in the country has increased in the last few years, the link between its growth and the rate of economic growth is weak. As a result, the share of compensations for the employed in GDP marks a decline from 38.8% in 1998 to 34.5% in 2005. This share is still much lower than the value of this indicator in the EU-25 Member States, which fluctuates around 51% in the last years. Therefore is to be considered the role and the amount of the remittances, flowing into the country's economy, sent by Bulgarians living abroad.

| Main macroeconomic indicators (%) | Years | | |
|-----------------------------------------|-------|------|------|
| | 2003 | 2004 | 2005 |
| Real GDP growth on annual basis | 4.5 | 5.6 | 5.5 |
| Inflation by the year end | 5.6 | 4.0 | 6.5 |
| Average annual inflation | 2.3 | 6.2 | 5.0 |
| Average nominal wages (growth) | 3.7 | 0.8 | 4.0 |
| Labour productivity growth ⁶ | -2.0 | 3.5 | 3.5 |

Source: Operational Programme "Human Resources Development" 2007-2013

Table 2. Bulgaria and EU-25, selected economic indicators (2005), in %

| | Bulgaria | EU-25 countries |
|----------------------------------------|----------|-----------------|
| GDP per capita (BG/EU) | 32.1 | 100 |
| Real GDP growth rate (%) | 5.5 | 1.6 |
| Inflation (%) | 5.0 | 2.9 |
| Labour productivity per person (BG/EU) | 32.9 | 100 |
| Employment rate (15-64) | 55.8 | 63.8 |
| Activity rate (15-64) | 62.1 | 70.2 |
| Unemployment rate | 10.1 | 8.7 |

Source: NSI, BNB, MoF, Eurostat

⁶ The labour productivity is calculated as ratio of the GVA at fixed prices to the average annual number of employed

III. Migration - Historical Background:

Southeast European migration is significant, diverse, and complex. In particular, the Balkans is a migrant area. In these countries, three types of economic migrations can be identified. One is the shock type of migration that happens when a basically autarchic country opens up to international relations. This was the case with Yugoslavia in the mid-sixties and also with Albania at the beginning of the nineties of the last century. The other type is endemic or habitual outward migration that has probably been characteristic of the region as a whole for quite a long time. These flows may reflect economic developments in the sending and receiving countries and can be treated as a relatively normal market phenomenon. The third type is that of outward migration that is mostly temporary and reflects an instrument of income generation that may reflect seasonal or other fluctuations in the market demand for labour.

In former Yugoslavia, guestworker emigration has already been established in the 1960s in order to alleviate labour market imbalances, so that extensive expatriate networks exist. For Albania, estimates suggest that up to one fifth of the population have left the country between 1989 and 2001. In Romania and Bulgaria, emigration escalated after 1989, substantially adding to declining demographics.

Migration processes in Bulgaria

After 40 years of free movement restrictions, the opening up of the borders in 1989 caused an enormous emigration wave on a political and ethnical base. Although, in the following years the emigration has been determined by economic circumstances and factors. The administrative pressure and ethnic tension have been replaced by social-economic stimulators, motivating the decision of young people to leave the country. The deep economic problems have fostered the outward migration as well. Furthermore, the opening up of the borders offered new opportunities for another group of active and progressive minded people.

In general, having data on the size of the population, and on live births and deaths it is possible to calculate net migration from and to Bulgaria. By this reckoning net migration was negative in almost all

years since 1960, i.e. there was more emigration than immigration. Two periods, exhibiting particularly negative migration were from 1968 to 1984 and from 1988 to 1993.

During the first of those two periods, total net emigration from Bulgaria was 188,000, or 11,000 per year. Almost all of this was emigration of Turkish speaking Bulgarian nationals to Turkey based on a bilateral agreement. This was especially intense between 1974 and 1979, with a highpoint in 1978 when net emigration from Bulgaria reached 33,000. Nevertheless, over the whole period from 1960 until 1987, the population of Bulgaria increased every year, but the trend was for the increases to get ever smaller.⁷

From 1988, Bulgaria's population went into an increasingly rapid decline. After peaking at almost 9 million in 1988, it was only 8.5 million by 1993. In 1994 the reduction in population was only about 36,000, but the annual reduction increased to about 50,000 by 1997 and 1998. By then the total reduction since 1988 was more than 740,000 or 8% of the 1987 population.⁸

This decline was partly homemade. The fertility rate underwent a much commented dramatic decline from 13.1 births per 1,000 population in 1988 to only 7.7 births in 1997 from where it has since risen to 8.05 births per thousand population in 1999.⁹ There were 116,672 live births in 1988 but only 72,743 in 1996 with a further decline since then. At the same time, aggravated living conditions contributed to an increase in mortality. As a result, the difference between births and deaths has been getting increasingly negative since 1990. In total, between 1990 and 1998, the demographic imbalance reduced the resident population by about 283,000.¹⁰

Table 1. Annual population change during the year, annual balance between births and deaths, and annual net migration, weighted period averages, thousands per year.

| | Population change | Natural increase | Net migration |
|---------|-------------------|------------------|---------------|
| 1960-87 | +63.6 | +74.2 | -10.6 |
| 1988-93 | -87.1 | -8.1 | -79.0 |
| 1994-99 | -45.5 | -45.5 | +0.0 |
| 1960-99 | +8.7 | +25.3 | -16.6 |

Data source: See table 3.

That was different between 1988 and 1993. During this six-year-period net emigration reduced the population of Bulgaria by 474,000 or 79,000 per year. Natural increase was also negative, but at only 8,100 per year it only contributed a negative balance of 49,000 to the population decrease of the period.

A very large part of the 1988-1993 emigration, net or gross, was of Turkish-speaking Bulgarians to Turkey: Following the liberalisation of passport regulations in 1989, over 500,000 Bulgarians have emigrated. ... According to the 1992 Census, some 345,000 Bulgarian citizens of Turkish origin emigrated to Turkey between 1989 and 1992. (SOPEMI 1997:81). The census identified persons who had left Bulgaria in a given year with the intention of residing abroad for more than one year. This can obviously only be done if at least one member of the original household remained in Bulgaria [or returned before the census]. The counts therefore represent a lower bound for out-migration.¹¹

The very rapid decline in the emigration of Turkish-speakers after 1989 was thought to be due to "... the restoration of the right for Turks and Pomaks to use their native names, the introduction of Turkish language in schools and freedom of religious expression. Another important reason behind the decline in outflows to Turkey has been the introduction of restrictive visa regulations by the Turkish authorities.¹² As is often the case, Turkey not only made entry harder but also passed legislation conducive to the integration of the immigrants already in the country. Due to these legal changes the return of the Turkish-speaking Bulgarian emigrants has become even less likely than it was (SOPEMI 1999:114).

¹³ SOPEMI 1995:134

¹² SOPEMI 1995:135

⁷ SOPEMI 1994:113; Beleva/Kotzeva 2001

⁸ Gächter, August, *The Ambiguities of Emigration: Bulgaria since 1988*

⁹ World Bank 2001

¹⁰ Gächter, August, *The Ambiguities of Emigration: Bulgaria since 1988*

Figure 1: Components of population change in Bulgaria, 1982 to 1999, thousands ¹³

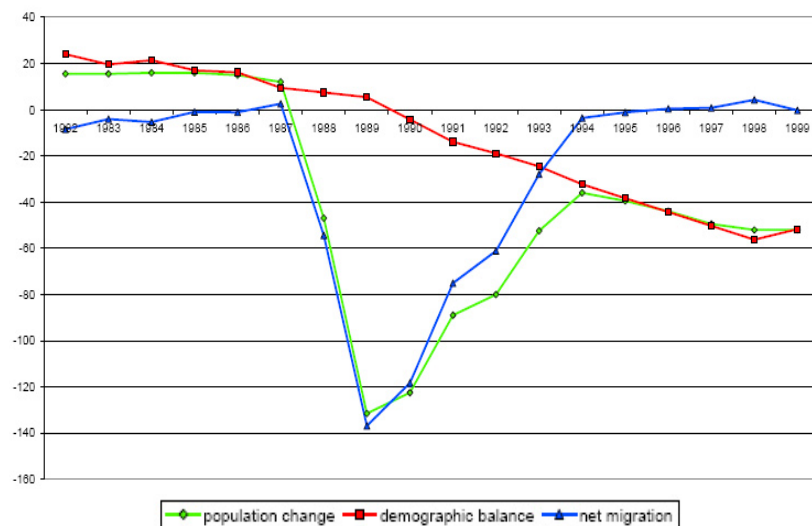


Table 2. Demographic change in Bulgaria, 1980-1999, thousands

| Year | Population at the beginning of the year | Population change during the year | Natural increase (births minus deaths) | Estimate of gross emigration | Net migration | |
|------|-----------------------------------------|-----------------------------------|----------------------------------------|------------------------------|---------------|--------------------------------|
| | | | | | Number | Percent of mid-year population |
| 1980 | 8,844 | 26.0 | 30.1 | | -4.1 | 0.0 |
| 1981 | 8,870 | 16.0 | 26.6 | | -10.6 | -0.1 |
| 1982 | 8,886 | 15.5 | 24.0 | | -8.5 | -0.1 |
| 1983 | 8,902 | 15.5 | 19.6 | | -4.1 | 0.0 |
| 1984 | 8,917 | 16.0 | 21.4 | | -5.4 | -0.1 |
| 1985 | 8,933 | 16.0 | 17.0 | | -1.0 | 0.0 |
| 1986 | 8,949 | 15.0 | 16.1 | | -1.1 | 0.2 |
| 1987 | 8,964 | 12.0 | 9.5 | | 2.5 | 0.0 |
| 1988 | 8,976 | -47.0 | 7.4 | | -54.4 | -0.6 |
| 1989 | 8,929 | -131.5 | 5.4 | -218.0 | -136.9 | -1.5 |
| 1990 | 8,798 | -122.5 | -4.3 | -85.0 | -118.2 | -1.3 |
| 1991 | 8,675 | -89.0 | -13.9 | -45.0 | -75.1 | -0.9 |
| 1992 | 8,586 | -80.0 | -18.9 | -65.0 | -61.1 | -0.7 |
| 1993 | 8,506 | -52.5 | -24.6 | -54.0 | -27.9 | -0.3 |
| 1994 | 8,454 | -36.0 | -32.3 | -64.0 | -3.7 | 0.0 |
| 1995 | 8,418 | -39.5 | -38.3 | -54.0 | -1.2 | 0.0 |
| 1996 | 8,378 | -44.0 | -44.3 | -66.0 | 0.4 | 0.0 |
| 1997 | 8,334 | -49.5 | -50.3 | -44.0 | 0.8 | 0.0 |
| 1998 | 8,285 | -52.0 | -56.3 | -52.0 | 4.2 | 0.1 |
| 1999 | 8,233 | -52.0 | -51.7 | | -0.3 | -0.0 |

Data source: World Bank 2001; Statesman.s Yearbook; Beleva/Kotzeva 2001. Author's calculations and estimates.

¹³ Gächter, August, The Ambiguities of Emigration: Bulgaria since 1988

Total net emigration from 1960 to 1998 was 665,000. The largest part of it, a net emigration of 479,000, occurred between 1988 and 1995. Between 1996 and 1998 Bulgaria gained about 5,000 people from migration.

A figure 1 is based on the data reported in table 3. Net emigration was estimated from available demographic data. If the difference between births and deaths during a year is subtracted from the population change during the year, whatever remains has to be net migration. Since the population figures accord to the periodic censuses, the procedure leads to an estimate of total net migration, regardless of the legal status Bulgarian emigrants had or sought in the receiving country. There are two sources of error. One is an element of subjective misperception in census answers. Persons in fact no longer resident in Bulgaria may be claimed to still be resident by their relatives. A second source of error is that undocumented immigrants in Bulgaria may not appear in the census.

Assuming that net emigration between 1952 and 1959 was 2,000 to 3,000 annually, to be estimated are about 880,000 net emigrants from Bulgaria between 1947 and 1998. About 680,000 or 700,000 of them seem to have belonged to the Turkish minority - those that left between 1947 and 1951, about 170,000 or 180,000 between 1968 and 1984, and at least 350,000 between 1989 and 1992.¹⁴ They have probably all assumed Turkish nationality since then or will do so soon. This leaves the reserach with an estimated 180,000 or, at most, 200,000 emigrants who went to other countries than Turkey.

Gross emigration

Table 3 also contains a column of gross emigration figures. The source is the Bulgarian National Statistical Institute (NSI) which, in accordance with UN standards, “defines emigrants as all those who leave the country for more than one year (this group includes students, employees under fixed term contracts abroad, Bulgarian diplomats, etc.)”¹⁵. The definition clearly leaves margin for error. It is not usually possible to determine accurately at the time of emigration how long the stay abroad will end up being. Error could be both

¹⁴ SOPEMI (1995) 135

¹⁵ SOPEMI (1998) 87

ways: People planning to return in a few months but not doing so, and people planning to stay abroad for several years or for good but in fact returning within months. The NSI estimate conforms to some degree with the net migration figures estimated from the population data, but there are years where the data clearly do not match. Both, in 1990 and 1991 the gross emigration estimates are less negative than the net migration, which in reality cannot be true. The much more important point is that the gap between the gross and the net estimates gets wider as time passes. In other words, immigration and return migration have become more important over the years. As it is shown below, an important share of this is in fact return migration. The other important point about the gross emigration estimates is that it is believed that a high proportion of these emigrants are highly skilled.¹⁶ This belief seems to be at the heart of the alarm in Bulgaria about losing development potential.

First some more information on the gross emigration flows of Bulgarian nationals will be revealed. It is to be compared the estimated emigration to gross inflows recorded elsewhere. In the table below the known data are assembled. The blanks indicate missing data. The entry for Greece in 1990 is a guess, and the other entries for Greece involve some double counting. The asylum column is the worldwide number of asylum applications outside Germany by Bulgarian nationals. They are included in the table because the inclusion of asylum applicants in the destination countries' immigration figures, except Germany, is, if at all, partial and delayed. The "Other" column contains the difference between the "Bulgaria" column and the other seven columns. This column is to be paid attention at.

Table 3. Gross emigration of Bulgarian nationals by destination country

| | BG | AT | CH | DE | GR | TR | US | Asylum | Other |
|---------|----------|-------|-------|---------|--------|---------|-------|--------|---------|
| 1988 | | | 126 | | | | | 404 | |
| 1989 | -218,000 | | 150 | | 1,965 | 218,000 | | 6,836 | -8,951 |
| 1990 | -85,000 | | 169 | 11,193 | 2,500 | 71,195 | | 7,724 | -7,781 |
| 1991 | -45,000 | | 191 | 17,420 | 2,773 | 32,164 | | 7,187 | -14,735 |
| 1992 | -65,000 | | 252 | 31,523 | 2,631 | 23,490 | | 3,233 | 3,871 |
| 1993 | -54,000 | | 247 | 27,350 | 2,620 | | | 4,349 | 19,434 |
| 1994 | -64,000 | | 224 | 10,478 | 3,532 | | | 2,979 | 46,787 |
| 1995 | -54,000 | | 241 | 8,165 | 3,657 | | | 1,959 | 39,978 |
| 1996 | -66,000 | 566 | 228 | 6,433 | 4,300 | | 1,143 | 2,364 | 50,966 |
| 1997 | -44,000 | 645 | 257 | 6,485 | 5,600 | | 2,042 | 3,133 | 25,838 |
| 1998 | -52,000 | 661 | 294 | 5,336 | 3,400 | | 3,122 | 1,815 | 37,372 |
| 1999 | | 644 | | | | | | 2,105 | |
| 2000 | | 686 | | | | | | 3,021 | |
| 1989-98 | -747,000 | 1,872 | 2,253 | 124,383 | 32,978 | 344,849 | 6,307 | 41,579 | 192,779 |
| 1989-93 | -467,000 | | 1,009 | 87,486 | 12,489 | 344,849 | | 29,329 | -8,162 |
| 1994-98 | -280,000 | 1,872 | 1,244 | 36,897 | 20,489 | | 6,307 | 12,250 | 200,941 |

Data source: Tables 2, 3, 22 to 24, 26; SOPEMI 1995:91, 2000:193; UNHCR.

A positive value in the "Other" column indicates it is not identified sufficient immigration in destination countries to accommodate all the estimated emigration from Bulgaria, and a negative value means the immigration recorded in destination countries can only be satisfied if Bulgarians emigrated not from Bulgaria alone but from at least one other, unidentified country as well. In practice a negative value means that either the immigration in destination countries is exaggerated or the emigration from Bulgaria is underestimated. In 1989, for instance, the immigration to Turkey is probably exaggerated by at least 9,000, while the 1991 emigration from Bulgaria was probably underestimated by about 15,000. The 1990 emigration also appears to be underestimated but by only 10 percent. The lack of Austrian and U.S. immigration data before 1996 does not make much difference, but the lack of data relating to Turkey does. For the period 1993 to 1998 the "Other" column adds up to around 220,000 emigrants not accounted for by our patchy immigration data. The difference may quite possibly result from migration to Turkey. A second option is substantial unauthorised migration of Bulgarians for periods longer than one year. Of course, there is a third option, which is to declare the NSI estimates since 1993 exaggerated. Which of these is

¹⁶ SOPEMI (1998) 87

true will not be known until more complete data have appeared.

The National Statistical Institute's estimates and guesses suggest a gross outmigration of about 747,000 Bulgarians between 1989 and 1998. Since net emigration during the same period was only 470,000, gross immigration must have been about 276 000, more than 80% of which took place after 1993.

Figure 2. Emigration and immigration Bulgaria, 1989 to 1998

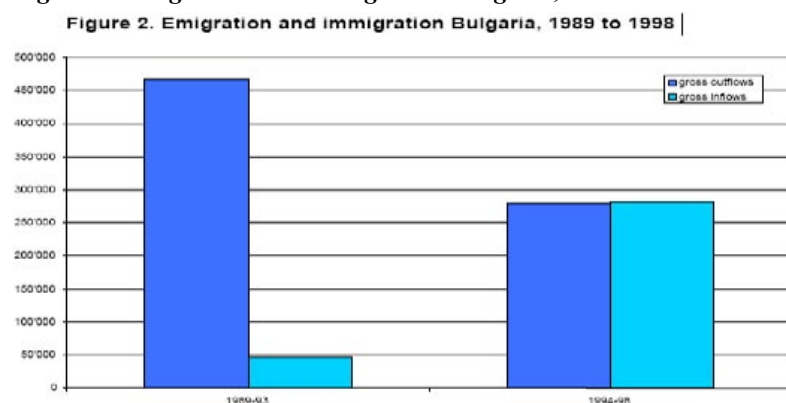


Table 6. Estimated migration flows from and to Bulgaria

Table 5. Estimated migration flows from and to Bulgaria

| | From Bulgaria | To Bulgaria | Balance |
|---------|---------------|-------------|----------|
| 1989-93 | -467,000 | 47,700 | -419,300 |
| 1994-98 | -280,000 | 280,600 | 600 |
| Total | -747,000 | 328,300 | -418,700 |

Data source: See table 3.

As figure 2 and table 5 reveal, the difference between emigration and immigration was large between 1989 and 1993 but practically nil between 1994 and 1998.

VI. Human Capital -Current Demographic Tendencies. Implications on the Labour Market.

For the last years a steady trend has been observed of a decrease in the country's population number. The impact that social and economic factors exerted on living conditions resulted in considerable changes in the demographic behaviour of the population which led to negative natural growth.

The decrease in the population number and deterioration of population's age profile are the main problems with regard to the demographic development of the country. In the end of 2005 Bulgaria's permanent population was calculated to be 7 718 750 people¹⁷. For a period of only one year the population has decreased by 42 299 people or 0.5% compared to 2004 since the mortality rates exceeded the birth rates. For the period 2000-2005 the population number decreased by 5.3% or by 430 718 people. This negative trend is determined by factors such as negative natural growth and external migration.

Summarizing the available data on external migration it is necessary to apply some statistics from reliable sources as the Bulgarian Academy of Sciences (BAS) and the Ministry of Labour and Social Policy. According to BAS the negative migration balance for the whole period 1989-2001 amounts to 670 000. More comprehensive but more serious records as well are provided by Emilia Maslarova, Minister of Labour and Social Policy. "For the last 14 years the country's population decreased by more than 1.2 million people, 868 000 of them have left the country mainly due to economic and social reasons", said Maslarova on January 9, 2006 during a presentation of a report within a meeting of the Consultative Council for National Security to the President of Republic of Bulgaria, entitled "Elaborating of a strategy for demographic development of Republic of Bulgaria". This official, but not very widespread statement is adopted in the current paper as comparatively reliable conclusion for the period till 2003, which is used as a starting point in the whole document. Furthermore, the number of emigrants for the years after 2003 is only to be evaluated by approximate estimates. At the same time the number of illegal emigrants from Bulgaria for the same period is indefinable, which let us conclude that the real number of Bulgarian outside the country is even much higher.

¹⁷ Source: NSI.

Another important aspect of the outward migration is the educational status of the migrants. The restrictions some Western countries imposed in the 90's led to selective functions of the migration, which let many young and high qualified people left the country (brain-drain). Naturally it is not always the case, as Spain for example needed for its labour market mainly workers in the agriculture and the serving sector.

In the period 2000-2005 the number of working-age population¹⁸ (age group 15-64 years) declined by 263.2 thousand. As it may be supposed, this negative trend is primarily due to the low birth rate, population ageing and migration processes. The observed downward trends for the population number in the last years determine the need for implementation of a policy aimed at increasing the population's economic activity. Increased economic activity will supply the labour force needed for development of the economy.

The economic activity rate for the population aged between 15 and 64 years has increased from 60.7% in 2000 up to 62.1% in 2005. Regardless of the observed growth in the activity rate, there are 37.9% of the population, which remain out of the labour force. About 25% of these persons are willing to work, but do not seek jobs for various reasons, including: personal and family obligations; illness or disability; lack of appropriate education, qualification, skills or labour experience, etc.

The activity rates for young people (aged 15-24) – 27.9% and for older-aged employed (aged 55-64) – 38% are low, compared to those in EU-25.¹⁹ An alarming tendency on the Bulgarian labour market is the downward tendency for the share of active youth. Since 2001, the core of economically active population tends to be in the groups of the middle- and late middle-aged (between 35 and 54 years). The steady trend towards ageing of the labour force clearly calls for lifelong learning measures to develop the intellectual potential and professional competence of the labour force.

In terms of educational level of the workforce, in 2005, the share of well educated persons is relatively high (secondary education – 55.9%, higher education – 24.1%). The share of persons with basic, primary

¹⁸ Source: NSI (Labour Force Survey).

¹⁹ Activity rate (% of population aged 15-24) – 45.2%, activity rate (% of population aged 55-64) – 45.5%. Source: Eurostat.

and lower education in the labour force is 20%. Economic activity rates correlate strongly with educational levels. In 2005 72.4% of those with higher education, 64.3% of those with secondary education, 27.7% with basic education and 15.9% with primary or lower than primary education have been economically active.

In the last few years a sustainable trend of growth in the number of employed persons in the country is observed. In 2005, the average number of employed aged 15-64 (2 947 thousand) has increased with 6.5% compared to that in 2000.

In 2005 the employment rate was 55.8%, which was with 5.4% more compared to that in 2000. There is stability in the trend shown in the past few years of smooth increase of the employment rate but, nevertheless, it is much lower compared to the one in the EU-25 – 63.8% for 2005.

In 2005 employment rate among young people (aged 15-24) was 21.6% and, in spite of the sustained positive trend from the past few years, the growth in youth employment, compared to 2000, is just with 2%. Major increase is observed in the employment among older population (aged 55-64). During the reported period employment rate has increased by 13.9 percentage points from 20.8% in 2000 to 34.7% in 2005.

According to National Statistical Institute in 2005 there were 334.2 thousand unemployed and the unemployment rate was 10.1%. Over the same period, according to the Employment Agency data, there were 424 381 registered unemployed at registered unemployment rate of 11.5%. Despite the significant decrease, unemployment rate in Bulgaria remains higher than the EU average, which has been reported equal to 8.8% in 2005.

Unemployment rates have been going down for all monitored age groups but the situation of some groups on the labour market remains disturbing. A rather unfavourable feature of the labour market is the high unemployment rate for youth aged 15-24. In 2005 it was 22.3%, but despite the significant decrease compared to 2000 (33.7%), its value still remains higher than the EU-25 average for 2004 – 18.7%.

In 2005 the profile of unemployed by educational levels displays the largest share of persons with secondary education – 51.1%, followed by

the share of those with basic education – 28.2%. The share of those with primary and lower than primary education – 10.4% and those with higher education – 10.3% is the lowest. Unemployment correlates strongly with the educational level. In 2005 the unemployment rates for those with primary and lower than primary education was 32.6%, with basic education – 16.9%, with secondary education – 9.2%. The unemployment rates among university graduates – 4.3% were the lowest.

There is sustainable trend on Bulgarian labour market – long-term unemployment. In 2005 the long-term unemployed persons account for 6% of the labour force, where their number has decreased almost twice compared to 2001. In 2005 long-term unemployment (persons unemployed for more than 2 years) was 4.3% of the labour force, while in 2001 this figure has been 8.3%. The average long-term unemployment rate in the EU for 2005 has been 3.9%.

V. SWOT Analysis - Human resources (1)²⁰

| Strengths | Weaknesses |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • Stability, growth and the social protection system in Bulgaria have contributed to substantial overall reduction of poverty in the past six years • Low inflation and sustained economic growth over the last years have resulted in increase of per capita income and in overall improvement of the living standard • Successful recent reforms of the social protection system (including raising the retirement age) and better coordination of the employment and social protection policies • Decreasing unemployment and undeclared employment • Good educational level of the population | <ul style="list-style-type: none"> • Negative natural growth rate of population, emigration and large number of people out of the labour market • Increasing levels of dependence on social assistance benefits driven by demographic trends, high number of social assistance beneficiaries and low participation rates in the formal economy • Active employment policies do not reach all vulnerable groups • Significant regional disparities in terms of unemployment, employment and economic development • Underdeveloped entrepreneurship and life-long learning culture • Insufficient social and healthcare services quality as well as poor quality of educational and vocational training services • Underdeveloped economic sectors employing qualified labour force/ the employment structure is oriented towards sectors requiring unqualified labour force • The reform in the education system has not been completed • Substantial drop in the educational and social levels among the Roma, compared to the rest of the population |

| Opportunities | Threats |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • Improvement of productivity on the labour market and of the economy as a whole is necessary for improvement of the living standard • Strengthening the links between the skills acquired in the educational system and those required on the labour market (including ICT skills) • Continuation of the reforms in the social protection system • Enhancing the coverage and access to education • Enhancing the intercultural education • Restructuring, facilitating the provision and improving the quality and diversity of community-based social services for various risk groups • Evolving culture of entrepreneurship, lifelong learning and equal opportunities • Promoting the “brain retaining” and “brain influx” in the country • Enhanced participation of social partners in shaping up and implementing the policy in the field of human resources • Consistent targeting of inclusive measures to the most vulnerable groups and to the regions in need | <ul style="list-style-type: none"> • Low economic development rate and insufficient income and labour productivity growth in addition to accelerated decrease of the population • Aggravation of the imbalance between supply and demand at the labour market • Intensifying the gap between the skills of the labour force and the labour market needs • Creation of large number of unproductive low-paid jobs as a result of targeting inclusive and employment-related measures to the vulnerable groups (including new kind of social benefits dependence culture) • Accelerated social exclusion among the most vulnerable population groups • Increased emigration of young and highly qualified workforce (i.e. the so called “brain-drain effect”) • Insufficient private and individual investments in human resources development • Insufficient institutional capacity at central, regional and local levels for absorbing EU funds |

The socio-economic analysis prepared for the purposes of this Operational Programme “Human Resources Development presents the key challenges for the human resources in Bulgaria in order to contribute to the national aspirations of high living standards and sustainable development. The strategy addresses labour market issues, such as low levels of participation and employment, low labour productivity, labour supply and demand imbalance, sustained high levels of unemployment among disadvantaged groups, low corporate investments in human resources, slow pace of job creation, non-competitive working conditions, and economic structure not responding to the objectives of the knowledge-based economy.

The picture of major disparities is being complemented with the ones in the training and education field such as comparatively low levels of

²⁰ Based on Operational Programme “Human Resources Development” (2007-2013) - Draft

quality of educational and training services not meeting the requirements of the Common European Market, schools and universities using ICT and foreign languages at insufficient level far away from requirements of the knowledge-based society, underdeveloped research and development activities, growing numbers of school dropouts, existence of marginalized groups – illiterate, without skills and profession.

Effectively performing educational institutions are important prerequisite for provision of highquality educational services tailored to the needs of society and economy. Modernization for Bulgarian educational institutions requires introduction of management information systems and electronic documentation at schools, setting up effective mechanisms for education quality assessment and control, and optimization of the school network. Bulgaria still does not have a well-established and properly functioning national system for internal and external assessment of the quality of education, although, recently there are some steps towards its achieving. Furthermore, unfortunately, educational services in Bulgaria are still not preparing qualified specialists capable of meeting the labour market demands.

Analyzing the provided information on the shortages on the Bulgarian labour market, some important branches are to be mentioned – construction, tourism, IT, healthcare services etc. Healthcare services is said to be observed closely due to its overall significance for the population’s health status and its future development.

The most outlining tendency refers to the number of medics in practice not only in the big towns, but to a great extent in the less populated regions. In this regard the number of nurses is declining drastically – by 47% from 1990 to 2004.²¹ The resource of nurses in 2004 is two times lower compared to the same indicator in EU. The ratio between nurses and doctors given in number of nurses per one doctor in Bulgaria in 2004 was 1.00:1.00. The same indicator in EU is higher 2.26:1.00. There is a serious decrease in the number of the practitioners working in the following areas: anaesthesiology, intensive treatment, paediatrics, nephrology, gynaecology, otorhinolaryngology, psychiatry, x-rays, clinic laboratory, emergency and infection illnesses. Bilateral labour agreements facilitate the process of outflow of medical

personnel towards the “old” member states of the EU and in particular UK. There they may practice their profession with some restrictions, which is preferred by them rather to change it.

At the same time the number of college graduate medical personnel is decreasing. There is a fluctuation of medical personnel in emergency wards. In the recent years the enrolment of students in subject “Medicine” drops, which along with the continued emigration may bring the situation to serious shortage of medical experts. It is expected also that the number of nurses will be insufficient, same as the trend in EU. The existing uneven territorial allocation of medical professionals in Bulgaria and the imbalance in the ratio of practitioners and that of nurses entail the need for improvement of the system for planning and regulating the medical personnel and also the introduction of mechanisms for keeping the Bulgarian nationals who have gained their medical education and vocational training in Bulgaria (this is relevant to the medical nurses and other supporting staff), in particular those who have gained such education and training at costs for the state, to practice in the country.

The loss of human potential by emigration of high-skilled labour force or labour market inefficiencies result in decrease in productivity, respectively in one of the lowest GDP per capita in Europe. At the same time more and more labour gaps are emerging and often they are to be filled with employees not disposing with the appropriate vocational education which by itself has a decrease in the productivity as a result.

A possible solution to the situation with reduced number of labour resources in the country and their age composition with particularly rising percentage of old people and to the problems with reproduction of the working-age population due to the decreased number of people below working age consists in “importing” foreign labour force in near future in some of the above mentioned spheres. First steps towards filling labour gaps through these measures have been already initiated in some of these branches as construction and tourism, where salaries are much higher than the average remuneration in Bulgaria.

In the era of globalization and easy movement of people the competition among the countries for attracting well-qualified people is

²¹ Operational Programme “Human Resources Development” (2007-2013)

steadily increasing. In this competition Bulgaria proved to be the losing countries, suffering under serious brain-drain.

The emigration of well-skilled people, causing a lack of specialists on the local labour market, may be observed as obstacle to foreign investors. “You export “brains” and this turns as a problem for the foreign companies, coming to Bulgaria”, Saab chairman Anders Scharp said in an interview for the leading Bulgarian weekly “Capital”.²²

Another gravely aspects of the emigration are the difficulties it causes to the proper functioning of the social system. Since the number of the working people decreases rapidly the insurance burden to be carried by them will sooner or later reach bigger percentage of their incomes. Nevertheless, the outward migration has served as a mean, which let off the social tension, caused by the high unemployment rate in Bulgaria in the 90’s.

Although, the amount of remittances flowing into the Bulgarian economy is not to be compared with their significance for example with the countries in Latin America, this serious amount has not to be undervalued. These transfers of money by Bulgarians to their home country are playing an increasingly larger role in the economy. Remittances contribute to economic growth and to the livelihoods of needy people. A World Bank report suggests the transfers from migrants reduce the poverty and contribute to increase in purchasing power and economic growth. This can explain to a certain extent the catch-up growth in the sphere of trade, compared to the relatively slight growth in the production sector.

Applying the data on migrant financial power we could refer to the official data of Bulgarian National Bank for the period January – September 2004, when the financial transfers amounted to 592.3 million Euro. It is said, that these transfers are to a large extent financial resources, sent by Bulgarians, studying or/and working abroad. A particularly interesting point is that this amount exceeds the incomings from the European pre-accession funds for the same period (155.9 million Euro).

However, the mentioned amounts reflect only the financial resources transferred via banks or other legal financial services companies like

for instance MoneyGram, Western Union etc. It is said nowadays main destination of the Bulgarian labour migration are Greece and some other South-European countries and it is to be expected, that the emigrants prefer to transfer a considerable part of their savings by themselves, which seriously distorts the data on the size of the remittances.

The remittances might have some negative effects since the foreign financial transfers do not stimulate the population’s activity within the country and encourage other groups to leave the country. Furthermore, the remittances may lead to a kind of a social disproportion particularly in small towns, where there is not enough chances for career development and finding better jobs and since a part of the population will count on transfers from family member living abroad, which will increase the social differences on local level.

Nevertheless, besides the financial assistance, there some other benefits the Bulgarian migrants may bring. This depends to a large extent on the capability of the Bulgarian state in the place of the Bulgarian policy makers to create circumstances, attracting talented immigrants who have studied and/or worked abroad to return to their home country, so that they can transfer not only technology and capital, but also managerial and institutional know-how, they have gained abroad, which actually means to replace the “brain drain” by “brain circulation”.

An important task before Bulgaria is to create appropriate circumstances not only for well educated and high-skilled persons to come back to the country, but for all the others as well as a driving force for supporting of the positive economic development in Bulgaria in the last few years. Recently a negative tendency has been outlining, which reveals that most of the emigrated Bulgarians have already adapted to their new life abroad and living in the host countries they are beginning to bring their wives and children to live with them abroad. In this way, Bulgaria is injured not only by the loss of relatively young human capital, but also by reducing or stopping the fresh financial inflows.

Another very important opportunity to be used consists in the role of the Bulgarian emigrants. Executing the example of Ireland, the official state policy is to strengthen the ties to the Bulgarian communities abroad

²² “Capital” Weekly , 24/2006

(e.g. through building of Bulgarian culture representation offices and appointment of labour attaches). Appropriate steps towards achieving these goals, is the organizing in 2006 the third annual world meeting of the Bulgarian media abroad, which has to canalize the common initiatives and to contribute to the process of elaboration of networks among them.

Actually, not only the role of the policy makers in the process of building of a Bulgarian “lobby” abroad has to be examined, but the role of the emigrants has to be underlined as well. Fortunately, there some positive tendencies to be observed like the steadily increasing number of Bulgarian student associations in Germany, Bulgarian associations in UK and USA (City Club - London, Wall Street Club – New York, etc), which have been recently contributed to populating the case with the five Bulgarian nurses and a Palestinian doctor, who were sentenced wrongful to death by a Libyan court.

Finally, the return of some successful Bulgarians and their entering into the active policy is said to be only the first step towards incorporating of the Bulgarian Diaspora to Bulgaria and its current economic problems. It is more important now for the decision makers to make as soon as possible the next steps. In this regard geographical profile of the Bulgarian emigrants has to be elaborated in order to develop a methodology for reporting of its effects on the country. The removing of the bureaucratic hindrances, the providing of more information on the business opportunities within the country and on the improvement of the investment climate will increase the engagement of the Bulgarian emigrants in the processes in the country.

VI. Conclusion

Future development

Despite accelerated economic recovery in 1998 and the slight increase in the number of employed persons, real economy is still having hard time opening new jobs. The rise of GDP by over 1/5 since 1997 has led to the opening of relatively few new working places, both labour activity and employment continued declining until 2000 and 2001. That was the result of the newly privatised enterprises and other companies laying off unnecessary labour force, as they were hard

put to curb their fiscal practices. Due mostly to the macroeconomic discipline and the profound structural reforms, in 2002 the number of newly employed people started rising. The average annual growth of the employment rate in Bulgaria, which has been about 3% since 2000, has helped reduce unemployment, but its reduction is also affected to a large extent by emigration, lower workforce participation and interventions on the labour market. This analysis shows that Bulgaria is facing a serious challenge in view of the sectoral restructuring necessary to redirect investment and labour force to more productive knowledge-based and highly skilled activities.

In the context of the above analysis it is clear that the future measures have to focus on enhancing employment and productivity. This, not only of Bulgaria, but of EU as a whole as seen in the framework of the Lisbon Strategy, will step up on economic growth via achieving higher employment and productivity. Besides, the Lisbon Strategy has identified as its objective by 2010 to increase the level of work participation to 70%, which implies increased labour market participation and lower unemployment rate. The challenge before Bulgaria, is great as, along with the demographic decline and the fact that in comparison with EU-25 the country lags significantly behind in income and productivity levels, it also has to cope with poor labour market parameters, like activity rate of 62.1% and employment rate of 55.8%.

The convergence Bulgaria is striving at requires increased labour productivity and participation of the population in the Bulgarian labour market. On the whole, labour productivity, measured by the value added per employed person, has been unable to catch up with employment growth with only few exceptions over the years. Evaluations show that in order to double the per-capita income in the course of 20 years so that it reaches the level of two thirds of EU-25, GDP per employed person will have to grow by at least 5.5% every year. The trend towards reducing the number of working-age population implies that, only to balance the impact of reduced labour-force numbers on the percapita income, labour productivity will have to increase by about 1 percentage point annually.

Unfortunately, productivity growth is still unstable – for 2002-2004 it fluctuated between above 4% to below -2%. Moreover, the

increase will have to be even greater if labour market participation remains low, although the productivity rate will hardly manage to balance off low participation rates.

In this regard special attention has to be paid to mobilization of employment potential among vulnerable persons on the labour market, as well as to efficient integration of ethnic minority groups for more and better jobs. If labour market participation does not increase to 70% until 2015 – even if there is a rise of labour productivity – the per-capita income in Bulgaria will remain lower than one third that of EU-25.

For the purpose of achieving maximum effect of the labour market interventions, additional efforts are needed towards improving the legislative environment with regard to increasing labour market flexibility. Last, but not least, in terms of increasing of country's competitiveness it is necessary to be created conditions, which facilitate the process of brain circulation i. e. attracting back talented emigrants, who have studied and worked abroad, to return to their home country. Countervailing the demographic decline and increasing labour productivity, they can fill these gaps in the labour market, which demand high-skilled working force with good command of foreign languages. Furthermore, they will transfer not only technology and capital, but also managerial and institutional know-how, playing a significant role in order to keep the positive tendencies of the Bulgarian economy. Time will show, if the initial steps towards these objectives will be sufficient in the years to come and will they be followed by real governmental measures.

Vocational Training – An Essential Element for the Development of Human Resources

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The Vocational training policies and actions aim to increase the supply of high quality labour force, to improve the adaptability of the labour force towards the changing economic conditions and to increase the labour productivity through more investments in human capital and life-long learning activation. The success of this policy requires the joint efforts of all stakeholders.

The legal framework (laws, strategies, plans and programs) provides opportunities for targeted actions aimed at improving human capital.

The **Vocational Education and Training Act (VETA)** provides the normative organization of the vocational training with a main goal to guarantee the quality of the vocational education and training in conformity with the needs of the labour market and in compliance with the trends in the European Union. The Act determines the functions of the system of vocational education and training to prepare people for realization in the economy and society, providing conditions for acquisition and permanent rising of the vocational skills.

The **Employment Promotion Act (EPA)** provides opportunities for active measures of the labour market in order to increase the employment and raise the qualification of the labour force. The EPA introduces stimuli for employers to train employed for updating and raising their qualification and to train unemployed, in the context of life-long learning and also regulates the types of continuing vocational training organised by the Employment Agency and the conditions for its accomplishment.

The Employment Promotion Act stipulates the functions of the **National Advisory Council on Vocational Qualifications of the La-**

bour Force. The Council carries out activities on coordination of the national policy and strategies for vocational training of the labour force and coordination of social dialogue.

The **National Strategy for continuing vocational training 2005-2010** outlines the national priorities for development of continuing vocational education and training in the context of the life-long learning. The Strategy aims to create and improve the conditions for acquisition, expansion and development of the vocational qualification of the labour force with a view to increase its adaptability for employment, professional career and individual development.

The recent economic and technology development require the improvement of knowledge and skills of employed. In order to increase the labour force quality vocational training is provided.

In June 2005 the National Statistical Institute (NSI) conducted a survey about the provided vocational training for employed at enterprises. More than 53 000 enterprises were included in the scope of the continuing training survey. Only 26.8% of all enterprises have provided vocational training for their employees. Besides, this percentage varies considerably according to the size of the enterprise and the number of staff. The highest percentage – 70.0% of enterprises (with more than 250 employees) have provided training. Only 14.2% of the employees in the interviewed enterprises took part in any training.

Training is provided just when new products, services, new methods or new organization of the enterprise's activities are introduced.

Only one fifth of the enterprises do regularly skills evaluation of their employees. Mainly the big enterprises in the public sector carry out evaluations annually.

Still more than half of the managers are aware of importance of vocational training so 52.1% of them are planning to provide training for their staff. An agreement between the employers and trade unions concerning vocational training of their employees is rarely signed (only 3.0% of enterprises have signed such an agreement, mainly the big enterprises – with staff of more than 250 people).

The importance of training can be defined through its impact assessment. Most of the enterprises do not consider it a priority and 69.9% of them have never carried out an assessment.

Usually the managers and analytical specialists (managing staff) take part in vocational trainings. 52.1% of enterprises have provided trainings to managerial staff, whereas only 14.4% to low qualified workers.

The preferred form of training are sharing experience short-term trainings and giving instructions at the workplace (66.8% of the interviewed enterprises). On the average one participant has spent 16 hours in training. 31.5% of the enterprises delivered other forms of training like learning by correspondence, distance learning, learning through Internet, etc.

Most of the enterprises (73.2%) have never organized training for improving the qualification of the employed.

The state policy in the field of professional qualification is implemented by the **Employment Agency**. The Agency is in charge of professional information and consultation, vocational and motivating training of unemployed and employed persons as well as the intermediate services relating employment.

In 2006 the Employment Agency organized training upon employers request for more than 4500 employed in micro and small enterprises. The training was directed to employees and workers who had to meet new vocational qualification requirements due to changes in the industry, interruption of work or reduced volume of production. Half of the training costs are funded by the state budget and the other half - by the employers.

The employment policy is becoming predominantly oriented towards improving the employability of the unemployed and effective social integration for the most disadvantaged groups. In the National Action Plan on Employment (NAPE) are identified the target groups on the labour market (young people up to 29, older workers, people with disabilities, women, unemployed without and with low qualification) which representatives are included with priority in vocational training. This enables the better targeting of the activities as well as the provision of the necessary resources for the implementation of the activities in this direction.

The system of training of unemployed is better organised and funded than the system for employed. Its scope is expanding constantly due to the fact that the employability of the unemployed is a major priority in the National Action Plan on Employment. In NAPE programs and measure for vocational training are included on an annual basis. The training for unemployed is organized by the Employment Agency and is

provided in professions defined by labour market demand surveys. The provided training is funded by the state budget. For ensuring better access to training the trainees receive grants, money for accommodation and travel costs. In implementing the National Action Plan on Employment in 2006 more than 40000 unemployed have completed vocational training (every 12th unemployed has been trained). 47,9% of the trained unemployed were young people up to 29 years of age. Most of the unemployed have participated in courses for computer operators, cooks, experts in applied financial services and accountancy, hairdressers, producers of bread and pastry, waiters and waitresses, barmen.

Great part of trained unemployed has started a new job in a short period of time. This fact indicates that the vocational training corresponds to labour market needs. Employers provide opportunities for an internship (up to three months) for 30% of trained unemployed that have successfully completed the training. This is the way to test in a real work environment the knowledge and skills acquired.

The National Action Plan on Employment for 2007 envisages training for more than 43 000 unemployed (one in ten registered unemployed will receive training).

A number of programs enjoy high interest on the part of the unemployed – such as the Program for computer training of youths, the National program for literacy and qualification of Roma people, the regional programs for literacy, qualification and employment, the program for vocational training of youths who have left school, projects for training in entrepreneurship, training in the field of information technologies for women, etc.

Vocational training is also provided under PHARE program Projects.

An evaluation of the gross and net effect of the trainings for the unemployed organized by the Employment Agency will be conducted this year. Throughout 2006 a system for determining the needs of employers for labour force with specific qualification is being developed under «Vocational Qualification» PHARE project.

The effectiveness of training is limited by the low motivation and the insufficient educational level of the long-term unemployed so motivational training, literacy courses or vocational guidance precedes their training.

In Chapter “Employment” of the first National Reform Program special attention is paid to improving the employability of the labour force, its qualifications and skills through developing lifelong learning.

New strategic documents are to be implemented in the field of vocational adult training. In the framework of PHARE Projects an Adult Training Strategy has been developed and a Lifelong Learning Strategy will be developed by 2007.

The Operational Program «Human Resources Development» which provides the framework for funds allocation is co-funded by the European Social Fund and the state budget for the 2007 – 2013 programming period. The Operational Program aims at improving the quality of life through increasing employment and labour productivity, giving access to high quality education and lifelong learning and social inclusion. The improvement of the quality of education and training is one of the major priorities of the Program.

In accordance with the National Strategy for Continuing Vocational Training 2005-2010 work will be done in the direction of improving the conditions for access to continuing vocational training through developing forms of training that are close to home (distance training, e-learning); ensuring opportunities for combining work and study through flexibility of work hours; special measures for the disadvantaged groups on the labour market; implementation of methodology for selection and inclusion of unemployed people in vocational qualification training thus improving the reference between vocational training and the individual needs of the unemployed people.

For the purpose of ensuring high quality of the continuing vocational training actions have been envisaged for improving the organization of the vocational training for the unemployed, improving the curricula and training methods, introducing a system for control and evaluation of the training results. The improvement of the existing state educational requirements and the development of new requirements based on the vocations are under way.

For achieving a close link between initial and continuing training a National Qualifications Framework will be developed in accordance with the European Qualifications Framework. It will contribute to achieving transparency and recognition of qualifications. The in-

ternational experience in this field will be researched as well as the opportunities for validation of knowledge and skills obtained through non-formal and informal learning at the national level.

Reaching effective interaction and coordination between the major institutions in the field of vocational training and the labour market is of primary importance. Suitable stimuli and mechanisms will be sought for sharing expenses and responsibilities in improving the level and effectiveness of investments in human resources including through reducing taxes. Opportunities will be sought for improving collective bargaining with regard to training and qualification of the labour force and inclusion of social partners. There are opportunities for greater decentralization and regionalization of the resources in the vocational education and training system.

For the purpose of improving the link between education, training and the labour market an integrated information system will be established with registries for the people trained, specialty and level of vocational qualification as well as for the training institutions with data for their activities, provided trainings, training courses organized by the Employment Agency.

The expected results from the coherent policy till the end of 2010 are Bulgaria to increase considerably the level of participation of adults in life-long learning, the employment coefficient to reach 61-62% for the age group 15-64 and to overcome the mismatch between the supply and demand of skills.

THE HUNGARIAN EXPERIENCE

Migration – Challenges and Opportunities in Central and Eastern Europe with special regard to Hungary (Some possible economic impacts)

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Introduction

In many respects, Central and Eastern European countries (CEE) have to face similar challenges in migration since they have comparable traditions, geographical position and demographic developments. The fact that after the political and economic changes, many of them has turned from a sending to a receiving country, illustrates their common traditions. As regards demographic developments, although their population trends are akin to those in Western Europe, in some aspects they are even more unfavourable because in addition to low birth rates, mortality is relatively high (compared to EU-25 average). In addition, in the region the natural population decrease (which is characteristic in these countries) is rarely offset by positive net migration because it is too low. Under these circumstances, the main dilemma is whether and what kind of migration could help in this situation and what kind of policy is needed for promoting favourable developments.

In Hungary future demographic trends and their implications to migration is subject of public debates and the issue is high on the agenda in policy making. Besides the unfavourable population developments, the increased interests are explained also by labour market reasons. Although the employment rate is low, labour shortage can be observed in certain segments, branches and occupations. Related to the

latter, illegal foreign work is an important issue, too. Therefore, besides migration and demographic trends, the paper is to deal also with some key labour market problems. The paper is structured as follows. First, the main demographic developments will be described, then the current labour market situation and some perspectives are outlined as a background to migration trends, which are to be analysed in the third section, including its impacts. Finally, as a conclusion, the main policy dilemmas are highlighted.

I. Recent demographic features of the region and population trends in Hungary

The table below illustrates the situation, described in the introduction. As can be seen from Table 1, natural decrease characterises all the New Members (NMS) and Croatia, with the exception of Slovakia, but the increase is minimal (0.8) even here. It is true that the natural increase is also minimal in the EU25 (0.7), but net migration offsets this. As a result, population growth could be observed on average in the EU25. In none of the CEE countries, however, could similar increase be detected. Even in the most developed countries of the region (in their GDP per capita), the Czech Republic and Slovenia, the population growth is smaller. The reason is that there is a natural decrease in both countries which cannot be offset by positive net migration, caused mainly by the inflow of citizens from countries with which they formed one country before 1993 and 1991, respectively. Higher mortality in the region also contributes to less favourable demographic developments than in the EU25. With the exception of Slovenia and Poland, mortality is higher everywhere in the region, and the number of deaths per thousand population is especially high in Latvia (14.2), Hungary (13.4) and Bulgaria (14.6)¹

¹ Mortality, of course, depends also on age composition. It may well be that the highest mortality in Bulgaria is linked to the large outflow from the country, which occurred during the last couple of years. As a result of this, the age composition of the country has deteriorated (because mainly young people left Bulgaria).

Table 1. Demographic features in the CEEs in 2005

| Countries | Live births | Deaths | Natural increase/ decrease | Net migration | Effective increase /decrease |
|------------------|-------------------------|--------|-------------------------------|---------------|---------------------------------|
| | Per thousand population | | | | |
| <i>EU-25</i> | 10.5 | 9.7 | 0.7 | 3.7 | 4.4 |
| <i>Czech R.</i> | 10.0 | 10.5 | -0.5 | 3.5 | 2.9 |
| <i>Estonia</i> | 10.6 | 13.1 | -2,5 | -0,3 | -2,8 |
| <i>Poland</i> | 9.8 | 9.7 | -0.3 | -0.3 | -0.7 |
| <i>Latvia</i> | 9.3 | 14.2 | -4,9 | -0.5 | -5.4 |
| <i>Lithuania</i> | 8.9 | 12.9 | -4.0 | -3.0 | -7.0 |
| <i>Hungary</i> | 9.7 | 13.4 | -3.8 | 1.7 | -2.1 |
| <i>Slovakia</i> | 10.0 | 9.8 | 0.2 | 0.8 | 0.9 |
| <i>Slovenia</i> | 8.8 | 9.2 | -0.5 | 3.6 | 3.1 |
| <i>Bulgaria</i> | 9.0 | 14.6 | -5.6 | -1.8 | -7.4 |
| <i>Croatia</i> | 9.4 | 11.1 | -1,7 | 2.6 | 0.9 |
| <i>Romania</i> | 10.2 | 12.3 | -2.1 | -0.5 | -2.5 |

Source: Eurostat, Chronos Database

In Hungary, the demographic trends were unfavourable over the last couple of decades, and even a tendency of deterioration could have been detected. The rate of fertility in Hungary has been below replacement for four decades. This presaged for a long time decrease in the population that the age structure and occasional increases in the birth rate postponed until the 1980s. Since then the population decline has become the rule. Not only did, however, low fertility contribute to decrease in population, but also the unusually high mortality rates, which, after several decades of steady improvement, had failed to fall further in the 1960s. Indeed, it began to rise towards the end of the decade. This deterioration continued as an underlying trend over the next two-and-a-half decades (up to 1993), with only temporary improvements to be detected in certain years. These developments had a deep impact not only on the age structure and the overall size of the labour force, but also on employability of the older (or even the prime) age groups. It was an alarming phenomenon that mortality deteriorated especially

among middle-aged men over the above period.

The overall fertility of the population is obviously influenced by the on-going tendency of a shift towards higher age of the first child-birth, which has recently continued. Fertility of the 20-24 age group has fallen back further, but among the 30-39 year olds it has increased by almost 10%. Apart from this, recently some favourable tendencies can be observed. For example, mortality has improved primarily among men, including mainly middle-aged men, which is of high importance, and infant mortality rate also decreased (although it had been at a low level for quite some time). These tendencies, however, could hardly moderate the natural decrease in the population, which remained considerable. Therefore, it is clear that the population decrease cannot be stopped within the foreseeable future. Amidst low reproduction of the population (i.e. fertility below replacement), the mortality surplus will remain even if fall in the number of deaths continued. At best, a gradual decrease in the negative balance could be anticipated.

As a consequence of all the above developments, Hungary has a rapidly ageing population, and according to forecasts, this will continue within the next two decades. It remains to be seen whether this will be accompanied by a dynamic economic growth which could also stimulate the labour market. The latter has important implications also to the issue of migration, so the problem of employment which we turn to next.

II. Labour market situation and perspectives

From the point of view of migration and its future perspectives, the current state of labour market is of high importance, since it could indicate both the present employment opportunities of foreign residents and job prospects of potential migrants. In this regard, the Central and Eastern European region does not seem promising because tension on the labour market, although eased since the political and economic changes, is still present. On average, unemployment is by more than 5 percentage point higher in Central and Eastern European countries than in the old EU-members. Although it declined in Poland and Slovakia where it stood at the highest level, still considerable being 17.7% and 16.3, respectively. (Source: Employment in Europe, 2006.) In Lithuania

and Latvia the unemployment rate is also higher than the EU-average. A source of further major concern is long-term unemployment which is particularly high in the above four countries. Related to all these facts, in none of the New Member States do employment rates reach the Lisbon Target of 70% (although in the Czech Republic it is close but even there it declined between 1998 and 2002).

This poor performance is derived partly from the particularly low employment rate of the older population. In the New Members of the region the average employment rate of the 55-64 year-old age group is lower than in the 'old' EU-members. (For example, in 2002 among males, the employment rate stood at around only 36% in Hungary, 41% in the NMs, whereas it was 50% in the 'old' members.) The reasons for this lie not only in the effects of the lower retirement age, which featured all these countries previously, (during the planned economy) but also other factors. One of the most important out of these is poor health status of the population (which seems especially true for Hungary, where until very recently the average life expectancy at birth stood at a low level even by East-European standard). Under these circumstances, it can be even concluded that to some extent the low retirement age could be justified. The fact that employment rate of this age group rate is still low even nowadays, when the retirement age was raised², in itself indicates that there should be reasons other than just institutional, or problems of inheritance. In Hungary the very low figure is obviously also due to labour market reasons, namely to the sluggish demand especially towards older people. (Indeed, examining wages, a Hungarian labour economist³ proved that during the 1990s on the labour market in Hungary the accumulated experiences seemed to have been devalued as against such skills, like adaptability and flexibility, generally featuring competencies rather young people than older ones). As a response, disability pension schemes became quite widespread: for example, among males even in the younger age group (50-55), around 20% are in such pension, and in the next age group this share is even higher (being 27%). (Source: CSO, 2004.)

² The process of increasing the retirement age began in 1997, when it was decided that it would have been raised on a gradual basis to 62 years by 2009 for both males and females. Women's retirement age stood at a low level of 55 in 1997, so its increase started already then, by elevating the retirement age by one year in every two years from then on. In the case of men, however, the increase began later, in the year of 2000, since their retirement age stood at a higher initial level of 60 years. (As a result, their retirement age has already reached the targeted 62 years.)

³ See Köllő, 2002.

From the point of view of future perspectives and within the context of an aging population, it is worth to examine which sectors employ mostly older age groups, and what kind of occupations older people usually have. It is clear from the data, that it is precisely in that sector, where usually migrants are concentrated, namely the agriculture, where share of older employees increased between 1990 and 2001: whereas in 1990 the share of the age group 50 and above in the sector's total employment stood at 18.3%, this increased to 25.05% by 2001. Similarly, in education and health sectors their concentration also became higher than before (the respective figures in education: 15.7% and 24.7%, in health: 13.7% and 23.7%). It can be assumed that increased share in these two sectors is linked to the fact that role of older age groups became more important in the public services than before (over the same period, i.e. between 1990 and 2001 the share of the 50-59 age group increased from 13.4% to 20.4%, the 60 and above from 0.8% to 2.4%, see: Fóti and Lakatos, 2004., p. 46.). This is understandable since, unlike in manufacturing, there have not been mass layoffs here (and due to budgetary restraints, cautious hiring featured the employment policy of state institutions). It is remarkable however that shift towards employing older people happened precisely in those sectors, where migrants are often applied (agriculture, health) and wages are generally low⁴.

As mentioned, in the case of Hungary, population aging is of special importance, having an immediate impact on the size of the labour force in the near future because by the end of this decade and by the early next one (from 2009-2010 on) precisely those age cohorts will have reached the retirement age, which are the largest in number. They were born in the early 50s, when due to severe administrative curbs placed on abortion, there was a sharp increase in the number of births⁵. This "baby boom" is all the more noticeable, since opposite effects followed it: on the one hand the 1956 mass emigration (more than 200 thousand people left the country) and a sudden, complete relaxation of the abortion rules (leading from extreme restriction to liberalisation⁶).

⁴ This is one of the reasons why one should be cautious in drawing conclusions on labour demand exclusively from wages. It seems that factors shaping the demand are quite different in the public sector from those in the business one.

⁵ The 'bulge' became known as the Ratkó generation, after the minister who had signed the decree. The proportion of live births peaked at 22-23 per thousand in 1953-4, producing a natural increase of 11-12 per thousand.

⁶ As a result of swinging from one extreme to the other, the number of abortions exceeded the number of live births for several years.

Labour force projections⁷ are, of course, also count with these demographic changes. According to the baseline scenario, by 2021 the number of economically active population will be 4.0 million, as against 4.1 million in 2001 (census data of that year). This decrease is due partly to declining number of the young age groups, partly to population aging and partly to a slight fall in economic activity (the latter is attributed to longer period spent in education). As a result of longer education, the skill pattern of the labour force will be improved: people with lower than primary school educational attainment will decline by 68% and the number of those with only primary school will also fall to a considerable extent. The number of people with tertiary educational attainment, however, will increase by 58% (from 690 thousand of 2001 to 1.09 million by 2021. The optimistic scenario is based on the assumption that territorial disparities in activity rates will significantly diminish⁸. According to this scenario, the number of economically active population will amount to 4.7 million people. At the same time, the number of those persons having lower than primary school educational attainment is higher in this scenario (of course, it will decrease but only by 25%). As a result of improved educational attainment in general, both scenarios reckon higher participation rates than today in the 25-54 (prime) age group. The baseline scenario sets this to 80%, whereas the optimistic scenario puts this even higher, to 86%.

It remains to be seen to what an extent the optimistic scenario could be regarded as realistic, since it is an open question whether the large territorial discrepancies could be diminished. Efficient use of the Structural and Regional Funds could help in this respect, but the differences are so large that it seems unlikely that the gaps could narrow to such a considerable extent within just 16 years.

To sum up common features of the employment situation in the New Member States, according to some research results, higher levels of aggregate, long-term and youth unemployment is clearly linked to the particularly high tax burden on labour which is characteristic in Central and Eastern Europe, especially in Bulgaria, the Czech Republic, Slovakia, Poland and Hungary. Despite the high level of unemploy-

⁷ See Hablicsek, 2005.

⁸ Maximum reference activity rates were set up by gender, each age group educational attainment. It is assumed that the territorial activity rates would approach to the reference rates (see details in: Hablicsek, *ibid*).

ment, the compensation and insurance systems have become less and less generous over the 1990s (eligibility conditions have tightened). Although a wide range of active labour market policy measures have been introduced during the transition period, spending on these measures has remained low (with the exception of Slovenia).

Labour market flexibility intensified in some aspects in the region (for example as regards labour turnover), and average job tenure declined to a considerable extent in the 1990s. Employment protection legislation is similar to the EU average, and slightly higher than the OECD average, although there have been significant changes recently in some countries, and variations across countries are substantial.

As a consequence of all these developments, it is clear that employment rate should be increased in most of the new member countries. The tax-benefit system should be reviewed in order to alleviate the tax burden on labour. This is inevitable to attract more people to the labour market. It is important to invest further in human capital, ensuring that the education and training system provides people with the skills needed in labour market⁹.

Therefore it seems that Central and East-European countries have major challenges to face if they want to improve their labour market performance. It would be important to modernise further their economy, but new technology often requires less labour. There is still however, much scope to develop their service sector which could absorb labour and this could lead to higher employment rates. Under these conditions it is an open question, what a role labour migration could play in these economies. In the next section this topic will be examined mainly on the example of Hungary.

III. Migration in Hungary with special regard to labour mobility

As mentioned, similarly to other countries of the Central and Eastern European region, Hungary has become itself a host country instead of a sending one. Net migration well demonstrates this development. Whereas a negative balance was observed between 1980 and 1989 (192,400

⁹ These are the recommendations of the European Union (for example the Wim Kok Report puts and emphasis on measures underlying these principles, and since its publication in 2003, these proposals, especially those concerning the reduction of non-wage labour costs, are still high on the agenda within the EU).

people), during the following decade this turned to a positive one (where the order of magnitude is the same: 196,354, but this makes a big difference, compared to the previous decades because this means that by almost 200 thousand more people arrived than left the country).

As can be seen from Table 2., the age structure of immigrants in Hungary is favourable from the point of view of economic activity because most of them are of prime age (25-49 years). This is especially visible since 1997. Therefore it can be assumed that most migrants aim at working in Hungary.

Table 2 Breakdown of foreign citizens in Hungary by age groups (1995-2003)

| Age group (years) | 1995 | 1997 | 1999 | 2001 | 2002 | 2003 |
|-------------------|-------|-------|-------|-------|-------|-------|
| -14 | 10.8 | 22.4 | 8.8 | 9.1 | 9.0 | 9.6 |
| 15-19 | 6.0 | 10.7 | 5.5 | 6.3 | 6.0 | 5.6 |
| 20-24 | 13.6 | 18.9 | 11.1 | 10.9 | 10.8 | 9.7 |
| 25-29 | 16.6 | 14.1 | 16.0 | 14.1 | 13.7 | 13.0 |
| 30-39 | 24.2 | 17.6 | 23.4 | 23.9 | 24.5 | 24.8 |
| 40-49 | 15.5 | 3.6 | 17.3 | 16.8 | 16.7 | 16.5 |
| 50-59 | 7.0 | 4.1 | 8.9 | 9.0 | 9.2 | 9.6 |
| 60- | 6.2 | 8.6 | 8.9 | 10.0 | 10.0 | 11.1 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Demographic yearbooks, Central Statistical Office, Hungary

Despite this age structure, it is difficult to demonstrate that the demographic situation had so far any meaningful impact on migration. If the structure of migrants is considered from the point of view of their origin, it can be assumed that rather income and wage differences, as well as the common language, traditions and culture played an important role. As can be seen from Table 3., around 40% of all migrants came from Romania, where the largest Hungarian minority lives (about 1.5 million), and wage differences are considerable (see Table 4). There are also a number of migrants from Ukraine (the category “other European countries” includes also this country), which is the country of origin also for many ethnic Hungarians, and, as Table 4 shows, wage differences are also large, compared to Hungary.

Table 3. Breakdown of foreign citizens in Hungary by their place of origin

| Place/Country of origin | 1995 | 1997 | 1999 | 2001 | 2002 | 2003 |
|--------------------------------|-------|-------|-------|-------|-------|-------|
| European Union | 8,5 | 10,3 | 11,5 | 10,7 | 10,5 | 10,0 |
| Former republics of Yugoslavia | 11,1 | 10,8 | 10,1 | 11,5 | 7,2 | 10,1 |
| Romania | 49,6 | 43,2 | 38,2 | 37,8 | 38,6 | 40,8 |
| Other European countries | 19,8 | 20,3 | 22,8 | 24,7 | 43,7 | 39,1 |
| Europe total | 89,0 | 84,6 | 82,6 | 84,7 | 83,9 | 84,8 |
| Asia | 7,0 | 10,5 | 12,1 | 11,5 | 12,4 | 11,6 |
| America | 2,1 | 2,6 | 3,0 | 2,3 | 2,2 | 2,1 |
| Africa | 1,5 | 1,7 | 1,7 | 1,1 | 1,1 | 1,1 |
| Other and unknown | 0,4 | 0,5 | 0,5 | 0,5 | 0,4 | 0,4 |
| Total | 100,0 | 100,0 | 100,0 | 100,0 | 100,0 | 100,0 |

Source: Demographic yearbooks

If possible demographic impacts of migration are considered, it is clear that current patterns and tendencies do not lend support to any significant effects. Not only is their total number small, but fertility pattern of most migrants (primarily that of the ethnic Hungarians) is similar to the native population.

Table 4. Ratio of gross wages in some East-European countries as compared to Hungary between 1994- 2003 (Hungary=100, based on US \$ exchange rate)

| | Czech R. | Slovakia | Poland | Slovenia | Croatia | Romania | Russia | Ukraine |
|------|----------|----------|--------|----------|---------|---------|--------|---------|
| 1994 | 76 | 62 | 73 | 232 | 113 | 35 | 34 | 15 |
| 1995 | 99 | 78 | 92 | 305 | 178 | 45 | 37 | 18 |
| 1996 | 116 | 87 | 105 | 311 | 194 | 45 | 50 | 25 |
| 1997 | 110 | 88 | 111 | 285 | 188 | 36 | 51 | 27 |
| 1998 | 115 | 89 | 112 | 301 | 205 | 48 | 34 | 20 |
| 1999 | 112 | 80 | 131 | 293 | 197 | 39 | 19 | 13 |
| 2000 | 112 | 79 | 142 | 277 | 189 | 42 | 25 | 14 |
| 2001 | 107 | 71 | 138 | 245 | 168 | 41 | 31 | 15 |
| 2002 | 102 | 63 | 108 | 206 | 144 | 35 | 29 | 15 |
| 2003 | 98 | 64 | 93 | 200 | 137 | 33 | 29 | 14 |

Source: Own calculations based on data of WIIW (Vienna Institute of Comparative Economic Studies) Vienna

As can be seen from the above table (Table 4), due to fluctuation of exchange rate, comparison of gross wages could be problematic. (See for example the case of Poland, which is especially illustrative in this point of view). This is the reason why it is justified to look at the differentials at purchasing power parity, on which the majority of analyses on migration potential are based (quite understandably):

Table 5. Income differentials compared to Hungary, based on per capita GDP in purchasing power parity (Hungary = 100)

| | Czech R. | Slovakia | Poland | Slovenia | Croatia | Romania | Russia | Ukraine |
|------|----------|----------|--------|----------|---------|---------|--------|---------|
| 1995 | 135 | 95 | 75 | 140 | 62 | 69 | 74 | 40 |
| 1997 | 131 | 100 | 80 | 142 | 67 | 64 | 68 | 33 |
| 1998 | 124 | 99 | 79 | 140 | 67 | 58 | 62 | 31 |
| 1999 | 118 | 96 | 79 | 140 | 63 | 54 | 62 | 30 |
| 2000 | 115 | 93 | 78 | 139 | 62 | 52 | 64 | 30 |
| 2001 | 118 | 97 | 79 | 137 | 72 | 48 | 56 | 35 |
| 2002 | 116 | 88 | 78 | 130 | 72 | 50 | 56 | 36 |
| 2003 | 113 | 86 | 76 | 128 | 72 | 49 | 58 | 38 |

Source: Own calculations based on data of WIIW (Vienna Institute of Comparative Economic Studies) Vienna

As can be seen, among the neighbouring countries income differential is the largest in Romania and Ukraine. Besides presence of ethnic Hungarians in these countries, this fact also seems to play an important role in their dominance as sending countries (this is especially true in the case of Romania, see Table 3.)¹⁰

As regards labour migration, legal foreign work stands at a low level in Hungary. According to some official data (produced by the Public Employment Service), share of their employment was about 1.28%, in 2004, which increased to 1.53% (meaning a growth of 10 thousand, from 50 thousand to 60 thousand). These data, however, do not include some categories, therefore share of foreign employment is

¹⁰ It has to be noticed however, that according to some recent data, Slovakia is also an important sending country. In September 2006 for example, out of the 66 90 work permits 47% were given to Romanian citizens, 25% Slovaks and 12% from Ukraine. Reason for the relatively large share of Slovak workers, however, lies mainly in other factors than just wage differentials. It is true that the minimum Slovak wage is still by about 30% lower than in Hungary, but the main reason is that Slovakia borders to some extent those areas in Hungary (mainly in the Western part) which are relatively developed and in some branches, occupations and areas, labour shortage can be observed (see: Tóth, J., 2007.)

supposed to be higher. Even taking of other categories into account, however, foreign workers' legal presence can be put less than 2%.¹¹ Despite this, the most recent trends show into an increasing tendency. According to some assumptions, this might be attributed to the fact that part of black foreign employment has been whitened due to joining the European Union.¹²

There is even less information about emigration or labour outflow from Hungary because there is no compulsory registration for those who leave the country either for longer term or for shorter periods. As regards the figures, researchers and experts have no other choice than to rely on statistics on the number of Hungarians in the receiving countries. The picture from these sources, however, has not proved accurate enough to use the information as a base for policy-making. The estimates put the number of Hungarians working in one of the EU countries about 25-30 thousand. The estimated figures increased since joining the European Union to about 50 thousand. Most Hungarians work in Austria (22 thousand), the second most preferred destination is Germany (12 thousand), and then comes the United Kingdom (11 thousand). Among the other "old" EU-members, several thousand people work¹³. (It has to be noted that according to a recent survey, carried out by the European Central Bank in 2006, it is Germany, which is the most preferred country for the citizens of the "Visegrád states", i.e. the Czech Republic, Slovakia, Poland and Hungary, where 37% wants to migrate. The other preferred countries are as follows: Austria, with 24.4%, UK with just 6.4% France with 4.1%, etc., whereas only 2.8% of them would chose another New Member.)

Within the context of migration and black economy, the issue of illegal foreign employment is also the subject of debates in Hungary. In order of its magnitude, the number of illegally employed foreign workers

¹¹ See more details about the various categories of legal foreign workers in : Lukács, É. (2007)

¹² See Lukács, *ibid.*

¹³ For example, 3500 in Ireland, 2500 in Italy and 2000 in Spain. In all the other „old” members, the number of Hungarian who work there, is negligible, being around some hundred, respectively. See: Lukács (2007), who draws the conclusion that according to these estimates, share of Hungarians working abroad is roughly equal to those foreigners who come to work into Hungary, being around 1.5-2% of the labour force. She adds that it is misleading, however, to think that there is a balance between the in- an outflow of labour partly because it is likely that this process has not ended, and partly because there is a qualitative difference between the inflow and outflow. For example brain drain could adversely affect the Hungarian economy for example in the area of health service, where the inflow does not substitute the outflow; therefore there is a shortage of doctors in certain areas. (Lukács, 2007.)

is estimated at 50,000 to 200,000. This cannot be regarded as particularly high, but the share of the informal economy is considerable (experts put this about 20 to 30% of the GDP). In addition, those sectors, where illegal foreign work is concentrated, the share of illegally employed migrants could reach as high as around 5 to 10%. The most affected sectors are: construction, agriculture, commerce and petty trading.

The presence of illegally employed foreign workers raises a number of dilemmas. The phenomenon itself clearly shows that there is a demand for such migrants. A survey, carried out in the late 90s, pointed out: "By way of illustration, it is generally agreed that there should, in general, be much simpler procedures and tax rules for seasonal casual workers employed on a daily basis. Foreign workers should be permitted to perform seasonal work because, in the peak season, the additional supply of workers compensates for the shortage of labour, without reducing domestic employment opportunities... With simpler and more flexible rules, particularly in certain sectors, a considerable proportion of illegal foreign labour could be channelled into legal forms of work" (Juhász et al., 1999)

As regards future perspectives, the most important question is whether Hungary would need additional labour, i.e. if migrant workers are needed in the medium and/or long run. The question leads us to the topic of migration policy dilemmas.

IV. Migration policy dilemmas

Not only in the illegal, but also in legal foreign employment do those sectors seem to have become important recently, which are traditionally dominated by migrant workers. As seen from Figure 1 in the Appendix, shares of construction and trade, tourism and hospitality have increased to a significant extent among those foreign employees who have work permits. Although the proportion of agriculture is not large, in some years it seems slightly higher than in the whole employment¹⁴.

When considering whether additional labour would be needed in the future, it is important to look at those main segments of the labour market where migrants are overrepresented. One could conclude from

¹⁴ It has to be noticed, however, that in the case of agriculture, it can be assumed that share of work permits depend to a large extent on the legal framework. Due to seasonal nature of the work in the sector, if procedures to acquire work permits are simple and the control is strict, this could lead to a higher share.

the aforementioned dominant sectors that it is mainly the bottom end of the labour market where most migrants are present (health and education as well as telecommunication sectors have a low share).

In order to elaborate a sound migration policy, it is also important to assess the impacts of immigrants' employment on the labour market and the economy as a whole. Literature on migration and experts' opinion vary concerning this topic, they are sometimes even contradictory. There seems to be, however, a consensus that migration has important impacts on economic efficiency and distribution, which is manifested itself for example in its effects on national income and distribution among non-migrants (i.e. income per capita, economic growth, structural change, inequality, poverty rates, etc.). Migration could also affect national labour market for example through wage level, unemployment, labour market segmentation, etc. At the same time, some empirical labour economists say that the impacts of immigration on local workers are minor or insignificant. According to other experts, however, "labour immigration has the *potential* to adversely affect wage and employment outcomes of some competing local workers in the short run"¹⁵. Indeed, also in Hungary the main question is whether migration is playing a complementary or rather a competing role. As regards illegal foreign work, according to survey results (mentioned above), its complementary character seems dominant. Those multinational companies, which are present in Hungary, attract also quite considerable foreign labour due to some labour shortage in that region, and lack of skilled workers. In these cases also complementary nature of foreign work seems to prevail.

The aforementioned conflicting views show how important it is to get a complex picture about the role of migration. Therefore it should be investigated whether and how labour and migration policy are inter-related and their changes within the context of the given economic situation. It is evident that various types of migrants have different roles as well as economic and social impacts in the host country. For example, problems related with long-term migration are to be clearly distinguished from those of temporary migrants. In addition, various categories of foreign workers should also be treated in a different way (for

example, labour inflow, connected with the presence of multinational companies on the one hand and seasonal migrants on the other).

It is clear that Hungary should also cope with those migration policy dilemmas, which are generally acknowledged as being the most important ones. Therefore the balance between, sometimes conflicting, objectives should be found. They are as follows¹⁶:

- Labour market needs;
- Protecting national security;
- Minimizing public expenditure
- Promoting social cohesion
- Respecting human rights obligations
- Promoting international development and cooperation

Out of these, it is the first which is most often highlighted in Hungary (both in public debates and also among experts). The problem with this is that it is difficult to foresee labour market needs in advance. Concerning the current policy, however, experts suggest that in order to avoid possible disturbances, labour market monitoring is needed on a permanent basis¹⁷.

Recent efforts of harmonising migration policies within the European Union have important implications for the formulation and application of the Hungarian migration strategy. For example, although in Hungary up till now integration of migrants was not a major concern (due partly to their limited number and partly to the fact that many of the migrants are ethnic Hungarians whose integration has not proved a problem), now an integration policy is being elaborated.

As regards policy against illegal migration, there have been some conflicts among the members of the European Union. The experiences of other regions and countries (including the United States) have already shown, however, (as pointed out by Borjas), that as regards efficient protection against the inflow of illegal migrants, much room for manoeuvre remains in policy-making of the individual countries.

Under the above described circumstances the main dilemma is what kind of migration could help in meeting labour market needs, but avoiding any disturbances or conflicts there. There are several propos-

¹⁵ See: World Migration Report, 2005, p. 206. It refers to Borjas (2003), when mentioning this statement

¹⁶ See: World Migration Report, 2005.

¹⁷ See Tóth, 2007.

als. One of them¹⁸ suggests that Hungary should pursue a more active migration policy in order to find those foreign workers who have the necessary skills to ease labour shortage in some areas. In order to launch such a policy, a thorough analysis of labour market developments (supply and demand) is needed.

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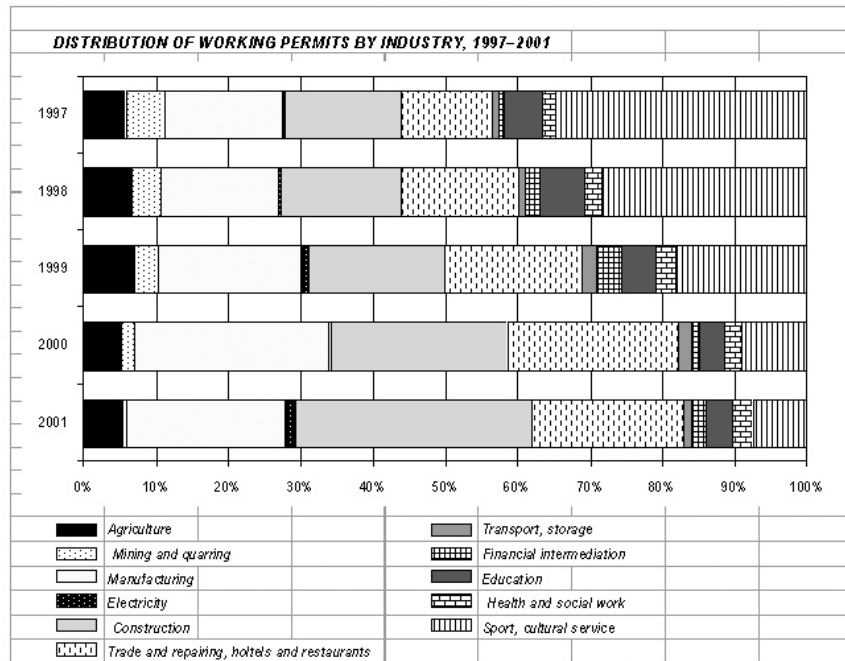
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Appendix

Figure 1.



Source: Central Statistical Office, Budapest

Security, Legal and Human Aspects of Migration – Experience and Policies

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I. Introduction:

1. Historical background:

Starting with **historical retrospect**, prior to the change of regime Hungary was mainly a country sending out migrants and asylum seekers. From the end of the '80s, this tendency changed and instead of emigration, immigration towards the country (both temporary and permanent) became more significant. As a consequence, the Republic of Hungary became a receiving country primarily for two groups of people: first, for asylum seekers with Hungarian origin coming from the neighbouring countries because of the Romanian revolution and the Yugoslav crisis. Second, for immigrants with Hungarian origins from the same countries, seeking better circumstances of life in the second half of the '90s (that is to say the so-called economic immigration). However, due to the greater openness of borders and to the unfortunate phenomenon of increasing organised crime lot of foreigners arrived in Hungary for whom our country was only a transit country and they continued to other Western European states. Briefly, Hungary was a receiving and a transit state at the same time.

This duality is still typical of Hungary. On one hand, by reason of our EU membership, our receiving role has further strengthened after the accession in 2004; on the other hand, our transit role has decreased thanks to the efforts aiming at rolling back illegal migration but because of our geopolitical situation it will certainly not disappear in the future.

As regards migration it is a joyful development that the number of

foreigners legally residing in Hungary is increasing year by year. This tendency mirrors the fact that Hungary can give a secure perspective to migrants arriving here as students, workers or entrepreneurs.

In one word, Hungary's enticement is getting stronger. Nevertheless, it should not be forgotten that Hungary has serious demographic problems, the population is declining, and therefore the positive effects of migration flows offer new opportunities to our country as well.

2. Institutional background:

In Hungary, the **structure of governmental organs** dealing with migration, asylum and border management issues has changed last summer. According to the new institutional structure, the Ministry of Interior has ceased to exist and the Ministry of Justice and Law Enforcement supervises the Office of Immigration and Nationality and the National Headquarters of the Border Guards. Within the Ministry, the Department of Migration, as a newly created administrative unit, has the task to codify the laws and regulations concerning the entry and stay of third-country nationals, the status of citizens enjoying the right of free movement and stay deriving from EC law; moreover to negotiate international agreements in the field of migration and asylum and also to keep contact with international organisations working in this domain (f. ex.: Söderköping Process, International Organisation for Migration, International Centre for Migration Policy Development, UNHCR). As to the Office of Immigration and Nationality, besides the central authority there are seven (7) subordinated regional directorates. Similarly, the National Headquarters of the Border Guards supervises ten (10) regional directorates whose number has dropped to seven (7) from the beginning of this year.

3. Challenges:

a) Reducing number of asylum seekers:

The number and contents of forced migrants and asylum seekers has been dramatically changed during the last decade. From 1989 to 2000 mainly people fled from the conflicts in neighbouring countries sought asylum in Hungary. In this duration we received app. 160 000 asylum seekers.

Our first law in this field, namely the Act on Asylum came into force in 1998. This was important because of lifting the geographical limitation of the Geneva Convention since that time we receive and deal with non-European asylum seekers and refugees on a daily basis. During the Afghan war, Hungary – after Austria – received the most Afghan asylum seekers, in the central-east European area. *[Silde]* To 2002 and 2003 the number of asylum seekers has been dramatically reduced. The reasons of this phenomenon can be the favourable geopolitical changes, the recruitment of the Hungarian Border Guard and the more effective participation in counter trafficking.

b) Increasing number of legal migrants:

As I mentioned it before the number of foreigners legally residing in Hungary is increasing year by year. At present we have approximately 130.000 long-term residents which number is not too high compared to other European states. The majority of migrants have arrived from the neighbouring countries, belonging to the Hungarian minority living there; consequently their social integration – because of the same language and culture – did not cause difficulties. However, nowadays, the proportion of extra-European immigrants among migrants arriving to Hungary is getting bigger and bigger, which urges the elaboration of coherent integration policy in order to avoid their marginalization and so that they can become successful members of the society.

c) Illegal migration routes:

As to **illegal migration**, two of four migration routes go through the Carpathian Basin (Hungary), namely those from the West Balkans and from the former Soviet republics. The present situation in fighting against illegal immigration and trafficking of human beings is more favourable than couple of years ago, which is a result of multiplication of governmental measures: the border management system has been strengthened, a complex surveillance network has been set up with close cooperation between Police forces, the Border Guards, immigration, customs and labour authorities.

d) Challenges after the accession of Romania and Bulgaria:

Among the EU member states in Slovakia and Romania lives the biggest Hungarian population. Because of that fact we expect significant number of migrant workers from these two countries; in this regard the east-west migratory flows seemed to remain the same. According to data given by the National Employment Service the most foreign employees come from Romania to Hungary. From 1st of January 2007 Hungary opened its labour market with restrictions toward Romania and Bulgaria, means that in the first two years Hungary apply automatic permission system regarding to 219 vocations. This list has made by the Ministry of Social and Labour Affairs and based on a feasibility study. Till 2009 the list has to be reviewed in every sixth month and it can be expanded.

We have to see at the same time that before of the accession there were large numbers of Romanian citizens worked abroad already, the simple fact of the accession will not lead to a mass influx of labour migrants from these two new member states.

II. The Migration Strategy of Hungary:

The Migration Strategy is one of the basic documents of the Hungarian migration policy. A document that wants to give proper answers to the challenges come from the complex phenomenon of migration. This is a governmental strategy to lay down the steps have to be taken in the field of entry, reception, integration and return of foreigners.

1. Relation between migration strategy and law enforcement strategy (with special regard to the responsibility of the Border Guards):

There are several, so called sub strategies in Hungary. The scope of the law enforcement strategy covers the responsibility of the Police and the Border Guard, too. Border management and control is an inseparable aspect of migration. Hungary's law enforcement authorities play an ever increasing role in the European Union's security system.

Elimination of risks threatening the Union's external borders is basically a law enforcement related task, in the implementation of which the Hungarian Border Guards has the main responsibility. During the last

one and a half decade, this organisation has transformed from a military organ into a modern, Western-European law enforcement body. The geopolitical situation greatly determines our tasks and duties. Managing migration can only be efficient with a complex filter mechanism; in addition helping countries of origin is of great importance as well.

To this aim, co-operation between Hungarian border control authorities and those of the neighbouring countries is essential. In order to keep up internal security, the Hungarian government puts emphasis on the control of external borders and in relation to internal borders, on carrying out cross-border measures. Border Guards upholds extensive international co-operation network: on bilateral level, we have eighteen (18) international agreements on the co-operation to counter terrorism, drug trafficking and organised crime.

As for the future, it is vitally important to promote and continue cooperation with Ukraine as it is at the external border of the EU and at the Hungarian border so as to address challenges in fight against illegal migration, smuggling of goods and human trafficking.

Besides of these facts, the migration and law enforcement strategies have to be handled as equal documents of the Hungarian migration policy.

2. Priorities of the Strategy:

Hungary needs the positive effects of international migration to reduce the unfavourable tendencies on demographic changes by managing migration. The one of the main purpose of the strategy is to clarify responsibilities belong to different ministries.

a) Legal migration:

The rules of entry and stay of EEA nationals are in accordance with the relevant EU law and regulations.

Other types of legal migrants are third country nationals arrive outside from the European Community, and third country nationals migrated within the Community. The rate of migrants legally stay in Hungary are expected to grow, it could reach 5% of the total number of inhabitants.

b) Illegal migration:

The rate of illegal migration aimed at Hungary shows reducing tendency. The number of those illegal migrants who use one of the legal channels of entry to cover their further illegal purposes (e.g.: lunch asylum application, entry with tourist visa in order to go other western European country) is increasing, this kind of migrants try to use the gaps in the law.

Hungary can expect illegal migrants mostly from the territory of the former Soviet Union and from central-east Asia. One of the main purposes in this field is to tackle the unregistered employment.

Concerning the return of migrants the voluntary return is still the most humanitarian way to get back to the country of origin. In order to strengthen this practice we have to start dialogue with other member states. The European Commission urges this kind of practical co-operation as well.

c) Asylum:

The Hungarian Government has to take steps to prevent abuse of asylum for purposes of illegal or economic migration. The practical co-operation needs to be strengthened among European asylum authorities as well. We want to make efforts to provide the quality of the asylum procedure, to this end we plan to set up an independent country of origin information centre.

d) Counter trafficking:

Concerning to tackle trafficking of human beings Hungary has to prepare at least four year national programme about the possibilities and challenges in this field.

Measures in the framework of the so called 3P strategy (Prevention, Protection, Prosecution) have to aim capacity building in the governmental/public and civil sphere, too. There is a separated shelter home in Hungary to accommodate the victims of trafficking of human beings.

e) Employment:

We have to harmonise the migration trends with the requests of the labour market in order to use the possibilities of the European mobility. It needs bilateral employment programmes and simplified procedure

for those foreign employees wants to stay in Hungary.

Human resources in science and technology have to be motivated to come and stay in Hungary. The earlier selective, prohibitive measures has to be switched to a more opened and flexible labour policy in order to approve the sustainable development.

f) Competitiveness:

Hungary has to join to those countries who implement resettlement programmes. The legal basis of this kind of action is still missing, we have to fill this gap as soon as possible. To handle the triad of competitiveness – labour policy – migration is a special and complex responsibility. The Government has to support middle and big entrepreneurs to settle down in the country by integrated interests of the competent ministries.

The migration related statistics have to be developed to form a homogeneous system, in order to use the European funds more effectively.

g) Education:

The main purpose in this field to give financial and professional support for those educational institutions what deal with migrants. Anti-discriminative measures have to be taken in order to raise the accessibility of public educational system for migrants. Preparatory language training has to be set up fro those migrants who do not speak the language. The Government has to ensure the legal and professional conditions of the education of migrant minors.

h) Health care:

The accessibility of newcomers to the health care system has to be clarified. Traumatized migrants and unaccompanied children need bigger attention.

3. Specialities:

a) Hungarians in neighbouring countries:

The purpose of Hungary is to help these Hungarians to live in their homeland or to come and stay in Hungary if they wish to do so. In order

to make easier to maintain the cultural connections and cousinship at 1st of January 2006 the national visa came into force and the procedure of naturalization became quicker and more equitable. Hungary would like to support these communities according to the EU law.

In order to their integration and autonomy, Hungary wants to support the accession of the neighbouring countries via bi- or multilateral international connections.

b) Emigrants from Hungary:

The migration potential of Hungary is lower than in the other countries of the region. According to the recent experiences the movement of Hungarian people remains within the Union and the purpose of this kind of migration is not a long-term stay but temporary employment. The main reason is that the older members of the EU opened their labour market with some restrictions as well. At the same time it can be shown that comparing with other newly acceding countries the number of Hungarian employees is much lower in those countries, too, that does not apply such restrictions.

The migration of doctors, health assistants and researchers appears to be standard.

III. Integration:

Integration is a part of the Migration Strategy as well but I deal with this issue separately, because of its complex nature.

1. Integration in the European Context:

Historically, the adaptation of migrants and their integration to the host country had been channelled through assimilation processes. This concept by which the “alien” should gradually become “native” was, at that time, a social need in order to safeguard social structures and guided by the reaction of the host society to the presence of diversity. The most powerful example of assimilation was that of the United States, but assimilation was the pattern not only for the migration countries (the Americas and British Dominions) but also for the European ones during the 19th and early 20th centuries. This process was facilitated by easy naturalization of migrants.

Till the 1970s, immigration in Europe was either an intra-continental phenomenon or linked to the colonial history of the major migration countries. In the last thirty years, however, migration changed characteristics. Assimilation patterns ceased to be used to achieve cohesion while, in parallel, the multi-cultural model of integration gradually appeared. In the recent years many countries profess that integration is their avowed goal and is seen not only as a remedy to the emergence of socially excluded areas but also as the implementation in practice of equality for all. Economic parameters also play a role: the successful integration of migrants is not only a factor of social cohesion but a prerequisite of economic efficiency as well.

At EU level, integration as an aspect of a common approach to the migration policy first appeared in the conclusions of the 1999 European Council in Tampere, Finland. [*Some words about the thought of “burden sharing, the instruments (the four special fund) based on this*] Gradually, and with the formulation of common EU actions and policies on migration, integration also became a major aspect of the common migration policies.

Mainly due to the increased number of refugees and asylum seekers in the last decades, most of the EU member states considered refugee integration as a crucial element in their general policies on asylum. The forced character of the refugees’ departure from their countries of origin and their inability to return, render more urgent and pressing the need to provide them with essentials of security and protection, while the same considerations do not, in general, apply to other categories of non-nationals. Thus, although many European countries do not distinguish between integration of migrants and integration of refugees in developing the framework of their general policies on integration, several, among them, promote more formulated, specialised and targeted measures for refugees within these general policies. In this part, integration will be analyzed on the basis of the broader concept of integration of third-country nationals, including refugees and persons under other forms of protection.

a) The significance of integration for European societies:

First of all, the migration flows, in the last 30 years, have become more diverse, both culturally and socially. Secondly, it has been recog-

nised, that the integration of third country nationals has **positive consequences on the economy** of the host country, either directly – insofar as it increases collective wealth – or indirectly by reducing social costs (new employment outlook, covering of present and future labour market needs). Thirdly, integration enhances social inclusion and cohesion. The tendency among Member States is to use integration policies in order to **combat social exclusion**. Integration is, thus, the modern expression on **equality and participation** in today's diversified societies.

Finally, in the aftermath of the September 11 attacks in the US, the member states started increasingly to look at immigration and integration in the light of **security** and the effort to **combat terrorism**. In many European Union member states it is now recognised that the successful integration of migrants and refugees – and in some cases of nationals with an immigrant background – is one of the best armaments against home-bred terrorism.

2. Definition:

Although there is no legal definition on integration there is one that stands on a more or less common agreement:

Integration is a multi-faceted dynamic, long-term and continuous two-way process, which is based on mutual rights and responsibilities of legally resident third country nationals and the host society.

This definition implies that the receiving member states must, on the one hand, create the conditions for the economic, social, cultural, civic and political participation of third country nationals, and, on the other, the immigrants must respect the laws in the host society as well as its basic values and behaviours. It also requires the shared involvement of migrants to the integration procedures developed for them, without renouncing their identity and aiming at the future independent co-existence with every other citizen.

Following the definition mentioned above, the member states have also agreed that an indispensable principle in the context of integration is the need of an holistic approach of integration, which includes all aspects of economic, social, cultural, civic and political life and addresses a broad span of issues in various areas such as, employment, education,

housing, health and social services, culture and inter-religious dialogue, voting rights, citizenship, non-discrimination policy and delinquency and protection of groups of persons with special needs.

3. Implementation:

a) Mainstreaming with some specialised services:

In the field of integration of migrants and refugees, mainstreaming is conceived as directing the governments to make decisions about how to make integration an integral part of all public portfolios (policy-making, implementation, monitoring and evaluation of policies) and how to incorporate this perspective in all aspects of society, at all levels and by all actors and stakeholders. Mainstreaming requires that all members of an increasingly diverse population are guaranteed equal treatment to national citizens before institutions and services and in a non-discriminatory way.

Mainstreaming is not about numbers: theoretically one can mainstream policies that affect directly even a small number of persons – and indeed the objective is to ensure genuine equality or relevance for all. However, it is generally assumed that mainstreaming for too small a number of persons is not productive as it may involve a significant upheaval not justified by the results achieved. In practice this means that, wherever mainstreaming is applied for integration, it refers to a wide target group according to the national situation, covering not only refugees and persons under international protection, but also third-country nationals and, sometimes, nationals of the State with a migrant background.

b) Funding:

Another important issue for actions on integration areas is the available funding: integration requires adequate resources for making the relevant policies effective and responsive to real migrant and refugee needs, as well as, a fine balance between the general financial provisions and provisions targeted for integration measures. The apparent high initial cost is offset by the reduction in targeted expenses (benefits etc.) and the indirect gains – that are difficult to measure but still real – of a more cohesive society. In the present circumstances, co-financ-

ing arrangements with the European Union are an option for most EU member States, while the private sector and migrants themselves also could be very useful in a absolute complementary way.

4. The significance of integration for the Hungarian society:

Hungary remains even today largely a homogeneous mono-cultural society. The presence of foreigners in its territory remains, if not marginal, certainly less conspicuous than in most other countries of Europe.

First, the present situation might change rapidly. Experience from the recent past, especially in formerly emigration countries (Italy, Spain, Greece or Ireland) demonstrate that these countries received a significant immigrant population in a few years' span. These countries were totally unprepared, from a social, political and legal aspect, for this situation; immigrants were marginalised and the society felt alarmed by the sudden influx of migrants. Hungary, as a member of the European Union and a country with an external border, has many probabilities to receive larger numbers of third-country nationals seeking employment, better life conditions or protection. It is important therefore that Hungary prepares itself, legally and socially for such an eventuality.

Finally, actions on integration today present an economic advantage, since the successful integration of third country nationals in the society would contribute to the Hungarian economy and its welfare rather than being a drain on the public funds.

a) Principles guiding a Hungarian Integration Strategy:

The Hungarian administration, though both conscious of the need to carry on with a concrete shape of an integration strategy and willing to proceed to significant changes in patterns and policies, was not able to provide specific terms of reference for the target groups, the content and the funds available for such a strategy. However, one major achievement of the previous years' continuous professional discussions is that the Ministry of Justice and Law Enforcement has expressed a clear will to draft an Act on Integration.

b) Hungarian – Greek Twinning project on integration:

In the framework of the Transition Facility Project entitled “Facilitating Refugee Integration in Hungary” was implemented by the Hungarian Ministry of Justice and Law Enforcement, the Office of Immigration and Nationality and the EU Member State partner, the Centre of International and European Economic Law of Greece (CIEEL). The final component of the project was a strategic document, the White Paper for the Integration of Refugees, Persons Under Subsidiary Protection and Other Third Country Nationals Residing Legally in Hungary. This White Paper proposes the political, legal and administrative framework as well as the contents for a comprehensive national strategy for refugee integration in Hungary.

The Paper provides answers to the request for a comprehensive integration strategy for recognized refugees and persons who have received a subsidiary protection status according to the Asylum Act of 1997 and the 2001 Act on the Entry and Stay of Foreigners. Consequently, it does not go into the Hungarian authorities' legislation and practice on asylum procedures, even less on the wider entry and residence of aliens' issue.

This choice is justified by the fact that integration throughout Europe is on the one hand, a multi-dimensional and multi-targeted exercise, and on the other, it also remains an exclusive national competence orientated to the real needs and political priorities of each country.

Some of the proposed suggestions could also be used in the framework of a future, all-inclusive integration strategy, which would include, besides refugees, other groups of third-country nationals.

IV. Legal aspects of migration:

New legislation will come into force from 1st of July 2007:

On its session of 18 December 2006, the Parliament of the Republic of Hungary has passed two new legislative acts on migration. The Act on the Entry and Stay of Persons Enjoying the Community Right of Free Movement and the Act on the Entry and Stay of Third Country Nationals will replace the current Aliens Act (Act XXXIX of 2001 on the Entry and Stay of Foreigners) as of 1 July 2007.

The “Free Movement Act” implements the Council Directive 2004/38/EC on the right of citizens of the Union and their family members to move and reside freely within the territory of the Member States.

The “new Aliens Act” contains the provision necessary for the full implementation of the Schengen acquis in Hungary. It complies with the Schengen visa regime, and fully harmonizes with Schengen-related and other EU legal measures on the field of both legal and irregular migration.

Concerning the international protection and the asylum procedure a new “Act on Asylum” is under development. We have to incorporate 3 relevant directives:

The Council Directive 2003/9/EC laying down minimum standards for the reception of asylum seekers, the Council Directive 2004/83/EC on minimum standards for the qualification and status of third country nationals or stateless persons as refugees or as persons who otherwise need international protection and the content of the protection granted and the Council Directive 2005/85/EC on minimum standards on procedures in Member States for granting and withdrawing refugee status.

According to the abovementioned White Paper the Ministry of Justice and Law Enforcement wants to create a totally new, comprehensive act on integration which should replaced former sectorial legislation.

26/January/2007, Sofia

THE ROMANIAN APPROACH

Romanian Competitiveness – a Rough Ride to catch up with the EU

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I. What makes nations competitive?

Competitiveness seems to be a comparative concept measuring the ability and the performance of a firm, an economic sector or a country to sell and supply goods and services in a given market. The idea that a country’s economic fortunes are largely determined by its success on world markets is a hypothesis, not a necessary truth. For example, the European Union is the largest exporter in the global market, but it is still lacking in competitiveness compared with the United States and Japan. Even though most of the economists share similar diagnostics of the European problem – the taxes and regulations imposed by Europe’s elaborate welfare states – the European policy-makers, starting with Jaques Delors (1993), explain that the root cause of European unemployment is the lower level of investment in infrastructure and high technology. Becoming *the most competitive nation by 2010*—the goal of the Lisbon agenda—was soon replaced by the *growth and jobs strategy* as the main road towards competitiveness. In this context, the current key policy challenges identified in the *European Competitiveness Report 2006* (December 2006) rests in: the energy market liberalisation, efficiency and security of supply; the regulatory of business environment; innovation and technology policies that contribute to a successful lead market strategy.

Competitiveness is a seductive idea and a way of leaving promising prosperity... through productivity

So competitiveness remains a concept that is not well understood, despite widespread acceptance of its importance. Nevertheless, all the economists agree that the national economic welfare is determined by productivity, in both traded and non-traded sectors of the economy.

Therefore, to understand competitiveness, the starting point must be the sources of a nation's prosperity. A nation's standard of living is determined by the **productivity** of its economy, which is measured by the value of output - goods and services - produced per unit of inputs used by a nation or a region - especially its knowledge, human, capital and natural resources. In other words, productivity sets a nation's or region's standard of living, through wages, returns on capital and on natural resources (Porter, 2006):

- Productivity depends on the value of products and services (e.g. uniqueness, quality), as well as on the efficiency with which they are produced;
- Prosperity does not rely on what industries a nation or region competes in, but how firms compete in those industries;
- Productivity in a nation or region is a reflection of what both domestic and foreign firms choose to do in that location. The location of ownership is secondary for national prosperity;
- The productivity of "local" industries is fundamental to competitiveness, not just that of traded industries;
- Devaluation and revaluation do not make a country more or less "competitive".

Yet nations and regions compete in offering the *most productive environment for business*. Here the public and private sectors should play *different but interrelated roles* in creating a productive economy. A sound macroeconomic, political, legal, and social context creates the potential for competitiveness; it is still not sufficient. Only firms can

Determinants of national competitiveness:

...partly the costs and prices...

...but it is more about the better business performance.

create wealth, not the government.

The main factors behind increasing a firms' competitiveness are:

- Costs – such as wages, utilities, and prices - their impact on the ability of firms to compete in international markets;
- However, better business performance is paramount, above all efficiency factors, such as a good physical infrastructure, high levels of education, training and research and a regulatory and tax environment that encourages entrepreneurship, enterprise, competition, productivity and innovation.

Looking at the groups of companies, Michael Porter defines four "pillars" in the "*diamond of national competitiveness*" that lead to competitive strengths and weaknesses of countries and their major sectors:

- the existence of resources (i.e. human resources and research and information infrastructures);
- a business environment that stimulates innovation;
- a demanding local market;
- the presence of supporting industries.

Therefore, strategy-makers have to look for the resources allocation and performance, but also for the overall business environment improvements and the social progress. A more competitive economy is one that is likely to grow faster over the medium to long run.

Romania has reduced the GDP per capita gap with 10 percentage points relative to EU-25 in the last 7 years.

II. Facts on Romania's growth and productivity performance

After the *European Council in Helsinki* (1999), when Romania was invited in order to negotiate the EU membership, our efforts of adjusting the political, economic, social and legislative systems have increased significantly. Relevant upgrades

in the management of the public and private sectors during Romanian transition to a functional market economy have been induced due to the integrative pressures of the *acquis communautaire*. The coherence of these policies has grown. As a consequence, a buoyant and dynamic economic environment emerged after 2000. Constant economic growth led the Romanian GDP per capita to exceed 34% of the EU-25 average level in 2005. It is estimated for 2006 to be 36% at purchasing power parity (PPP) and 17% at the market prices.

Romania's integration into the global economy through the strategic partnership with the European Union has been so far based on cheap labor as well as low and medium-technology exports. The creation of new jobs has helped solve many severe social problems. Yet such exports are low value added and have a small contribution to raising the living standard through high and lasting economic growth rates.

In the EU-27 internal market, especially as Romania is set to join the European Monetary Union in 2014, the only force contributing to economic catching-up will be the competitiveness of each individual, company, sector and business environment as a whole. There are some Romanian success stories. Still, with very few exemptions, most of the international classifications throws Romania at the European periphery in terms of prosperity driving forces' performance. Escaping it urges a much higher and long-run economic and human development in Romania than the EU average.

With a GDP per capita (PPP) of \$9,446 in 2006¹, Romania is considered an **upper-middle income economy**, according to the World Bank Country Classification Groups. Romania improved its competitiveness relative to EU-25 average and new EU members in some important indicators:

- Romania has one of the highest GDP per capita average growth rates in the region (for about 10% annually during 2000 – 2005, at PPP), overcome only by Estonia. Despite this dynamism, we still had the lowest level of GDP per capita in 2005, relative to the other EU members used for benchmarking, except for Bulgaria;

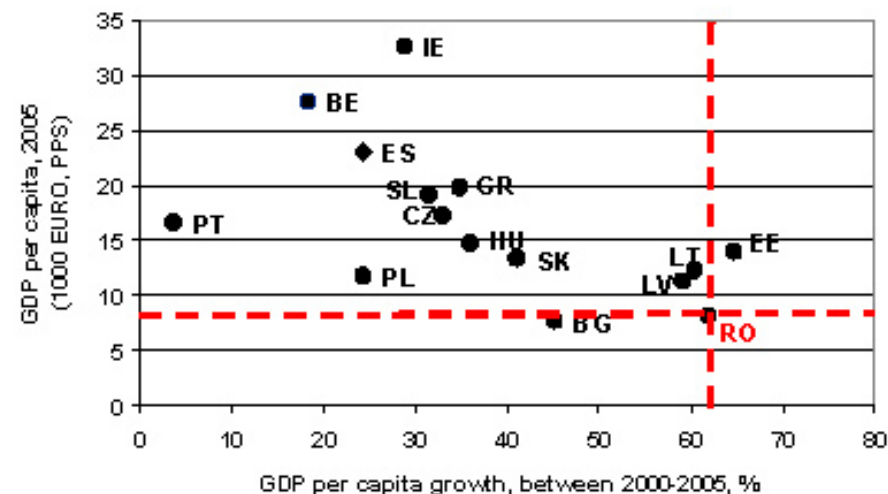


Fig. 1. Prosperity Performance

Source: Calculations based on latest Eurostat databases, January 2007

- GDP increased even faster in 2004-2006 than earlier. In 2004, GDP growth was 8.4%, one of the highest in Europe. This rate was halved in 2005, mainly due to floods in significant agricultural areas. For 2006 growth is estimated at 7.0%. For the next years, the GDP growth potential is evaluated at approximately 6%;
- Labour productivity growth (GDP per employee) of 80%, between 2000 and 2005, seems to reveal Romania as an outstanding performer in our region. Explanations come actually from a significant reduction of labour force in the economy, with more than 1,5 million. Again, the 2005 labour productivity level is one of the lowest in the EU, 2.8 times lower than the EU-25 average and 3.6 times lower than in Ireland. Surprisingly the economic restructuring was accompanied by a low level of unemployment, 5.1% in November 2006, much lower compared to other middle-sized or large European countries such as Poland (14%), Germany (12%), France

¹ IMF World Economic Outlook, Economic Indicators for Romania, 2004-2007, April 2006

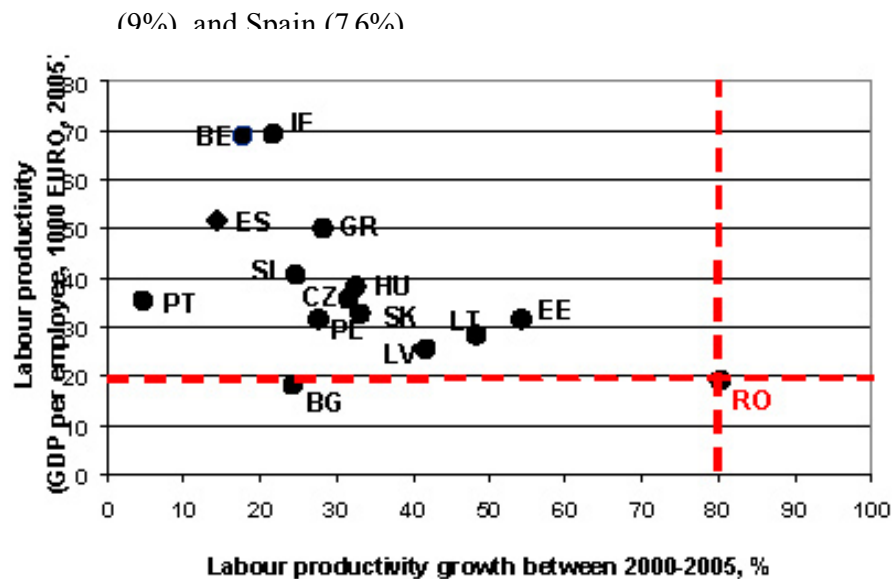


Fig. 2. Labour productivity

Source: Calculations based on latest Eurostat data bases, January 2007

- Labour productivity in industry increased by 11% in the first three quarters of 2006, fueled mainly by the productivity growth in the mining and quarrying industry (26.6%), followed by manufacturing (10.5%), electric and thermal energy, gas and water industry (5.8%).
- Although Romanian exports per capita increased more rapidly than in many other Central and East European countries (CEECs), during 2000 - 2005, their nominal level remains by far the lowest. Structural upgrading is also presently in favor of medium-tech (35% share in total exports 2006) and to a lower extent of high-tech products (gaining 5% in the exports structure in the last 7 years, reaching almost 13% in 2006). Still the resource-based exports and low-tech are dominant, accounting for 36% and 14% respectively (according to the author's estimations)

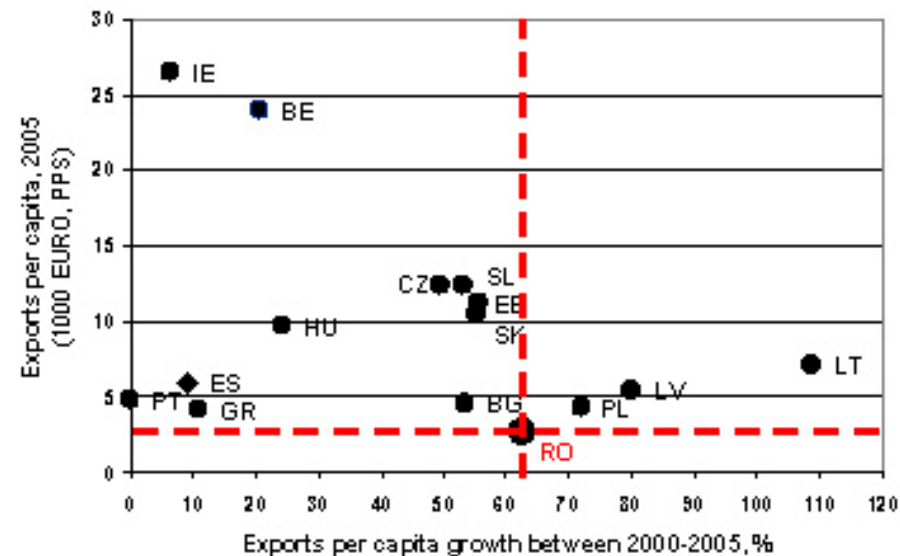


Fig. 3. Export Performance

Source: Calculations based on latest Eurostat data bases, January 2007

- Romania's main exports are clothing and textiles, leather and footwear, with 25% share in total exports (FOB prices), followed by industrial machinery, electrical and electronic equipment (18%), metallurgic products (13%), mineral products (10%), wood and furniture (10%), cars and other auto vehicles (9%), chemical products (6%), software, pharmaceuticals and agricultural products (fruits, vegetables, and flowers). Trade is mostly centred on the member states of the European Union, with Germany and Italy being the country's largest trading partners. Yet the foreign trade deficit is expanding. Imports exceeded exports by almost 50% in 2006, significantly more than in the previous years;
- Benchmarking Poland and Romania, a comparative report finds that the specialization pattern of exports ranks the two countries on the strongest positions in low-tech and medium-

low-tech industries on the EU market, while the market shares attained in high-tech industries are very small². Poland has had a more advanced export structure –there were recent gains in the medium-high-tech sector; productivity increased more rapidly than wages– thus unit labour costs in manufacturing declined by 17.8% during 2002 - 2005. The costs of Polish producers diminished and they could compete with lower prices and sell larger quantities. By contrast, in Romania productivity did not increase as fast as the wages during the same period, which led to an increase in manufacturing unit labour costs of 24.5%. Romanian producers could not sell as much as before in the same quality. They were pushed to increase export prices even if quantities had to be limited. Still, the Polish unit labour costs are on average higher than in Romanian manufacturing sector as a whole; but kept below Romania in key export industries: textiles-clothing-leather, machinery, electrical and transport. Romanian exporters could align costs and prices and maintain competitiveness through quality increase, but they could not substantially increase the amount of exports. At the opposite, Polish producers increased the quantity of exports relatively more rapidly than the quality.

- Flows of foreign direct investments (FDI) into Romania increased. Still, as late as 2004, Romania was lagging behind the other countries in terms of FDI stock in GDP, except for Lithuania and Slovenia. A fifth of the annual gross fixed capital formation was covered by the average inflow of FDI, dur-

ing 2001-2004, 2 times lower in Bulgaria.

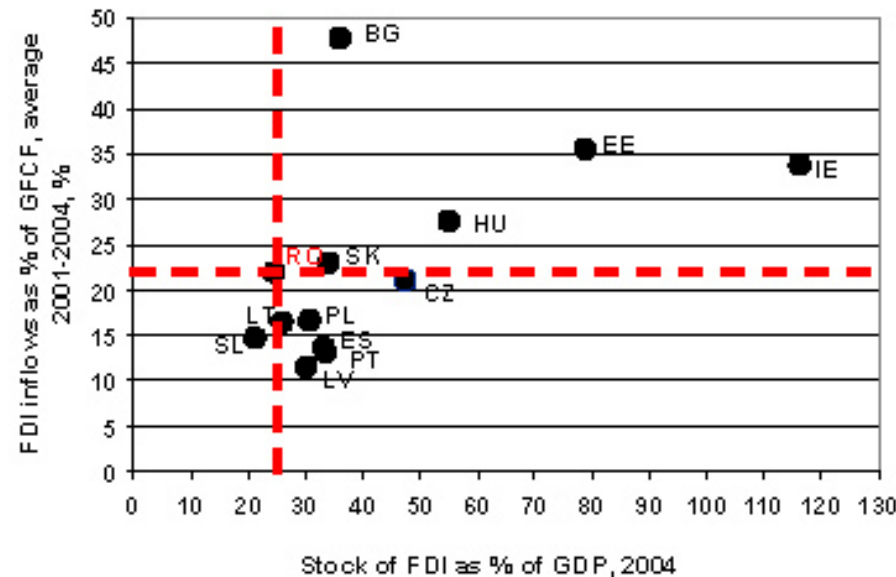


Fig. 4. FDI Performance

Source: Calculations based on latest Eurostat data bases, January 2007

- A much stronger increase of FDI followed in 2005 – 2006, making Romania the single largest investment destination in Southeastern and Central Europe. These performances (5.2 billion Euro in 2005, and 8.5 billion Euro in 2006) were explained partly by several large privatization deals in banking (e.g. the acquisition of Banca Comerciala Romana by Erste Bank - Austria). In addition, the privatization of natural gas providers and their purchase by Gaz de France and Ruhrgas (Germany), led to a stock of almost 29 billions Euro in 2006 (close to the Polish performance in 2004, of almost 30% in GDP). Another record level of FDI is expected in 2007. This should help competitiveness through bringing new international best practices, management skills, expertise and capital investment into the local business environment;

² Hunya, G. (2006), EU Membership – Support and Challenge to the Competitiveness of the Polish and Romania economies, Draft paper to be presented at EUJ Kansai, 9 December 2006 and at EUJ Tokyo, 11 December 2006

- Relevant explanations for the Romanian economy late FDI increase reside in the unfinished privatisation process, on one hand, and from the introduction of the flat tax of 16%, for both personal income and corporate profit - one of the lowest fiscal burdens in Europe, on the other hand. These have been accompanied by measures to improve the business environment, especially in terms of ease of starting a business, policy incentives leading to the increase of employees and private sector profitability (reaching an unprecedented 5% level in 2005). Actually, government intervention in the Romanian economy is to some extent even lower than in other European economies³.
- The business environment reform. The regulations of launching a business in Romania are more favourable than in the region and in the OECD countries. The procedures, costs and time required significantly diminished, placing Romania on the 7th place worldwide in ease of opening a business and entering the market (*World Bank, 2006*). Relevant improvements have been achieved in facilitating the imports and exports, thus gaining a competitive advantage over other 86 countries worldwide in 2006. The protection of investors and contract enforcement are relatively solid. The flat tax rate is also competitive, but the number of tax payments, the procedures and time for registering a property are still relative high. Despite the above-mentioned positive outcomes, the quality of the legislative regulations adopted during 2004 - 2006 was unsatisfactory. Overly rigid non-wage costs, the difficulties faced in firing workers and in shutting down a business are other added weaknesses of the Romanian business environment that put a break on the development of entrepreneurship;
- The sectors with the fastest growth in 2006 were:
 - constructions and related industries – building materials industry, metallic constructions and metal products industry – estimated growth of 13% in 2006, with a further 12% growth forecast for 2007;
 - electronic equipment industry (10.6% growth in 2006);
 - telecommunications industry;
 - production and distribution of electric and thermal energy;
 - furniture industry;
- A fast-growing financial sector supports the industry development. *The banking sector* is highly developed, with a banking assets volume of approximately 38 billion Euros. There are 39 banks currently active on the Romanian market, 6 of which are branches of foreign banks. 58% of the banking assets are concentrated in the first 5 banks in the system, while the majority of the banking assets are held by foreign-owned banks (87.8%). *The insurance sector* has developed exponentially, representing, at the end of 2005, 1.2% of the GDP. In 2006, estimates indicate a growth of almost 20%. Although less developed than the banking system, *the capital market* is one of the most dynamic markets in Europe, with a capitalization of approximately 21 billion Euros, in 2006. Enhancing the legislation on investor protection, introducing the mortgage bonds, launching the private pension funds and the EU accession generate positive prospects for the ongoing development of these sectors.

**EU membership does not guarantee higher competitiveness:
the case of Central and East European countries (CEECs)**

Competitiveness improvements before accession. Czech Republic, Poland, Hungary etc. have taken particular measures in early the 1990's to promote the competition among enterprises, to strengthen the governance and to stimulate foreign direct investments, aiming at including domestic companies in the global production network. They reaped soon the benefices of competitiveness.

In an international comparison, CEECs show a relatively strong economic growth performance, coming close to that of the first and second tier of Asian Tiger countries over the past decade, which emerge as the best growth performers (setting aside China, with an average economic

³ Heritage Foundation, Index of Economic Freedom, 2006

growth of almost 10% in the last two decades). Its dynamic growth performance has even accelerated despite an economic slowdown in their most important trading partners. Despite being considerably smaller than their competitors in East Asia (taken together about half the size of China), the CEECs have gained a very considerable market share in the EU-15 which is their main export market. Meantime, pronounced reduction in their trade deficits, despite weak demand in EU and strengthening currency, reveals significant competitiveness improvements.

Regional growth forecasts – CEE a leader

| Real GDP growth | 2006 | 2007 - 2011 |
|--------------------------|-------------|--------------------|
| North America | 3,2 | 2.6 |
| Western Europe | 2.8 | 2,3 |
| CEE | 6,3 | 5,5 |
| Asia | 5.3 | 4.5 |
| Asia without Japan | 5.9 | 5.2 |
| Latin America | 4.7 | 3.7 |
| Middle East/North Africa | 5.8 | 5.2 |
| Sub-Saharan Africa | 4.3 | 5.0 |

Source: *European Intelligence Unit, Jan. 2007*

CEECs are to become during **2007 – 2011** the **fastest growing region of the world**, according to the *European Intelligence Unit* estimates from January 2007. This trends lead to an unprecedented rise of competition in the region in the next few years:

- CEECs produced only 4% of world GDP in 2005, (at market exchange rates), but the highest economic growth rate in 2006;
- Today, the CEE region gets more foreign direct investment than anywhere else in the world (record FDI in 2005 of \$80bn, *UNCTAD, 2006*), adding between \$1.1 and \$1.3 trillion in market size annually. Labour intensive manufacturing will continue to go to cheaper locations in CEE region, but high value added manufacturing, research and development, shared services etc. are moving too, at unprecedented levels.
- Significant comparative advantage because of lower perceived risks relative to Latin America, China, India, Middle East or Africa.

- EU funding 2007-2013 equals \$140bn – a major opportunity but it depends on how much it will be absorbed.

EU membership does not guarantee faster growth. The old members are likely to maintain a competitive edge in advanced business services. But in terms of infrastructure (human capital, telecommunications, etc.), the ease and reliability of doing business, the new members occupy rank four behind the two groups of advanced economies (EU and other OECD) and the first tier of Asian Tigers. Romania and Bulgaria rank generally lower, thus having to defend their position more intensively against competition from the second tier of Asian Tigers and emerging market economies, such as Turkey and Mexico. The two giant emerging markets, China and India, still have a long way to go to catch-up in these qualitative indicators. A distinguishing feature of EU-10 is their strong performance in terms of human capital and business infrastructure, which is yet not totally matched by an equally strong performance in institutions, guaranteeing a reliable and sound business environment.

III. Key policy challenges

Are the current sources of Romanian economic success sustainable?

We should not fall prey to illusions, however, and lose sight of the bigger picture. **Romania is a factor-driven economy to a large extent, moving only now towards an efficient-driven development stage.** We have basically two options ahead of us:

- To compete on the European market and globally with Poland, China and India on the labour-intensive product markets, or
- To build a sound policy for efficient investments that may turn Romania from a spectator into an active player on the high-technology based global market.

Taking into account the perishable nature of the first option, we are left to play the second card. So, firms in Romania will not be able to compete internationally only on the basis of natural resources and low wages, but rather on the basis of higher diversification, productivity and quality, ingenuity and innovation in product and process design and

delivery. Romania has no choice but to become a vibrant knowledge economy, being in a position to cash in on its integration opportunities, economic strategic location, savvy foreign policy, abundance of natural resources, sound macroeconomic policies, booming industries, high-skilled and still inexpensive labor force and the stock-market growth. Pragmatically, economic planning has to be coherent and unitary, as to cover a few key objectives, even though every field seems a priority, that is those niches that could sustain the ongoing development.

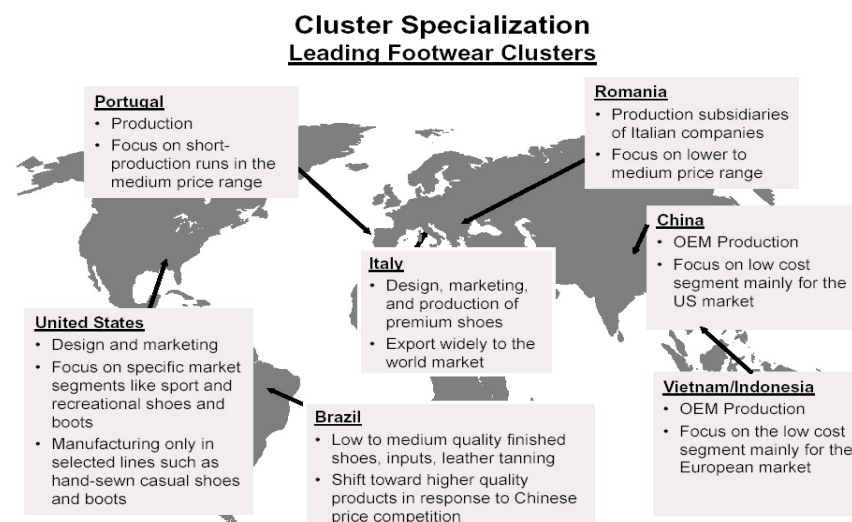
Nonetheless, what creates productivity in Sweden is different from what drives it in Romania or Bulgaria, and again different in Ghana. Porter (1990) notes that countries are separated into three specific stages: factor-driven, efficiency-driven, and innovation-driven, each implying a growing degree of complexity in the operation of the economy.

- a) *In the first stage*, competitiveness hinges mainly on well-functioning public and private institutions, appropriate infrastructure, a stable macroeconomic framework, and good health and primary education. See for example the Romanian pattern of specialization in the world-wide footwear cluster, in the presence of Italian subsidiaries. They focused on lower to medium-price range products, but recent orientation towards design, marketing and premium shoes was influenced fundamentally by linkages and spillovers across firms in competition (Fig. 5).
- b) As wages rise with advancing development, Romania should move into the *second stage*, when we must begin to develop more efficient production processes and increase product quality. At this point, competitiveness becomes increasingly driven by higher education and training, efficient markets, and the ability to harness the benefits of existing technologies. These are currently exactly the main bottlenecks in raising Romanian competitiveness, on which we are to focus further on.
- c) Finally, as countries move into the *third stage*, they are only able to sustain higher wages and the associated standard of living if their businesses were capable to compete with new and unique products. At this stage, companies must compete by producing new and different goods using the most sophis-

ticated production processes and through innovation. For example, even though Singapore is one of the most impressive success stories of economic growth in the 20th century, with the highest export per capita in the world in 2005, it is now on a challenging path to move from an economy based on efficiency to one based on differentiation and innovation.

Fig. 5. Romania's role in the footwear cluster

Source: Research by Harvard Business School student teams in 2002 – Van Thi Huynh,



Evan Lee, Kevin Newman, Nils Ole Oermann (Porter, 2006)

Going through different country and regional experiences leads to the conclusion that the transition through the different stages is not necessarily linear or gradual. Nor does it happen automatically. Therefore, Romania has to simultaneously address stringent issues related to the traditional competitive assets and to the main competitiveness shortcomings, and also to develop new competitive assets.

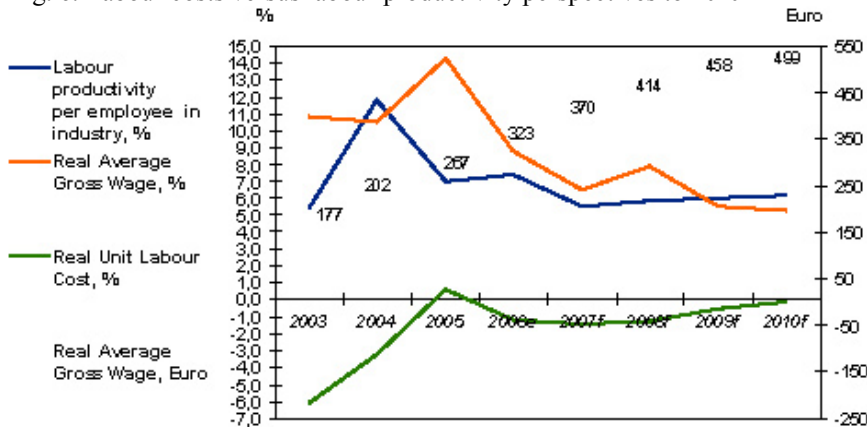
Specific **post-accession competitive pressures** consist in the loss of competitiveness in labour-intensive and low skill industries, partly due to a gradual loss of cost advantages, but also to the increasing import pressure from China and other low cost producers in European markets.

Labour costs versus labour productivity

In 2007, after the EU accession, there will be strong pressures on wages towards convergence with Western European standards. Strong growth for Romanian labour productivity is forecasted over the 2006-2008 period by the *European Commission*⁴. In both productivity and wage levels, expansion is likely to be higher than in most EU-27 member states. But if the labour productivity per employee is outpaced by employee compensation (a proxy for wage growth), as EC forecasts suggest, it will lead to a direct short-term threat to competitiveness. On the other hand, it may bring more emigrants back home, with higher skills and motivation.⁵

However, the *National Commission of Prognosis* estimates an annual negative real unit labour costs growth (Fig. 6) during 2006 – 2010. It actually means that labour compensation will shift from the 2005 trend, and it will grow less quickly than labour productivity. This is partly because until 2004, competitive wage costs made Romania an attractive Eastern European relocation destination for labour-intensive industries. Since then the growth rate of cheap but high-skilled industries, such as IT industries and call centers, increased significantly.

Fig. 6. Labour costs versus labour productivity perspectives to 2010



Source: Estimations of the National Commission of Prognosis, Jan. 2007

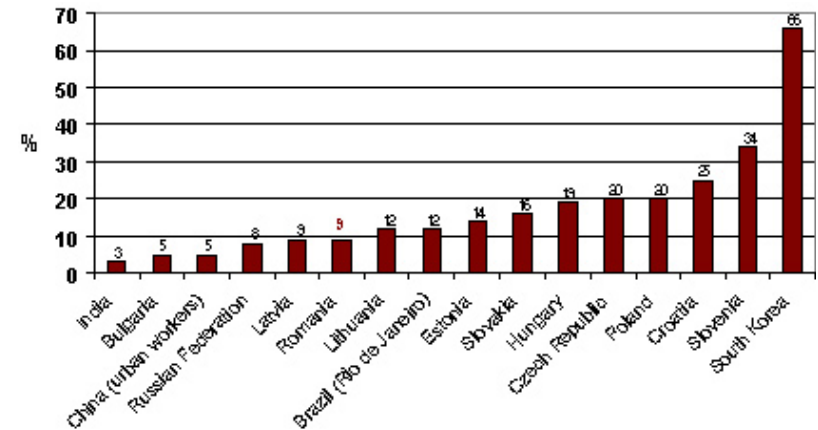
⁴ EU's Autumn Forecast Report, November 6, 2006

⁵ Lately, only 12% of the returning Romanian emigrants were carrying in their luggage a higher education diploma, much lower than in Bulgaria or the other CEE countries (World Bank, Migration and Remittances: Eastern Europe and the Former Soviet Union, A. Mansoor, B. Quillin, 2007).

Currently, wages in Romania are increasing from an extremely low base, by comparison with Western Europe. A recent survey⁶ indicated that a typical 2006 weekly gross wage costs in Romania is 66 Euro - 80% higher than in Bulgaria and similar to Latvia, but more than 2 times lower than in Hungary, almost 4 times lower than in Slovenia, and finally more than 10 times lower than in Germany.

Such issues remain a concern, but simultaneously excessive wage growth must be prevented. Pay levels in many of the EU's global competitor countries are much lower even than in Bulgaria, Latvia and Romania (Fig. 7). Both India and China are rapidly growing production and IT service centers, while Russia is attracting considerable inward investment because it combines a huge internal market for goods and services with very low wage costs.

Fig. 7. Median gross weekly private sector earnings in 2006, Germany =100%



Source: FedEE, Pay in Europe 2006, www.fedee.com

Stringent issues:

- Agriculture
- Energy intensiveness
- Infrastructure
- Tourism
- Education
- Research and innovation

There are a number of other stringent issues the Romanian Government must be working on, in particular the main four sectors that are heavily dragging down the economy productivity. These are the

⁶ FedEE, Pay in Europe 2006, www.fedee.com

agriculture, energy, and tourism industries, along with the lack of a proper infrastructure base:

- The economy is currently heavily agrarian. Over 10% of Romanian GDP comprises agricultural production, as opposed to around 2% in EU (e.g. 3% in Poland). Additionally, one third of the Romanian population is employed in agriculture and primary production, one of the highest rates in Europe. But its share in exports is insignificant. However, agriculture is the main destination for the European structural funds. If we take also into consideration the low price of arable land and the investments forecasted in rural agriculture, this sector becomes one of the most attractive economic branches, with a substantial growth potential in the future.

- Energy intensiveness of the Romanian economy is four times higher than the EU-25 average⁷. This lack of efficiency appears at the production, the distribution and the consumption levels as well. The on-going liberalization process has not yet yielded an efficient market with competitive prices;

- Tourism in Romania has a three times lower contribution to the economy than in countries like Spain, Italy, and Greece, where tourism is an important economic asset. Its weight in exports is 2.5 lower than in the EU-25. Bulgaria was early to understand this opportunity and reacted accordingly, adjusting their offer to Germany and the United Kingdom, which are by far the biggest spenders. Romania should capitalize mainly its business tourism, spa and agro-tourism assets.

- With only 200 km of highways, Romania is far behind Hungary or Poland and this puts a significant upward pressure on infrastructure and transportation costs. With an economy in expansion, the necessities related to the transport infrastructure development are very high. The government has developed a very ambitious strategy for the next ten years, based on:

- the modernization of the road network - a special attention will be paid to highway construction (approximately 1050 km);
- ensuring the railways' interoperability (reaching 1100 kilometers in length);

- increasing of the merchandise traffic in internal and maritime ports, as well as the modernizing of airport equipment and facilities in four airports of national interest (delivering services to 11.3 million travelers a year).

Moreover, in an increasingly knowledge-based economy, human capital education and life-long learning are key factors linked to economic success, productivity, social cohesion, full employment and a better quality of life and work. Yet, the education and research sector remains severely unreformed - unlinked to the market needs and future labour markets dynamics - despite the recent substantial improvements in the allocated funds. 2007 budget increases education spending to 5.2% of GDP, more in line with "old Europe", as well as to 0,56% of GDP for research, development and innovation (RDI). The quality improvements are still expected. For example, the Romanian universities are lagging much behind the performance of top 500 universities worldwide (*according to the Shanghai classification, 2006*). Only one out of ten Romanians over 25 has a tertiary education, half the average EU-25 level. The propensity towards life-long learning is even four times lower than in the EU.

Romania's innovation performance remains very weak⁸. Thus, Romania ranks 2nd to last out of 33 countries. Only two indicators are above the EU average: the percentage of Small and Medium Enterprises (SMEs) that have introduced non-technical change and the new-to-market product sales. Innovation is mainly limited by the poor implementation of intellectual property rights, by the low levels of life-long learning, by the inadequate supply of venture capital funding, by the public and private expenditures for RDI, by the state aid for innovation, by the exports of high-tech products, and by the weight of expenses with communication and information technologies in the GDP, of the new to firm product sales⁹. Actually, 83% of the Romanian companies are non-innovative, 3% are strategic innovators and only 2% implement new technologies.¹⁰ There is little innovation and, as a consequence, there are few industries using new technology intensively.

⁸ The Romanian aggregate innovation index is 38% of the EU and in the last year, Romania was still losing some ground, being part of the 'non catching-up' group of countries, according to the European Trendchart - Romania 2005 (European Commission, January, 2006).

⁹ European Innovation Scoreboard, European Commission, 2006

¹⁰ CIS 3 Report of the National Institute of Statistics, European Commission, 2006

⁷ Atlas method of World Bank, 2005

Romania is committed to increasing the public funding for RDI up to 1% of the GDP by 2010. Many challenges are left to be addressed. Until now, in developing the innovation capacity, the public policies have focused on strengthening the human resources and the research capacity in the research institutes and the university sectors. Fewer measures were geared towards the development of innovative performance in industry.

The private spending of 2% in the GDP is actually a utopia and it will remain unchanged, unless the presence of public instruments to support it. At least four business RDI challenges should be addressed:

- The very low level of public funding of innovation (only 10% of innovative firms receiving funding);
- The very low levels of innovation expenditures (3% of the innovative firms' turnover);
- The failure to commercialize R&D breakthroughs;
- The weak innovation culture in the country.

Moving up the value chain in production and exports

Moreover, as presented earlier, almost half of the export capacity is significantly reliant on basic commodities (i.e. ores, coal and salt), cheap textile and footwear products, and other low-tech industries. Moving up further the value chain to an increased contribution of services and higher-tech industries will be necessary, as less skilled work is low labour costs dependent in preserving its competitive advantage. Newly announced engineering and software development centers by multinational firms, for example, are encouraging in this respect. They are to take advantage of the high level of information technology and communication (ITC) engineers per capita, more than anywhere else in the world besides India. Diversifying the economy, particularly developing the IT sector, is a key knowledge-economy goal.

The ITC is one of the most dynamic economic sector and a relevant competitive asset in EU-27. Increasing four times in the last seven years (2000 – 2006, and with 25% during 2005-2006), its actual contribution to GDP is 4.2%¹¹. Telecom services predominates

¹¹ ITC share in the total number of active companies is 3% and in the total number of employees 2.3% in the

(3.1% in GDP), followed by software and hardware industries (with 0,8%, respectively 0,25% in GDP). Further development opportunities comes from the less ITC expenditures than half of EU-15 average (3% in GDP). As a consequence of the low level of domestic demand, Romania is a net software exporter (three times higher than imports), but still a net importer of hardware products. Industry specialists agree that the current software export growth is fueled by the major offshore and services centers, as well as from domestic companies offering patented software products, services and business process outsourcing.

**Against all odds:
the rise of software industry in Romania.**

In a high-tech local industry emergence, four evolution stages in climbing the ladder of know-how have been identified in the Romanian post-communist business environment – endowed with highly-skilled labour

force, but lacking an open market and management knowledge:

- The research and development division of a foreign company;
- Software outsourcing provider for foreign companies;
- Complex software solutions provider and owner of a portfolio with copyrighted products – entering successfully the regional competition;
- Acquisitions of local players by international competitors follow as an attempt to cope with the increased world-wide competition.

Romania is a highly attractive outsourcing market. Many western companies have taken an interest in either investing or setting up partnerships with local software companies. Oracle, Hewlett-Packard, IBM, Microsoft are strong global players present on the Romanian software market and Canon CEE GMBH, Fujitsu Siemens, HP, IBM, Intel Corporation, Konica Minolta, Philips or Xerox on the **hardware** market. Major Romanian IT clusters have developed around the large cities. They rely on the output of the IT/science universities (i.e. graduating software engineers) to support

their growth. Labour demand is however increasing much faster than the overall number of IT graduates per year (around 7000). The education system reform should address this issue.

Fig. 8. IT clusters in Romania



Problema rezolutiei mai bune incercati sa o rezolvati direct de la sursa net:
http://rbd.doingbusiness.ro/anis_romania_software_sept06.htm
 sau:
 Am atasat si formatul sau JPEG langa doc.

Source: The Employer's Association of the Software and Services Industry, 2006

For comparison, the pharmaceuticals market turnover was similar to the software industry, but with a significantly lower growth rate (17% annually, during 1999 - 2005). Strong multinational players enter the market, highlighting again the development opportunities. Expenditure per capita on healthcare is still more than six times lower than in the EU-25 and the drug consumption is among the lowest in Europe (less than half in Hungary, the Czech Republic and Poland; 14% of the EU average). However, imports account for 20% in consumption,

being concentrated on more sophisticated, patent-protected, drugs. Meanwhile, the domestic producers largely focus on the production of low-value generic drugs.

Domestic production outpaced by the local consumption

Overall, the large Romanian consumer market - with 4.4% in the EU-27 population - is ongoing expansion, so that the local demand is the main contributor to GDP growth, unlike the EU-25, where the exports dominate. The contribution of foreign demand (export-import) to the real GDP increase has remained negative (-4.4%).

The strong wage and credit growth fuels this excess demand, pushing the annual current-account deficit above 10% of GDP. Given the expectation of significant revenue from privatization and inflows of foreign direct investment such levels have proven so far sustainable. Nevertheless, the expected decline in privatization receipts in 2007-2008 seems to increase Romania's external vulnerability, unless the domestic producers overcome the disadvantaged position relative to the imported goods. In certain economic sectors – such as industry and energy – prices tend to adjust faster to the EU, increasing the utilities' and other intermediary products' costs. Another serious consideration for exporters competing in European markets is the substantial real exchange rate appreciation, accompanied by strong wage growth, that damaged profitability and competitiveness in some sectors. In 2005, these pressures were higher than in many other member states. Higher interest rates, the full liberalization of the capital account and a generally positive view of Romania's prospects after EU accession will stimulate further the speculative capital inflows in 2007-2008. However, modest real appreciation is expected.

The central bank met its 5% year-end target for inflation in 2006, but raised its forecast for 2007 inflation from 4% to 4.4%. This measure issues an even stronger warning about upward pressures, including rapid growth in aggregate demand. High levels of public consumption and investment activity in 2007-2008 will lead to expansionary fiscal policy. Investment activity is the main engine of growth, as new and

modernized production facilities come online and large public investment projects get under way. In this context, prudence in wage policies and productivity gains are strongly recommended.

Ongoing problems:

- **Public administration**
- **Legislation quality**
- **Labour Code traps**
- **Corruption**
- **Poverty**
- **Rural development**

We cannot improve national competitiveness, without overcoming the ongoing obstacles, for which Romania was many times criticised for being EU-compliant only on paper. It is mainly the corruption, the unreformed public administration, the legislation of low quality and low predictability, the relatively rigid employment laws, and low investor protection that induce higher costs in the business environment.

Social conditions remain challenging in many parts of the country. Poverty persists in the country, with over 15% of

the population living below the poverty line. Two-thirds of Romania's poor live in rural areas. Risks of job losses are likely especially in these areas, where small and medium enterprises are unready for the European competition. Training skilled workers and attracting investment outside Bucharest will be crucial goals in the struggle to diminish the regional gaps and keep up high long-run economic growth.

Romanian Competitiveness landscape in 2006

| Strengths and opportunities: | Weaknesses and threats: |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> • Solid macroeconomic policy; • 7th largest member of the European internal market; • Flat tax rate of 16%; • Low unemployment; • Increasing living standards and number of employees; • The deflation process looks sustainable; • Large and expanding consumer market; • Short-term competitive wage advantage; • Relevant business environment improvements; • Selected successful manufacturing sectors, such as the rapidly developing ITC sector; • Relative lower government intervention in the economy; • Positive trend of SMEs development; • Liberalization of telecommunications market. • Established industrial and technology parks, incubators and clusters; • Member of CEECs – fastest economic growth region in the world the next five years – expanding the prospective regional demand; • Significant sources for investments from structural and cohesion European financial instruments; • Potential regional hub in gas and energy transport; • ITC export development and branding; • Ending the privatization process and focus on attracting high-technology greenfield investments; • Supply chain for foreign companies, following the Barcelona target of 3% for RDI in GDP, but the low domestic demand for RDI; • Competitive markets regulations improvements; • Service sector liberalization in EU-27, reaping the cross-border investments advantages; • Increased export potential, according to the National Export Strategy; • Significant agricultural and tourism export potential. • Niche tourist destinations. | <ul style="list-style-type: none"> • Reinforcement of position and image as a low value-added economy; • Loss of competitiveness if the wage and other inputs costs increase is not surpassed by labour productivity; • Price convergence with EU and risk of investments reallocations to lower costs regions; • High losses in electricity/thermal energy, oil and gas transport and distribution networks and thus high costs for the business sector; • High energy intensity of the economy; • The lack of objective, relevant microeconomic data to analyze competitiveness and track the impact of competitiveness efforts; few independent research organization separate from the government to tackle the issue; • The ability to implement and enforce policies and ensure a stable policy environment for business is weak; • The legal system still suffers from low credibility in terms of predictable and fair application of the law; • High share of traditional agriculture in GDP; • Increasing trade deficit; • Limited entrepreneurial culture; • Poor SMEs access to business finance and services; • Under developed ITC infrastructure and services; • Undemanding home consumer market; • Old technology / high costs of non-labour inputs; • Low level of inputs for education and RDI sector, but even lower outputs quality - weak connections to real economy; • Weak development of Technology Transfer and RD infrastructure; • Migration abroad of highly-skilled labour-force; • Relative low share of population with completed higher education; low propensity to life-long learning; • Weak tourism infrastructure and poor marketing; • Competitiveness gap between urban and rural areas; • Administrative barriers to business and traps in the Labour Code; • Lack of capacities in managing properly the European funds for improving economic competitiveness; • Romania perceived as the EU member with the highest level of corruption. |

IV. Benchmarking Romanian and Bulgarian competitiveness performance

Monitoring the international comparisons of national competitiveness factors proves helpful in obtaining a clearer picture of Romania's position and of the trends in the global and European economy. Bulgaria is used as a benchmark because of the progress similarities under the competitive pressures of EU integration.

Tab. 1. World rankings of Romania and Bulgaria in international reports, 2006

| No. | Competitiveness indicators | Ranking | | Best performing |
|-----|---------------------------------------------------------|---------|----------|------------------------------|
| | | Romania | Bulgaria | |
| 1. | GDP at PPP ¹ | 44 | 66 | USA |
| 2. | Population ² | 51 | 94 | China |
| 3. | GDP at PPP / capita ² | 65 | 64 | Luxembourg |
| 4. | Global competitiveness ³ | 68 | 72 | Switzerland |
| 5. | World competitiveness ⁴ | 57 | - | - |
| 6. | Exports ² | 55 | 69 | EU |
| 7. | Exports/capita ² | 60 | 58 | Singapore |
| 8. | Imports ² | 44 | 65 | USA |
| 9. | Human development ⁵ | 60 | 54 | Norway |
| 10. | Quality of life ⁶ | 58 | - | Ireland |
| 11. | Corruption perception ⁷ | 84 | 57 | Finland, Island, New Zealand |
| 12. | Economic freedom ⁸ | 92 | 64 | Hong Kong |
| 13. | Economic Globalization ⁹ | 30 | - | Singapore |
| 14. | Ease of doing business ¹⁰ | 49 | 54 | Singapore |
| 15. | Innovation capacity ¹¹ | 32 | 26 | Sweden |
| 16. | Bertelsmann Economic transformation index ¹² | 19 | 16 | Slovenia |
| 17. | FDI performance index ¹³ | 24 | 9 | Azerbaijan |
| 18. | Agricultural output ¹⁴ | 32 | 76 | China |
| 19. | Industrial output ¹⁵ | 53 | 72 | EU |
| 20. | Services output ¹⁵ | 50 | 67 | USA |
| 21. | Electricity consumption ¹⁶ | 41 | 55 | USA |
| 22. | Natural gas consumption ¹⁷ | 32 | 55 | USA |
| 23. | Carbon dioxide emissions per capita ¹⁸ | 84 | 71 | United States Virgin Islands |

Sources:

1. International Monetary Fund, World Economic Outlook Database, estimations for 2006 – out of 176 countries;
2. CIA World Facts Book 2006 – out of 232 countries;
3. World Economic Forum: The Global Competitiveness Report 2006-2007 – out of 125 countries;
4. IMD International: World Competitiveness Yearbook 2006 – out of 61 economies;
5. Human Development Report 2006 – out of 177 countries;
6. The Economist: The World in 2005 - Worldwide quality-of-life index, 2005 - out of 111 countries
7. Transparency International: Global Perception Report 2006 – out of 163 countries;
8. Heritage Foundation: Index of Economic Freedom 2006 – out of 161 countries;
9. AT Kearney: Foreign Policy Globalization Index 2006 – out of 62 countries;
10. World Bank, Doing Business in 2006 – out of 175 countries;
11. European Commission: European Innovation Scoreboard 2006 – out of 33 European countries;
12. Bertelsmann "Economic Transformation" index, 2006 -- out of 119 economies;
13. United Nations Conference on Trade and Development: Foreign Direct Investment Performance Index 2006 - out of 141 economies
14. CIA World Facts Book 2006 – out of 162 countries;
15. CIA World Facts Book 2006 – out of 163 countries;
16. CIA World FactBook 2006 – out of 196 countries;
17. CIA World FactBook 2006 – out of 213 countries;
18. US Department of Energy's Carbon Dioxide Information Analysis Center (CDIAC) for the United Nations Statistics Division – out of 182 countries.

What are the rankings about?

The most comprehensive reports on competitiveness are those conducted by the World Economic Forum, in its Global Competitiveness Report, and the Institute for Management Development, in its World Competitiveness Yearbook. Romania ranks 68, respectively 57, far behind the other CEECs. The Global Competitiveness Index - made up of over 90 variables - measures the set of institutions, policies, and factors that lead to sustainable current and medium-term levels of economic prosperity.¹² The variables are organized into nine pillars, each representing an area considered as an important determinant of competitiveness. The World Competitiveness Yearbook, with its 312 criteria, describes how nations and firms perform in creating and utilizing their wealth.

¹² World Economic Forum, The Global Competitiveness Report 2006-07

Somewhat similar annual reports are the Ease of Doing Business Index and the Indices of Economic Freedom.

There are various criticisms. For example, any positive effect that a low level of taxes might have is much more disputed than the importance of rule of law, lack of political corruption, low inflation, and functioning property rights. Some of the highest ranking countries in the economic freedom index, like Iceland (5), Denmark (8), Finland (12) or Sweden (19) are widely recognized as having some of the world's most extensive welfare states, which are strongly opposed by advocates of laissez-faire.

The proponents of the Ease of Doing Business Index argue that the effect of business regulations is more important than government consumption. The Global Competitiveness Report looks at several other factors that also affect economic growth such as infrastructure, health, and education. The World Bank is a strong supporter of the importance of economic growth for reducing poverty. However, the World Bank does not believe that laissez-faire policies are an effective way to achieve this goal if they allow large inequalities of wealth to develop.

The intensity and magnitude of the economic transformation (and political as well) is still relevant for the post-transition economies and it is measured by the Bertelsmann index. Slovenia, Estonia and Czech Republic are the best consolidated market-based economies. Romania is the last in the group of market-based economies, in process of consolidation, but lagging behind Bulgaria.

Romania improved almost all its competitiveness factors, climbing in the international rankings last year (except from the *Global competitiveness*, *Starting a business*, *Enforcing contracts* – descending in each ranking 1 position, *Getting credits* – 7 positions). Pre-conditions are favorable for medium- and long-term economic development. Strategic investors are adjusting their perception of risk, according to the votes of confidence received lately:

- World Bank ranked Romania on the 2nd place worldwide in terms of speed and quality of reforming the business environment and 1st in Europe. However, Romania stands at the 49th place in terms of ease of doing business in 2006.

**Romanian Context:
work in process**

... performers in recovering the business environment quality, the economic freedom...

... need for major improvement in all competitiveness factors.

- Again, Romania ranked 2nd in the top of economic transformation most-improved countries in terms of according to the Bertelsmann index, after Pakistan;
- In terms of foreign direct investments performance, Romania ranks 24 in a list of 141 countries, benchmarked by the United Nations Conference on Trade and Development (UNCTAD), up 7 positions from the last year – the favorable legislative framework

and the flat tax rate of 16% have been the main reasons for these changes.

- Moody's upgraded the foreign currency long-term debt rating to Baa3 - "investment grade" - from Ba1.

Even so, *Tab. 1* reveals that Romania is still lagging behind not only the other EU-25 members, but Bulgaria as well. Valuable exceptions are:

- the *global competitiveness* – because of the Bulgarian fall by 11 positions in the 2006 rankings;
- *ease of doing business* – explained by the Romanian jump of 22 positions in comparison to only 5 for Bulgaria in 2006; a competitive advantage of the business environment places Romania on the 7th place for *starting a business*, relative to the Bulgarian's 85th. Still, the latter's better performance in innovation, getting credits, registering property, closing a business etc. is associated with a higher performance of Bulgaria in attracting the *foreign direct investments*.

Actually, both countries have a long way towards convergence with the living standards of the most developed countries, from the size of GDP to the level of carbon dioxide emissions per capita.

V. Economic competitiveness policy-making

Few policy-making Romanian initiatives have been related in the last years to the sectoral competitiveness perspectives, and not a broad national approach, with rather hectic impact on the whole economy:

- National Export Strategy 2006 – 2009;
- National Plan for Research, Development and Innovation 2004 – 2006, respectively 2007 – 2013.
- National Program to Increase the Competitiveness of Romanian Industry Products 2002 – 2005 and 2006 – present;
- Sectoral Plan for RDI in Industry 2006 – 2008.

The Romanian integration to EU brings an element of relative innovation in public-policy making concerns. The preparation of coherent, comprehensive, long-term national development strategies in the EU-12, and in Romania in particular, is the first opportunity for drafting strategies linked to clear and certain resources.

The strategic vision of the NDP for 2007 – 2013 is: to reduce the GDP per capita gap relative to EU average with at least 10 percentage points.

One such strategy is the *National Development Plan for 2007-2013* (NDP 2007-2013), focusing on the sustained economic growth and competitiveness as the first Romanian Government's priority. Its *strategic vision rely on narrowing the GDP per capita gap relative to EU average by at least 10% in the next 7 years*. The competitiveness objective is addressed by the *National Strategic Reference Framework 2007 – 2013* (NSRF 2007-2013), which is however rooted in the

NDP 2007-2013 policy-mix.

Two shortcomings of the national competitiveness strategy are obvious. *First*, it gives priority only to the public investments for development, addressing only those objectives that are compatible with the intervention areas of the Structural and Cohesion Funds. The funds to be allocated are worth 58.7 billion Euro, of which 43% are coming from the EU budget. However, this plan cannot replace a national competitiveness strategy, and this is where the Government efforts should focus in the post-accession period.

Second, if benefits are to be drawn from joining the EU, the Romanian Government should develop a much longer-term strategic vision, focusing on maintaining a high annual economic growth rate of at least 7% for the next three decades (from an average of only 5.5% during 2000-2006). This may guarantee a real catching-up with the EU in the next 25-30 years. To achieve this target, we need a more productive economy through efficient resource allocation, higher national and foreign direct investments and a high technology-based business environment.

V.1. Settings priorities

Member states are designing strategies in different policy contexts, with different priorities, and different implementation challenges. There are three broad groups of strategies identified by the *European Policies Research Centre*, depending on the main goal set by each national government:

Different competitiveness policy contexts and priorities in European countries.

- *convergence strategies* – EU-12 new member countries;
- *regional competitiveness strategies* - many EU-15 old member countries
- *“mixed” strategies* - Greece, Italy, Portugal, Spain.

The priorities of Romania's competitiveness strategy follow closely the characteristics of the first group of strategies.

Competitiveness priority setting for 2007 – 2013 in Romanian:

... average annual growth of GDP per employed person by about 5.5%...

...reaching 55% of the EU average productivity by 2013.

Seven sectoral instruments (Operational Programs - OPs) are called to achieve the national interlinked priorities of the NSRF with the EU. One of these is aimed squarely at boosting economic competitiveness: *The Sectoral Operational Program “Increase of Economic Competitiveness”* (SOP IEC).

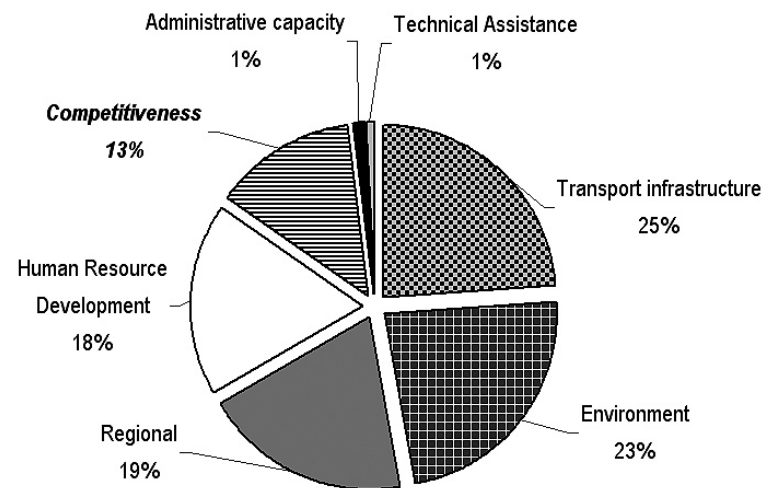
Its objective is to increase Romanian economic productivity by an annual average of 5.5%, reducing the disparities to the average productivity of EU. Considering that labour productivity in European Union will increase until 2013 by an average of 1% per year, this target will allow Romania to attain 55% of EU average productivity by 2013. *This will be achieved* by concentrating efforts on six priority items:

1. An innovative productive system;
2. Research, Technological Development, and Innovation for Competitiveness;
3. ITC for private and public sectors;
4. Increased energy efficiency and sustainable development of the energy system;
5. Promoting Romania as an attractive destination for tourism and businesses;
6. Technical Assistance

The European Regional Development Fund (ERDF) contribution to this objective, of 2.55 billion Euros for 2007-2013, represents 13.3% of the Community contribution to the Romanian NSRF. About twice as much EU funding is dedicated to the upgrade of transport infrastructure, followed closely by the environmental protection program. Regional and human resource development objectives each receive approximately 50% more funding than competitiveness (Fig. 9).

Within the competitiveness objective, priority item 1 benefits from the most substantial financial allocation (31%) of total ERDF funds (Fig. 10 and 11 for sources of funding to each priority item).

Fig. 9. NSRF allocations by operational programs in Romania, 2007 – 2013



Source: Ministry of Economy and Trade, 2006

Fig. 10. ERDF funds allocation to the competitiveness priority axis, 2007 – 2013 (representing about 83% of the total ERDF allocation to Romania)

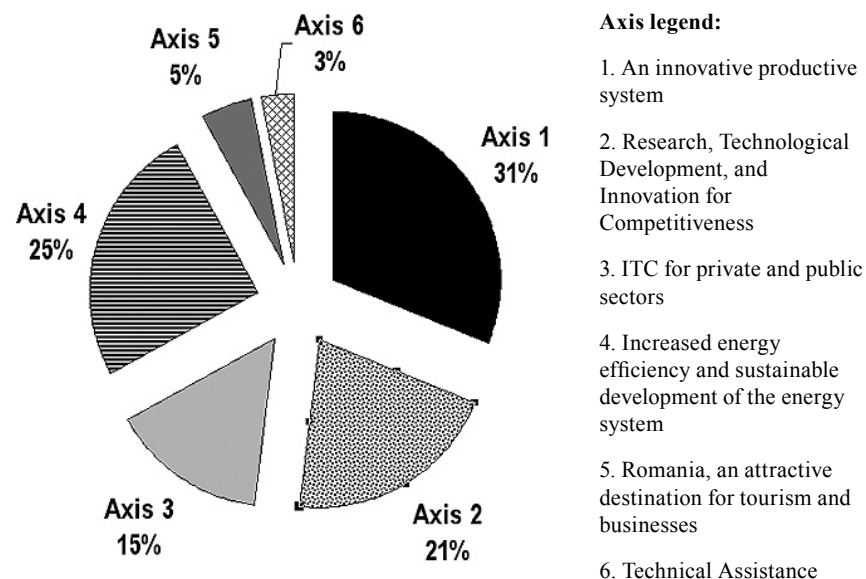
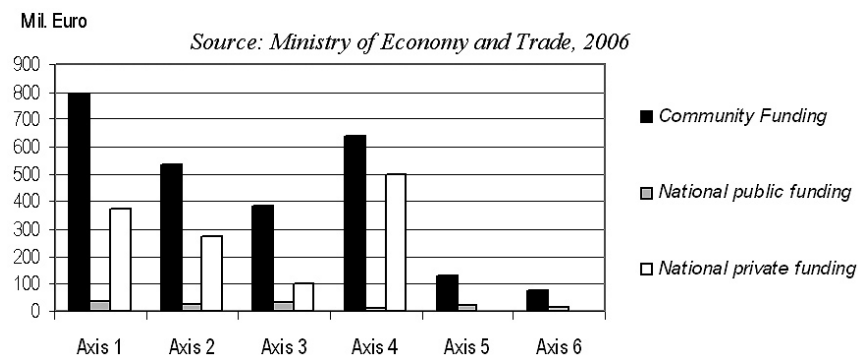


Fig. 11. Priority axes by source of funding, during 2007 - 2013 (Million EURO)



Source: Ministry of Economy and Trade, 2006

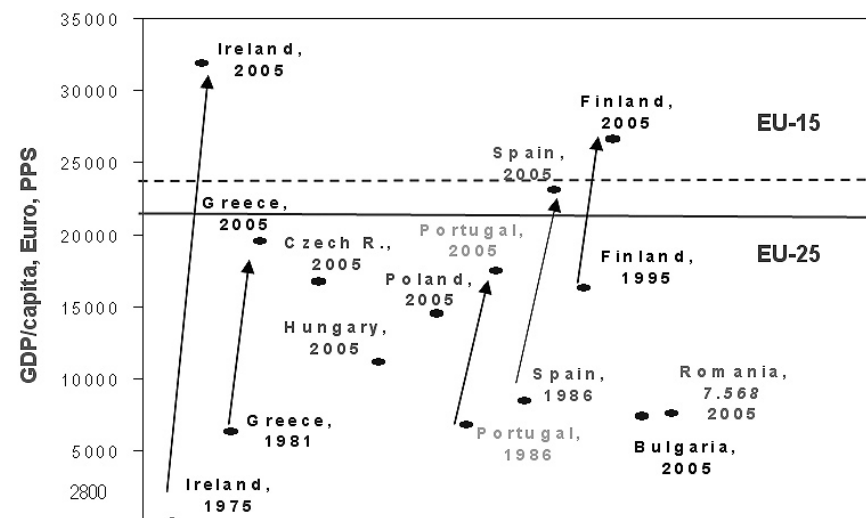
The relative importance given to the competitiveness operational program through the allocations of European funds (ERDF+ESF+CF) is higher in Romania than in Poland, but lower than in Bulgaria, Estonia, Czech Republic, Slovakia, Hungary, or Latvia (Tab. 2). Ireland is mentioned as a “best practices” example in EU funding public management in most of the specialized studies on this issue. Its experience is outstanding in integrating community assistance within a coherent, macro-economic policy framework, supported by social consensus. The Irish have established human resources financing as a priority in the last decade, with a weight of 35% in the total structural funds, as compared to a 25% average in the other European states, for education and training (Fig.12).

Tab. 2. Allocations of EU funds for competitiveness during 2007 – 2013

| | Total EU funds (Bill. Euro) | Out of which the competitiveness programs: | |
|-----------------------|-----------------------------|--------------------------------------------|------------------------------------------------------------------------------------|
| Poland | 55,34 | 12,7% | Economic competitiveness |
| Romania | 19,2 | 13,3% | Economic competitiveness |
| Bulgaria | 5,94 | 14,2% | Competitiveness |
| Estonia | - | 14,8% | Entrepreneurship - 13,7% Research and development - 11%tt |
| Czech Republic | 26,61 | 18% | Entrepreneurship and innovation - 12% Research, development and innovation - 6% |
| Latvia | 4 | 19,2% | Competitiveness and knowledge economy |
| Slovakia | 10 | 20,8% | Innovation and knowledge-based economy |
| Hungary | - | 31,27% | Economic competitiveness, including here-in the 20% allocated to transport. |

Source: Data from the CEE Bankwatch Network, March 2006

Fig. 12. GDP trends after accession



V.2. Territorial dimension of investments in innovation

The competitiveness sectoral program does not focus the priority-settings and financial efforts on poles of growths, nor on disadvantaged, urban or rural arrears, despite the Romanian peculiarities (relevant endowments with agricultural, natural resources and tourism potential, huge gaps in regional distribution of income, enterprises, research and development capacity, the dominance of rural social challenges etc.). The capacity of the regions to develop and implement innovation policies depends not only on their own strengths and weaknesses, but also on the diversity of the national regulatory environments and on the extent of co-operation between the major stakeholders at this level.

Preeminence of direct grants to enterprises and several business support services in Romania

Actually, direct grants to enterprises are the most important Romanian approach to improve their capacity in RDI absorption. The Government motivation for this course of action resides in the fact that the entire territory of Romania is under the convergence objective and this strategy

is in accordance with the European guidelines' proposals. This approach is also extended to the energy, traditional and SMEs sectors who are exposed to global competition, and must therefore make additional efforts to remain competitive.

Direct support is combined with several actions reinforcing business support services, in both the supply and the demand sides, in order to foster entrepreneurship and R&D activities and promote the information society. The need for infrastructural endowments in remote areas (for ITC) and interconnections (for energy) is also particularly emphasized if Romania is to become a more attractive place to invest and work.

At the European level different approaches envisage a territorial dimension. Some countries focus on:

- *areas of potential – growth poles, competitiveness poles and excellence poles*: e.g. Austria, Czech Republic, Greece, France, Italy, Netherlands, Poland;

- *disadvantaged areas*, with preferential allocations or criteria: e.g. Czech Republic, Latvia, Poland, Slovakia;
- support for *specific types of territory*:
 - urban areas: city regions (UK); urban districts (Czech Rep); major urban areas (Belgium, Finland); cities and urban systems (Italy); gateway towns (Ireland); sustainable urban centres (Greece);
 - rural areas (Czech Rep, Greece, Poland, Spain);
 - peripheral areas (Finland, France);
 - islands (Malta);
- *territorial, multi-regional operational programs* (Greece, Hungary, Poland, Romania).

Therefore, there is no single “*miracle strategy*” to make economies more innovative. The key European Commission recommendations for the next programming period (2007 - 2013) are¹³:

- To identify a limited number of priorities for regional innovation policies, where the region can develop a competitive position;
- To focus support more on the demand than supply side of innovation;
- To balance the technology focus with other forms of innovation;
- To invest sufficiently in human capital;
- To ensure better co-ordination of innovation policies.

Overall, the implementation responsibility rests with the Managing Authority of the Competitiveness Operational Program, within the Ministry of Economy and Trade. It has to remain constantly alert to ensure that the directives set out in the National Strategic Reference Frameworks are actually implemented. There is also a further need for actions at the operational level:

- To establish transparent and efficient selection systems for projects to be funded;
- To introduce a degree of flexibility and risk in policy planning;

¹³ European Commission, Directorate-general Regional policy: Innovation in the National Strategic Reference Frameworks, 31 October 2006

- To improve the monitoring and evaluation culture to increase the value-added of interventions.

Competitiveness must also become a bottom-up process. The central Government is the only driving the policy proposals, decisions and incentives. Roles and responsibilities must be decentralized, so that Romanian economic development rely on a collaborative process, involving government at multiple levels, companies, teaching and research institutions, and other institutions. Individuals, companies, and institutions should undertake this responsibility.

VI. Final policy recommendations

a) Efficient use of European Funds for improving the business competitiveness:

The use of Structural and Cohesion Funds in improving the business competitiveness is subject to shifting priorities at the European level that must be taken into consideration. There has been a deemphasis from a focus on...

- general business investment support (often through grant schemes), especially for new start-ups and SMEs;
- provision of premises, creation or equipping of business centres;
- site (re)development / rehabilitation,

... towards more support for:

- inter-firm cooperation / business networks;
- advisory/counselling services to business (esp. strategic planning, internationalisation);
- integrated, multi-service business support within business centres;
- targeted start-up support (university graduates, young entrepreneurs, women, innovative activities, employment-intensive growth areas);

- micro-enterprises' and community enterprises' access to finance. These are part of long-term trends in regional policies.

b) Efficient use of European Funds for more and better jobs:

Shifts from:

- general skills-based training measures (employed / unemployed);
- sector-specific training programs;
- investment in the training infrastructure;

towards more support for:

- targeted training on specific groups – i.e. women, youth, disabled, immigrants;
- development of new training methods (ITC teaching techniques, distance learning, Human Resource Development management);
- training related to innovation and ITC.

c) Efficient use of European Funds for innovation and the knowledge economy:

Shifts from:

- investment in Research – Technology - Development Infrastructure (RTDI) - science parks, technology centres, university facilities;
- incentives for business R&D and innovation;
- business-research links;

towards more support for:

- integrated support (regional innovation system approach) – research services, entrepreneurship, training, business advice;
- broadening of business-research links towards innovation networks;
- ITC access/use by businesses (e-commerce), communities,

- public sector;
- access to specialist finance (risk capital, venture capital, seed capital);
- environmental RTDI;
- human capital – training of researchers.

d) Efficient use of European Funds for environmental sustainability:

While significant support is still needed for:

- environmental infrastructure projects (e.g. waste-processing);
- clean-up and rehabilitation of derelict / contaminated sites;
- protection / enhancement of areas of ecological interest;

more support for is necessary in the meantime:

- company-based environmental and energy management,
- development of green areas, outdoor space, natural parks, protected areas;
- investment in renewable energy sources;
- sustainable development management/monitoring projects;
- preservation of biodiversity / wildlife.

e) Romania needs to improve its competitive standing and become one of the top 30 in the global rankings

National public and private funds should accompany the European support for improving the competitiveness factors. It may not be possible to excel in every indicator. But government policies should adapt the development strategies by managing not only the domestic resources and competencies, but also by adapting to global changes. This will mean adopting the worldwide *best practices* for each competition factor that may be improved. Raising competitiveness will bring improvements in international rankings and, more importantly, deeper integration with the developed economies.

f) The road to adding higher value

Rather than try to win back low-wage and low-skill assembly jobs, Romanian Government should undertake three essential steps to further the economic development:

- encourage the transition to higher-value-added activities,
- identify and exploit our comparative advantage (e.g. highly educated and moderately paid Romanian scientists and engineers), and
- push forward with reforms that create more competition, entrepreneurship, and flexibility.

The expansion into higher-value-added activities comes not from a shift into entirely new industries, such as high tech, biotech, or nanotech, but from the natural evolution of companies within existing industries¹⁴. As low-skill, labor-intensive operations head elsewhere, Romania should resist the temptation to try to lure them back with tax breaks or other financial incentives. Such initiatives are not likely to influence foreign investment significantly and won't compensate for rising wage rates over the longer term. In some cases they can lead to counterproductive overinvestment. Instead Romanian Government might use the funds to improve the transportation networks, the power grids, and the telecommunications lines. A strategic direction should focus on capturing in Romania to a larger extent the new wave of the outsourcing in high value added manufacturing, in research and development, as well as in shared services moving to the CEECs. Beyond that, policy makers must boost competition in the broader economy so that companies are compelled to improve their operations, to adopt best practices and to innovate. Predicting changes in the business sectors is also to become an integral and explicit step in public policy making.

g) Build a Romanian Competitiveness Institute (RCI)

RCI should become a think-tank, based on a public-private partner-

¹⁴ In northern Italy's textile and apparel industry, for example, the majority of garment production has moved to lower-cost locations, but employment remains stable because companies have put more resources into tasks such as designing clothes and coordinating global production networks. A similar series of events has played out in other countries developing around the world: companies start out in the simple, labor-intensive parts of an industry but over time hone their skills to compete in more profitable areas, such as marketing, product design, and the manufacture of sophisticated intermediate inputs.

ship, focused on the current and forthcoming economic policies¹⁵. It should build capacity in order to address the following questions in a meaningful way, and assist decision makers with informed policy options:

- What is the impact of current policies on the Romanian economy competitiveness?
- What roles should the country play in the European internal market?
- What unique or specific values can we provide for a business location?
- For what range or types of businesses and functions can Romania be competitive?

The Romanian Competitiveness Institute should also become a central facilitator of the regional co-operation on competitiveness. The action plan should not be too sophisticated. We cannot however omit the huge need for developing a competitiveness research database and for case studies and international reports analyses. Last, but not least, RCI members should undertake education and training programs, especially in microeconomic of competitiveness and public policy courses, exploring customized programs from European governments, while also looking to those from the USA, ASEAN or other countries. The necessary conditions for RCI success are: a strong leadership; world class research; clear intellectual framework; inclusiveness; permanence and independence.

¹⁵ Some countries have national competitiveness councils. Ireland (1997), Greece (2003), Croatia (2004) and the Philippines (2006) are just some examples that have advisory bodies or special government agencies that tackle competitiveness issues. The latter came into being under the initiative and financial support of the Philippine Exporters Confederation - the country's biggest business group, as part of the national action agenda to make it easier for business to operate efficiently. The older Irish National Competitiveness Council uses a Competitiveness Pyramid structure to simplify the factors that affect national competitiveness. It distinguishes in particular between policy inputs in relation to the business environment, the physical infrastructure and the knowledge infrastructure and the essential conditions of competitiveness that good policy inputs create, including business performance metrics, productivity, labour supply and prices/costs for business.

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Annex 1. Macroeconomic indicators and the business environment

| Indicators | | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 ^e | 2007 ^f | 2008 ^f | 2009 ^f | 2010 ^f |
|--------------------------------------------------|----------------------|---------|---------|---------|---------|----------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Gross Domestic Product | EUR Mill. | | | 52,606 | 60,784 | 79,258 | 95,858 | 112,128 | 127,027 | 141,149 | 154,090 |
| Economic growth | % | 5.7 | 5.1 | 5.2 | 8.3 | 4.1 | 7.0 | 6.5 | 6.3 | 5.9 | 5.6 |
| Gross added value in industry | % | 4.4 | 5.1 | 4.6 | 6.8 | 2.5 | 6.4 | 4.8 | 5.2 | 5.4 | 5.6 |
| Private sector in GDP | % | 68.0 | 69.4 | 67.7 | 72.2 | 70.4 | 71.4 | - | - | - | - |
| Domestic demand | % | 8.4 | 3.9 | 8.4 | 12.1 | 8.3 | 9.5 | 8.6 | 7.8 | 7.3 | 6.9 |
| FOB Export | EUR Mill. | 12722.0 | 14675.0 | 15614.0 | 18934.7 | 22255.1 | 26100 | 30550 | 34750 | 39300 | 44400 |
| CIF Import | EUR Mill. | 17383.0 | 18881.0 | 21201.0 | 26281.0 | 32568.5 | 40260 | 36100 | 52300 | 58790 | 65850 |
| FOB / CIF trade balance | EUR Mill. | -4661.0 | -4206.0 | -5587.0 | -7346.3 | -10313.4 | -14160 | -15550 | -17550 | -19490 | -21450 |
| Foreign direct investments (Balance of Payments) | EUR Mill. | 1312 | 1194 | 1910 | 5127 | 5237 | 8500 | 5800 | 5600 | 5600 | 5600 |
| Inflation rate (December / December) | % | 30.3 | 17.8 | 14.1 | 9.3 | 8.6 | 4.7 | 4.5 | 3.5 | 3.0 | 2.5 |
| Exchange rate RON/EUR* | % | 2.6027 | 3.1255 | 3.7556 | 4.0532 | 3.6234 | 3.525 | 3.43 | 3.38 | 3.35 | 3.35 |
| Budgetary deficit in GDP | % | 3.6 | 3.0 | 2.7 | 2.1 | 0.8 | 1.4 | 2.8 | 2.7 | 2.2 | 2.0 |
| Number of employees in economy, out of which: | 1000 pers. | 4,619 | 4,568 | 4,591 | 4,469 | 4,559 | 4,615 | 4,745 | 4,825 | 4,900 | 4,960 |
| • Industry (total), out of which: | % | 41.2 | 41.4 | 40.3 | 39.0 | 36.7 | 35.5 | 34.6 | 33.8 | 33.0 | 32.4 |
| - Extractive industry | % | 7.4 | 7.2 | 6.9 | 6.8 | 6.8 | 6.3 | 6.1 | 5.8 | 5.6 | 5.3 |
| - Processing industry | % | 83.6 | 84.3 | 85.6 | 85.7 | 85.2 | 85.6 | 85.7 | 85.9 | 86.1 | 86.3 |
| - Electricity and heating energy, gas and water | % | 8.9 | 8.5 | 7.5 | 7.6 | 8.0 | 8.0 | 8.2 | 8.2 | 8.3 | 8.4 |
| Unemployment rate | %, end of the period | 8.8 | 8.4 | 7.4 | 6.3 | 5.9 | 5.4 | 5.3 | 5.1 | 5.0 | 4.9 |
| Labour productivity per employee, in industry | % | 6.7 | 5.0 | 5.4 | 11.8 | 7.0 | 7.4 | 5.5 | 5.8 | 6.0 | 6.2 |
| Average gross wage | | | | | | | | | | | |
| • gross | Euro | 162 | 170 | 177 | 202 | 267 | 323 | 370 | 414 | 458 | 499 |
| • real | % | 5.0 | 2.4 | 10.8 | 10.5 | 14.3 | 8.8 | 6.5 | 7.9 | 5.5 | 5.3 |
| Unit labour cost | | | | | | | | | | | |
| • nominal | % | | | 16.3 | 11.4 | 12.7 | 8.6 | 5.3 | 3.6 | 3.4 | 3.3 |
| • real | % | | | -6.1 | -3.2 | 0.6 | -1.2 | -1.4 | -1.3 | -0.5 | -0.1 |

Notes: * preliminary estimations base on 2006 achievements.

Source: National Institute of Statistics, National Commission for Economic Forecasting, National Bank of Romania, Romanian Agency for Foreign Investments, The National Trade Register Office, 2006

Romanian Brain Drain, Between Risk and Opportunity. Case Study: Students Mobility

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KEY POINTS:

- **10 ttract over 75% of world's brain drain** out of the 2.6 million students who study in a foreign university;
- **2% of European students do their studies in another European country.** In 2004, 16000 Romanian students, **countries** approximately 2.4% of the entire Romanian student population, were out of the country doing their studies in another European country. We have to keep in mind, however, that the total Romanian student population is significantly smaller compared to other European countries;
- **Romania has too few students and university graduates.** 1 in 10 Romanians aged over 25, which is half the European average and one third of the American one, has post-secondary studies;
- **Too few Romanians study in a foreign university:** a little over 1 in 1000 Romanians, which is 3 times less than Bulgaria;
- **Very few foreigners come to study in our country:** we have 9500 foreign students in public universities and 500 in private schools; half of foreign students in Romania come from the Republic of Moldova; by comparison 1% of all international students choose the Czech Republic or Hungary;
- **No Romanian authority takes any interest in the 23000 Romanian students who have left the country to study abroad**

(out of which 16000 study in European countries). No one seems to want to know what their qualifications are, in what field, how many of them come back or how well integrated they are by the Romanian society. They could make a difference for Romania's scientific and technological progress;

- **World Bank estimates that only 12% of returning Romanians have obtained a university degree from abroad;**
- **Stubborn ignorance and complacency come at a great cost** – these estimations are based on OCDE and EUROSTAT statistics, as neither the Ministry of Education, Research and Youth (MERY) nor the National Institute of Statistics, nor anyone else in this country for that matter, know exactly how many Romanian students study abroad;
- This matter deserves to be dealt with separately as **a key point in Romania's post E.U. accession strategy** emphasizing the need to get as much support as possible in order to:
 - Facilitate Romanian students' access to foreign higher education institutes;
 - Capitalize on Romanian students' foreign university education upon their return home.

It may come to no surprise to anyone that Romania has too few higher education graduates. Nor that the expenses for the higher education represent nearly the same amount per capita as in the other 25 E.U. countries, when adjusted for the differences in GDP. Nor that, according to international university rankings Romanian universities score one of the lowest performance in Europe. Besides all that, today we risk that our best students migrate to western higher education schools without returning to their home country. A careful analysis of this phenomenon reveals an even harsher reality: statistics (per 1000 inhabitants) comparing youth from the other recent EU members to Romanian youth show that Romanians are in no rush to study abroad. Furthermore, according to World Bank estimates, a merely 12% of all returning Romanians come back with a university degree, which places us a long way behind Bulgaria and other Eastern European countries. (*“Migration and Remittances: Eastern Europe and the Former Soviet Union”*, A. Mansoor, B. Quillin, 2007).

It is not difficult to explain such an exodus of brains. *On the one hand*, gifted young people abroad find themselves in an environment that guarantees them high-quality education and internationally recognized degrees. *On the other hand*, such students may be offered good financial incentives and, for the most competent among them, the opportunity to advance their career within universities, research institutes or big multinational companies. It goes without saying that the receiving country draws great benefits by capitalizing on these foreign talents. If they do not return to their home countries, such countries lose a potential of added value that could help their societies' development. Such added value could be significantly greater than the one created by the rest of the population that does not have access to higher education.

10 countries attract over 75% of world's brain drain

Some might say it is an easy lesson to learn. Yet, even developed countries have come to assimilate it relatively late and to various de-

grees. Over one fifth of the 2.6 million international students worldwide are in the **United States** (22%, on a descending trend compared to previous years). This percentage remains unmatched even by adding up the next two countries' brain drain ratios: the United Kingdom and Germany (11% and 10% respectively). If we add in France's capacity to attract intelligence (9%), Australia's, Canada's, Japan's (4% to 6%), Russian Federation's, Belgium's and Spain's (1% to 3%), we come to the conclusion that these 10 countries' high-performance knowledge centres attract over 75% of all migrating brains. Remarkably, there are 17 American universities among the first 20 ranked by the Shanghai Top 500 World Universities.

Direct **academia investments** explain, for the biggest part, the differences in higher education quality. In its turn, performance thus achieved prompts yearly growth of funds allocated to higher education in most countries. However, there are different strategies when it comes to the role of public funds versus private funds in supporting higher education. In Korea, USA or Japan for instance, private investments are greater than public ones. In Austria, Germany, Denmark or Norway private funds play a minor role; what is more, in these countries private resources are used mostly to support pre-school education and significantly less for higher education purposes.

However, the **percentage of international students per university** reconfigures the above ranking. Thus, Australia, Switzerland, Austria, New Zealand, Belgium, the United Kingdom, Germany and France have over 10% of foreign students in their total number of higher education students according to the latest OCDE statistics. Lately, this ranking includes the Czech Republic with 4% (more than USA – 3,5%), and Hungary with 3% of international students.

2% of European students study in another European country

With the Bologna Process, the European Union aims to create a European Higher Education Area which should promote intellectual, cultural and social values together with political and economical dimensions. Students and professors play a central part in this project. E.U. programs revolve around them providing a large framework of interdisciplinary and region-based cooperation. Results have already

*started to appear. According to EUROSTAT estimates, in UE-27 the number of young people who study in another European country grows annually by approximately 5%. Up to now, however, this growth has paralleled the general growth in the number of students, which means that the percentage of internationals has remained relatively constant - approximately 2% of the total number of students. The Cypriots and the Luxembourgers have been of course the most mobile students given the few local universities. Over 10% of Maltese students have studied abroad in another European country. They are followed by the **Greeks**, the **Irish**, the **Slovaks**, and the **Bulgarians** who are **significantly more mobile than the rest of the Europeans** (6% to 8%). At the other end, the **Polish** and the **British** are the least inclined to study abroad.*

Similarly, Romanians are in no rush to study in European higher education schools. If 10 years ago their number was significantly larger than the number of Bulgarian students abroad today the number of Romanian students in a European university barely reaches 80% of the number of Bulgarians. Therefore, although our population is more than twice as big, the number of Bulgarian young people in a European university is bigger than ours by about 4500 students. Moreover, when it comes to registered international students in Romanian universities, we have about 1500 such students less than Bulgaria.

*Between 1998 and 2004 Bulgarian students' **mobility multiplication rate** of 4 matched the Slovaks', though indeed bigger than the rate of the new member states: 3 for Romanian students, 2.5 for the Czech and the Polish, and 1.5 for Hungarian students.*

How much does it cost to study abroad?

In 2004, of about **23000 Romanian students abroad**, approximately 20% were attending universities in **France**, 18% in **Germany**, 14% in **USA**, 13% in **Hungary**, 7% in **Canada**, 5% in **Italy**, 3% in **the United Kingdom**, 2% in **Spain, Switzerland, Austria, Belgium** respectively, so on and so forth. Their mobility has been supported mostly through scholarship programs, subsidies and to a very small extent through loans. Private funding is rapidly becoming a viable source of financial support as well.

According to the **average annual tuition fees in public colleges and universities** in US dollars at the purchasing power parity exchange rate (source: OCDE), we can identify at least 6 groups of countries with their corresponding tuition rates:

- a. **Countries without tuition fees:** Czech Republic, Denmark, Finland, Iceland, Norway, Slovakia, Sweden;
- b. **150 – 1000 USD:** France, Hungary, Turkey; less than 500 USD: Belgium, Austria, Italy, Portugal, Spain, Switzerland;
- c. **1000 – 2000 USD:** United Kingdom, Holland (note: in these countries there are only private higher education institutions where students get enrolled through government programs);
- d. **2000 – 3000 USD:** New Zealand, Israel;
- e. **3000 – 4000 USD:** Canada, Chile, Australia, Japan, Korea;
- f. **Over 4500 USD:** USA.

In most of these countries the higher tuition fees for international students have ceased to apply to Romanians after Romania's accession to the E.U.

1 in 100 international students choose the Czech Republic or Hungary

The Czech Republic or Hungary has achieved remarkable results through their good quality higher education systems. Czech universities attract annually 15000 foreign students, while Hungarian universities about 13000. This means that 1 in 100 international students choose a university in one of these two countries. If we take into account European students' mobility solely the ratio becomes 4 students in 100. **Thus, the Czech Republic imports twice as much intelligence as it exports annually, while Hungary 60% more. Bulgaria** followed by **Poland** is the next in line to attract international students to Central and Eastern Europe.

These countries have higher education institutions which have entered the Shanghai Top 500 and succeed in meeting the high quality education needs of young people from countries like Slovakia, Romania, Ukraine, Serbia and Montenegro, Israel etc. Romania is not mentioned by this ranking. In addition, Romania does not have universities

with worldwide exposure that play a central part in student promotion, such as the American University in Bulgaria, the Central-European University in Hungary, Jagello University in Poland or Carol University in the Czech Republic.

A little over 1% of Romanians study abroad

Many question the methodology used by the Shanghai ranking. It is nevertheless difficult to argue with the following statistics that plainly show that:

- Romania has **few higher education graduates** – 1 in 10 Romanians aged over 25, which is half the European average and one third of the American average;
- **Few Romanians leave to study abroad** – a little over 1 in 1000 Romanians, which is 3 times less than Bulgaria;
- **Few international students choose Romania to do their studies** – 1600 from EU-25, about 4500 from the Republic of Moldova, and the rest up to 9500 students from countries like: Israel, Tunisia, Greece, Ukraine, India, Serbia and Montenegro, Albania or Bulgaria.

Who cares?...

Romanian students' access to the European Higher Education Area will certainly open new prospects of a solid high education network based on mobility, flexibility, high-quality education and significantly reduced tuition fees that apply beginning this year.

There is a huge lack of interest towards students who wish to study abroad or those who have a degree from a prestigious foreign university. It is both the fault of Romanian authorities as much as ours, the general public, who choose to focus instead on the "5 o'clock news" or the latest gossip on politicians.

Information campaigns on high education programs are insufficient. PLOTEUS is a portal supported by the European Commission. It helps students, those who look for employment, parents, career counsellors and professors to find information, but even this is not in-

formative enough. The National Agency for International Scholarships is the MERY counterpart. We do not dispose however of sufficient presentations, accounts and studies of different European education systems. We do not have access to a reliable data base on continuing professional training opportunities available in the European Union.

Despite years of European exchange and scholarship programs and institutional support - Erasmus, Socrates, Tempus, GRUNDTVIG, Transversal, Jean Monet etc. – there is still a lack of straightforward information booklets on European travel requirements, living expenses, tuition fees, accommodation, legislation and other useful information for potential applicants. University program transparency is not encouraged nor rigorously applied in the Romanian public space, while objective and efficient selection criteria have not as yet found their way into the Romanian educational environment as they should have. Under these circumstances, the right of the Romanian public to freedom of movement can only be guaranteed by providing the necessary information.

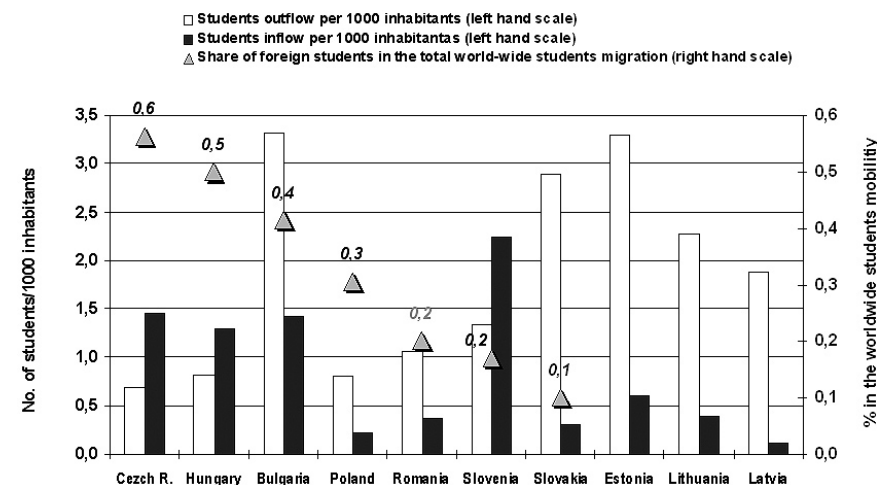
No one is interested to know what happens to students who leave the country to study abroad. For instance, why aren't we capable to set up a Romanian Students Centre in the *Cité universitaire* and in all the other major university centres? We are lucky indeed to have passed the Iorga law that helped buy the buildings where the *Academia di Romania di Roma* and the *Institute of Humanities Studies* in Venice are located today. For the rest of it, one can only grieve for the fate of the Romanian scholarship student who finds herself or himself without any institutional support and usually becomes a mere entity at the mercy of chaotic circumstances.

No one is interested to know what happens to Romanians who hold undergraduate or graduate degrees from prestigious universities. How many of the 23000 Romanian students abroad return home? Who cares enough to keep a quantitative and qualitative record of the fields they specialize in and of the extent to which these talents are put to good use? Does anyone ever make use of these young people's expertise? I cannot help thinking of the *40 percent unfilled university positions* that we precariously fill today with young PhD-track stu-

dents whom we do not pay enough but rather rotate or by aggressively piling up teaching hours.

After all, if we want to lure Romanian graduates back home in order to strengthen the Romanian educational system we should start by monitoring them. Please note that my forecasts are based on OCDE statistics for international student mobility and on EUROSTAT statistics for the European context. And that is because neither the MERY nor the National Institute of Statistics can offer precise information on this topic. Under the circumstances a classification by field of study or education levels would be evidently too much to ask. And yet we incessantly grieve over our brains' exodus. We keep complaining about the severe lack of experts in various fields. In reality, we choose to stubbornly and foolishly ignore those who could make a difference.

Case study: Students mobility in 2004



Sources: Calculations based on OECD Statistics, January 2007

Assessing the Human Capital in Romania

- Current State of Understanding and Expectations (Presentation)

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Instead of introduction

The President of British Council, Lord Neil Kinnock, declared in the opening of the 2007 Youth Summit (January, Bucharest), that in order to pursue a rapid development for Romania, after its accession to EU, the emphasis should be placed on young people education and training.

Lord Kinnock called the Ireland 's example, which succeeded in the higher growth rate in Western Europe, for 12 years, investing in education. The opportunity to invest in education reaches the maximum level in 4-5 after accession.

Outline

- Current understanding – definitions, models of thinking, implications
- Romania - various perspectives on country's performance related to the HC facets
- Assessing HC in Romania, envisaged action
- Challenges for the future

Human capital (HC) – general framework

- “The knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being” (Organisation for Economic Co-

operation and Development – OECD, “Human Capital Investment: An international Comparison”, 2001).

HC is the sum of the abilities and knowledge of individuals

- It measures the quality of the labour supply and can be accumulated through education, further education and expanded by experience.
- Further education and training on the job (in courses and seminars) allow people to keep their HC up to date and replace depreciated knowledge with new one.
- Education is an investment in human capital, while learning is the process of acquiring knowledge or skills through study, experience or teaching.
- Knowledge is the awareness and understanding of interconnected facts, truths or information gained in the form of experience, learning and introspection.

Even if HC is embodied in the individual, the national stock of human capital can be thought of as the total sum of the human capital of all those normally resident in its territory.

- Human capital resides in individuals.
- Social capital resides in social relations.

The creation of knowledge is clearly a social activity so it is necessary to ask whether a simple aggregation of the human capital possessed by individuals is sufficient, and then act properly.

- Political, institutional and legal arrangements describe the rules and institutions in which human and social capital work.

Human capital is *heterogeneous*

No single type of attribute can represent the whole range of human characteristics that interfere on the economy and society.

While the level of individuals' skills, knowledge and competencies can be taken to represent the "stock" of human capital at any one time, these various attributes cannot be easily quantified.

HC facilitates structural change

- The rapid structural change caused by globalization and technology change has increased the importance of HC over the last years. In the rich countries, this structural change increased the pressure on the suppliers of less qualified labor. Physical work is substituted by machines at home and cheaper labour input from abroad.
- Structural changes increase the pressure on low skilled workers

HC facilitates innovation and higher productivity

Higher HC (required through better and longer education) allows individual to perform more specialized and higher value-added tasks, more efficiently and quickly; this individual can apply more new ideas and be more innovative.

The HC needs to be nourished by innovation

- to understand the potential for the general innovativeness in society – and the economic growth that can result from this innovativeness – it is necessary to assess each of the components: parental, schooling, vocational/university, adult and job evaluation.

Other Definitions...

- The skills, capacities and abilities possessed by an individual which permit one to earn INCOME." (*The Penguin Dictionary of Economics*, 1984)
- Human capital is *defined* as an individual's productive skills, talents, and knowledge. It is *measured* in terms of the value (price multiplied by quantity) of goods and services produced.

HC is, therefore, a notion that captures the valuation of the attributes people invest in.

But ...

the main problem

is not so much how to define HC as how to measure it.

The right measure of HC?

Income related ...

The positive impact of HC on the level of income is rather uncontroversial: although the transmission mechanisms and the feedback loops are complex and nontransparent.

Estimating HC with reference to future earnings

The value of an individual's HC is dependent on **the future stream of benefits** that the individual realizes through use of that capital.

The value can only be estimated with respect to the expected future stream of benefits - it requires risk and uncertainty to be taken into account.

The future stream of benefits to an individual is not exclusively market determined. Although in practice most research focuses on expected market returns, it is clear that in principle the individual derives a more all-encompassing stream of utility from their acquired capabilities and knowledge. The problem is, of course, that that wider stream of benefits is often intangible and therefore resistant to measurement.

Estimating human capital with reference to future earnings

$$H_e = \sum_{t=p}^n \frac{E_t + B_t}{(1+i)^{t-p}}$$

where: H_e = Human capital defined from earnings and other benefits
 E = Earnings (often expressed as the difference between actual

earnings and a basic, unskilled, wage rate) B = other (non-market) benefits derived from increased human capital

i = interest rate

p = the present; t = time

The possibility that an individual's HC capital could be described by comprehensively enumerating that individual's knowledge, skills, competencies and attributes.

- This approach is that the various characteristics do not have a common unit of measurement and are therefore not easily aggregated, although statistical techniques such as 'principal components' can sometimes get around this problem.
- We may be able to devise tests that would give measures of people's numerical, verbal, written and social abilities, and of their knowledge base within particular disciplines (sufficiently accurate to approximately rank persons within each category) but this leaves us short of an overall measure.

Capital as a summation of attribute

$$H_a = \sum_{i=1}^p m_i w_i + \sum_{j=1}^q o_j v_j$$

where:

m_i = market related attributes and capabilities

w_i = market returns for attribute or capability m_i

o_j = other valued individual attributes and capabilities

v_j = unit return for other (non-market) individual attribute or capability o_j .

More sophisticated models

- The theoretical models of the impact of human capital on economic activity have become sophisticated over the past centuries, especially in the last decades.

- Alfred Marshall (1890) noted that "the most valuable of all capital is that invested in human beings"
- Benjamin Franklin - "investment in education pays the best interest"
- Gary Becker (1964) – suggested the term of Human Capital
- Robert Lucas (1998) modeled the link between HC and economic activity by splitting the economy into two sectors: The *education sector* produces new capital with the help of existing HC (teachers), while the *final goods sector* uses both human capital and physical capital as inputs.
Policy implications: economic policy that raises the rate of growth of HC will lead to higher growth rates of GDP.
- Paul Romer (late 1980s) - model of knowledge spillover, where the stock of knowledge determines the growth rate of GDP
Policy implications: – the high level of HC allows for the high growth rate of GDP
- Mankiw, Romer and Weil (1992) – HC is additional accumulated production factor, but returns are decreasing

Mankiw, Romer and Weil - an aggregate neo-classical Cobb-Douglas production function is proposed:

$$Y_t = K_t^\alpha \cdot H_t^\beta \cdot (A_t \cdot L_t)^{1-\alpha-\beta}$$

In the long run, income per capita depends on the savings rate, the level of human capital, the growth rate of the population and exogenous technological progress

The early growth literature typically used measures of HC such as:

- *Adult literacy rates* – while an undeniable component of HC, it completely disregards the level of literacy, the type of lit-

eracy, and the contribution of additional skills in numeracy, analytics, technical knowledge etc.

Literacy levels often do not correspond to educational levels.

- *School enrolment rates* – a measure with little theoretical credibility as it relates largely to people who are not in the labour force and therefore provide almost no contribution to current GDP it is a flow rather than a stock (which is what HC capital is) – indeed it is not even the flow in the desired stock.

But, education explains income of individuals

- Quantitative analyses at the micro-level can explain a large part of an individual's annual or monthly income by one's level of education and work experience.
- Econometric estimates consistently show a statistically significance effect on an individual's average years of education – even after controlling for other factors like parents's level of income or education.
- Only the magnitude is somewhat controversial: estimates on the gain of income from additional year of educations range from 5% to 15% (Bergheim, 2005).
- Measures in income inequality in a society largely reflect inequalities in educational attainment.
- The high positive private returns are an incentive to invest in education

And, enrollment rates – future HC

- provide valuable information about the future development of human capital
- measure the share of the typical age who attend secondary or tertiary programs.

Countries with a high number of average years of education need relatively high enrolment rates to keep their HC constant by replacing existing workers with new workers who have the same skill levels.

The different attainment rates (e.g. secondary, tertiary) and their

development over cohorts can provide important information about the likely future path of the average years of education.

If the new entrants into the labour market have spent more time in school than those retiring, the average HC of the working-age population will rise. According to OECD study – it is estimated that 10% rise in human capital leads to a 9% rise in GDP per capita over the long term.

Nowadays, several approaches to estimating human capital stocks and investment in human capital

The highest level of education completed by each adult (educational attainment) reflects his/her skills level. The *International Standard Classification of Education (ISCED-1997)* classifies **educational attainment** in six categories of educational programmes, two of which (categories 5A and 6) are for university degree or equivalent.

ISCED 5A programmes are largely theoretically based and are intended to provide sufficient qualifications for gaining entry into advanced research programmes and professions with high skills requirements.

ISCED 5B programmes are generally more practical/technical/occupationally specific. ISCED 6 programmes lead to an advanced research qualification and are devoted to advanced study and original research (e.g. PhDs).

Educational attainment is related to the stock of knowledge and skills in the population. Tertiary level is defined as ISCED-1997 levels 5B, 5A and 6.

Several approaches to estimating human capital stocks and investment in human capital

- *Education expenditure per student* provides some indication of the resources allocated to investment in human skills.

Investment in human resources is here restricted to tertiary-level education because it is closely associated with acquiring new knowledge (skills), enhancing existing knowledge and diffusing knowledge. Expenditure per student for a particular level of education is calculated by dividing the total expenditure at that level by the corresponding full-time equivalent enrolment. Data in national currencies are converted into USD PPP.

- *University entry rates* reflect the accessibility and attractiveness of high-level knowledge.
 - represent the proportion of those in a given age cohort who enter university at some point during their lives.

Net entry rates are defined as the sum of net entry rates for single ages.

The total net entry rate is therefore the sum of the shares of new entrants aged i to the total population aged i , at all ages.

When no data on new entrants by age are available, gross entry rates are calculated. These are the ratio of all entrants, regardless of age, to the size of the population at the typical age of entry.

The best available proxy for HC is the average years of education of the population aged 25 to 64.

Investment in formal schooling tends to have a rate of return of 5-15% in additional earnings for every year in school.

The returns are higher for the private individuals than for society because schooling is mostly subsidized and hence individuals do not pay the full price for their education.

Quality of HC difficult to measure

The average number of years spent in school do not take into consideration the quality of education, although quality is likely to affect a person's productivity and income.

The OECD's PISA (Program for International Student Assessment tests for the young and the literacy surveys of **the IALS (International Adult Literacy Survey)** for the adults fill this gap.

It is a high correlation between the level of education and the parent generation (years of education) and the PISA results of the young generation.

Measuring human capital

- Recently, the Lisbon Council for Economic Competitiveness and Social Renewal (a Brussels-based think-tank focusing on the EU's Lisbon Accord to become the premier knowledge

economy) released its European Human Capital Index. The index is made up of four factors:

- 1) **HC Endowment** - measures the cost of all types of education and training in a particular country per person active in the labour force (i.e. employed person). Specifically, we look at five different types of learning for each active person: learning on the job, adult education, university, primary and secondary schooling and parental education. The figure is subsequently depreciated to account for obsolescence in the existing knowledge base and some level of forgetting.
- 2) **HC Utilization** - looks at how much of a country's human capital stock is actually deployed. It differs from traditional employment ratios in that it measures human capital as a proportion of the overall population.
- 3) **HC Productivity** - measures the productivity of human capital. It is derived by dividing gross domestic product by all of the human capital employed in that country. This diverges from traditional productivity measures, in that the figure takes account of how well educated employed labour is, instead of just how many hours are being worked.
- 4) **Demography and Employment** - looks at existing economic, demographic and migratory trends to estimate the number of people who will be employed (or not employed) in the year 2030 in each country.

Where HC measures may be relevant

- The three main areas are:
 1. economics of education
 2. employability
 3. economic growth.

Clearly, these areas are not independent of each other

Human capital measurement

- Explains what is meant by human capital measurement
- Describes various human capital measurement models and how they seek to identify clear links between HR metrics and business performance
- Looks at the debate on how and where human capital information should be externally reported

Measurement in practice

- human capital models
- data collection
- types of HR measures
- examples of links between HR metrics and business performance data
- 'human capital drivers' or key variables that can make a difference
- planning HR interventions

A number of human capital models have been devised to help establish the important HR interventions or 'human capital drivers' that can make a measurable difference to how staff perform.

The starting point for most organisations is the production of a reliable series of HR metrics.

But instead of looking at these in relative isolation, **the aim of the human capital approach is to be able to link improvements in such measures directly to corresponding improvements in business performance.**

A number of the linkages may appear to be intuitive, but human capital measurement is about delivering objective data to inform the direction of HR strategy and to help make better HR investment decisions.

Importance of HC assessments

- Understanding the intricacy and the rhythms of the influ-

ence mechanism (the long lags between education reform and GDP growth)

- Recognizing the success factors
- Derive education-related policy recommendations (provide input for the decision-making process of investors, corporate strategists and policy-makers)

The ability of a society to develop, master and make use of innovation for generating economic growth and prosperity depends largely on the widespread endowment and utilisation of the human capital of its citizens.

Reducing gaps

- Romania is targeting not only political integration in EU, but also *the convergence with the development of EU countries*, both in nominal and in real terms. This process of reducing gaps involves for Romania sustained growth rates in the period 2007-2013, maintaining at the same time macroeconomic equilibrium as stable as possible. The driving factor of economic growth when acting on a market open to strong competition is *the increase of economic competitiveness*.
- Moreover, increasing the competitive advantages should be a permanent objective, taking into account both the European trends and the challenges of globalisation. Hence, improving competitiveness should not be seen as a process of taking advantage of short term opportunities (e.g. lower labour cost), but more as a process of building of an economic structure based on capital investments and on research, development and innovation. In other words, the prospect of convergence on medium and long term relies on the development of the knowledge-based economy.

Romania - the quest for:

- mechanisms of transforming the comparative advantage of low cost labor in a competitive advantage

- providing guidance for a faster orientation to the subsectors of high technological growth
- preventing poor social dynamics related to the increased migration flows (social exclusion, braindrain)
- poor restructuring range of professional careers (researchers leaving the field, reorienting themselves to market-oriented activities because of low salaries and lack of “horizon”

Advantages

- Good and stable economic performance: Global Competitiveness Report
- In the path of building a KE and SE, “KAM methodology- World Bank Institute”, “Global Innovation Scoreboard” report (GIS)”
- No obvious gender divide according to the Human Development Report 2006
- Increase of the level of e-readiness (according to the EIU Report 2006)
- Accelerating rhythm of foreign investment flows – assuming that these will bring structural changes on the demand of various professionals

Quality of the human capital in Romania

By **level of educational attainment**, in Romania, the share of the population in the 25-64 year old age group with at least upper secondary education increased from *67.9% in 1999 to 70% in 2003*, above the levels recorded in other European countries.

- Still, in the same age group, **the share of the population with university education**, although on an ascending trend (from 8.7% in 1999 up to 9.6% in 2003), remains below the level recorded in the most developed countries (1999: USA – 27.7%, France - 16.4%, Germany – 15%, Great Britain – 15.4%) (White Paper on Labour Force, DTI/UK – 2003).

- The competitiveness of the human capital is directly influenced by the **educational attainment**. For the 20-24 years age group, Eurostat indicates that, in case of Romania, in 2004, 75.3% of the population in this age group had at least upper secondary education; this level is close to the average level of 76.6% recorded in case of EU-25 and above the level of 73.8% recorded in case of EU-15.

Sectoral Operational Programme Human Resources Development - SOP HRD

The general objective of SOP is **the increase of Romanian companies’ productivity by reducing the disparities compared to the average productivity of EU**.

The SOP HRD supports the **Lisbon Strategy** in what concerns reaching the expected objective of full employment.

The strategy on human resources development is in line with the **Community Strategic Guidelines 2007-2013** and stands as an essential component in reaching the overall community objective for growth and jobs. The strategy will focus on investing in human capital, modernization of education and training systems, increasing access to employment and strengthening social inclusion for vulnerable groups.

INNOVATION

- In terms of innovation in businesses, Romania lags behind other European countries. During 2002-2004 only 20% of companies undertook innovative activities. This percentage is far behind the EU15, where in 1998-2000, 44% of companies were considered innovative.
- A large part of innovative companies (86%) are SMEs out of which 55.2% are small enterprises and 30.9% are medium sized enterprises.
- The majority of innovations made by companies refer to innovative products and processes (67.5%). SMEs implemented

innovative solutions related to product design (8%), innovative process (21.1%) and 57% implemented innovative products and processes.

- Despite the improvement, according to **Networked Readiness Index** (2004), Romania still ranked 53rd out of 104 countries, compared with 61st out of 102 countries in 2003. The majority of expenditures related to innovative activities were made for purchase outfits, equipments and software (62.2%). By field of activity, 67.4% operate in the manufacturing sector and 32.6% in the services ones.

SOP HRD

Priorities Axis

1. Education and training in support for growth and development of knowledge based society
2. Linking life long learning and labour market
3. Increasing adaptability of labour force and companies
4. Modernising the Public Employment Service
5. Promoting active employment measures
6. Promoting social inclusion

SOP HRD

- The knowledge-based economy will be tackled by promoting education in support for the development of knowledge based economy (PA 1) with areas of intervention on (1) ensuring quality education in support for growth and employment and further for developing competitive human capital; (2) university education in support for knowledge based economy; (3) competitive human capital in education and research.
- Romania will pursue the objective of making Europe more competitive by supporting actions aiming at promoting the spirit of entrepreneurship and making the public services more

efficient. The enhancement of the entrepreneurial culture and spirit is a specific area of intervention under PA3 “Increasing adaptability of the labour force and enterprises” by which entrepreneurship can become a career option for everybody, as an important solution for counterbalancing the negative effects of the structural adjustment and industry restructuring processes, and by generating economic and social alternatives.

Sectoral Operational Programme - Increase of Economic Competitiveness

- The global objective of Sectoral Operational Programme - Increase of Economic Competitiveness - *SOP IEC* must be considered in correlation with human capital development that offers a long term and sustainable value to operations to be co financed. The staff ability to adapt to the changing economic environment is becoming a crucial factor for economic strength. To improve enterprises’ competitiveness, it is necessary to ensure highly qualified staff, including management staff.
- The *SOP IEC* is the main instrument for achieving the first national thematic priority of NDP 2007 – 2013, i.e. Increasing of Economic Competitiveness and Development of Knowledge Based Economy. The main goal of the strategy is to increase the competitiveness position of the Country in a context of overall macroeconomic stability, while accompanying at the same time the natural process of FDI growth.

The target is an average annual growth of GDP per employed person by about 5.5%. This will allow Romania to reach approx. 55% of the EU average productivity by 2015.

To achieve this goal, the strategy will have to:

- address the weaknesses of existing industrial sectors and their outdated and often poorly eco-friendly and excessively energy-intensive technologies;
- further diversify the productive basis of the country to minimize the risk of shocks from sectorial overdependence;

- bridge the gap between R&D activities and their industrial application and promote research-led innovative sectors;
- foster the pervasive use of ICT technologies;
- increase the efficiency and sustainable development of the energy system as a factor of overall competitiveness, while addressing at the same time energy efficiency issues at the end users.

Conclusions

- Many of the growth “stars” owe their economic performance on solid gains in human capital. . . to that extent that HC is the most important factor of production in today’s world economy.
- These success stories (Spain, South Korea, India, China etc.) show that policy changes can lead to positive developments. Successful countries share the one-track school system and the goal of bringing as many children as possible into higher education with a certain level of quality. Private financial resources are an important ingredient in these systems. These countries understand that **education is an investment**.

PANEL: PRESENTATION OF CASE STUDIES ON THE EXPERIENCE OF EUROPEAN UNION AND U.S.A.

Human Capital: an EC Perspective ¹

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Contents:

- Human capital in the EU policies and instruments : overall policy objective, regulatory environment and financial instruments
- Human capital trends in selected countries
- Challenges and opportunities for human capital policies

Human capital in the EU policies and instruments : overall policy objective, regulatory environment and financial instruments

The Lisbon strategy provides an overall policy framework for the EU policies relevant for human capital: economic and employment policies. Lisbon objectives place human capital at the centre as it is the key for knowledge and services driven economy. Creating a growth friendly regulatory framework also requires competent and committed human resources engaged in legislative, administrative and judiciary activities. These components are key elements for achieving good governance.

But as many of you also know, Lisbon sets targets for many areas (R&D, employment, microenterprises). Human capital appears as a constant concern in all these areas particularly when comparisons are made with the US and Japan.

¹ The content of this contribution does not fully cover the entire volume of contributor’s presentation.

To illustrate this, I will only refer to the Lisbon target for R&D expenditures set at 3% of GDP: a target achieved only by Finland and Sweden.

Micro economists teach us that regulatory environments do matter for growth and innovation. The 3 following slides are devoted to the social policy and regulatory environments. OECD has classified the regulatory instruments used in the OECD countries into 3 categories: economic, social and administrative. In general, social regulation includes protection of the environment, health and safety at the workplace, protection of workers rights, social security, and so on. At EU level, it is debated whether there is or there is no legal competence allowing for community driven harmonisation of social protection schemes (hard law). There is, however, a substantial body of regulations and directives protecting the free movement of workers and their social security rights (portability) - regulation 1408/1971 on the application of social security schemes to employed persons and their families moving within the Community, which is a landmark piece of legislation.

In addition, there is an open method for coordination of member states' social protection based on three strands shown on this slide.

Member states submit to the Commission national strategic reports on social protection and inclusion which are subject to Commission assessment produced in individual fiches. The Commission prepares a horizontal analysis on how member states do in terms of benchmarks and community guidelines on cohesion. We are also able to map out any new trends and threats appearing at community level by examining trends taking place on national level. The latest Joint report was adopted by the Commission on 19.01.2007 and tabled to the Council.

In the 2007 Joint report Bulgaria and Romania will be included for the first time as new partners in the Open Method of Coordination.

As part of our work on the regulatory environment relevant for the social policy, social protection appears as the main regulatory instrument important for growth and innovation. At different historical times, Bismarck and Lord Beveridge gave to Europe mechanisms for protection of the labour force from economic, social and any other type of hazards that may occur during the life cycle of individuals.

Economists know that over time capital depreciates and invest-

ments have to be made to maintain it. It is the same with human capital, one of the production factors for any market economy: it needs to be protected in times of change (globalisation, restructuring) and against risks of depreciation (unemployment, health hazards, disability). This is the role assigned to social protection in all of the EU member states.

The diversity of what is called « European social model » stems from the various arrangements for financing and delivery of social protection services: in some countries the systems are insurance based (Germany, Austria, Belgium, Bulgaria, Hungary), in other countries they are tax based (UK, Denmark, Sweden, Finland, Ireland, Malta). In some countries, delivery of social services is mainly done through public institutions, in other through a mixture of public and private institutions. In all, however, collective funding (solidarity) is the ingredient holding together the arrangements for human capital protection.

The concept of human capital includes immeasurable variables such as personal character or social capital (social bonds, networks), family traditions and bonds. Some scientists would include in this concept only education, skills and knowledge – an understanding largely used in the EU. However, within other socio-economic circumstances (developing countries) human capital will also include health and nutrition. Many of you know that labour markets have different segments and that, markets, in general, are full with imperfections. Thus, the return on human capital will differ between different labour market segments. Discrimination against minority or female employees would imply different rates of return on human capital and thus it may hinder the depth of inclusion into the social fabric and the level of opportunities for realisation of the human potential.

Often, it is not the education or knowledge that one has which determines the value of individual education but the credential or degree received. A person with a degree from an elite school is likely to have higher income, compared to a person with the same knowledge but coming from a less known school.

In other words, fighting discrimination at EU level reflects the commitment to equal opportunities for human capital development. Gradually, a substantial corpus of legislation has been build to prevent

any type of discrimination. Initially, it started with sex discrimination related to pay, working conditions and social security. Then, the Amsterdam Treaty (art.13) empowered the Community to take action against discrimination based on a new range of grounds: racial or ethnic, religion or belief, age disability and sexual orientation (Racial Equality Directive and Employment Equality Directive of 2000).

The equal treatment directives play a safeguard role in providing those who feel excluded from access to economic and social opportunities with a tool to defend their interests and therefore increase their economic opportunities and return on human capital.

In countries with unfavourable demographic perspectives, as our host country, equal opportunities for all is not only a political commitment mirrored in national and community law but it becomes a key for achieving the Lisbon targets. Various reports point, for example, that in the private sector in BG there is a shortage of skilled labour and at the same time educational deficits among minorities still persistent. Recently, the Commission President while speaking about the new social reality of Europe clearly spelled out the Commission view on equal opportunities by saying:

« But vague support for equality of opportunity is meaningless unless it is accompanied by policies to ensure that it becomes a reality for all citizens ».

In July 2006, the new regulations on the Social Funds were adopted. Both the cohesion and structural funds will back up human capital development. The European Regional Development Fund will finance innovation and technologies in SMEs, hard education and health infrastructure as well as expansion of broadband internet access to increase the overall economic competitiveness. Global package worth 308 bn EUR, 250 bn in Convergence. ESF roughly 10bn EUR per annum.

The European Social Fund – the oldest structural fund- will focus on convergence and regional competitiveness priorities. Within « convergence » countries (incl. Bulgaria and Hungary), the ESF is the privileged human capital financial instrument supporting reforms

in education, vocational training and development of human potential in research and innovation. In Bulgaria, the ESF will fund two operational programs: the OP on human resources development (€1.033B) and the OP on administrative capacity (€154M). In Hungary, the ESF (€3.5B) will lend its support to two operational programs: a social renewal OP (€3.3B) and a state reform OP (€145M).

What is new for the programming period is the importance given to issues of administrative capacity which includes the capacity for laying down a regulatory framework favouring the human capital development.

However, the allocation among structural funds and the allocations to knowledge-economy activities will illustrate the weight and choices made between human capital and innovations policies and other policies. These allocations will illustrate the commitment to the Lisbon agenda.

In the previous programming periods, Ireland had invested one third of its structural spending in education which proved to be instrumental in attracting its human capital back to the country and in raising its overall productivity.

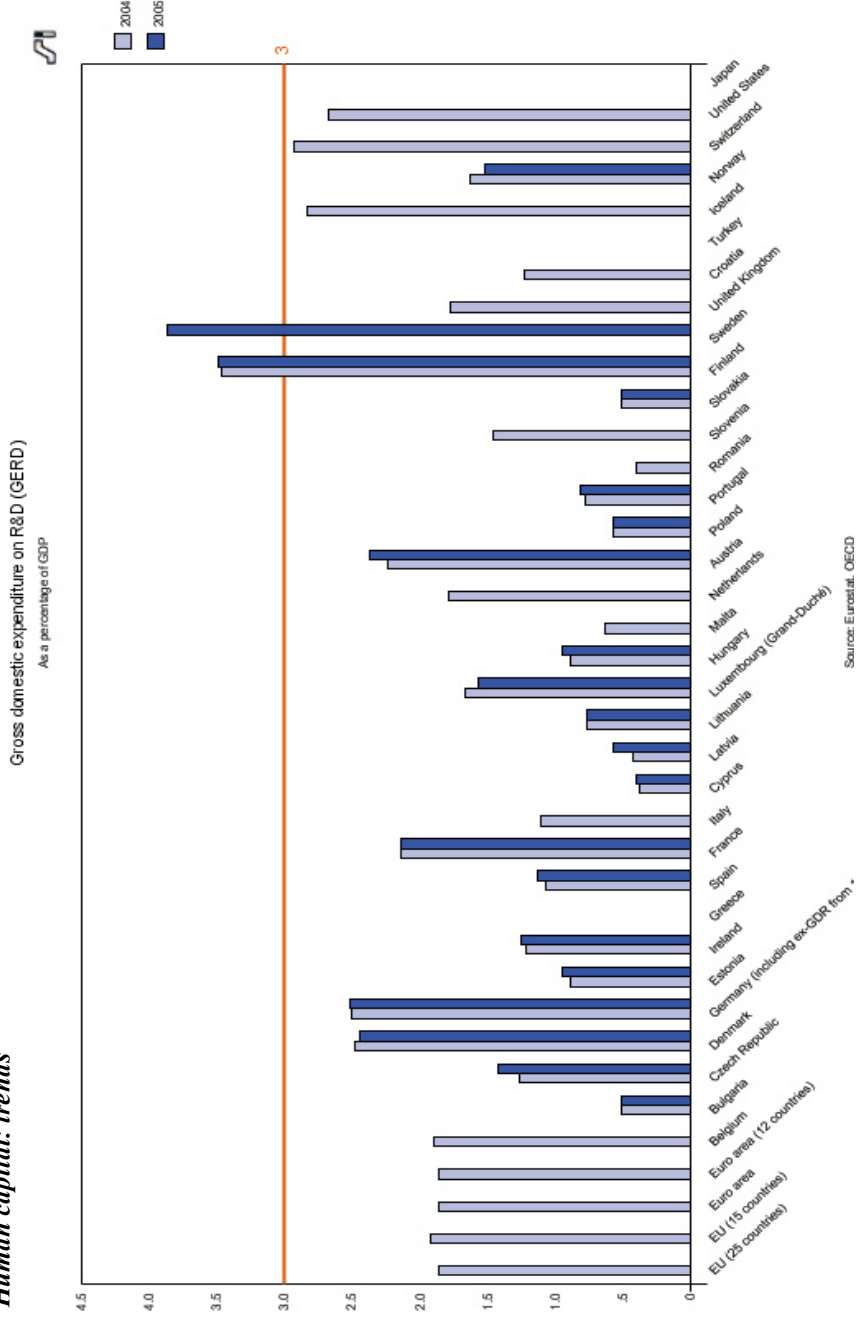
The Irish experience brings up important questions as to whether there is «brain drain » as opposed to « brain vortex » which would engulf to places where the return on human capital is higher.

European Globalisation Adjustment Fund is the latest member in the family of funds at EU level, which was specifically designed to express the Union's solidarity towards workers affected by trade adjustment redundancies. It reflects both the competitiveness and fairness commitments of the EU.

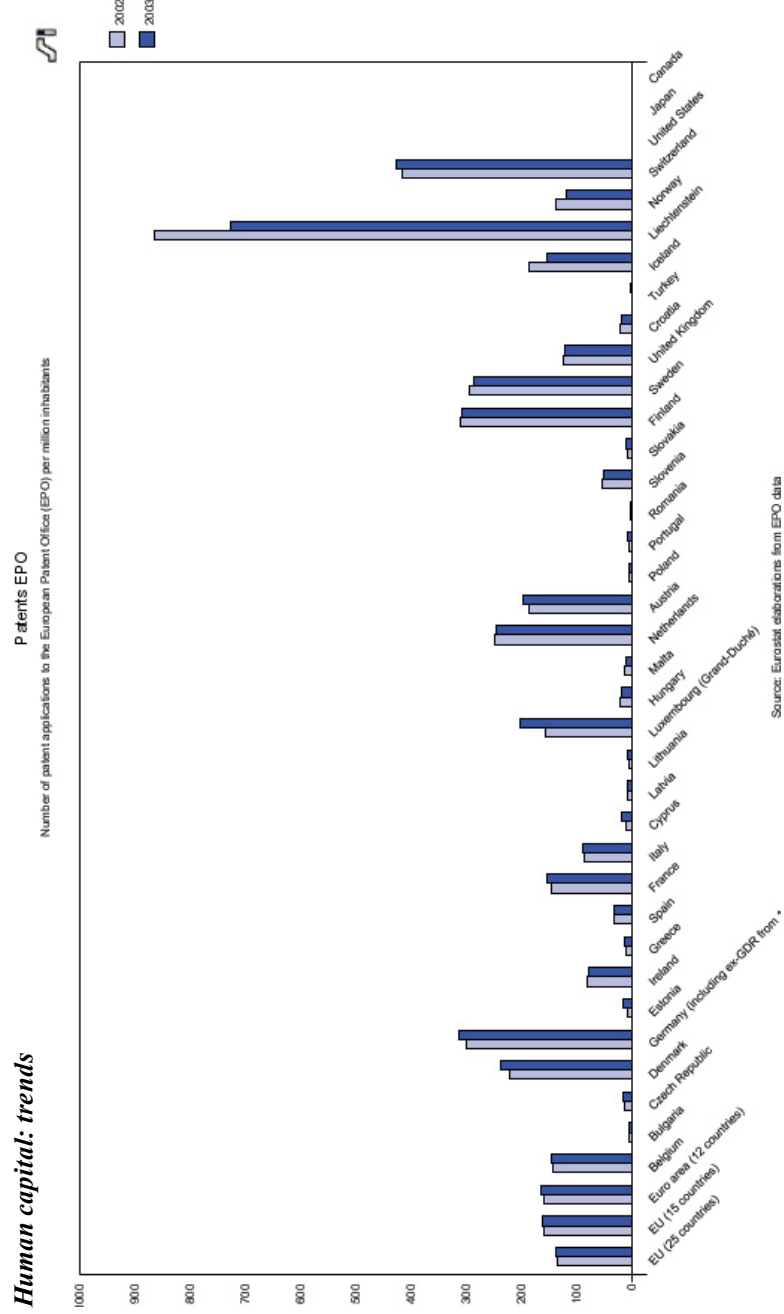
EGF will support people and not companies or institutions by funding active labour market policies such as training, job search allowance or assist self employment. The annual amount of the Fund will allow assistance to 40-50 000 workers per year.

Other EU financial instruments for human capital development include R&D framework programme – 50 billion EUR for seventh financial period, Education and training programmes – 7 billionn EUR for the new Lifelong Learning Programme

Human capital: trends

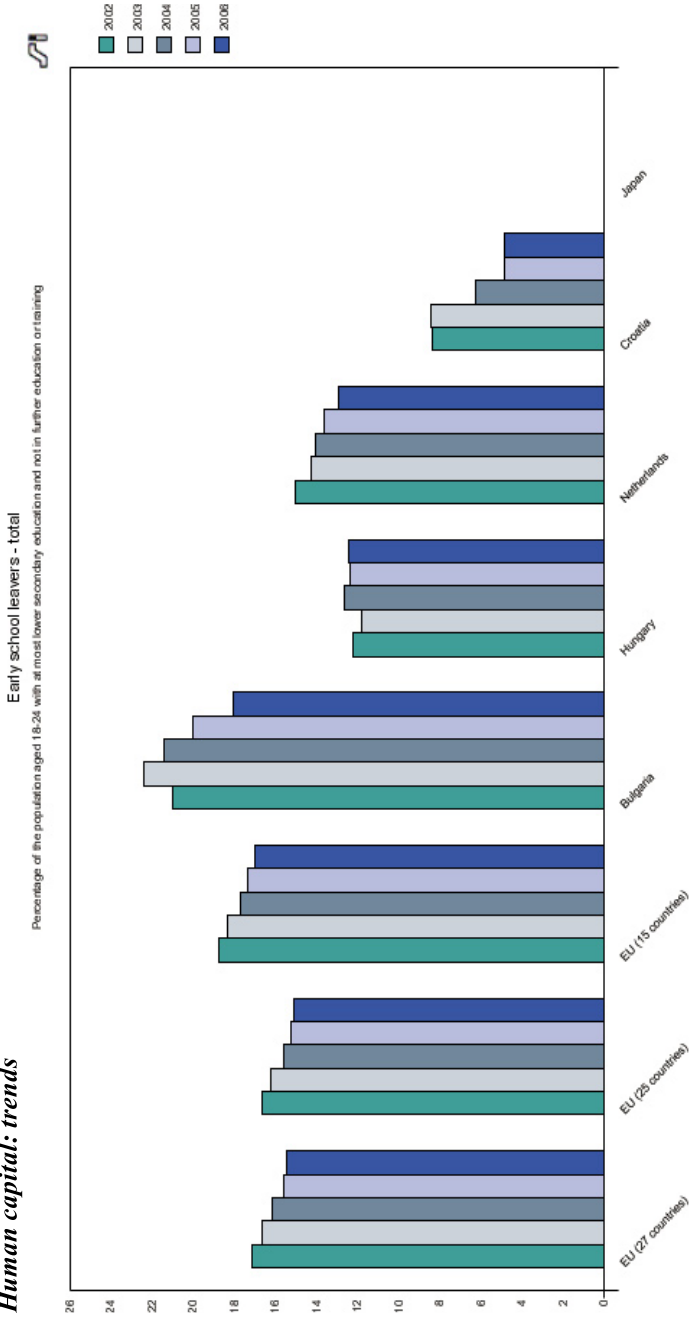


Human capital: trends



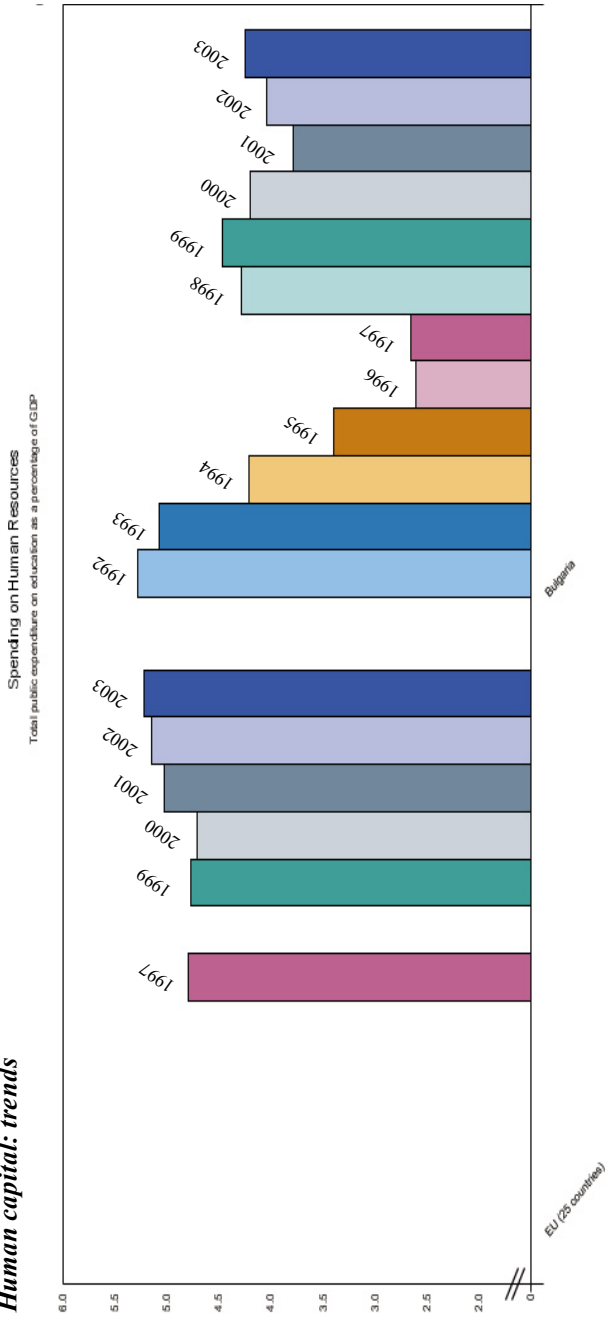
This graph shows you the number of patent applications to the European Patent Office per million inhabitants. Among the countries that have joined the EU since 2004, Hungary is the country with the highest number of innovations as illustrated by the applications to the Patent Office. I would invite those in the room interested in regressions to look at whether there is a correlation, and if yes what type of correlation, between spending on R&D (previous slide) and innovations leading to patent applications.

Human capital: trends



As you can see from the projected figure, over the period 2002-2006 Bulgaria had the highest percentage of early school leavers among the countries appearing on the graph. Croatia had the lowest over the same period. However, I do hope that the decreasing trend will be reversed and that there will be a convergence between the EU and Bulgarian averages.

Human capital: trends

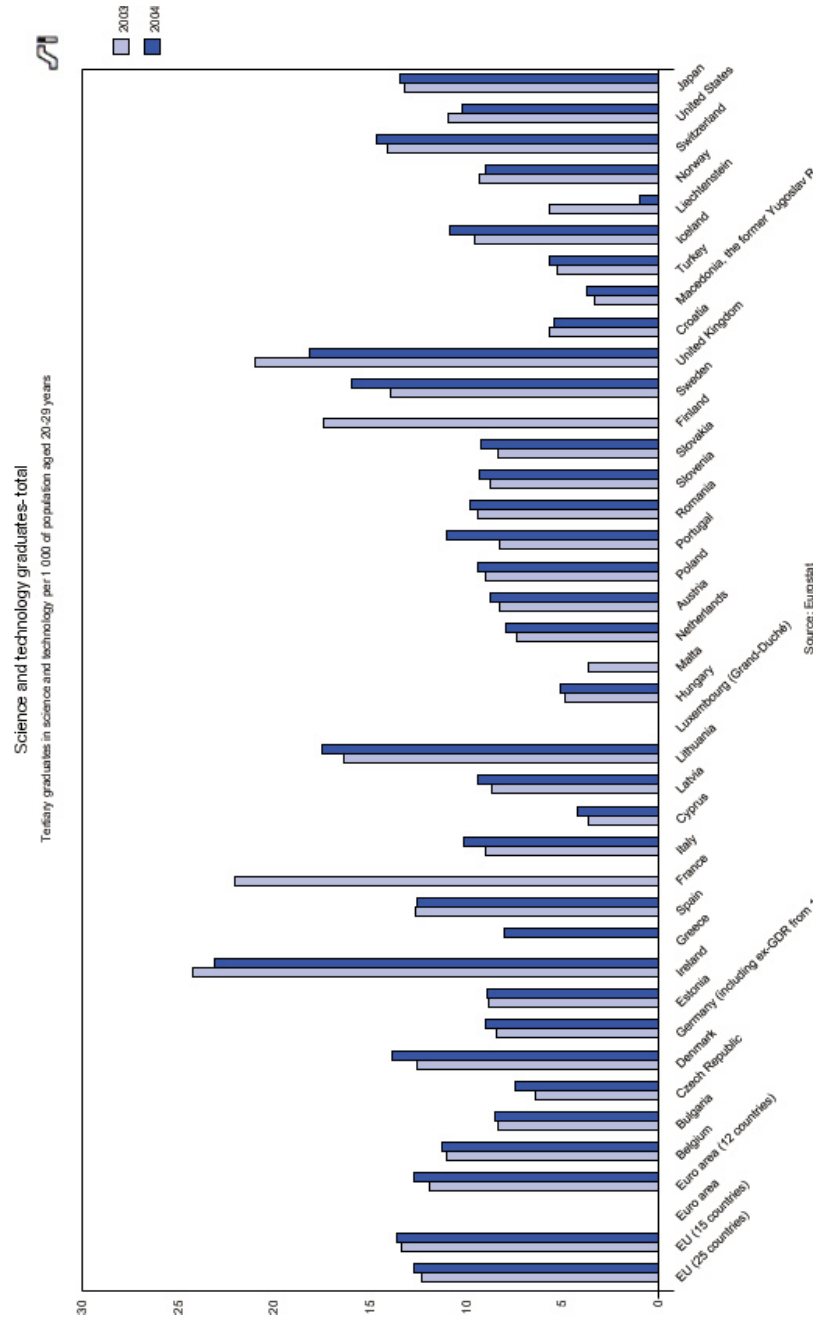


In this figure we show the history of spending on human resources in Bulgaria and in the EU going back as long as possible (for the EU this is the year 1997 and for Bulgaria this is almost the start of the transition, the year 1992).

Two observations can be made:

i) EU25 total spending tend on human resources tend to increase over time, probably driven by the Lisbon objectives while the opposite is valid for Bulgaria;

and
ii) the 2003 total education expenditures in Bulgaria are lower than the education expenditures of 1992



Challenges and Opportunities

Bulgaria has achieved a stable macroeconomic environment and an impressive pattern of economic growth over the last five years. Accumulated budgetary surplus allow some flexibility and accumulated reserves ensure stable finances. These positive conditions coincide with the accession to the EU and the access to structural funds from the very beginning of the new programming period 2007-2013.

This is an extraordinary opportunity to all EU countries: the new programming period is based on new regulations clearly favouring human capital investments and policies as part of the broad Lisbon framework. At the same time, the new European Social Fund rules put an emphasis on administrative capacity to carry out reforms. This is an opportunity to be seized by member states willing to go even further than the Irish economic success.

If the EU has put in place policies and resources to promote human capital, it is up to national authorities to create the right instruments and find out the right answers to national challenges. The inclusion of ethnic minorities in the socio-economic fabric, the reduction of early school leavers and an improved offer of higher education are part of the efforts to boost productivity in a country with shrinking labour force. The Commission will carefully assess the operational programmes for the new period and their ability to achieve the common policy objectives as well to what extent the operational programmes under the SFs respect the policy objectives assigned to the ESF.

United States' Migration Policies and Their Implications

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Introduction

For all immigrants, whether in the United States legally or without the proper documentation, this is an anxious and turbulent time. It is also a time of special concern for those who hire undocumented workers and for those who provide services to them. On May 25, 2006, the U.S. Senate passed The Comprehensive Immigration Reform Act of 2006 which would provide a path to citizenship to illegal¹ immigrants and provide for a guest worker program. The U.S. House of Representatives opposes both the path to legalization as well as the guest worker program, which would bring approximately 200,000 foreigners into the country annually on a temporary basis. This bill has six components, and regardless of whether a particular component is supported by either the House or the Senate, details of what each favors do differ:

| | Components of Immigration Reform | House Position | Senate Position |
|---|---------------------------------------------------------------|----------------|-----------------|
| 1 | Creation of a temporary worker program | Opposed | Passed |
| 2 | Legalization of undocumented immigrants | Opposed | Passed |
| 3 | Worksite enforcement | Passed | Passed |
| 4 | Criminal penalties for illegal immigrants already in the U.S. | Passed | Passed |
| 5 | Border security—focusing on fencing | Passed | Passed |
| 6 | Border security—addressing the need for more personnel | Passed | Passed |

¹ The terms “illegal,” “undocumented,” and “unauthorized” are used interchangeably in referring to immigrants who do not have the requisite legal papers to be in the U.S.

The House and Senate must now come to a compromise about what they will forward to President George W. Bush for his final approval. Undocumented workers currently in the country worry about forcible repatriation without the opportunity to return once they have left the U.S. American employers who, either knowingly (or unknowingly) hire undocumented workers are concerned about their workforces and the implications of their deportation. Those who assist immigrants who are in the country illegally wonder if they will be exempt from penalties if they can prove they are providing “humanitarian” rather than “exploitative” assistance. Finally, those who immigrated legally, or are awaiting a decision regarding their applications for immigration, may evidence distress that the path to legal entry may be smoother for those who are here without the proper documentation than it is for those who attempt to enter through established institutional channels. By the time of the meeting in Sofia, Bulgaria, on January 26, 2007, there may be a clearer picture of the details of the bill, but, in all likelihood, the establishment of an infrastructure and its implementation and enforcement will be slow and arduous, if not impossible, processes, and the public will continue to debate the issue heatedly.

The last year has seen major movements among the U.S. population, both in support and in opposition to this bill, which embodies the greatest changes in the immigration law in the last 20 years. However, mixed opinions about the presence of undocumented workers, particularly from Mexico, have historically been intrinsic to U.S. immigration policy since the late 19th century (Bernstein, 2006). The liberalized immigration law of 1965, which was designed to eliminate discriminatory practices against Europeans and to end the “remnants” of the exclusionary practices against Asians was, in fact, “coupled with measures explicitly designed to minimize ‘brown’ immigration from Mexico and ‘black’ from the Caribbean” (Zohlberg, 2006, p. 8). However, since at least the turn of the 20th century, perhaps in response to pressures from the agricultural industry and its need for plentiful and cheap labor, “legislators resisted closing the country’s ‘back door’ despite their explicit commitment to preserving the ‘original American stock’ from contamination by Mexicans...” (Zohlberg,

2006, p. 9). Clearly, a debate continues, at the very least, regarding the presence of workers who have entered, or remain in the U.S. illegally and a disproportionate number of them are from Mexico and from other Latin American nations.

Overview of Immigration to the U.S.

Individuals and families from around the globe form a continuous stream of immigrants to the United States. The backlog of visa applications and waiting lists to enter the U.S. stretches to several years. Undocumented immigrants, both those who enter without legal papers and those who overstay their visits, abound. Refugees and asylees continue to enter in record numbers from countries in political turmoil. Disproportionately large numbers of entrants into the U.S. in recent years have been people of color from Asia, Africa, and Central and South Americas, and despite encountering a series of barriers, an overwhelming majority remains, making this nation their permanent residence. Reasons for this ongoing influx are readily apparent, for in spite of the problems prevalent in the U.S., it continues to be one of the most attractive nations in the world.

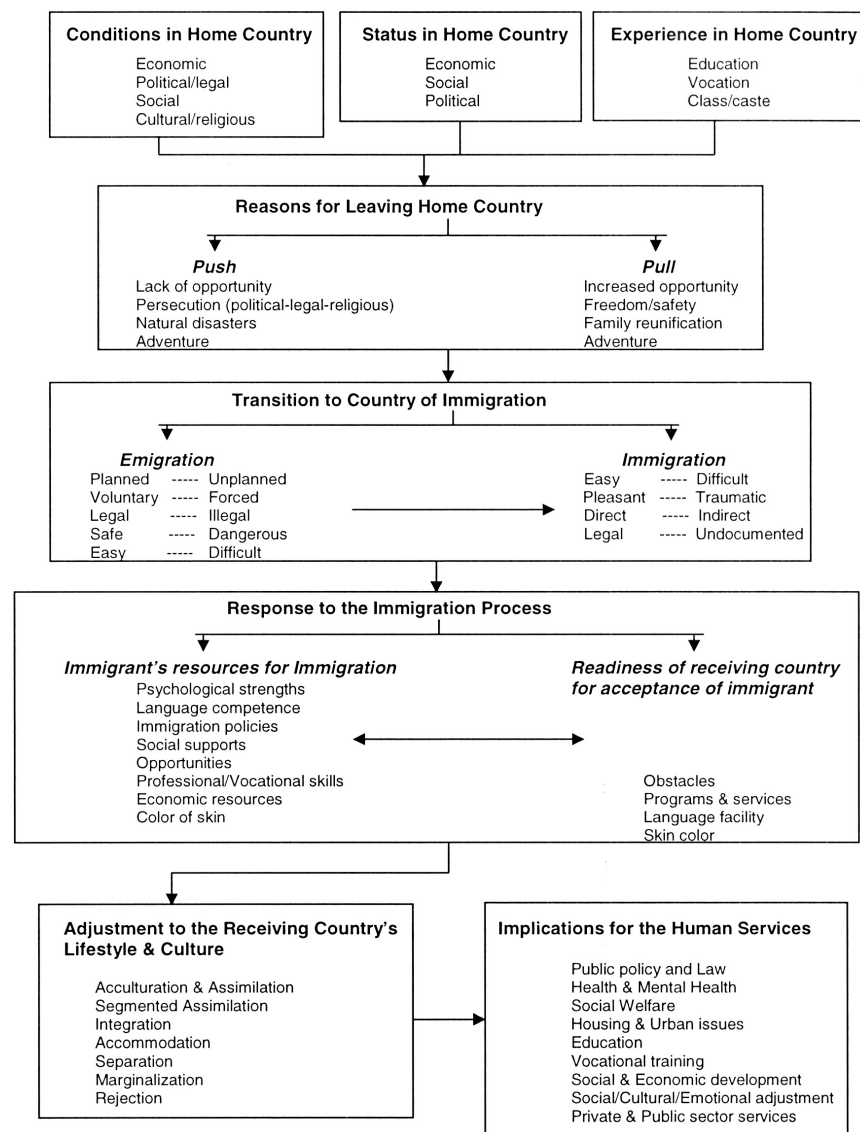
There is much in the U.S. that native-born Americans take for granted and that is not available in many other countries, and there are several amenities, opportunities, possibilities, lifestyles, and freedoms in the U.S. that are not found together in any other nation. In theory, and often in reality, this is a land of freedom, of equality, of opportunity, of a superior quality of life, of easy access to education, and of relatively few human rights violations. It is a land that, in the 21st century, is struggling toward multiculturalism and pluralism in its institutions and social outlook. It is a land that, compared to several others, offers newcomers a relatively easy path through which to become integrated into its largesse. While the debate over the value of immigration persists, the fact is that it is a debate, and while immigration policies are not without discrimination and selectivity, they are more open now than they have ever been. Thus, despite both political and social perceptions of foreigners following the September 11, 2001 terror attacks on the Pentagon and the World Trade Center

in New York, despite increased security measures and scrutiny of individuals, and despite some highly disturbing xenophobic backlash, new immigrants continue to arrive in the U.S. in record numbers. In addition, most, if not all, of the vast numbers that entered years before, whether or not they have become naturalized citizens, value the quality of life this nation continues to allow them, for frequently for many, even when life here is difficult, it is less so than it would have been in their countries of origin.

Immigrants' adaptation in a new country reflects the interplay of the reasons for departure from their homeland, their experience of migration, their tangible and intangible resources for functioning in unfamiliar environments, and the effects of the receptiveness of the host country (both politically and socially) to their presence (Figure 1). Furthermore, regardless of the length of time immigrants are in the U.S., they are invariably faced with a duality of cultures and must learn how to function within norms and expectations that frequently conflict.

Although one may be interested in emigrating from one's homelands, the move is highly contingent on the receptiveness of the potential host nation to immigrants in general, and immigrants from specific countries in particular. Most governments now have strict immigration laws, this was not always the case, and people were relatively free to live where they chose. U.S. immigration history, since the mid-18th century, has been significantly impacted by legislation that has substantially colored the face of immigration in the last two and a half centuries.

Figure 1: Model / Framework for the Immigrant Experience



From: Segal, U. A. (2002). *A framework for immigration: Asians in the United States*, New York: Columbia University Press, p. 4.

Legislative History and Its Impact

U.S. immigration history may be divided into seven periods during which legal measures formally allowed or controlled the categories of people allowed to immigrate (Kim, 1994, pp. 8–9).

1. *The colonial period (1609–1775)*, during which most immigrants were from the British Isles and the colonies had little effective control.
2. *The American Revolutionary period (1776–1840)*, when European immigration slowed because of war and there were general anti-foreign feelings.
3. *The “old” immigration period (1841–1882)*, during which local governments recruited people from Northern Europe. Chinese were also able to immigrate without much difficulty.
4. *The regulation period (1882–1920)*, when the Chinese were excluded from immigrating. However, large numbers of immigrants were admitted from Central, Eastern, and Southern Europe.
5. *The restriction and exclusion period (1921–1952)*, when a quota system restricted immigration from Central, Eastern, and Southern Europe, and when all Asians were excluded from admission because of their ineligibility for U.S. citizenship.
6. *The partial liberalization period (1952–1965)*, when Asians were assigned the same quota as those from Central, Eastern, and Southern Europe, and were also allowed naturalization.
7. *The liberalized policy period (1965–present)*, when the quota policy was repealed to allow entry to immigrants from Third World countries.

Below are brief sketches of immigration-related legislation or action² that, since the beginning of the liberalization period, have affected diverse populations in a variety of ways, from entry into the U.S. itself to access to fundamental rights.

1965: *The Immigration and Nationality Act* finally liberalized immigration and repealed legal discrimination because of race,

² These and additional laws relevant to immigration and immigrants are available through the Web site of the Bureau of U.S. Citizenship and Immigration Services. Retrieved May 30, 2006, from (<http://www.uscis.gov/graphics/shared/aboutus/statistics/legishist/index.htm>)

gender, nationality, place of birth, or place of residence. It rescinded the national origins system, replacing it with annual quotas of the Eastern (170,000) and Western (120,000) Hemispheres, with up to 20,000 individuals being permitted entry from any one nation. This quota did not include spouses and unmarried minor children of U.S. citizens.

1978: Separate ceilings for the two hemispheres were abolished and a world-wide annual ceiling of 290,000 was established.

1980: *The Refugee Act* removed refugees as a preference category. The President, in conjunction with Congress, and based on the political climate of the world, determines the annual ceiling and the distribution of that ceiling among identified countries for that year (ceilings have ranged from 50,000–90,000).

1986: *The Immigration Reform and Control Act (IRCA)* was a comprehensive reform effort that legalized undocumented immigrants who had been in the country since January 1, 1982, but made it unlawful to hire undocumented workers.

1990: *The Immigration Act of 1990* increased the annual ceiling for immigrants to 700,000 and established an annual limit for certain categories of immigrants to attract skilled workers. It also established the Immigrant Investor Program, offering up to 10,000 permanent resident visas to those willing to invest at least \$1 million in U.S. urban areas or \$500,000 in U.S. rural areas.

1996: *Welfare Reform* ended many cash and medical assistance programs for most legal immigrants (and other low-income individuals),

1996: *The Illegal Immigration Reform and Immigrant Responsibility Act (IIRIRA)* expanded enforcement operations of the Immigration and Naturalization Service, particularly at the border and reorganized the procedures for removal of inadmissible entrants.

2001: *The USA Patriot Act* was passed by Congress in response to the September 11, 2001 terror attacks on New York and Washington, DC. It gives federal officials greater power to

track and intercept national and international communications and to prevent the entry of foreign terrorists and detain and remove those who may be within the U.S.

2006 *Comprehensive Immigration Reform Act of 2006* that attempts to curtail and address the presence of undocumented immigrants.

Implications of the Immigration and Nationality Act of 1965

The 1965 Immigration and Nationality Act had a major and permanent impact on U.S. immigration, dramatically altering the traditional origins and numbers of immigrants to the U.S. Prior to 1965 and the amendments of October 3rd to the Immigration Act of 1924 and the Immigration and Nationality Act of 1952, which resulted in the liberalization of immigration laws, the majority of entrants into the U.S. were from European countries. When the 1965 amendments: (i) abolished the national origins quota system; (ii) established a preference system for relatives of U.S. citizens and permanent residents; (iii) exempt immediate relatives of citizens and some special groups (certain ministers of religion, former employees of U.S. government abroad, etc.); and (iv) expanded the limits of world coverage to a 20,000 per-country limit, the influx of new immigrants from non-European countries was unprecedented and continues into the present.

While minor modifications are frequently made to the Immigration Act of October 1, 1965, it remains the primary directing force of the U.S. Immigration and Naturalization Service (INS). It set the annual immigrant quota at 290,000, dividing 170,000 for the Eastern Hemisphere and 120,000 for the Western Hemisphere. INS specifications of the world-wide level of immigration and the selection procedures are detailed in Title II of the Immigration Act (INA, ACT 201) as is the preference in allocation of immigrant visas (INA, ACT 203). Even more significantly, while INA, ACT 202 identifies the numerical limitation to any foreign state, it includes in it a non-discrimination clause, stating, "... no person shall receive any preference or priority or be discriminated against in the issuance of an

immigrant visa because of the person's race, sex, nationality, place of birth, or place of residence." (p. 7)³

The Immigration Act specified spouses and unmarried adult children of U.S. citizens as exempt from the numerical quota and established a preferential system for the allocation of entry visas. Some modifications have occurred since the original 1965 Act, through the Immigration Act of 1990, which restructured the immigrant categories of admission, increasing the numbers for skilled workers and adding the diversity category. However, in many important ways, it has remained substantively the same, and it is clear that system allocations are not based on the prevention of entry of any particular national group. Thus, the numbers of immigrants admitted legally are: (a) fixed by law; (b) limited only by demands for those considered eligible; and (c) restricted by processing constraints (Gordon, 2005). The 2006 fiscal year limits are in the categories below:⁴

Family Sponsored Immigrants (480,000 annual numbers)

1. Unmarried sons and daughters of citizens (23,400 annually)
2. Spouses and unmarried sons and unmarried daughters of permanent resident aliens (114,200)
3. Married sons and married daughters of citizens (23,000)
4. Adult brothers and sisters of citizens (65,000)

Employment-Based Immigrants (140,000 annually)

1. Priority workers (40,040)
 - a. Aliens with extraordinary ability
 - b. Professors and researchers
 - c. Certain multinational executives and managers
2. Members of the professions holding advanced degrees (40,040)
3. Skilled workers, professionals, and other workers (40,040)
4. Special immigrants, usually refugees adjusting their status (9,940)
5. Employment creators, "investors" (9,940)

³ Immigration and Nationality Act. Retrieved October 25, 2006, from http://www.immigration-usa.com/ina_96_title_2.html.

⁴ U.S. Department of State. Retrieved October 25, 2006, from http://travel.state.gov/visa/frvi/bulletin/bulletin_2924.html

⁵ This number is in addition to the 290,000 annual limit (exempt from the 290,000 numerical cap).

Diversity (55,000 annually, effective 1995)

Non-preferential immigrants ineligible under the other categories

A substantial number of legal immigrants include those not subject to these numerical limits—relatives of U.S. citizens and children born abroad to permanent residents. In 2004, this number was approximately 407,000 (U.S. Census, 2004). An interesting addition to the immigration quotas is the "investor program" that issues approximately 10,000 visas annually to those who are willing to invest one million dollars in urban areas or \$500,000 in rural areas of the U.S.

Demographic Trends

Newcomers to the U.S. enter under a variety of conditions. Early migrants of the 19th and early 20th centuries came as volunteer immigrants, indentured laborers, or as slaves. Most however, were considered "legal immigrants," particularly in the absence of any legislation. Present-day immigrants may be categorized as voluntary immigrants (illegal or undocumented) or as refugees (and asylees). Several legal immigrants, after a minimum length of residence in the country, choose to apply for U.S. citizenship.

The U.S. Bureau of the Census indicates that in 2004, of the approximately 288 million residents of the country, 34 million (12%) were foreign born and another 30 million (10%) were children of those who had migrated from other countries (Table 1). On October 17, 2006, the population of the U.S. reached the 300 million mark, and this increase is a result, not only of birth, but of immigration. Of the foreign born, five million are from Europe, eight million from Asia, 18 million from Latin America, and three million from other regions, including Africa.

Table 1: U.S. Population by Sex, Age, and Generation: 2004
(Numbers in thousands.)

| GENDER AND AGE | Total | | GENERATION ¹ | | | | | |
|-----------------------|---------|---------|-------------------------|---------|--------|---------|------------------|---------|
| | Number | Percent | FIRST | | SECOND | | THIRD-AND-HIGHER | |
| | | | Number | Percent | Number | Percent | Number | Percent |
| Total Male and Female | 288,280 | 100.0 | 34,244 | 100.0 | 30,430 | 100.0 | 223,606 | 100.0 |
| Under 16 years | 64,859 | 22.5 | 2,421 | 7.1 | 12,515 | 41.1 | 49,923 | 22.3 |
| 16 - 65 years | 188,762 | 65.5 | 27,116 | 82.1 | 12,798 | 42.1 | 147,838 | 66.1 |
| 65 years and over | 34,659 | 12.0 | 3,697 | 10.8 | 5,117 | 16.8 | 25,845 | 11.6 |
| MEDIAN AGE (years) | 35.9 | (X) | 38.4 | (X) | 21.4 | (X) | 36.6 | (X) |
| Total Male | 141,227 | 100.0 | 17,221 | 100.0 | 15,180 | 100.0 | 108,826 | 100.0 |
| Under 16 years | 33,173 | 23.5 | 1,210 | 7.0 | 6,521 | 43.0 | 25,442 | 23.4 |
| 16 - 65 years | 93,257 | 66.0 | 14,480 | 84.1 | 6,377 | 42.0 | 82,399 | 66.5 |
| 65 years and over | 14,797 | 10.5 | 1,531 | 8.9 | 2,282 | 15.0 | 10,984 | 10.1 |
| MEDIAN AGE (years) | 34.7 | (X) | 37.3 | (X) | 19.9 | (X) | 35.6 | (X) |
| Total Female | 147,053 | 100.0 | 17,023 | 100.0 | 15,250 | 100.0 | 114,780 | 100.0 |
| Under 16 years | 31,686 | 21.5 | 1,211 | 7.1 | 5,994 | 39.3 | 24,481 | 21.3 |
| 16 - 65 years | 95,505 | 65.0 | 13,646 | 80.2 | 6,421 | 42.1 | 75,438 | 65.8 |
| 65 years and over | 19,862 | 13.5 | 2,166 | 12.7 | 2,835 | 18.6 | 14,861 | 12.9 |
| MEDIAN AGE (years) | 37.0 | (X) | 39.5 | (X) | 23.0 | (X) | 37.7 | (X) |

(X) = Not Applicable

SOURCE: U.S. Census Bureau. (2004). Current population survey, annual social and economic supplement., Retrieved May 30, 2006, from <http://www.bls.census.gov/cps/asec/2004/sdata.htm>.

Tables 2 and 3 present immigrants (1981–2004) and refugees (1991–2003) respectively, by region of birth (U.S. Census Bureau, 2006). During these years, the largest number from any one country was from Mexico. However, it is clear from the distribution of sending countries, that although the largest number of immigrants to the U.S. Between 1981 and 2004 has been Mexican (4,621,800), this is still less than a quarter of the total entrants during that period (22.86%); the percentage is even less if the 1.4 million refugees are included. Hence, it is essential that, while recognizing the strong Mexican presence in the U.S., one remain cognizant of the diversity of immigrants.

Table 2: Immigrants, by Country of Birth: 1981 to 2004
(Numbers in thousands)

| Region and country of birth | 1981- 1990 total | 1991-2000 total | 2001-2003 total | 2004 |
|-----------------------------|---------------------|--------------------|--------------------|--------------|
| All countries | 7,338.1 | 9,095.4 | 2,833.9 | 946.1 |
| Europe | 705.6 | 1,311.4 | 450.3 | 127.7 |
| Asia | 2,817.4 | 2,892.2 | 936.6 | 330.0 |
| Africa | 192.3 | 383.0 | 163.0 | 66.3 |
| Oceania | (NA) | 48.0 | 16.0 | 6.0 |
| North America | 3,125.0 | 3,917.4 | 1,063.1 | 341.2 |
| Canada | 119.2 | 137.6 | 52.9 | 15.6 |
| Mexico | 1,653.3 | 2,251.4 | 541.7 | 175.4 |
| Caribbean | 892.7 | 996.1 | 268.9 | 88.9 |
| Cuba | 159.2 | 180.9 | 65.3 | 20.5 |
| Dominican Republic | 251.8 | 340.9 | 70.1 | 30.5 |
| Haiti | 140.2 | 181.8 | 59.7 | 14.0 |
| Jamaica | 213.8 | 173.5 | 43.7 | 14.4 |
| Trinidad and Tobago | 39.5 | 63.3 | 16.6 | 5.4 |
| Central America | 458.7 | 531.8 | 199.5 | 61.3 |
| South America | 455.9 | 539.9 | 198.6 | 71.8 |

Source: U.S. Department of Homeland Security. Office of Immigration Statistics. (2006). 2004 yearbook of immigration statistics.

See also <<http://uscis.gov/graphics/shared/statistics/yearbook/index.htm>>.

Table 3: Immigrants Admitted as Permanent Residents Under Refugee Acts, by Country of Birth: 1991 to 2004

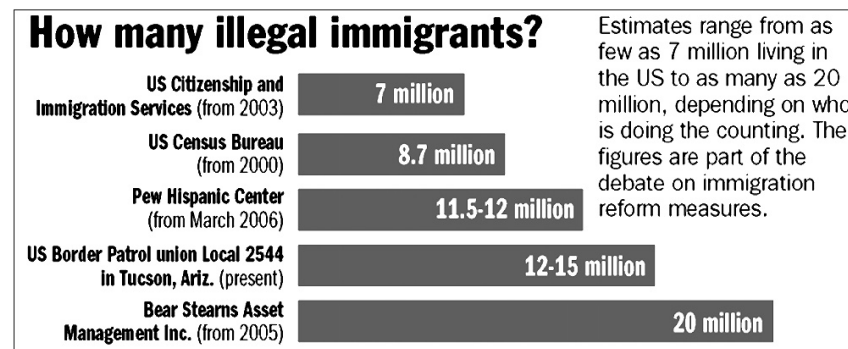
| Region and country of birth | 1991 to 2000, total | 2001 to 2002, total | 2003 | 2004 |
|-----------------------------|---------------------|---------------------|---------------|---------------|
| Total | 1,021,266 | 234,590 | 44,927 | 71,230 |
| Europe | 426,565 | 118,736 | 17,290 | 24,854 |
| Asia | 351,347 | 41,406 | 9,885 | 14,335 |
| Africa | 51,649 | 20,360 | 7,723 | 12,443 |
| Oceania | 291 | 52 | 18 | 28 |
| North America | 185,333 | 51,503 | 8,454 | 18,323 |
| Cuba | 144,612 | 47,580 | 7,047 | 16,678 |
| Haiti | 9,364 | 1,504 | 472 | 536 |
| El Salvador | 4,073 | 382 | 194 | 263 |
| Guatemala | 2,033 | 809 | 294 | 387 |
| Nicaragua | 22,486 | 631 | 169 | 137 |
| South America | 5,857 | 2,158 | 1,518 | 1,150 |

Source: U.S. Department of Homeland Security. Office of Immigration Statistics. (2006). 2004 yearbook of immigration statistics.

See also <<http://uscis.gov/graphics/shared/statistics/yearbook/index.htm>>.

Among those who voluntarily migrate to the U.S. are immigrants without the requisite papers, the undocumented population. While there is no valid method of counting undocumented immigrants, estimates suggest numbers as high as 20 million [See Figure 2 (Knickerbocker, 2006)]. These are people who are in the U.S. without governmental approval and are sometimes described as economic refugees, but are not so recognized by the United Nations High Commissioner for Refugees. Although undocumented immigrants lack the legal documentation to be residing in the U.S., they may have entered the country legally or illegally. Despite perceptions of undocumented immigrants being those who slip across borders without appropriate documentation, the Immigration and Naturalization Service stated that a large proportion (about 41%) of all undocumented immigrants, particularly from Asian countries, are “overstays” who fail to return to their homelands when the period of their visas expires (INS, 2000).

Figure 2: Undocumented Immigrant Numbers⁶



Refugees and asylees, unlike immigrants, are usually involuntary migrants. The U.S. has always been a refuge for those fleeing from persecution and, traditionally, has the largest number of the world’s refugees (Mayadas & Segal, 2000). According to the definition presented in the 1951 convention and the 1967 protocol setting forth the mandate of the United Nations High Commissioner for Refugees, refugees are persons who are outside their homelands and are unable to return because of fear of persecution. The U.S. President, in consultation with Congress, can establish annual numbers and allocations of refugees based on the current political climate of the world. In recent years, these annual numbers have been as high as 91,000 in 1999 and as low as 70,000 in 2005 and 2006 (U.S. Department of State, 2005). Asylees differ from refugees in that they usually enter the U.S. on their own volition without prior approval. Once within the U.S., they apply for asylum, which may or may not result in an admission under refugee status. They are detained until a determination is made, at which time, they are either legally admitted into the country as refugees or are repatriated to their homelands. Refugees may apply to adjust their status to permanent resident after a year.

In throwback fashion to earlier migration periods of the early 20th century, the nation is beginning to see three additional groups of migrants—victims of human smuggling, victims of human trafficking, and mail-order brides. Those smuggled into the country pay a sub-

⁶ Reproduced with permission from the May 16, 2006 issue of The Christian Science Monitor, (www.csmonitor.com)

stantial price to enter the country clandestinely, and once in the U.S., find they are burdened with debt and have few employment opportunities. Victims of human trafficking, on the other hand, continue to be exploited for illicit reasons and are practical slaves to those who bring them into the country (U.S. Department of State, 2004). Finally, the mail-order bride market is burgeoning, with over 590,000 Web sites catering to a growing clientele (Sexuality Information and Education Council of the United States, 2004). Mail-order brides are usually women from developing countries who register with a catalogue or Web site their intent to marry foreign men. Usually there is no period of courtship, and marriages take place in absentia, with the man having “shopped” for the wife who fits his needs. These women, then, enter the country legally as the wives of U.S. citizens.

Figures 3, 4, and 5 reflect, respectively, the origins of legal, undocumented, and all immigrants who arrived in the U.S. between 1991 and 2000 (Massey, 2005).

Figure 3: Legal Immigrants 1991-2000⁷

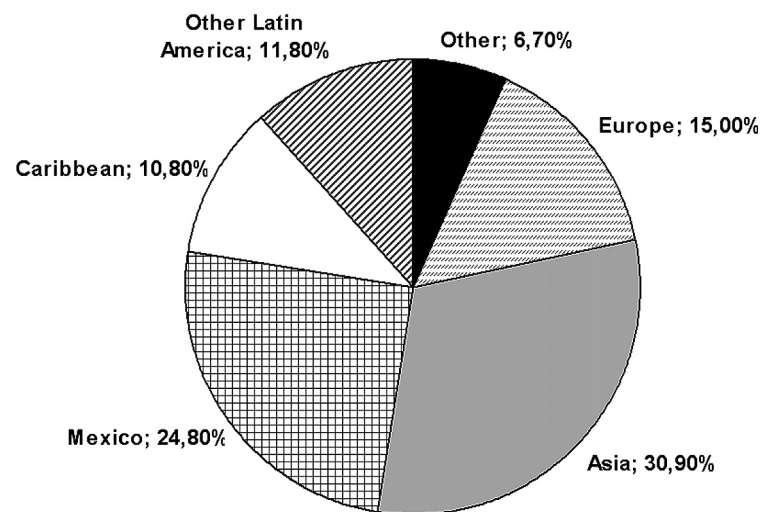


Figure 4: Undocumented immigrants 2000⁸

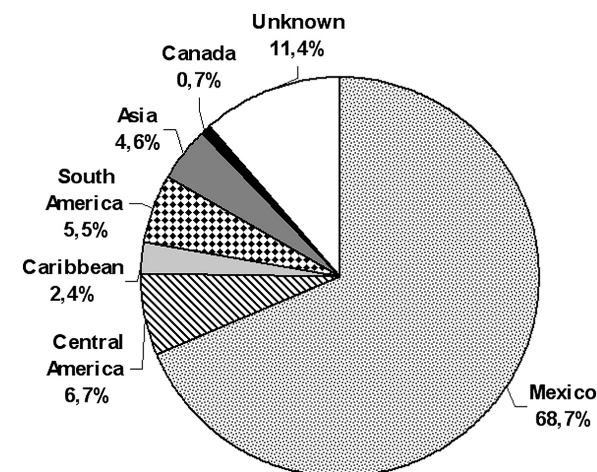
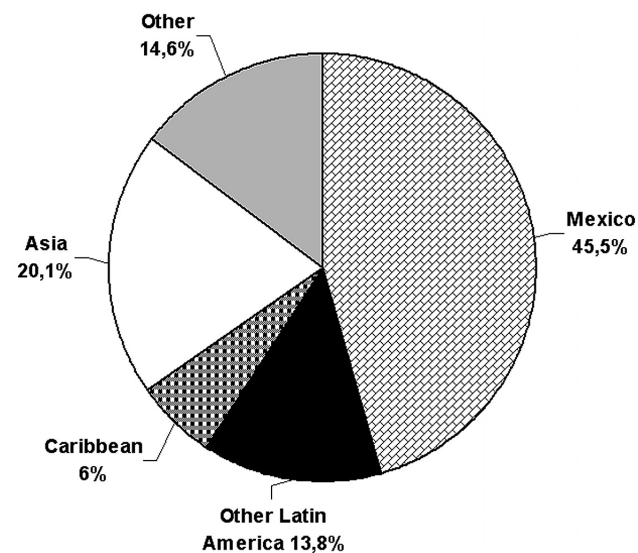


Figure 5: All immigrants 1991-2000⁴



⁷ Copyright of the American Immigration Law Foundation, Washington, DC
⁸ Copyright of the American Immigration Law Foundation, Washington, DC
⁹ Copyright of the American Immigration Law Foundation, Washington, DC

Under much discussion in the Immigration Reform Bill is a guest worker program that will allow temporary workers to enter the country for a period of up to six years to assume jobs for which U.S. employers are unable to find native employees. While this may appear to be a novel idea, it has long been a part of the cross-border movement for Mexican workers who have entered the U.S. for seasonal work and returned home at the end of the season. Known as circular migration, this pattern is evidenced regularly and increasingly both in the U.S. and internationally (Hugo, 2003; Zuniga, 2006). However, concurrently, a significant number of workers who had entered the country illegally, but traditionally followed the pattern of circular migration, are now choosing to remain in the U.S., as moving across the U.S.–Mexico border is becoming dramatically more dangerous (Zuniga, 2006). Migration researchers, further, are seeing two new phenomena, as immigrants choose to either return permanently to their homelands (return migrants) several years, or decades, after leaving, or divide their time equally between their countries of origin and the U.S. (transnationals).

Regardless of the process and reasons that immigrants enter the U.S., it is clear that for a large proportion, a primary impetus is economic opportunity. Furthermore, most rarely completely sever ties with their homelands, and a significant number send remittances to support family members, organizations, or communities in their country of origin.

Economic Impact of Immigration

Many deliberations in the U.S. revolve around the economic impact of migration. The ongoing immigration debate juggles arguments regarding the assets newcomers bring to the country with those about the drains they place on the infrastructure, and the country is divided on the current net worth of immigration in the 21st century.

The Immigrant Workforce

The recent focus on immigration reform and the guest worker program has drawn focus to undocumented workers. One must bear in mind in all deliberations that of the 34 million documented immigrants in the U.S., over 27 million are between the ages of 16 and 65 years, the major-

ity of them are in the workforce (Table 4) and they are present across the occupational structure (Table 5). A significant proportion of the legitimate workforce, they have the appropriate documentation and are essential to the functioning of the country. While immigrants in 2004 constituted 11% of the population, they made up 14% of the labor force and 20% of the low-wage earners (Nightingale & Fix, 2004). Ironically, immigrant unemployment rates fallen faster than those of natives, yet their wages have increased half as fast, therefore, while, in general, immigrants have a higher employment rate and are composed of two-parent families, they are more likely to live in poverty than are native born Americans (Nightingale & Fix, 2004).

Table 4: Employment Status of the Foreign-Born Civilian Population 16 Years and Over by Sex and World Region of Birth: 2004

(Numbers in thousands. 1/ 2/)

| SEX AND EMPLOYMENT STATUS | FOREIGN BORN | | WORLD REGION OF BIRTH | | | | | | | |
|-----------------------------------|--------------|---------|-----------------------|---------|--------|---------|---------------|---------|-------------|---------|
| | | | EUROPE | | ASIA | | LATIN AMERICA | | OTHER AREAS | |
| | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent |
| Total Civilian Labor Force | 21,168 | 100.0 | 2,424 | 100.0 | 5,470 | 100.0 | 11,641 | 100.0 | 1,633 | 100.0 |
| Employed | 19,857 | 93.8 | 2,294 | 94.6 | 5,178 | 94.7 | 10,844 | 93.2 | 1,542 | 94.4 |
| Unemployed | 1,310 | 6.2 | 130 | 5.4 | 292 | 5.3 | 797 | 6.8 | 91 | 5.6 |
| Total Male Civilian Labor Force | 12,736 | 100.0 | 1,295 | 100.0 | 3,010 | 100.0 | 7,469 | 100.0 | 962 | 100.0 |
| Employed | 12,001 | 94.2 | 1,223 | 94.4 | 2,851 | 94.7 | 7,002 | 93.7 | 925 | 96.2 |
| Unemployed | 735 | 5.8 | 72 | 5.6 | 159 | 5.3 | 468 | 6.3 | 36 | 3.8 |
| Total Female Civilian Labor Force | 8,432 | 100.0 | 1,129 | 100.0 | 2,460 | 100.0 | 4,172 | 100.0 | 671 | 100.0 |
| Employed | 7,857 | 93.2 | 1,071 | 94.9 | 2,327 | 94.6 | 3,843 | 92.1 | 616 | 91.9 |
| Unemployed | 575 | 6.8 | 58 | 5.1 | 133 | 5.4 | 329 | 7.9 | 55 | 8.1 |

¹ The majority of those born in 'Latin America' are from Mexico. Those born in 'Other Areas' are from Africa, Oceania, and Northern America.

² Employment status refers to reference week of the survey.

SOURCE: U.S. Census Bureau., Current Population Survey, Annual Social and Economic Supplement, 2004.

Immigration Statistics Staff, Population Division, Internet Release Date: February 22, 2005

Table 5: Occupation of Employed Foreign-Born Civilian Workers 16 Years and Over by World Region of Birth: 2004

(Numbers in thousands. ^{1 2})

| SEX AND OCCUPATION GROUP | FOREIGN BORN | | WORLD REGION OF BIRTH | | | | | | | |
|-------------------------------------------------------|--------------|---------|-----------------------|---------|--------|---------|---------------|---------|-------------|---------|
| | | | EUROPE | | ASIA | | LATIN AMERICA | | OTHER AREAS | |
| | Number | Percent | Number | Percent | Number | Percent | Number | Percent | Number | Percent |
| Total | 19,857 | 100.0 | 2,294 | 100.0 | 5,178 | 100.0 | 10,844 | 100.0 | 1,542 | 100.0 |
| Management, Professional, and Related Occupations | 5,225 | 26.3 | 953 | 41.6 | 2,332 | 45.0 | 1,340 | 12.4 | 601 | 39.0 |
| Management, business, and financial | 1,958 | 9.9 | 404 | 17.6 | 784 | 15.1 | 561 | 5.2 | 210 | 13.6 |
| Professional and related | 3,267 | 16.5 | 550 | 24.0 | 1,548 | 29.9 | 779 | 7.2 | 391 | 25.4 |
| Service Occupations | 4,631 | 23.3 | 315 | 13.7 | 830 | 16.0 | 3,175 | 29.3 | 311 | 20.2 |
| Sales and Office Occupations | 3,737 | 18.8 | 556 | 24.2 | 1,221 | 23.6 | 1,666 | 15.4 | 294 | 19.1 |
| Sales and related | 1,870 | 9.4 | 240 | 10.5 | 687 | 13.3 | 784 | 7.2 | 160 | 10.3 |
| Office and administrative | 1,867 | 9.4 | 316 | 13.8 | 535 | 10.3 | 882 | 8.1 | 135 | 8.7 |
| Farming, Fishing, and Forestry Occupations | 309 | 1.6 | 1 | 0.1 | 15 | 0.3 | 289 | 2.7 | 4 | 0.3 |
| Construction, Extraction, and Maintenance Occupations | 2,556 | 12.9 | 214 | 9.3 | 173 | 3.4 | 2,047 | 18.9 | 122 | 7.9 |
| Construction and extraction | 1,925 | 9.7 | 156 | 6.8 | 61 | 1.2 | 1,625 | 15.0 | 83 | 5.4 |
| Installation, maintenance, and repair | 632 | 3.2 | 58 | 2.5 | 112 | 2.2 | 423 | 3.9 | 38 | 2.5 |
| Production, Transportation, and Material Moving | 3,398 | 17.1 | 254 | 11.1 | 606 | 11.7 | 2,327 | 21.5 | 210 | 13.6 |
| Production | 2,108 | 10.6 | 149 | 6.5 | 474 | 9.2 | 1,388 | 12.8 | 96 | 6.2 |
| Transportation and material moving | 1,290 | 6.5 | 105 | 4.6 | 132 | 2.5 | 939 | 8.7 | 114 | 7.4 |

- Represents zero or rounds to zero.

¹ The majority of those born in 'Latin America' are from Mexico. Those born in 'Other Areas' are from Africa, Oceania, and Northern America.

² Status refers to reference week of the survey.

SOURCE: U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplement, 2004.

Immigration Statistics Staff, Population Division

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Several big businesses, construction companies, agriculture, and employers in many service industries contend that the absence of immigrant workers would cause a major catastrophe in the U.S. economy. These groups, specifically, refer to the absence of the unauthorized workforce. Caulfield (2006) indicates that in his survey of approximately 800 building contractors, half admitted to having some undocumented workers, and several indicated that hiring all native-born workers makes the companies less competitive. Others suggested that there were not enough legitimate workers available for the positions, and if the illegal immigrant workforce was reduced, their companies would not be able to maintain production as their current levels. There continues to be a strong, steady demand for migrant workers in agriculture, construction, manufacturing, and hospitality (Kochhar, 2005). About 6.3 million undocumented workers are Mexican and estimated to fill 25% of all agricultural, 17% of office and house cleaning, 14% of construction, and 12% of food preparation jobs.

It is estimated that about 850,000 unauthorized immigrants enter the U.S. annually, and have done so since 1990, for a total of close to 12 million (Passel, 2006). The majority (78%) is believed to be from Latin America, 56% from Mexico (about 7 million), and 22% from other countries of Central and South Americas. The Pew Hispanic Center estimates that California and Texas have the largest numbers of unauthorized migrants at 2.7 million and 1.6 million respectively, while Florida and New York also have substantial numbers. While there is a pervasive tendency to believe that all undocumented immigrants cross the border illegally, the Office of Homeland Security (previously the Immigration and Naturalization Service) revealed that approximately half the unauthorized immigrants are visa overstays (Grieco, 2005). These individuals enter the U.S. with appropriate documentation, but remain in the country after their visas expire.

Despite the recent bill passed by the Senate that focuses on unauthorized immigrants in the U.S., despite concerns about illegal workers, and in spite of the fact that most specifically targeted are Mexican immigrants, it is clear that the U.S. is severely divided about their presence. The *New York Times*, in recent months, has featured numerous articles on undocumented Mexican workers and reports that, although border enforcement

has been heightened since 1990, and although policy makers are aware that most migrants come to work, policing the workplace appears to

have low priority. In 1999, the Immigration and Naturalization Service devoted 9% (albeit a small number) of its personnel to scouring the workplace; that percentage in 2006 has decreased to 4% (Portes 2006). Although there were believed to be about 7 million undocumented workers in the country in 2004, only three companies received penalty notices, down from 417 in 1999. Experts suggest that illegal immigration has not declined because in reality it would harm the U.S. economy (Portes, 2006). This is reinforced by Bernstein's (2006) series of articles entitled "100 Years in the Back Door, Out the Front," that portray the revolving door that entices Mexican migrants with labor opportunities, with U.S. immigration policies making half-hearted efforts in occasional repatriation. Many business leaders and immigration advocates believe that the deportation of undocumented workers would cause a collapse in the U.S. economy (Ohlemacher, 2006).

For under \$50, unauthorized immigrants can buy a set of forged documents (social security card and permanent residency card) which protect employers from appearing to have violated the law (Portes, 2006). Interestingly, the country benefits, as millions of illegal workers who are listed in company books receive wages that appear to be legal, and, hence, they pay taxes. Using Idaho to provide a context and show the effects of the Mexican labor force in the U.S., Wu [(2005), see Figure 4] indicates that because of the lack of legal status, Mexicans are likely to be engaged in low skill manual labor, often under hazardous conditions, and without health insurance. Several experts agree that were wage exploitation less the norm and were a higher wage offered for some jobs filled by migrant workers, there is a greater likelihood that U.S. citizens would apply for them. Wu (2005) very succinctly summarizes a frequent observation that is evident around the country that "Despite (these) harsh living and working conditions, the undocumented Mexican work force helps stabilize the (Idaho) economy in several ways, including filling jobs at the bottom of the occupational spectrum, paying taxes, and displaying little dependence on government benefits." (See http://www.boisestate.edu/history/issuesonline/fall2005_issues/5f_numbers_mex.html)

Undocumented Mexican workers, on average, work about 20 hours a week longer (at about 58 hours) than legal immigrants from Mexico, naturalized Mexicans, and U.S.-born Mexicans (Wu, 2005). The former receives an average hourly wage of \$4.94 (below the current minimum wage of \$5.15), and less than documented Mexican workers, who receive \$11.90. Their poverty rate in Idaho is 34% (three times the national average), yet 92% are paid by check and are "on the books" of their employers, so they do pay taxes by deductions through payroll. Although they do pay taxes, Camarota (2001) found that because of their low levels of education, they join the labor pool of unskilled workers, and because of their undocumented status, they are unable to get credentialed in the U.S. Their access to jobs and the possibility for advancement are rather limited (Passel, 2006). They do compete with the 10 million natives who are less educated, and because of their willingness to work for low wages, they have also lowered the wages of natives without high school diplomas by 5 percent; thus, the group in the U.S. most affected by Mexican migration is the population that is already among the poorest (Camarota, 2001).

Labor Market, Low-Wage, and Entry-Level Occupations

Ness (2006) writes of the immigrant workforce that, in New York, has been essential in filling low-wage, entry-level occupations that most U.S.-born Americans seek to avoid but upon which the nation has come to depend. Furthermore, despite the tendency to believe that these occupations are filled only by unauthorized workers, both formal and informal labor market intermediaries channel new immigrants to potential employers (Theodore & Mehta, 2001). These intermediaries may be educational institutions, employment agencies, and community organizations, for example. They may also be day labor "temp" agencies that recruit and place individuals in temporary positions, many with low wages and little room for advancement. In their study of immigrants in Chicago, Theodore and Mehta (2001) found that the majority of immigrant workers were concentrated in a limited number of occupations (Table 6)

Table 6: Distribution of Immigrant Employment Across Occupational Segments

| Occupation | Percentage |
|-------------------------------------------------------------------|--------------|
| Food Preparation and Service Occupations | 12.5% |
| Cleaning and Building Service Occupations, except Household | 8.0% |
| Freight, Stock and Material Handlers | 7.0% |
| Miscellaneous and Not Specified Machine Operators | 6.4% |
| Machine Operators, Metal and Assorted Materials, Except Precision | 6.0% |
| Private Household Occupations | 6.0% |
| Construction Trades, Except Supervisors | 5.5% |
| Sales Workers, Retail and Personal Services | 4.5% |
| Fabricators, Assemblers, and Hand Working Occupations | 4.3% |
| Material Recording, Scheduling, and Distributing Clerks | 3.3% |
| Total | 63.5% |

Interestingly, low wages for immigrants is not limited to blue-collar occupations. Miano (2005) reported that immigrants entering the U.S. on the H-1B visa, which is issued to “high-tech” foreign workers, the majority who come from India and China, usually are at the bottom of the pay scale for their positions. On average, despite legal requirements that these workers be paid the prevailing wage, H-1B visa workers were paid \$13,000 less than their American counterparts.

A recent study, however, appears to contradict earlier research that immigrants are taking jobs that are not of interest to native workers. Sum, Harrington, and Khatiwada (2006), in an exploration of the effects of immigration on the workforce found that between the years of 2000 and 2005, immigrant workers displaced young native workers, aged 16–34 years, and they estimated that 66% of the nation’s new immigrants are working illegally. Controversial authority George Borjas (2001) suggests that net gains to the U.S. economy are only \$8 billion annually and because many immigrants work for lower wages, immigration actually shifts several billions of dollars each year to employers and to users of services for immigrants. Further, he posits that because current immigrants are less educated and skilled than their predecessors, they may be more dependent on public assistance and live in poverty and segregation. More recently, Borjas, Grogger, and Hanson

(2006) have found that because low-skilled immigrants are displacing low-skilled African American workers, they are contributing not only to their unemployment but also to their incarceration rates.

Brain Gain Versus Brain Drain

Despite Emma Lazarus’ wonderfully touching poem etched upon the Statue of Liberty,

Give me your tired, your poor,
Your huddled masses yearning to breathe free,
The wretched refuse of your teeming shore.
Send these, the homeless, tempest-tost to me,
I life my lamp beside the golden door

it is important to be aware that individuals that undertake the challenge of migrating to an alien land and culture are rarely those without substantial human capital. While this capital may not be in the form of tangible assets, it often is found in psychological, intellectual, and physical capabilities. As immigrants move to the U.S. to enhance their opportunities, most bring with them a variety of resources that can benefit the U.S. A significant number of individuals come to the country to further their education and eventually adjust their visas to immigrant status. This process has long been known as the “brain drain” as the educated, often of a developing nation, leave their homeland in search of greater opportunities. What is more recently recognized is the “brain gain” to countries that draw such immigrants. As one reviews the list of Nobel Prize winners in recent years, a disproportionate number are originally from countries outside the U.S.

Highly-educated people who stay in developing countries are few, for this is a group that tends to migrate, particularly to the U.S., Canada, and Western Europe. Researchers indicate that one in ten adults with some university education and who were born in the developing world are now in developed countries (Sriskandarajah, 2005). Furthermore, legal immigration to the U.S. of people without at least an elementary education is small. The largest group of immigrants is from other North American countries and the majority have a high school education. The second largest group is from Asia, and its population is generally highly

educated. Finally, immigration from South America and Africa is relatively small, however, African immigrants are also highly educated (Carington, & Detragiache, 1999). Thus, the brain drain from developing countries results in a brain gain for countries such as the U.S., as the educated and talented make the U.S. their home. One company in California has boldly named itself “Brain Gain Recruiting” (<http://www.braingain-recruiting.com/>) and seeks to hire staff for high tech companies.

The recent phenomenon of the “reverse brain drain” is causing some concern with the outsourcing of production and of services, as not only do companies seek to have their products and services made in other countries, increasing numbers of both native-born Americans and first-generation (immigrant) Americans are choosing to live outside the U.S., where they see better opportunities (Weber, 2004).

Conversely, however, the brain drain can be of benefit to sending countries in the form of remittances to the homeland. The World Bank reports that although most expatriates send money to support family members, the receiving country’s economy benefits from the flow of these additional monies. Thus, the brain drain serves to provide income and help offset poverty for poorer or less-educated family members and, to some extent, counteracts the effects of the loss of educated individuals (Ozden & Schiff, 2006). Thus, although the brain drain may not directly benefit the sending country, indirect benefits may help build capacity in the country of origin (Asian Development Bank, 2005). These remittances, furthermore, can be quite substantial. In one community, expatriate Mexicans in the U.S. sent 16% of their income back home (Drake, 2006) with remittances in 1999 being as high as \$6.8 billion. Such remittance not only allows Mexico to develop its social capital, it also enables Mexican expatriates to firmly establish and maintain their connections in their home communities (Mooney, 2004). Thus, migrants may send money to their family members, they may invest in business opportunities in their home communities, or they may spend savings on a range of activities when they return to Mexico for visits.

Second Generation and Workforce Education

The immigrant and second generations are known as “New Ameri-

cans,” keeping the majority society aware that second-generation immigrants face unique challenges as they juggle their bi-cultural identities. As immigrants enter the U.S. to enhance their opportunities and those of their children, regardless of whether they are highly educated or not, most seem to value education as the route to success. Hence, overall, second-generation American adults have a higher level of educational attainment than do either the immigrant generation or native-born adults with native-born parents (Chiswick & DebBurman, 2004).

While Chiswick & DebBurman’s (2004) study suggests the success of the second generation, Portes (2006) states that the immigrant workforce looks like an hourglass, with the top half being composed of the successful professionals, entrepreneurs, and technical workers and the bottom half composed of the vast majority of Mexican immigrants and other low-wage workers, and it is difficult for children of the latter to move into success. While most children of highly-educated immigrants become high achievers, several children of immigrants in the lower half of the hourglass experience downward assimilation and join the under classes.

Social Impact of Migration Policies

Immigrant Influences on the U.S. and the Native-Born

As immigrants enter the U.S. and adapt to life in their new homeland, they bring with them a diversity of cultures and norms. The U.S. prides itself at being a multicultural nation, a nation of immigrants, and, clearly, as the U.S. influences these New Americans, the country is influenced by them. The country is substantially impacted by the multiplicity of languages that are spoken by immigrants, and from any cursory look at border towns in the Southwestern United States, or in Florida, New York, or California, it is apparent that the impact of the Spanish language is profound and permanent. Immigrants influence the U.S. culture and society through their social norms, family patterns, art, music, dance, cuisine, and businesses. They expose native-born Americans to alternative modes of behavior and social relationships, differences in perceptions and interpretations, and variations in experiences and observations. They may challenge traditional American norms and

require that Americans reassess or defend them. Orum (2005) suggests that it is essential that one evaluate the impact immigrants have on host nations. Focusing only on the immigrants' adaptation, which is what most theoreticians tend to do, will provide only a partial picture.

With the opening of U.S. borders with the liberalized Immigration Act of 1965, came an unprecedented flow of immigrants from Asian, and to a somewhat smaller extent, South American countries. While in the early years, these immigrants came as skilled workers, the flow continues through the family reunification stream, and the numbers continue to grow substantially. The impact of observable Asian factors are evident across the U.S. from the large metropolitan areas to smaller, less populated and somewhat rural communities. The effect of Mexican migration continues to expand as Mexican migrants move to non-traditional destinations (Donato, Stainback, & Bankston, 2005).

Impact on Health, Education, and Social Service Systems

Health Systems

U.S. health policy, which allows health coverage for many, but not for all, has particular implications for those in poverty, those who are near poverty, and those of low socioeconomic status and income that are self-employed. The last group is the least likely to be able to afford private insurance coverage, yet it is ineligible for means-tested coverage such as Medicaid. In discussing those who are underinsured and uninsured, Karger and Stoesz (1998) indicate that the non-coverage rate is higher for minorities. Large segments of the immigrant population are self-employed and the exorbitant costs of private insurance may well correlate with low insurance coverage. Furthermore, new immigrants are likely to be poor and stay poor because they have higher levels of unemployment, less education, and larger families than do native-born groups (Haniffa, 1999).

Implications of health policy for immigrants are not limited to issues of coverage; several other cultural and educational concerns confound access to health care services. Health policy ought not to focus only on who is covered but also on how services are utilized. Cur-

rently, general access to health care services is fraught with problems for many immigrant groups, and the access problems are exacerbated by the implementation of the 1995 Federal Welfare Reform law (H.R. 3734). Even if immigrants do have good health care coverage, they may be less knowledgeable about the availability of programs and services. They may also be more suspicious of different treatment methods, uncomfortable with interaction patterns with health care providers, and confused by governmental and other insurance programs and reimbursement procedures. Any or all of these factors discourage them from utilizing the health services that are available to them. A number of phenomena are prevalent in the immigrant experience of illness and treatment and must be understood within the cultural context. The most pervasive of these may be poor knowledge of preventative health care, the use of home remedies, and the underutilization of services. Even with good U.S. health programs, cultural, linguistic, and economic barriers can deny the immigrant opportunities for disease prevention, early diagnosis, prompt treatment, and participation in clinical trials (Tu, Taplin, Barlow, & Boyko, 1999). Immigrants who are educated, professional, and can function in the mainstream are better equipped to meet their health needs. On the other hand, those who have little education, few English-language skills, and remain within ethnic enclaves may be more likely to suffer from physical ailments and less likely to seek professional treatment. Recent immigrants are much less likely than either native-born individuals or those who have been in the U.S. longer to access medical care or have contact with physicians. Some, in fact, access care as infrequently as those who have no health insurance at all (Leclere, Jensen, & Biddlecom, 1994).

Thus, when a large segment of the immigrant population finally accesses health care services, it may be through the already overburdened emergency rooms or through practitioners who are unprepared to communicate with them, either because of language differences or cultural barriers. Furthermore, medical practitioners may not be familiar with social norms (i.e., the tendency to indicate agreement to show respect) and believe that patients have understood and will be compliant with directions, when they may have not understood nor may plan on be-

ing compliant. Health care providers should, at the very least, become cognizant of differences in health practices and patterns of interaction, perhaps modifying their own to accommodate a changing patient pool.

Educational Systems

The national policy [20 USCS, Sec. 1221–1 (1999)] states:

Recognizing that the Nation's economic, political, and social security require a well-educated citizenry, the Congress (1) reaffirms, as a matter of high priority, the Nation's goal of equal education opportunity, and (2) declares it to be the policy of the United States of America that every citizen is entitled to an education to meet his or her full potential without financial barriers. (p. 10).

Referring to federal immigration policies, Congress specified in 20 USCS, Sec. 7402–1 (1999) that the collection of language-minority Americans in the U.S. speak almost all the world's languages and that there are even greater numbers of children and young people of limited English proficiency. These children face numerous challenges in their efforts to receive adequate education and become an integral part of U.S. society. Several decades ago, Congress recommended that elementary and secondary school education be strengthened with bilingual education, language-enhancement, and language-acquisition programs, however, recent immigrant backlash has resulted in “English only” resolutions in a number of states. Congress also proposed an emergency immigrant education policy to help the large number of immigrant children who lack English language skills to make the transition. Free public school education to the secondary school level, furthermore, is available to all residents in the U.S. regardless of visa status, and children under the age of 16 years are mandated to be enrolled in school. Thus, this mandate (and access) applies to all immigrant children, whether they are documented or unauthorized.

In response to the awareness that limited English language capabilities of adults also handicap their functioning in the U.S., several public educational institutions, libraries, and non-profit organizations have begun free language classes for adults. Many of these do not ask immigration status. Thus, not only have governmental policies been modified

to adapt to the educational needs of immigrants, other institutions are voluntarily assuming the responsibility of providing educational access for several immigrants who, otherwise, may not have had it.

Social Service Systems

Amendments to the Social Security Act of 1935 currently provide for: (1) a combination of old age and survivors' insurance (OASI) and disability insurance (DI), known as (OASDI); (2) unemployment insurance; (3) federal assistance to the elderly, the visually impaired, and those with disabilities under the Supplemental Security Income (SSI) program; (4) public assistance to families under the new Temporary Assistance to Needy Families (TANF) program; (5) federal health insurance for the elderly (Medicare); and (6) federal and state health assistance for the poor (Medicaid). While some immigrants benefit from the services delivered through the Social Security Act, their use often differs from that of the native-born population, both because of their socio-demographic characteristics and because of the changes in eligibility requirements enacted by Congress in 1996. Several of these changes that were implemented specifically limit immigrant access, particularly to cash assistance and medical benefits until they have been in the country a certain length of time. The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of August 22, 1996 (10 Statutes-at-Large 2105), lists the following restrictions for “qualified” immigrants who entered the U.S. after that date:

Barred from SSI and food stamps

Subject to a 5-year bar on non-emergency Medicaid, the Child Health Insurance Program (CHIP), and TANF.

After a 5-year bar, subject to deeming for the above program. Exemptions for one year for some battered spouses and children, those at risk for going hungry or becoming homeless.

After 5-year bar, states still retain option to determine immigrant eligibility for TANF, Medicaid, and social service block grants.

The changes mandated through PRWORA effectively bar qualified needy families, the elderly, and women with dependent children from applying for assistance, and census figures suggest that the number of needy families and elderly is sizable, and the laws have resulted in both economic and psychological difficulties for them (Clarke, 2004).

In general, social welfare services are minimally accessed by immigrants (Kretsedemas, 2003) for a number of cultural reasons, among them shame in seeking assistance from outside the family and fear and distrust of governmental authority. Thus, although there may be a need, this population may not seek assistance, even when it is qualified or in need. Consequently, the social services are frequently under the misconception that immigrants either have few social service needs or the family and/or immigrant community is able to address them. Results are that needs are not addressed, and immigrant families may struggle alone with dysfunction (Segal, 2002). Although the increased attention to the experience of refugees in the U.S. is an important step made by the social services, outreach efforts to other immigrant groups may be effective in preventing future and greater difficulties for these populations and the community at large.

Inter-Group Marriages and Families

Most societies of the world have traditionally frowned upon marriages or intimate extramarital relationships between people of different socio-economic backgrounds. Prohibition against marriages and relationships between two people of different races or ethnic groups has been even more common. Prejudice, lack of trust, fear, concern about contamination of bloodlines, and variety of other economic and psychosocial factors, endemic in U.S. history and transmitted through generations, have worked in concert to prevent intermarriage between different groups. Researchers and demographers, including census takers, agree that interracial marriage is on the rise, and they view such unions as an advance in race relations and a decline in racism. The U.S. Census reported 5.5 mixed race individuals in its 2005 American Community Survey (U.S. Census Bureau, 2006).

Marriage between members of different groups is both a transcendence of ethnic segregation and the forging of an American identity that is distinct from the ethnic American identity of subgroups (National Immigration Forum, 1999). It not only attests to a newly-formed American identity but also loosens ethnic and cultural ties with the parental generation, making an even stronger statement of adaptation and commitment to the U.S. Both foreign-born Asians and foreign-born Latinos have higher rates of intermarriage than do U.S. European or African Americans, and intermarriage rates for second and third generations of the former two groups are extremely high (National Immigration Forum, 1999). The native-born, second generation is more likely than immigrants to intermarry, but even for immigrants, the prevalence of intermarriage steadily increases with the length of time spent in the U.S. It is apparent that while immigrants are being influenced by the host country, increasing intermarriage is modifying family relationships.

Theoreticians and researchers, thus, suggest that acculturation is not unidirectional. In the process of adapting to the U.S., ethnic and immigrant groups introduce the U.S. to their own traditions, values, and styles of life. With increases in global communication and international travel, both European and African Americans are beginning to value a variety of philosophies, religions, patterns of behavior, eating, and dress. Increasing societal acceptance of diverse options lowers pressure for ethnic groups to assimilate to all European American norms. Beyond the outward indices, trends show that assimilation by the White culture is also under way as it begins to embrace family values and philosophies that are basic to Asian, African, and Latino societies.

Development of Human Capital

U.S. society is increasingly aware of ethnic and cultural differences among immigrants, particularly those of color and the native-born populations. Interest in understanding attitudes, values, religions, and behaviors is reflected in the burgeoning literature on immigrants and refugees. Social service agencies have often had

to mediate between immigrants and U.S. institutions as newcomers learn to adapt to their new environments. In the process, the environment itself is being sensitized to the diversity of the new arrivals.

Less focus has been placed on the systematic understanding of the socio-economic levels of these immigrant groups and their implications for adaptation and achievement. Based on the allocation of immigration visas, there have been a variety of legal immigrant streams that have entered the United States in the last few decades. While earlier immigrants of the 1960s were, primarily of a professional stream, current streams are more likely to include large numbers entering through family reunification processes. These individuals and groups may not have the human capital and skills that are readily transferable into the fast-paced technological society. Consequently, the promised “land of milk and honey” may not be so for them. Further, refugees and undocumented immigrants may frequently find themselves on the fringes of society—the former for a significant portion of their lives, and the latter, almost for their entire stay in the U.S. Thus, a large segment of the immigrant group, particularly the newer immigrants of the last decade, is likely to be marginalized. Without the requisite English language competencies, education, and usable job skills, many hover at poverty levels.

As one looks at the immigrant experience in the United States, one is struck by the realization that for some, this is the “land of opportunity,” but for others it is a “field of dreams.” Many immigrants in the beginning of the 21st century have been highly successful, while others have continued to struggle. With the bimodal distribution of the immigrant population’s level of achievement, and the rising numbers of unmet health, education, and welfare needs, this can be a social, if not an economic, drain on the country.

In addition, it is important to differentiate between immigration policy, (the laws that determine who is eligible to enter the country) and immigrant policy (laws and programs that reflect how immigrants are received once they are in the country). The former are federally regulated and apply across the nation, while the latter are highly dependent on state and local programs and local public perceptions and can show

a great deal of variability. Several immigrant policies are instrumental in determining how well human capital is nurtured and developed.

Transferable Human Capital

Closely linked with one’s status in the home country is the human capital that may be transferable across nations. Education and vocation are the two primary factors that positively affect transition. Literacy not only provides individuals with knowledge, but also opens a world of opportunity by equipping them with the tools to be lifelong learners. With the skills of literacy, they are able to read and better comprehend explanations of situations that are initially alien. While knowledge of the language of the country into which individuals are entering greatly enhances the process of adjustment, being literate in one’s native language reinforces self-efficacy and strengthens prospects of pursuing learning in other languages and environments. Therefore, in general, the higher the level of education possessed by individuals, the greater is their ability to adjust outside the home country.

Along with education, a significant element in the adjustment process is occupation. The extent to which professions are transportable certainly depends on whether they are useful to the economy of the country of adoption. When individuals have spent their lives in agrarian communities, developing their competence in farming, transitions to fast-paced computerized and industrialized societies make their farming skills obsolete. On the other hand, practice in computer software enhances the likelihood of finding a congruous niche in a technological environment.

It behooves one to bear in mind that even under the most deplorable circumstances, it is not the most needy, weak, and oppressed who leave a country of origin but those who have, at the very least, physical, emotional, and psychological fortitude. Without personal strengths, individuals are less likely to leave their homelands, and if they do, they are less likely to survive. It is essential to view immigrants through Saleebey’s (2002) “strengths perspective,” identifying their human capital, namely their assets and capabilities, to understand their responses to the process of migration.

Many new immigrants to a country arrive with little facility in the language of the host country, which is often the primary obstacle. Without language ability, seeking housing or employment, accessing health care or other services, or learning a vocation become impossible. Language competence increases ability to negotiate through a nation's bureaucracies, and literacy, or the ability to read and write in the host language further improves opportunities.

The stresses on immigrants and refugees in translocation are enormous and well documented¹⁰. Many are associated with the traumas of dramatic emigration–immigration processes. However, other stresses result from culture shock in an alien environment, where language, social structures, norms, expectations, and values substantially differ from those that have been elemental to the immigrants' understanding of themselves. Here, well understood role relationships change and established patterns of interaction are questioned. When immigrants have the psychological capability of coping, they are more likely to be able to control the direction of their lives. On the other hand, they may experience post-traumatic stress disorder, as do many refugees. Without sufficient and appropriate social and emotional support, and perhaps therapy, many fail to find the immigration experience satisfactory, remaining unhappy, resenting their lives in the new land, and pining for their homelands (Ahearn, 2000).

Readiness of Receiving Country for Immigrants—Social Capital

The readiness of a receiving country to accept immigrants in general, or an immigrant group in particular is, itself, a complex matter. When immigration is viewed as inextricably bound to a nation's political, economic, and social well being as well as its future security interests, it is likely to be welcomed. Nevertheless, immigration policies of many countries are temporal, reflecting what is believed to be of benefit at a particular moment. Nations also fulfill international agreements in the resettlement or provision of asylum to large numbers of refugees, to facilitate government action and for humanitarian reasons.

¹⁰ See United Nations High Commissioner for Refugees' Web site: <http://www.unhcr.org>. (to be changed to www.unhcr.ch)

Policies that allow immigration are coupled with those that permit the expulsion or deportation of foreign nationals.

Serageldin (1999) indicates that social capital, “the internal social and cultural coherence of society, the norms and values that govern interactions among people and the institutions in which they are embedded” (p. i), is essential in ensuring that opportunities within a nation are strong and viable. By definition, social capital requires some cooperation among individuals and groups and is a form of public “good” or benefit (Grootaert, 1997). Social capital is a necessity in the creation of human capital (Coleman, 1988) and immigrants' adjustment is often linked to the social capital available to them.

Japan's Ministry of Education, the *Monbusho* (1997), for example, states that education constitutes the foundation of all social systems. Immigrants may, or may not, have come with an adequate education. The educational system and education policy of the host country must allow access to levels and types of education and institutions that are appropriate to their needs. Adult education programs to improve literacy will ensure better adjustment to the new environment. Furthermore, appropriate education for immigrant children must take into account difficulties that can occur as they enter a school system without a working knowledge of the medium of instruction. Variations in cultural patterns and behavior ought to be accommodated by schools, with an awareness that emigration, even in the best of circumstances, is traumatic.

The nation's welfare policies should guarantee that all immigrants have admittance to appropriate public welfare services and subsidies and are connected to private welfare programs as necessary. Hence, public policy and law may need to be reviewed frequently to assess their adequacy for all the nations' residents and should be so modified as to remove barriers to the administration and utilization of the services they govern.

The availability and accessibility to social capital is paramount in the successful settlement of immigrants in their country of adoption. The implementation of sustainable development projects ensuring that immigrants receive the social and economic tools to succeed in their new countries is essential. In addition to providing new arrivals with economic subsidies, housing and health care, community-based educational programs

and training ought to provide the components for new immigrants to move away from dependency on society's support programs (Lobo & Mayadas, 1997). Hence, knowledge about prevention of disease, ability to function through society's institutional structures, and earning capacity in the legitimate economy of the country will enhance the likelihood of self-sufficiency. Social and mental health services need to recognize the difficulties associated with the immigration experience and assist immigrants in their adjustment to the receiving country. This may include helping immigrants understand the norms and expectations of the country as well as implications for their own traditions and family and community relationships.

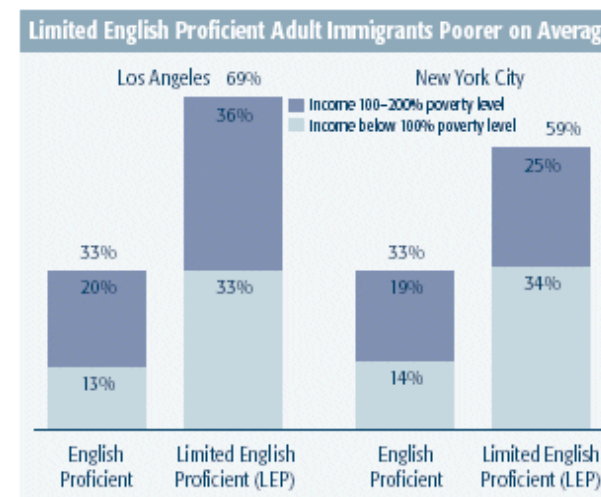
English Language Training, Job Training, and Training in Social/Cultural and Workplace Norms

Immigrant children fairly rapidly learn the English language, even if they are denied a bilingual education, for despite laws in the mid-20th century that required the establishment of bilingual programs, in the last two and a half decades, increasing numbers of states are moving toward an "English only" policy in schools (see Web site: http://www.umich.edu/~ac213/student_projects05/be/legislation.html). However, of the 1.2 million individuals in adult education classes, over half are there to learn English and another 3 million are awaiting English language education (Murguia & Munoz, 2005). Although federally-funded programs expanded during the Clinton administration, these have been declining since. Fix & Capps (2002), in their study of immigrants in New York City and Los Angeles County, where 20% of the immigrant population lived in 2000, found that immigrants with low English proficiency were more likely to be poor (Figure 6) and lack sufficient food (Figure 7).

Even the Refugee Resettlement Program that has as its primary goal "self-sufficiency in the shortest time possible," provides English language education for a period of about eight months, and within that time, refugees must find a job that will sustain them. If their English language competence is low, the likelihood is that they will get positions in low-paying entry level occupations with little room for advancement without English competence. To support their families and themselves, they must often work at more than one job, leaving little

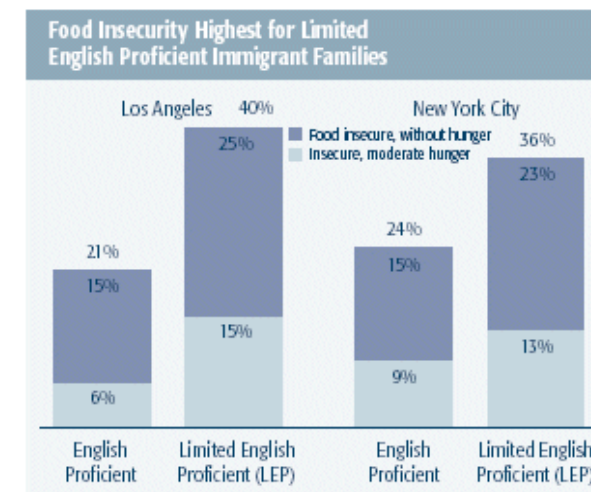
time to gain functional literacy in English. Consequently, development of human capital is severely curtailed.

Figure 6: LEP & Poverty



Source: Urban Institute, 2002.

Figure 7: LEP & Food Insecurity



Source: Urban Institute, 2002.

Additionally, functional English is not always sufficient for success in the workplace. In addition to being able to utilize the English language with the requisite skills to complete a job, immigrants may have to acquire social and cultural training in workplace norms. Thus, it is essential that these be integrated into job training and language classes. The Center for Immigrant Education and Training, at the La Guardia Community College in New York, seeks to provide a curriculum to prepare immigrants to enter the workforce with the necessary vocational and cultural skills (see <http://www.lagcc.cuny.edu/ciet/jobtraining.htm>). Other such programs around the country focus on job training for immigrants, recognizing that many may not have skills that are readily transferable to the U.S. economy. Job readiness enhances both employment options and outcomes for low-wage immigrants and allow them a route for advancement.

Training of Native-Born Employers and Service Providers

If 12% of the population is of the immigrant generation and another 13% is second generation, most individuals will have the opportunity to work with, for, or along side these groups. Learning about immigrants is increasingly imperative if employers and service providers are to adequately utilize their resources or have their resources utilized. At the very least, both employers and service providers must: (a) be culturally aware; (b) avoid discrimination, intimidation, and exploitation; and (c) protect workplace rights. Grey (2002) provides a practical and “culturally competent” guide for managers and supervisors in “welcoming” immigrants into Iowa. This guide recommends, in addition to learning about immigrant populations and the immigrant experience: (1) bringing on board the leadership of organizations before expecting changes in the organization; (2) undertaking an audit regarding the readiness of the organization to integrate these new groups into their functioning; (3) if the organization is not prepared, developing guidelines for becoming so and integrating communication and training programs for both long-term workers and new organizational recruits; and (4) making a commitment to maintaining a diverse workforce by making long-term cultural changes, focusing on similarities rather than differences, and generating a cross-cultural organizational attitude.

Increasing Health Care Access

The Centers for Disease Control found that foreign-born adults were uninsured at higher rates (26%) than their U.S. -born counterparts (11%), and Hispanic adults were the most likely to be without insurance [(37%) (Dey & Lucas, 2006)]. Immigrants were twice as likely as native-born adults to have no usual source of health care, less likely to have spoken to a health care practitioner in the past year, or ever, and yet they reported lower health risk factors and chronic disease than their U.S.-born counterparts. Risk factors (i.e., obesity and hypertension) tended to increase with length of time in the U.S. The study did not indicate whether immigrants see health care practitioners because there was no need, because preventive medicine may not be the norm, or because they lacked insurance coverage. Other publications indicate that in their early years in the U.S., regardless of their immigration status, many fear deportation, lack of confidentiality, and poor communication and choose not to seek health care services. Other issues that interfere with access for all citizens also affect immigrants, including long waiting periods, appointments set far in the future, and limited physician access. Addressing health care needs is fundamental to ensuring a sense of well-being, which, in turn, allows individuals to engage in those activities that will develop their personal resources or human capital.

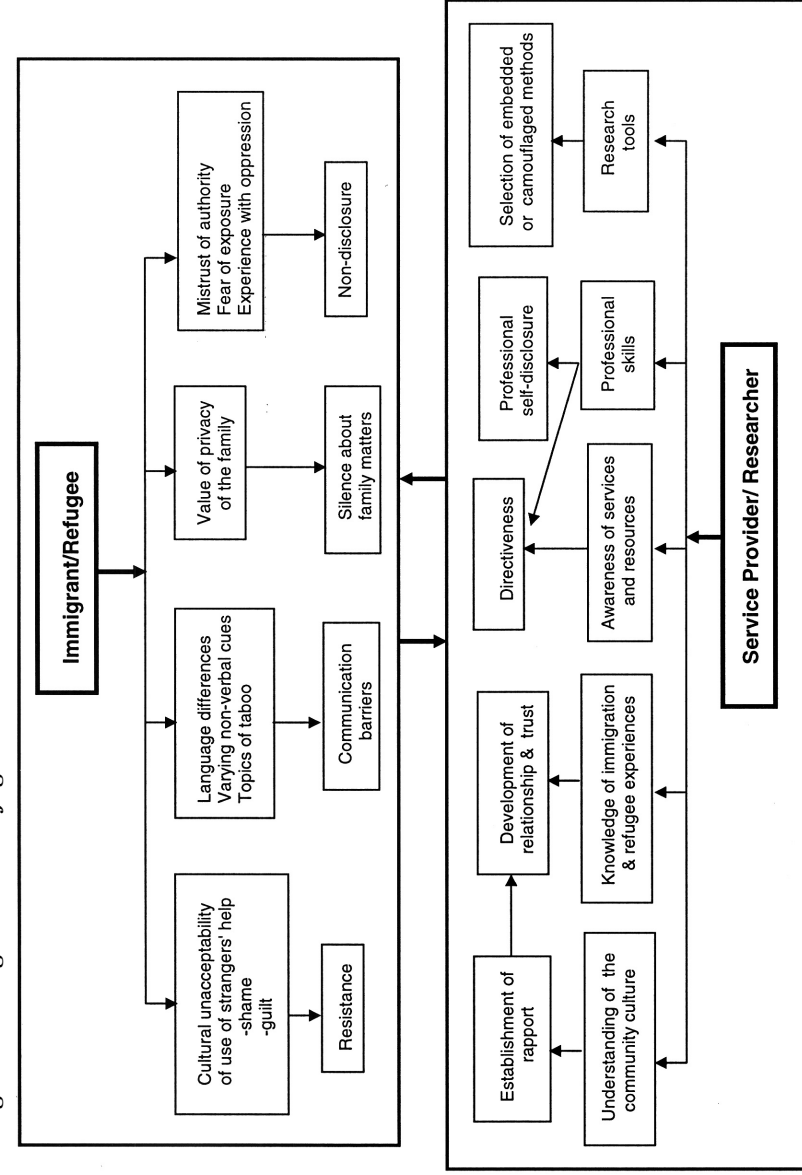
Contact Skills With Immigrant and Refugee Clients

In practice with individuals not of the dominant society, several practice issues confound effective service provision and intervention related to the client system. Resistance, communication barriers, personal and family background, and ethnic community identity (Lum, 2004) are exacerbated by the experience of many immigrants and refugees, who closely guard information because of fear (perhaps unfounded) of exposure, past experience with oppression, and mistrust of authority. A number of immigrants and most refugees arrive from nations in turmoil in which they do not have the freedom of speech or of choice. Mistrust of authority, including the possibility of deportation from the U.S., can often erect formidable barriers as service providers probe into the lives, experiences, and feelings of new immigrants and refugees. In addition

to alleviating these through the establishment of a good rapport and relationship, service providers must establish credibility and expert authority, including the use of directiveness and appropriate self-disclosure to provide the foundation of role relationships with clients (Figure 8).

There has long been discussion about the need to link theory and practice. Much has been written about cultural diversity and sensitivity and the need to provide services consistent with client socio-cultural frameworks. When practitioners recognize cultural variations, draw on client resources, and attempt to present options in a manner that is consistent with client norms, cultural dissonance can be reduced, and there may be greater likelihood of service utilization. Practice models must be developed that provide guidelines for integrating cultural awareness with Western interventions to synthesize approaches that are of the greatest relevance for the client yet consistent with the guidelines of the practitioner's profession.

Figure 8: Working With Immigrants and Refugees



From: Segal, U. A. (2002). *A framework for immigration: Asians in the United States*, New York, NY: Columbia University Press, p. 377.

Awareness of the mental health, familial, and job-related issues facing immigrants and refugees may allow service providers in the social services to include these populations in their outreach efforts. Essential in helping enhance human capital is assisting individuals to identify, develop, and access the skills they need to cope with their unique situations. The social services focus on this area, and as service providers recognize that these populations tend not to turn to them, they may assume the responsibility to establish a connection with them.

The Role of Social Capital

It is safe to say that the flow of immigrants can strain the receiving country's support service systems. It behooves policy makers and service providers to be cognizant of the experience of immigrants so that they can appropriately meet their voiced, or unvoiced, needs and ensure that the nation's social capital is available to this group in enhancing its human capital. Receiving countries must recognize that migration across their borders will persist with improvements in transportation and with further emerging reasons for relocating.

In admitting immigrants, countries make a commitment to them. Unless a country is willing to help them through the transitional period of adjustment, their unmet economic, social, health, and mental health needs can, in both the short and the long term, drain a nation's resources. On the other hand, early attention to these very immigrants may accelerate their entry as contributors to society. (Mayadas & Elliott, 2003) While some experiences are unique to a particular immigrant group and to a specific individual, much in the immigrant experience is shared—from emigration to immigration, including reactions to and by the receiving country. The framework presented here can help develop an understanding of the immigration experience and may provide a foundation for the interpretation of the experience of particular groups within the context of the receiving country's readiness to accept them. As immigration accelerates, it will be imperative for policy makers and service providers to become more sensitive to the

unique needs of new arrivals and assess the degree to which programs and services are inclusive and supportive or xenophobic and discriminatory. Such assessments may ensure that programs are modified to manage a mutually satisfactory adjustment between both the immigrant group and the host country.

Closing Thoughts

This paper has tried to discuss issues facing immigrants and refugees in the U.S. While it is true that what they share is that they are newcomers to this land of opportunity and that they have left behind much, both tangible and intangible, in their homelands, that is only a portion of what they share. The 2005 Census data show the numbers of immigrants that enter the country on an annual basis. A close inspection of the data, available on the government Web site www.census.gov, should be made by any practitioner interested in this population. It is abundantly clear that there is no single profile of an immigrant or a refugee. They range in age from infancy to well into old age. They may be single, married, divorced, or widowed; they may come with families, without families, or as part of an extended family. They may be white, black, brown, yellow, red, or any other color under which the human species is categorized. They may be living in the U.S. legally or illegally. They may be highly professional and skilled, or they may be unprofessional with skills that cannot be transferred to the U.S. economy. They may be extremely wealthy or very poor. They may be fluent in the English language and speak several other languages, or they may speak only their mother tongue, which may not be English, and they may be illiterate even in their own language. They may be from cultures that are highly hierarchical and autocratic, or they may be from cultures where there is greater equality. Immigrants and refugees constitute a population that is so diverse that to attempt to truly understand them or to provide guidelines for working with them is highly presumptuous. However, if we do not so attempt, most programs will continue to skirt this group.

Underlying difficulties in working with immigrants and refugees is a far reaching xenophobia—both of the immigrants and by them. It is difficult to assess who should be responsible for crossing this bridge—

is it the host or is it the self-invited newcomer? Should the host country accommodate immigrants and refugees or should immigrants and refugees adapt to the host country? This host country has policies to allow 290,000 immigrants annually and, often, almost a third as many refugees and twice as many “exempt” family members for a total yearly entry rate of over one million. Therefore, should the country not attempt to accommodate them? Immigrants (and even refugees who come to the U.S. as a third nation of resettlement) must make application to enter the U.S. Hence, they are here voluntarily. Should they not make attempts to adjust? With whom does the responsibility lie?

For immigrants, as for all people, much is dependent on the personal resources they possess. Even more than this, however, is the readiness of the receiving country to accept immigrants and their American-born descendents. Immigration policies may reflect the interests of the nation in allowing entry to certain groups of people, however, it is the opportunities and obstacles that immigrants and their offspring, particularly those of color, encounter on a daily basis that affect the ease of adjustment and mutual acceptance. Immigrants and the host nation must make a conscious level to adapt to each other—it is neither the exclusive responsibility of the host nation nor of the immigrant.

For any immigrant community, it is a long road from its country of origin. The physical distance may be great, but the social, psychological, and emotional distance of immigrant travel is always greater. Nevertheless, the human condition and its similarities bind peoples together to a much greater extent than one tends to accept, regardless of social norms, culture, religion, or language. As a land of immigrants, if the U.S. is to be truly multicultural, as it claims to be, it must also be pluralistic and recognize, accept, and laud the differences in peoples as a national asset. It does not have the corner on cultural diversity and immigration struggles, and in this increasingly interdependent world, it must allow effective policies, programs, and services from other nations to inform its own practices.

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