

AW-Curriculum 2019/2020

B2 am 24.6.2019

FIW Seminar – Europäische Integration

24.6.2019

Aktuelle Herausforderungen des Europäischen Integrationsprozesses

Michael Landesmann

FIW Seminar – Europäische Integration

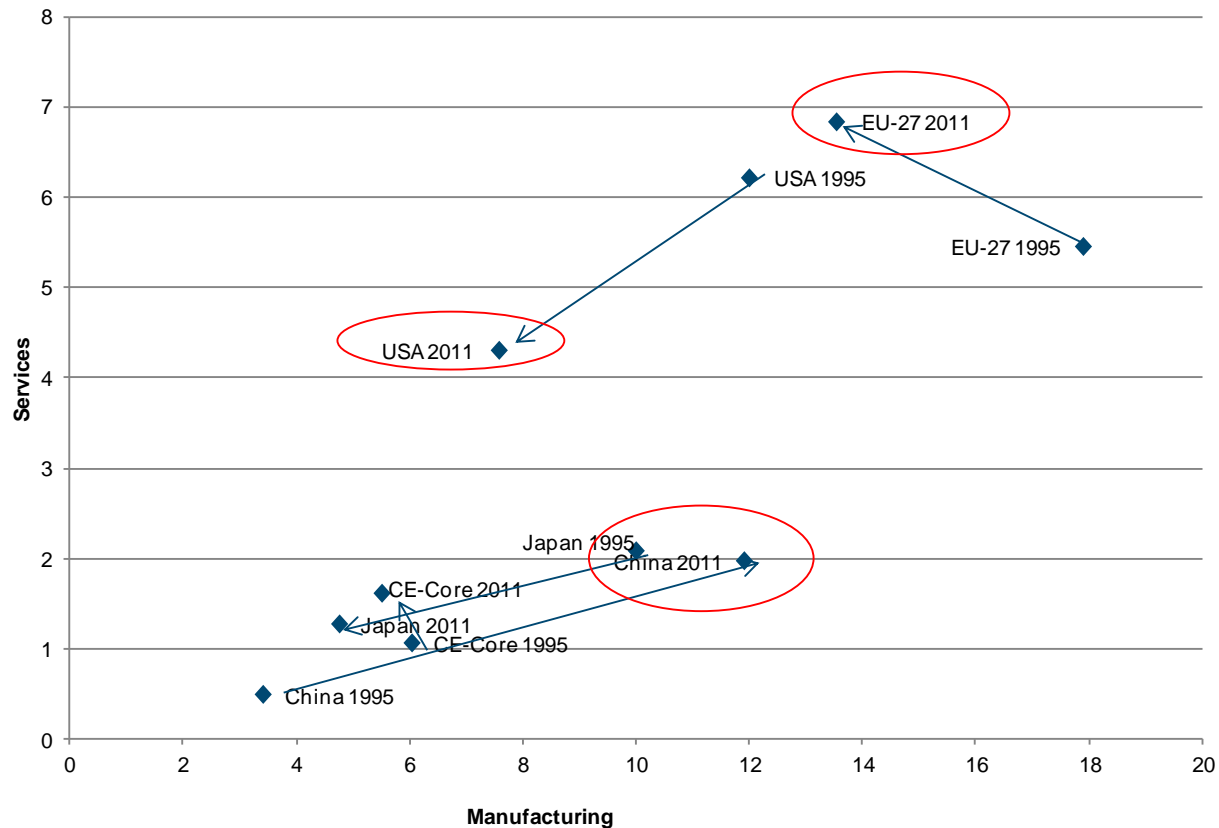
Themenbereiche

- Europäische Union in der Weltwirtschaft
- Strukturelle Probleme des europäischen Integrationsprozesses
 - Migration und Migrationspolitik
- EU Erweiterung und Nachbarschaftspolitik

Europäische Union in der Weltwirtschaft

- **Vor der Krise: Europa war nicht schlecht positioniert in Wettbewerbsfähigkeit verglichen mit anderen Hocheinkommensregionen (USA, Japan)**
- **In der Verarbeitenden Industrie gibt es eine zunehmende Konzentration in einem ‘Central European Manufacturing Core’**
- **2 Problembereiche:**
 - **Fortgeschrittene europäische Wirtschaften die einen starken Deindustrialisierungsprozess durchgemacht haben aber nicht in genügendem Maße in ‘Business Services’ erfolgreich sind**
 - **Periphere/Niedrig Einkommensländer die nicht in grenzüberschreitende Produktionsnetzwerke eingebunden sind**

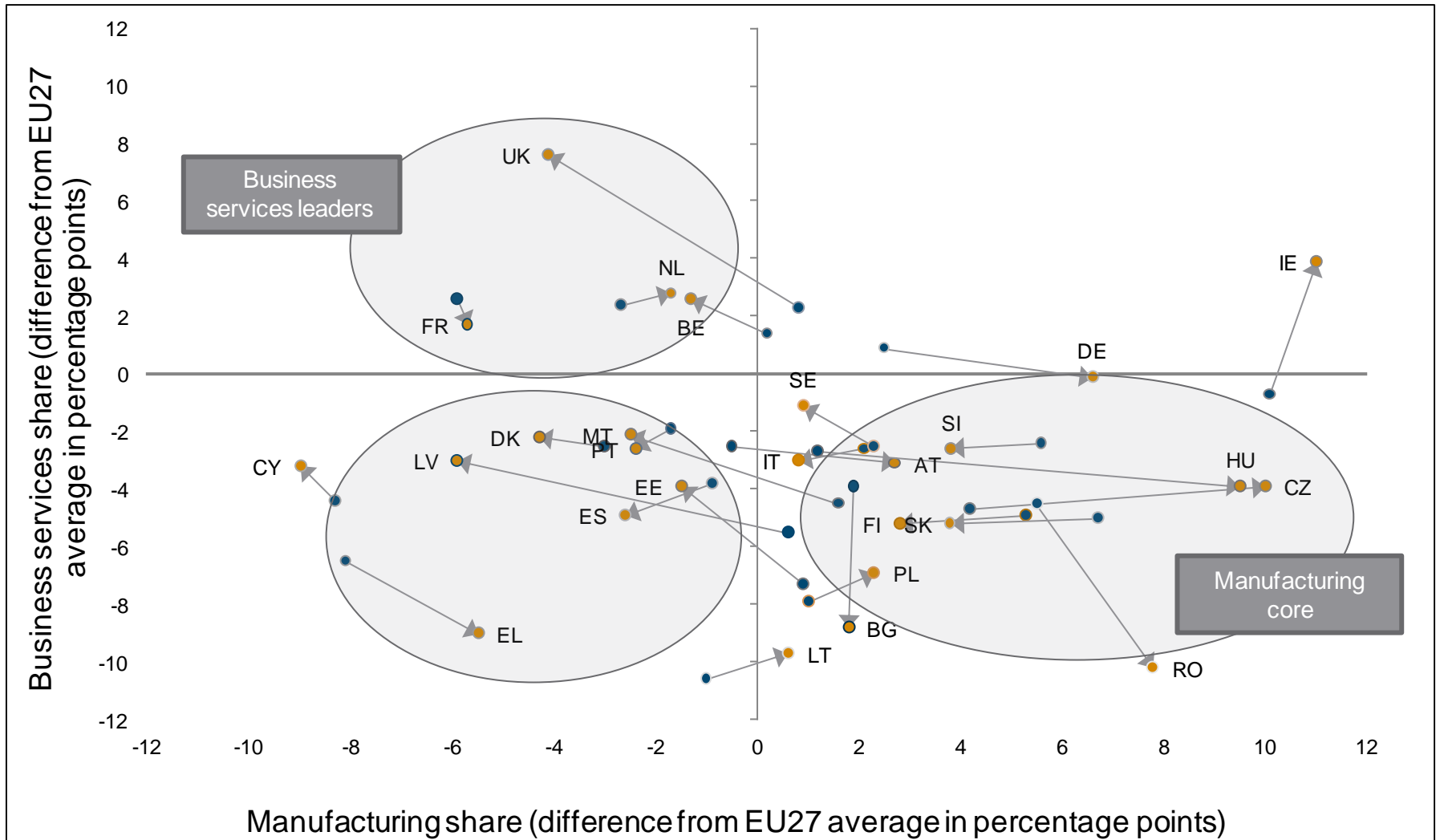
Weltmarkt(export)anteile: manufacturing – services; share in total global exports 1995-2011 - extra EU27 trade only (in %)



World market export shares: shares in total global exports (in %) - extra EU27 trade only

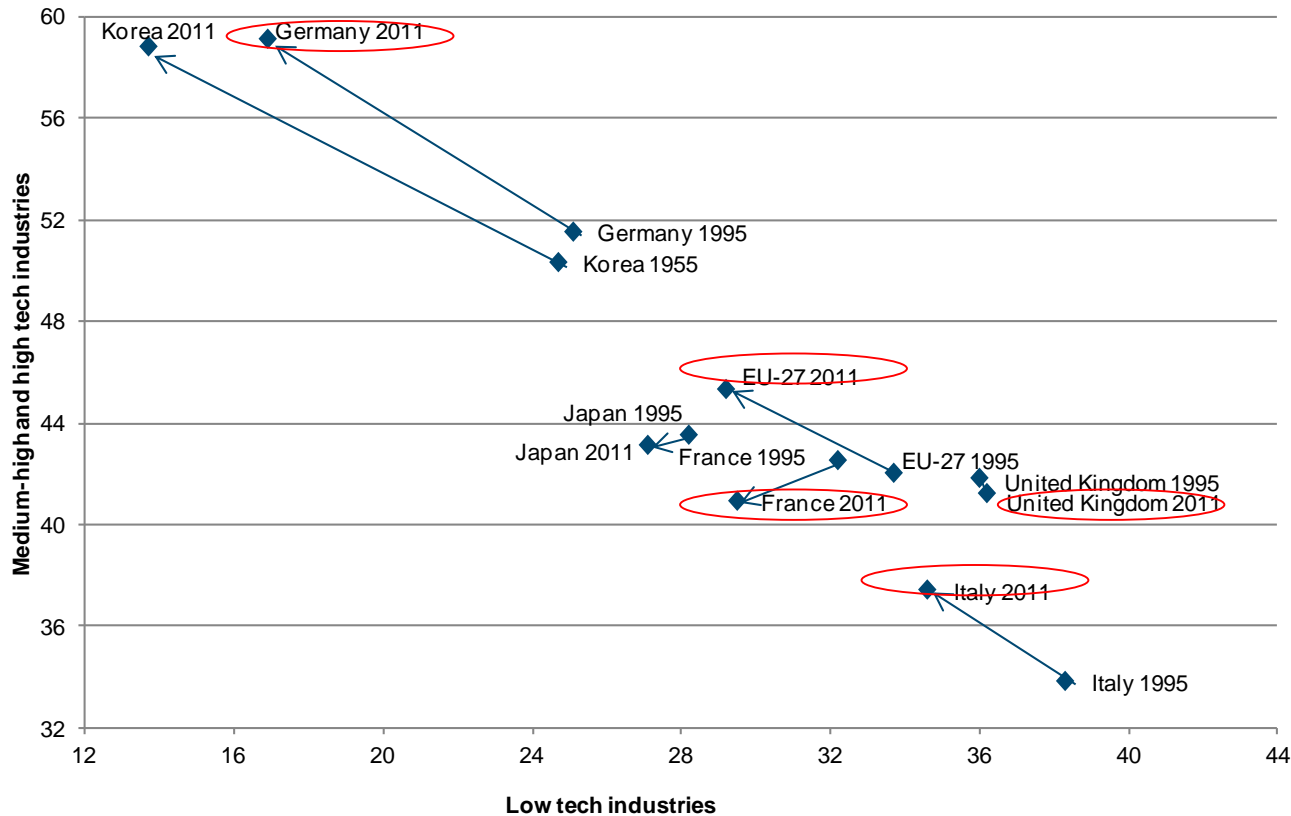
	Manufacturing					Services				
	1995	2000	2007	2009	2011	1995	2000	2007	2009	2011
EU-27	16.57	13.51	13.54	12.92	11.49	5.63	5.65	6.52	6.92	6.88
USA	12.59	12.94	8.61	8.67	7.82	7.27	7.36	6.03	5.89	5.23
Japan	11.26	8.90	5.80	5.20	5.00	2.41	2.26	1.66	1.54	1.49
South Korea	2.64	2.60	2.68	2.58	2.66	0.73	0.72	0.60	0.54	0.54
China	3.40	4.17	9.52	10.90	11.78	0.54	1.09	1.81	1.98	2.23
India	0.85	1.01	1.30	1.42	1.47	0.16	0.20	0.69	0.53	0.62
	Manufacturing					Services				
	1995	2000	2007	2009	2011	1995	2000	2007	2009	2011
OMS-North	15.39	12.51	12.06	11.40	10.12	4.98	4.87	5.48	5.80	5.72
OMS-South	0.76	0.63	0.74	0.78	0.69	0.30	0.44	0.57	0.59	0.55
NMS-Central	0.30	0.27	0.57	0.57	0.54	0.23	0.19	0.27	0.29	0.37
NMS-SEE	0.10	0.07	0.12	0.13	0.10	0.09	0.10	0.13	0.15	0.16
Baltics	0.03	0.02	0.04	0.05	0.04	0.03	0.04	0.08	0.09	0.09
	Manufacturing					Services				
	1995	2000	2007	2009	2011	1995	2000	2007	2009	2011
France	2.41	1.87	1.71	1.83	1.47	1.02	0.72	0.45	0.58	0.60
Germany	5.28	4.03	4.59	4.26	4.00	0.66	0.81	1.07	1.23	1.13
Italy	2.24	1.82	1.80	1.71	1.49	0.65	0.49	0.43	0.44	0.47
United Kingdom	2.42	2.20	1.58	1.37	1.18	0.91	1.20	1.33	1.22	1.07
Germ sh in EU27	31.89	29.84	33.88	32.93	34.80	11.79	14.32	16.44	17.79	16.44
CE-Core sh in EU27	35.94	34.40	40.25	39.39	41.66	19.73	20.64	24.87	26.38	26.45

EU-27 specialisation dynamics, 1995-2011

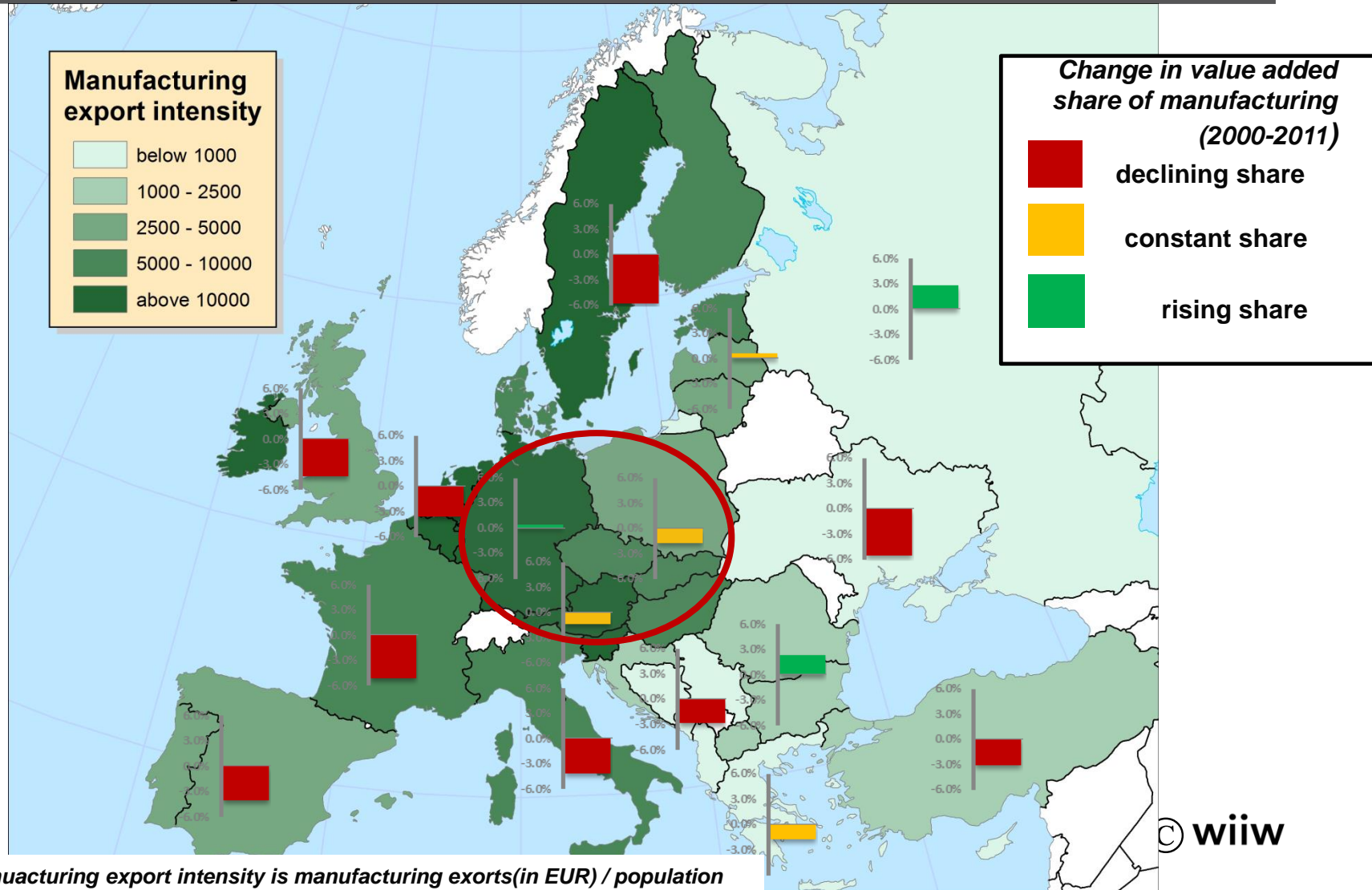


Source: WIOD; wiiw calculations.

Share of industry groups in % of manufacturing GDP – medium-high vs. low-tech industries; 1995-2011



Manufacturing activity is increasingly concentrated in a Central European Core



European Competitiveness in an Open World: main worries – a summary

- **Hyper-concentration of manufacturing in Central European Manufacturing Core**
- **Weaknesses in some advanced European economies in alternative export areas**
- **Belt of Europe's low-/medium-income economies in danger of peripherisation and chronic current account problems**

- **Recipes: We shall discuss**

Global developments – summary points

- **Over the past twenty years, significant increase of emerging economies in goods trade**
- **International services trade – in particular business services – continues to be dominated by ‘Northern’ economies**
- **Relatively fast catching-up of ‘successful’ emerging economies in more skill-intensive and technology-intensive industries – ‘climbing up the ladder’**
- **In Europe, CEE economies play role of ‘emerging economies’**

China, India and Europe in the world of 2050: preliminary model projections; CAM model

Indicator	World		China + India		Europe	
	2020	2050	2020	2050	2020	2050
	<i>per cent of world total</i>					
Income (trillion \$ 2015 pp)	97	277	26	49	19	13
Population (billions)	7.8	9.6	36	33	8	6
Income per capita (thousnd \$ 2015 pp)	12	34	72	149	242	228
Imports (trillion \$ 2015 ipp)	27	93	13	28	35	31
Energy use (billion tons oil equiv)	20	37	28	39	11	9
CO2 emissions (billion tons)	39	54	38	50	12	8
External assets (trillion \$ 2015 ipp)	207	745	5	10	53	50

Population, labour force and net migration

Region	Population growth		Labour force		Net migration	
	1990-2020	2020-2050	1990-2020	2020-2050	1990-2020	2020-2050
	(% p.a.)		(% p.a.)		(% p.a.)	
Europe	0.14	-0.35	0.25	-0.20	0.09	0.13
East Asia and Pacific	0.64	-0.17	0.64	-0.15	0.00	0.07
South East Asia	1.37	0.54	1.90	0.53	-0.02	-0.01
North America	1.05	0.57	1.16	0.67	0.07	0.05
Latin America	1.31	0.68	2.14	0.70	0.01	-0.02
South Asia	1.61	0.96	1.86	1.01	-0.05	-0.02
West Asia and North Africa	1.44	1.11	1.61	0.95	0.06	-0.01
Sub-Saharan Africa	2.67	1.70	2.92	2.10	-0.01	-0.03
World	1.27	0.71	1.39	0.72	0	0

CO2 and energy use

Region	CO2 emissions		Energy use		CO2 per \$ GDP	
	2020	2050	2020	2050	2020	2050
	(billion tons)		(billion tons oil equiv)		(gm per \$ 2015 pp)	
East Asia and Pacific	14.9	21.2	5.7	11.5	0.54	0.18
North America	6.5	8.2	3.8	5.6	0.32	0.24
West Asia and North Africa	5.6	6.7	4.4	6.0	0.58	0.33
Europe	4.8	4.2	2.3	3.4	0.26	0.10
South Asia	3.1	8.6	1.5	5.6	0.38	0.12
South East Asia	1.8	2.3	1.0	1.9	0.36	0.11
Latin America	1.3	1.5	1.0	1.5	0.26	0.15
Sub-Saharan Africa	0.9	1.8	0.5	1.3	0.28	0.15
World	38.9	54.4	20.4	36.7	0.40	0.16

FIW Seminar – Europäische Integration

Die Wirtschaftskrise in der EU und strukturelle Probleme des Integrationsprozesses

Aktuelle Herausforderungen des Europäischen Integrationsprozesses

- **Konvergenz/Divergenz in Europa**
- **‘Strukturelle’ externe Ungleichgewichte**
- **Demographische Ungleichgewichte (Unit 3)**
- **Makroökonomische Politik während der Krise**
- **Ungenügende integrationspolitische Perspektiven**

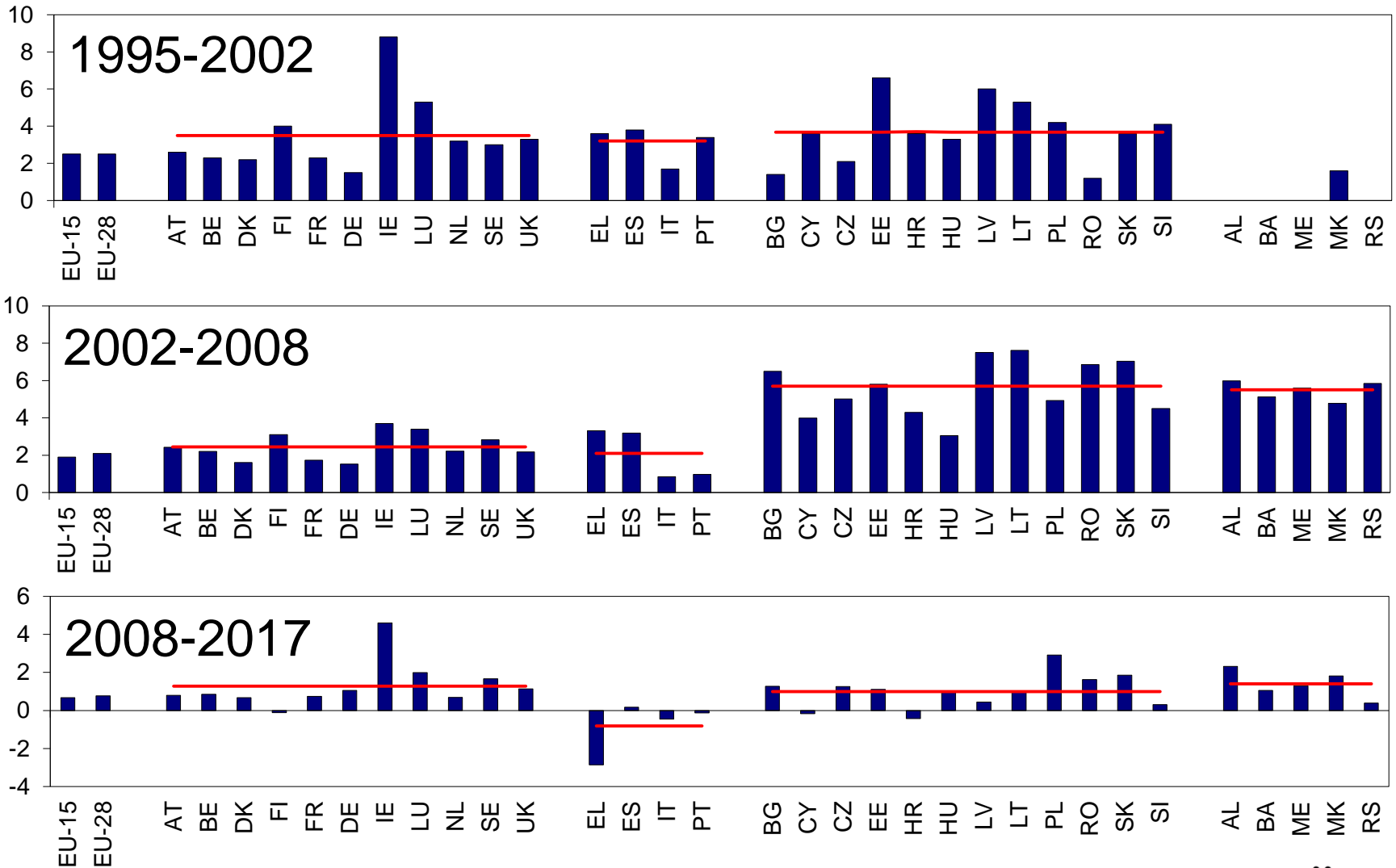
Aktuelle Herausforderungen des Europäischen Integrationsprozesses – **Konvergenz und Divergenz**

- In den Jahrzehnten vor der Krise - **EU als das erfolgreiche ‘Konvergenz Modell’** (siehe auch Weltbankbericht ‘Golden Growth’); auch Vertrauen in die Nachhaltigkeit von Konvergenzprozessen
- Diese Sicht wurde durch die Krise stark erschüttert
- Nicht-nachhaltigkeit von Entwicklungs- und Konvergenzprozessen ist ein strukturelles Gefahrenmoment für den europäischen Integrationsprozess insgesamt

Konvergenz/Divergenz in Europa - Spezifika

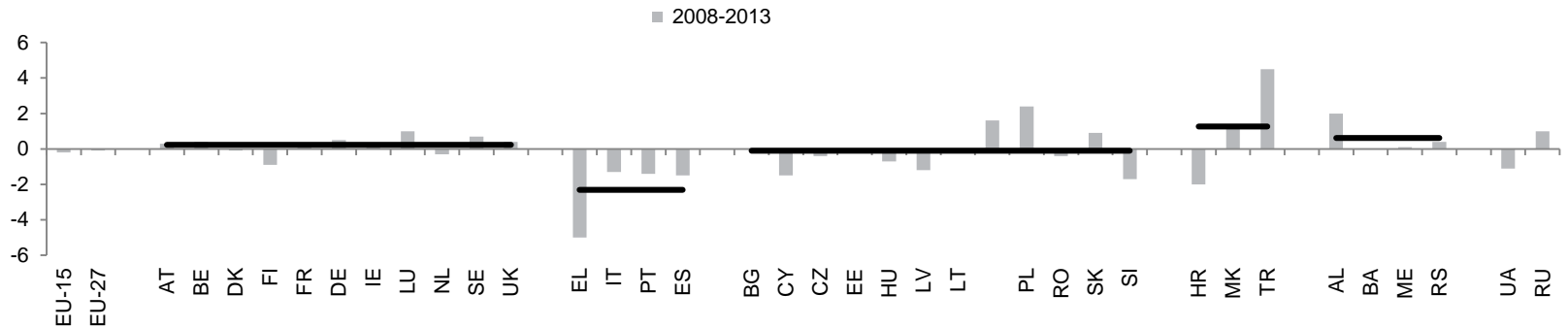
- **Cross-country convergence/divergence**
- **Intra-country regional convergence/divergence**
- **Sustainability** of catching-up: **Achilles heel – external imbalances;**
- **Special contexts:** integrated financial markets, Euro membership/exchange rate regimes

Convergence record: Growth of GDP, av. annual growth rates, in %

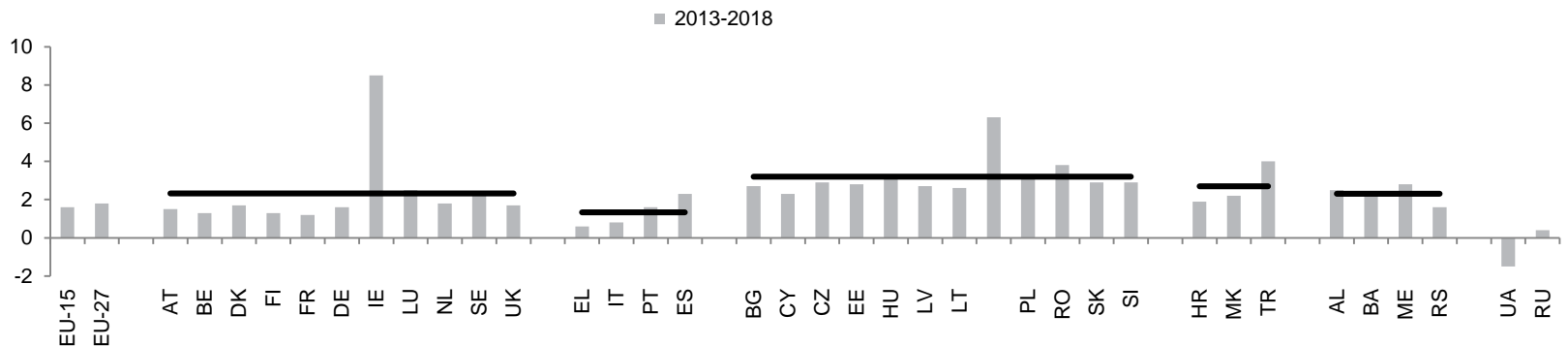


Convergence record: Growth of GDP, av. annual growth rates, in %

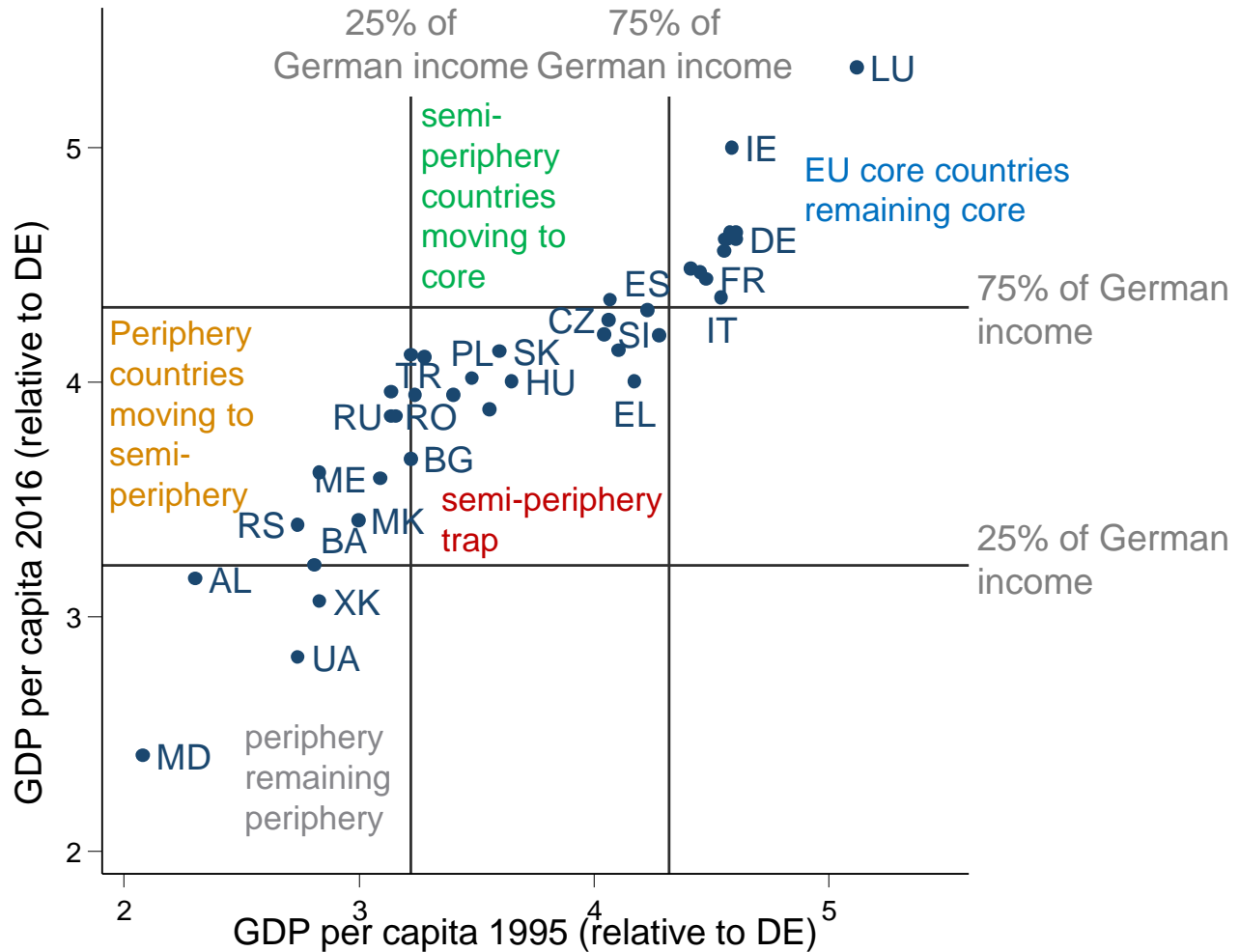
2008-2013



2013-2017



Some countries may face a semi-periphery trap; some may remain periphery



Note: Logarithmic scales. Initial GDP per capita is 2000 for BA, XK, ME; 1998 for Ireland.

Source: wiiw Database, wiiw calculations.

Aktuelle Herausforderungen des Europäischen Integrationsprozesses – **externe Ungleichgewichte**

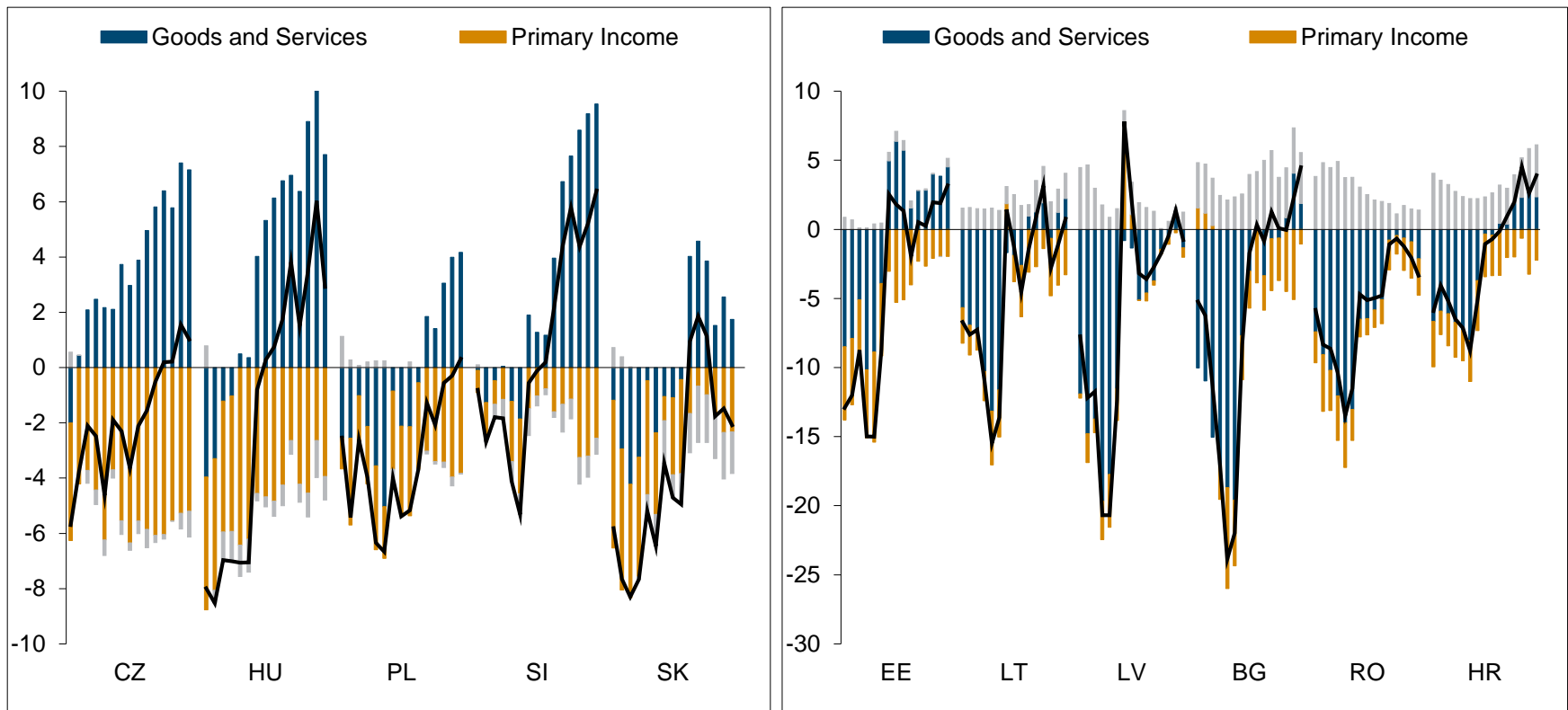
- **Focus on ‘external imbalances’** in the European economy (within and beyond the EMU/EU)
- We judge that dealing with this issue is at the centre of the current EU crisis and prevents (i) **recovering growth in the EU** as a whole (ii) to **return to ‘convergence’ patterns** in the European economy
- Are currently **evolving policy frameworks** (at national and EU levels) able to deal with this challenge?

External imbalances in the European economy – **why is it a problem?**

- Pre-crisis we did not think it was a problem in the EMU
- Now (after the onset of the crisis) we think it is a **central problem of European integration**
- Sustainability problem i.e. **stock** not flow **problem**; inside and outside the EMU
- **Resulting debt problem** acts as a **long-run constraint on growth** plus **vulnerability to shocks**
- Focus on strength of tradable sector

External Imbalances

Composition of the current account of the balance of payments, 2003-2017, in % of GDP - **pre-crisis: run-away deficits in some countries (trade balances, capital inflows); post-crisis ('sudden stop'; income effects)**

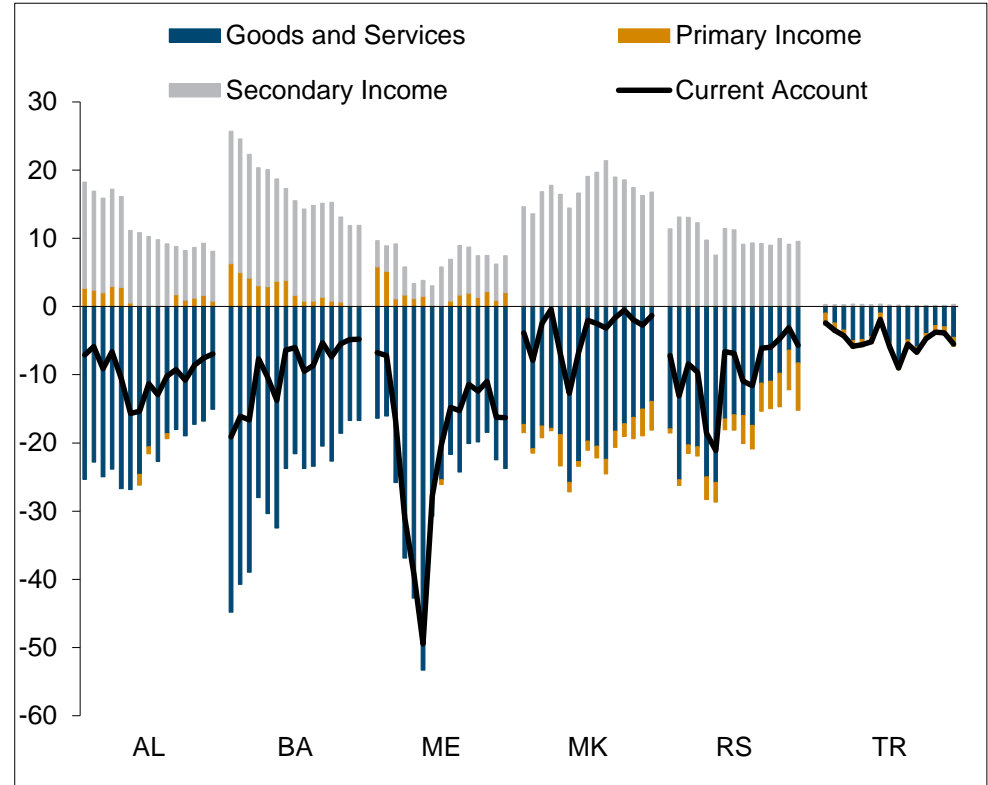
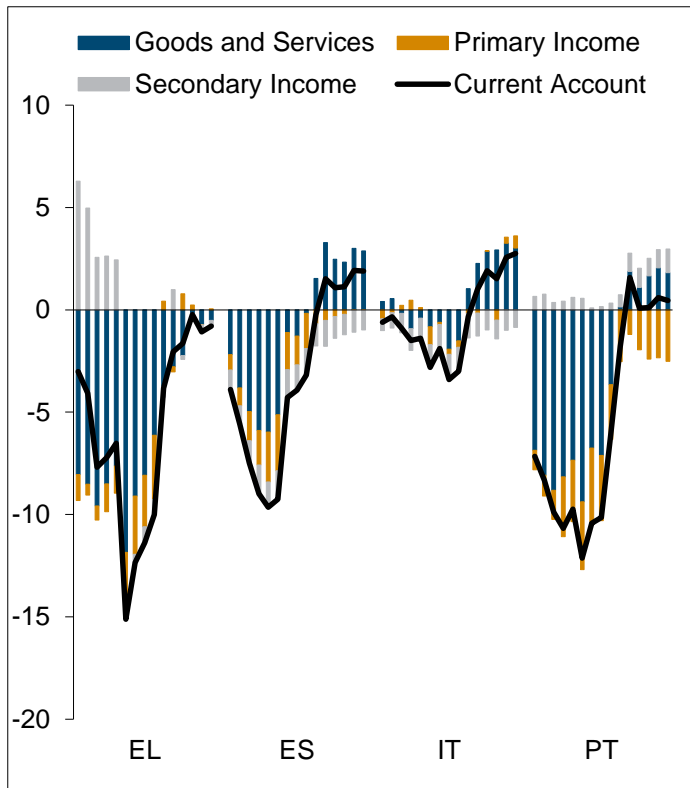


Remark: Components refer to BOP 6th edition as far as available, BOP 5th edition before. Primary income refers to Income Accounts, secondary income to current transfers.

Source: wiiw Annual Database incorporating national and Eurostat statistics.

External Imbalances

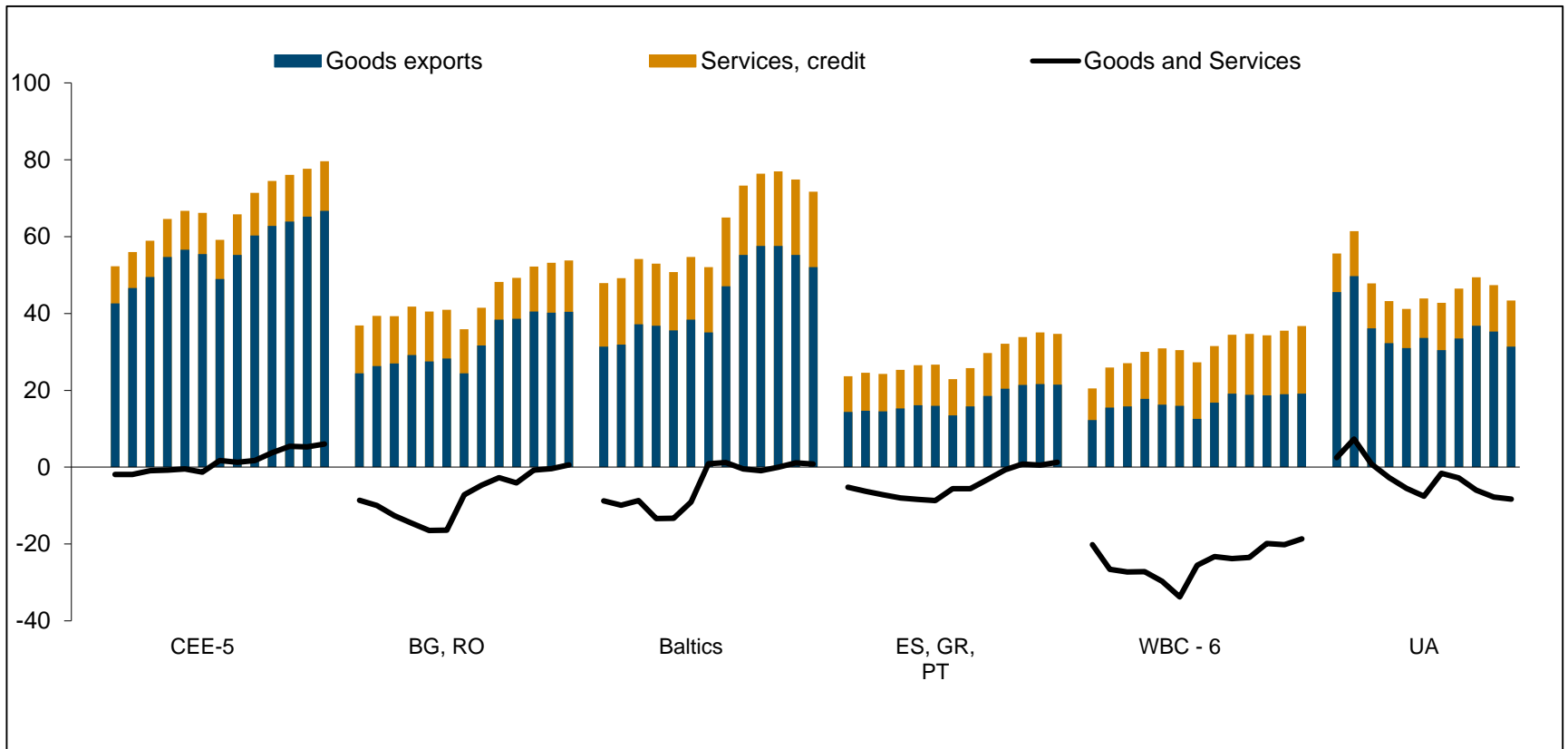
Composition of the current account of the balance of payments, 2003-2017, in % of GDP - pre-crisis: run-away deficits in some countries (trade balances, capital inflows);
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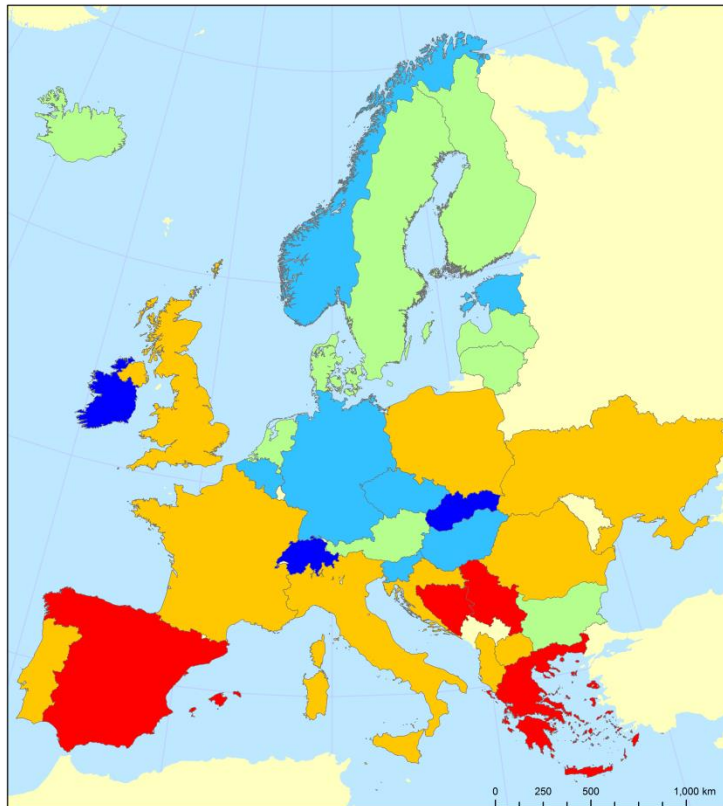


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Source: wiiw Annual Database incorporating national and Eurostat statistics.

External trade, 2003-2017, in % of GDP - **Persistent low export capacity in some groups of countries**





**Value added export shares
divided by GDP shares**

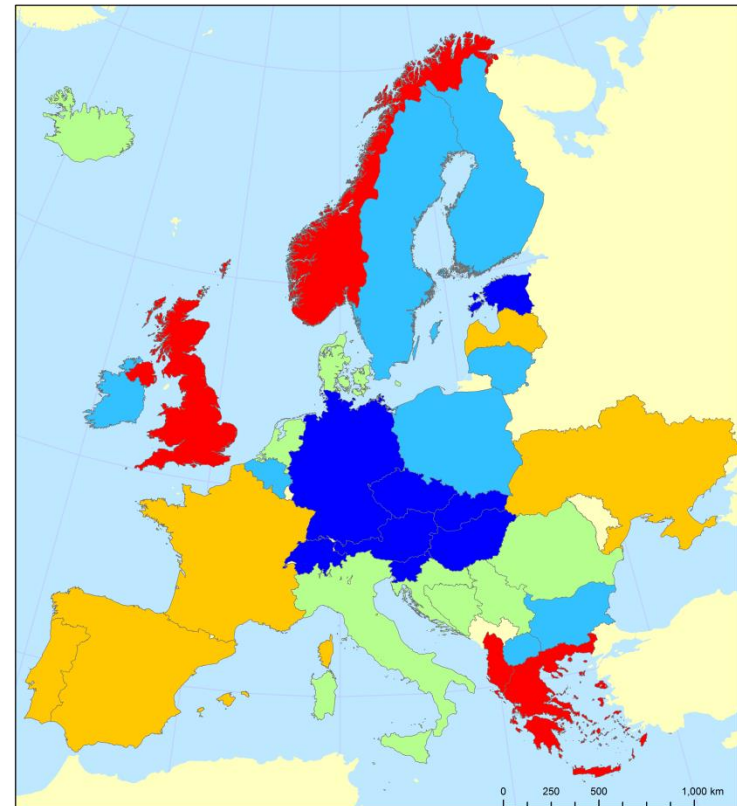
2008

Total economy

Source: wiiw

Category

- below -0.3
- -0.3 to 0
- 0 to +0.25
- +0.25 to +0.5
- above +0.5



**Value added export shares
divided by GDP shares**

2008

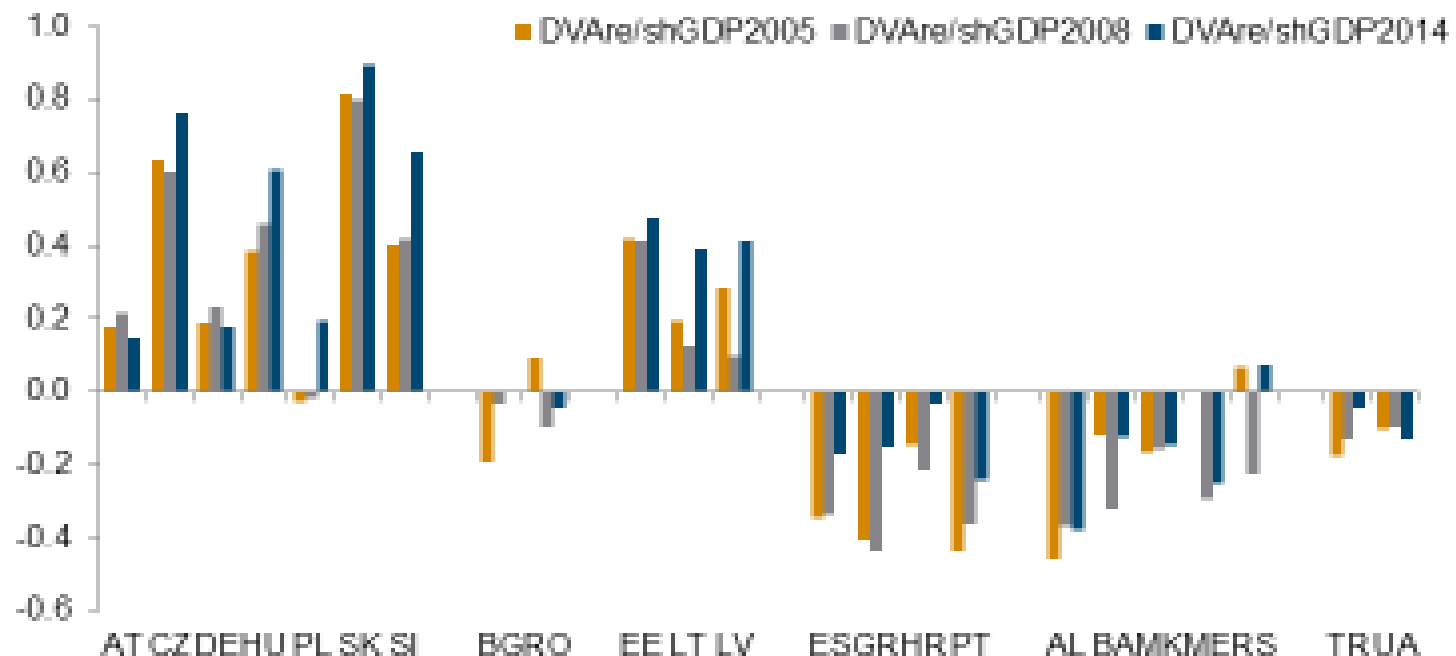
Manufacturing

Source: wiiw

Category

- below -0.5
- -0.5 to -0.25
- -0.25 to 0
- 0 to +0.5
- above +0.5

Shares of European LMIEs in cross-border production networks (divided by their shares in European GDP) – 2005, 2008 and 2014

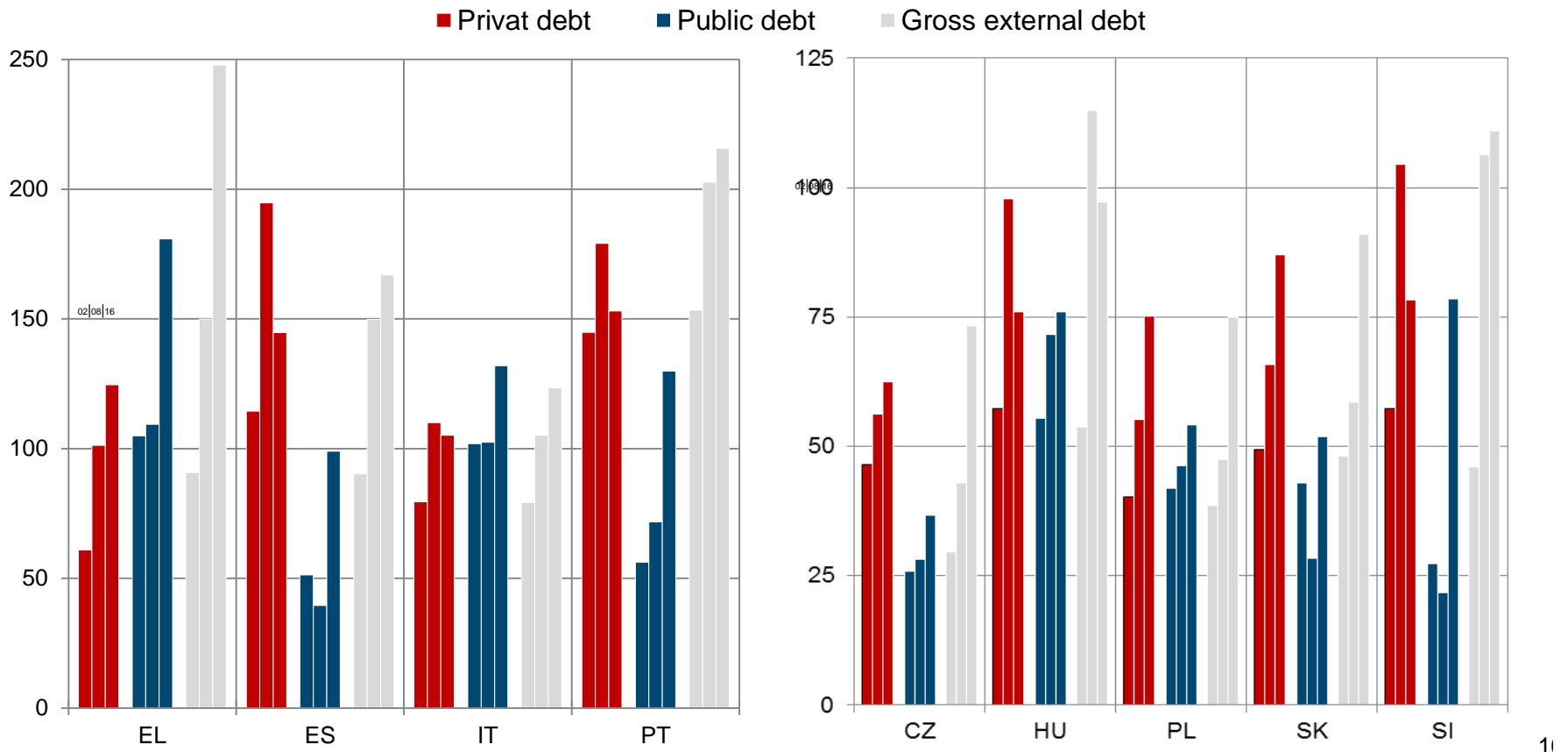


Note: The indicator DVAre refers to cross-border production linkages, with a country's trade flows – measured in value added contributions – crossing at least twice a country's borders; for details see Friesenbichler et al. (2017; Chapter 4).

Source: wiiw Annual Database incorporating national and Eurostat statistics. WIOD, own calculations.

Debt in % of GDP, 2002, 2008, 2016 – private, public, external

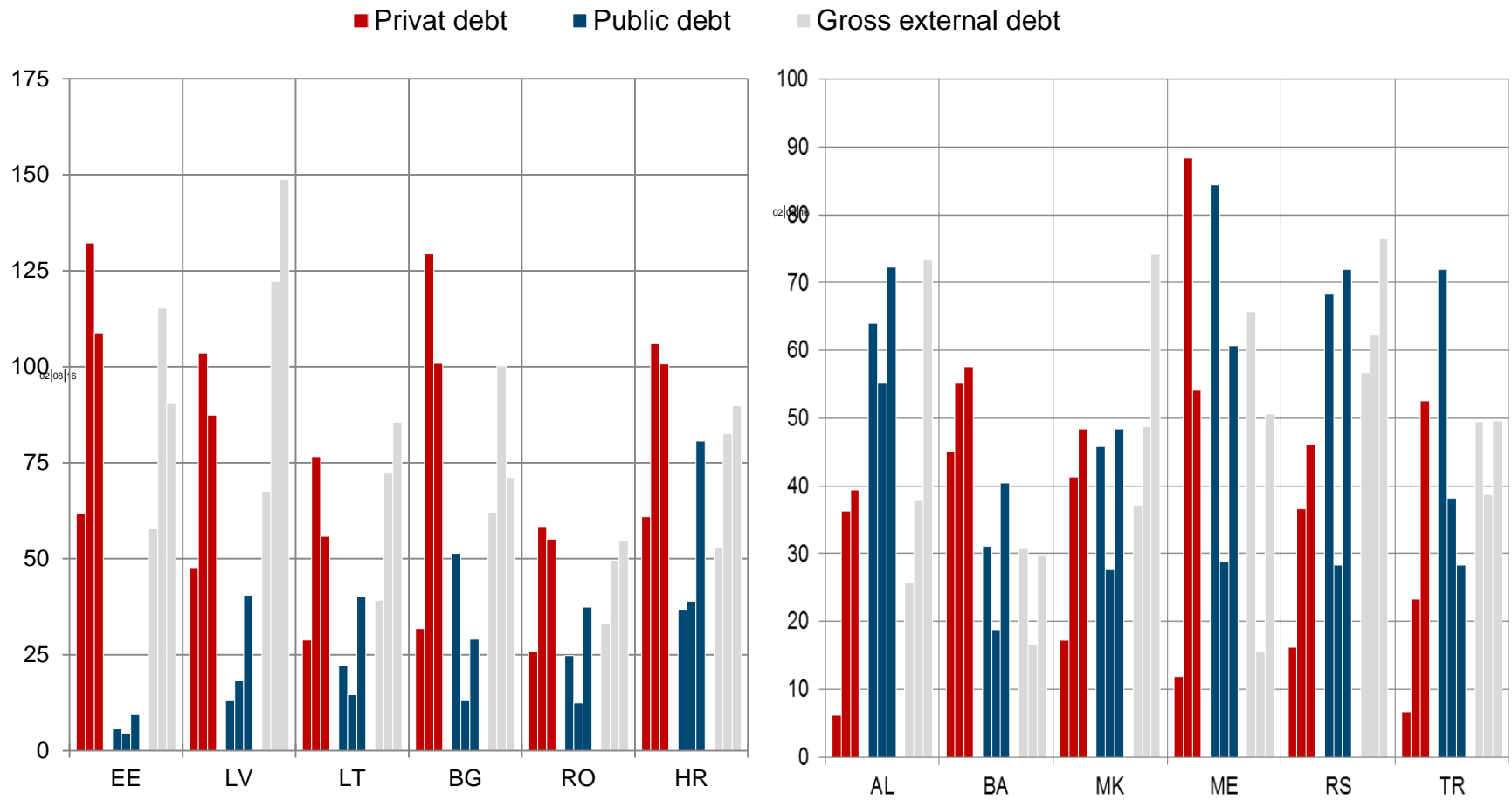
Sequencing in private, public, external debt evolution



Remarks: Private debt 2002 for ME and MK refers to 2003, for BA – to 2006. Private debt 2016 for WBC-5 and TR refers to 2014. Gross external debt 2002 for EL refers to 2003. Gross external debt for BA and ME refers to foreign debt of general government. Source: wiiw Annual Database incorporating national and Eurostat statistics.

Debt in % of GDP, 2002, 2008, 2016 – private, public, external

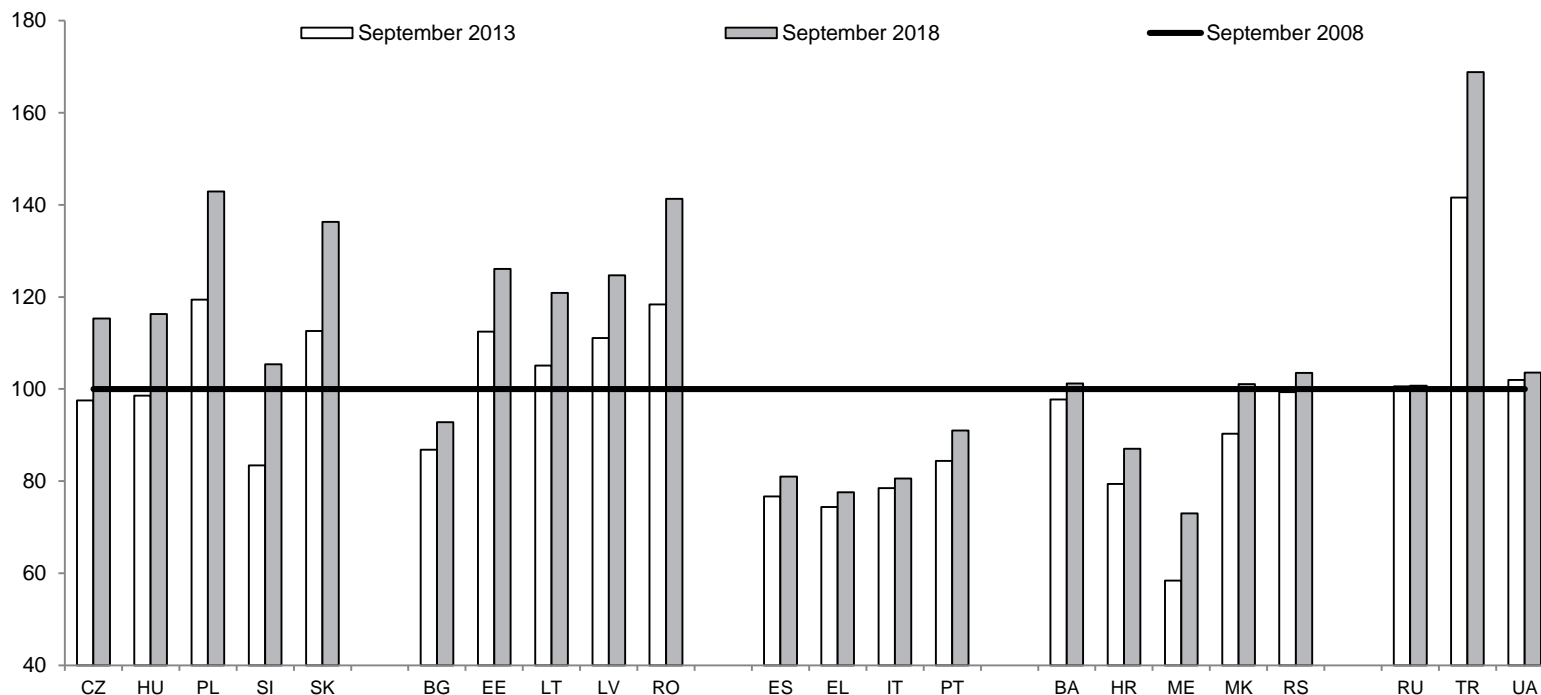
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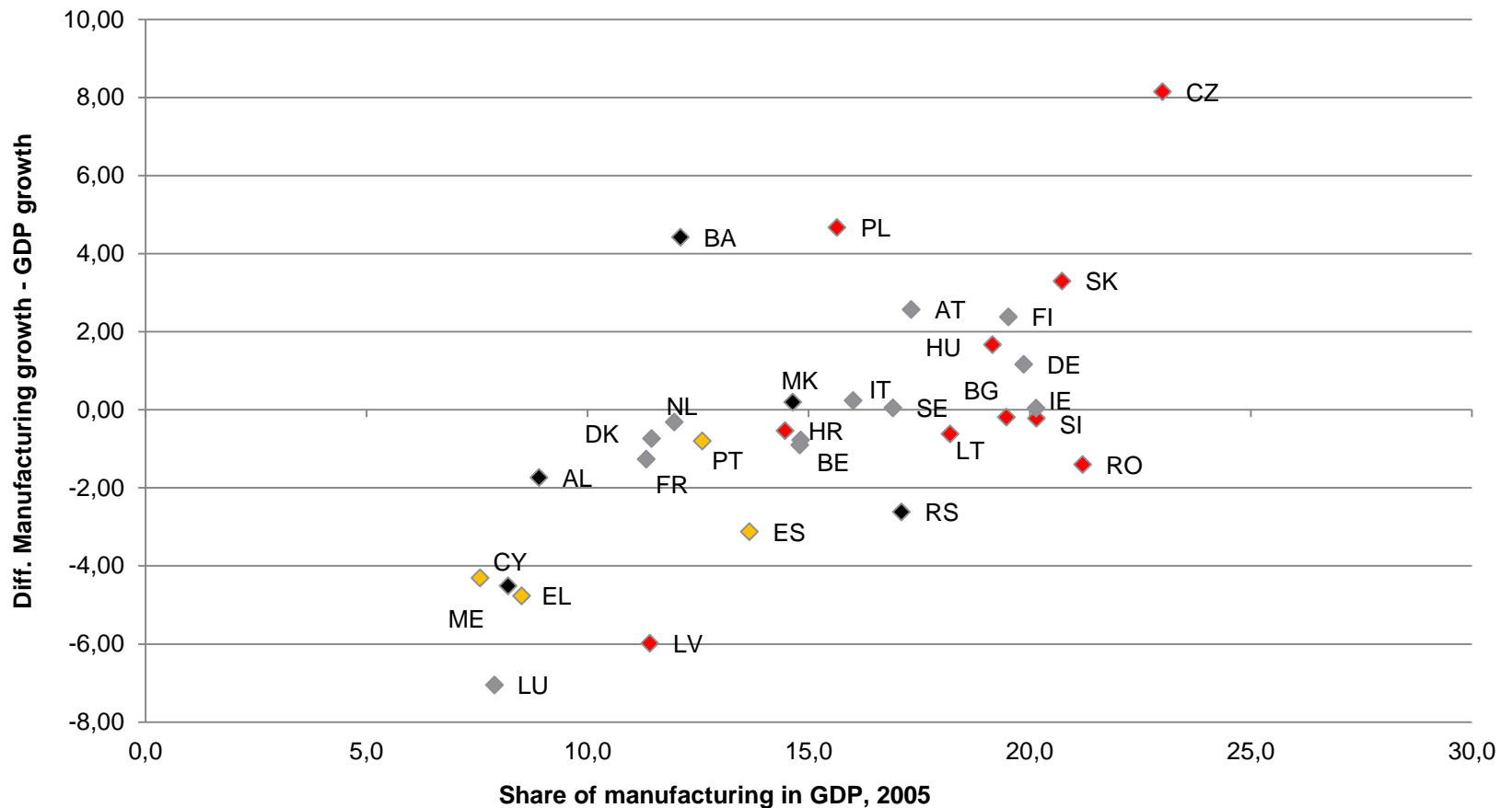
Source: wiiw Annual Database incorporating national and Eurostat statistics.

Development of industrial production; 2008, 2013, 2018

2008=100

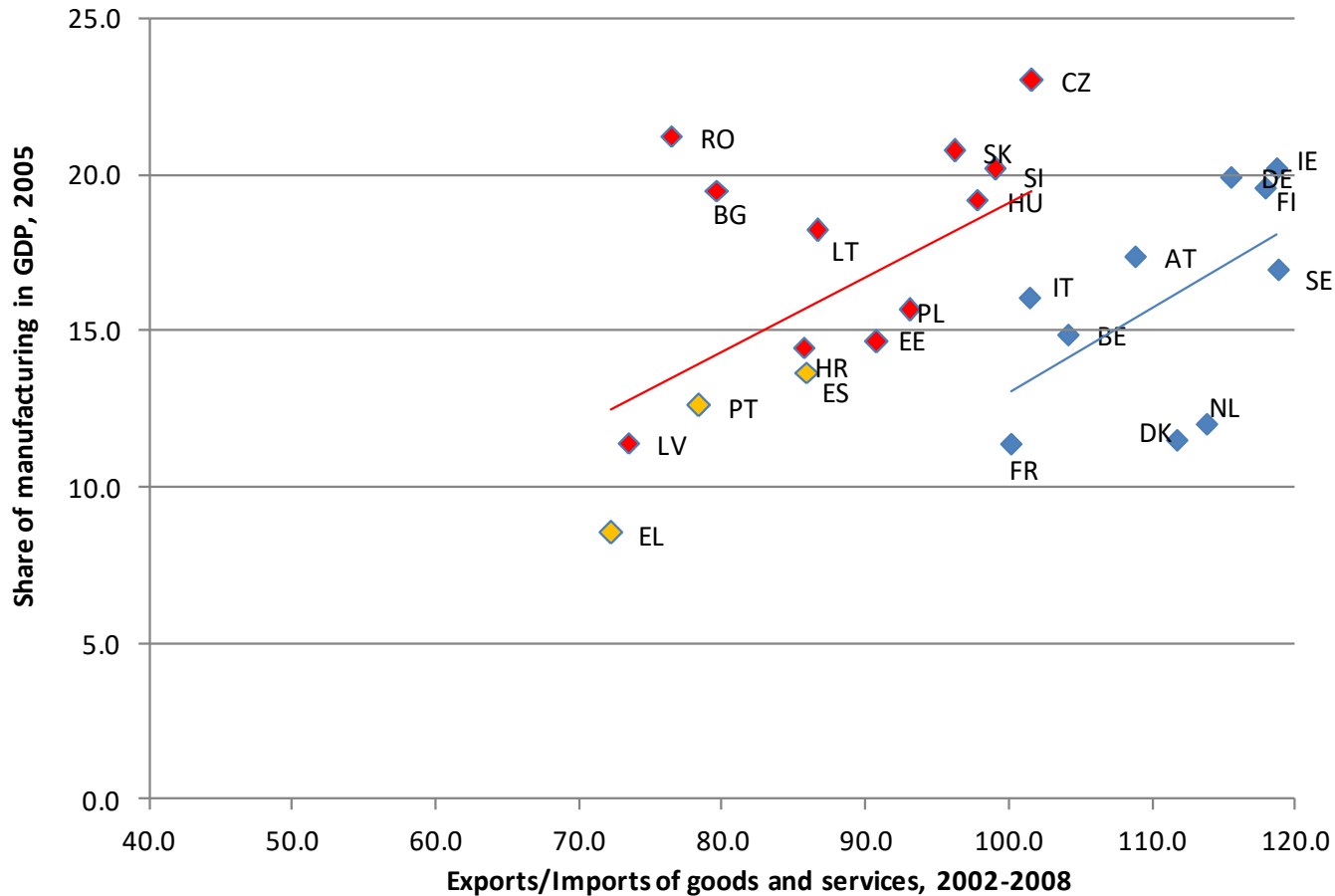


Divergent developments: Differential growth manuf.-total economy 2005-2008 and share of manufacturing in GDP, 2005



Position of manufacturing and longer-term trade balances

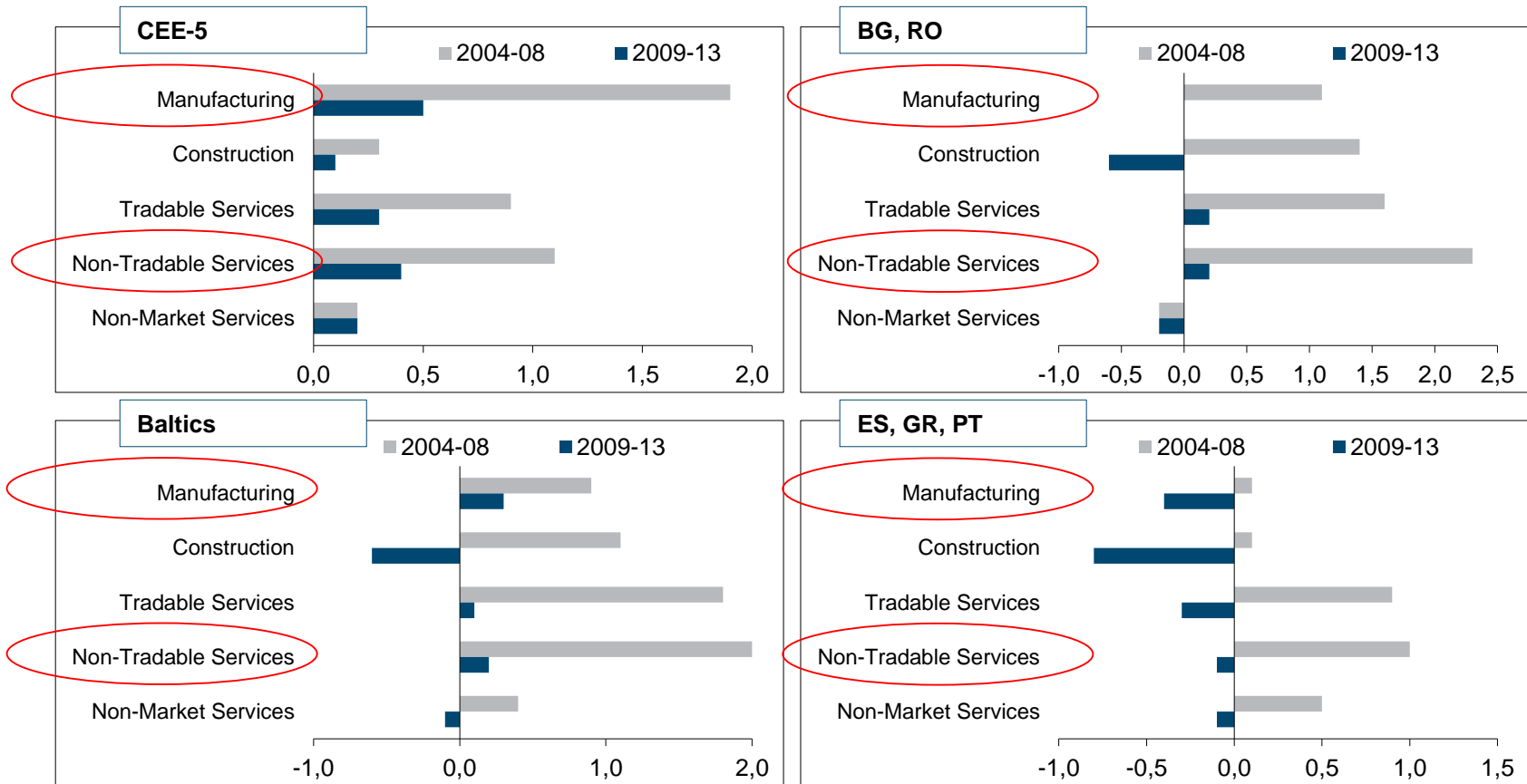
Share of manufacturing in GDP in 2005 and exports/imports of goods and services, average 2002-2008 – **manufacturing particularly important for medium-income countries!**



Source: Eurostat and wiiw own calculations.

Contributions to GDP growth by sectors, percentage points 2004-2008 and 2009-2013 (from constant prices)

– **Look at manufacturing and NTS!**



External imbalances in the European economy – what have we learnt?

- **‘Structural’ external imbalances** refer to persistent weaknesses of the tradable sector; danger particularly for catching-up economies
- Lead to **build-up of external debt and vulnerability to external shocks** (e.g. ‘sudden stops’); thus act as long-term constraint on growth
- **Two distinct patterns of capital inflows:**
 - capital inflows can generate overvaluation and longer-term distortions of sectoral structures (tradables/non-tradables);
 - equally, FDI can cause positive cumulative causation – up-grading of export structures, quality improvements, real appreciation;
- **Agglomeration tendencies get entrenched in European economy**

External imbalances in the European economy – Policy issues

- Simple **adjustment of real exchange rates is weak mechanism**; economic contraction during crisis might have counter-productive short-term and longer-term hysteretic impact
- In economies with ‘structural’ current account problems, **wider range of instruments needed**:
 - incentive structures to **attract FDI to tradable sector**;
 - **industrial policy instruments** to steer export activities towards dynamic comparative advantages and sufficient degree of diversification;
 - REER determined by **wage-productivity-skill dynamics**; incomes policy, as well as human capital and productivity-enhancing policies are integral part of real exchange rate policy
- **‘Structural’ current account problem is a long-run policy issue inside and outside of EMU**

Europäische Wirtschaftspolitik während der Krise: eine internationale Perspective – Fokus auf Fiskalpolitik

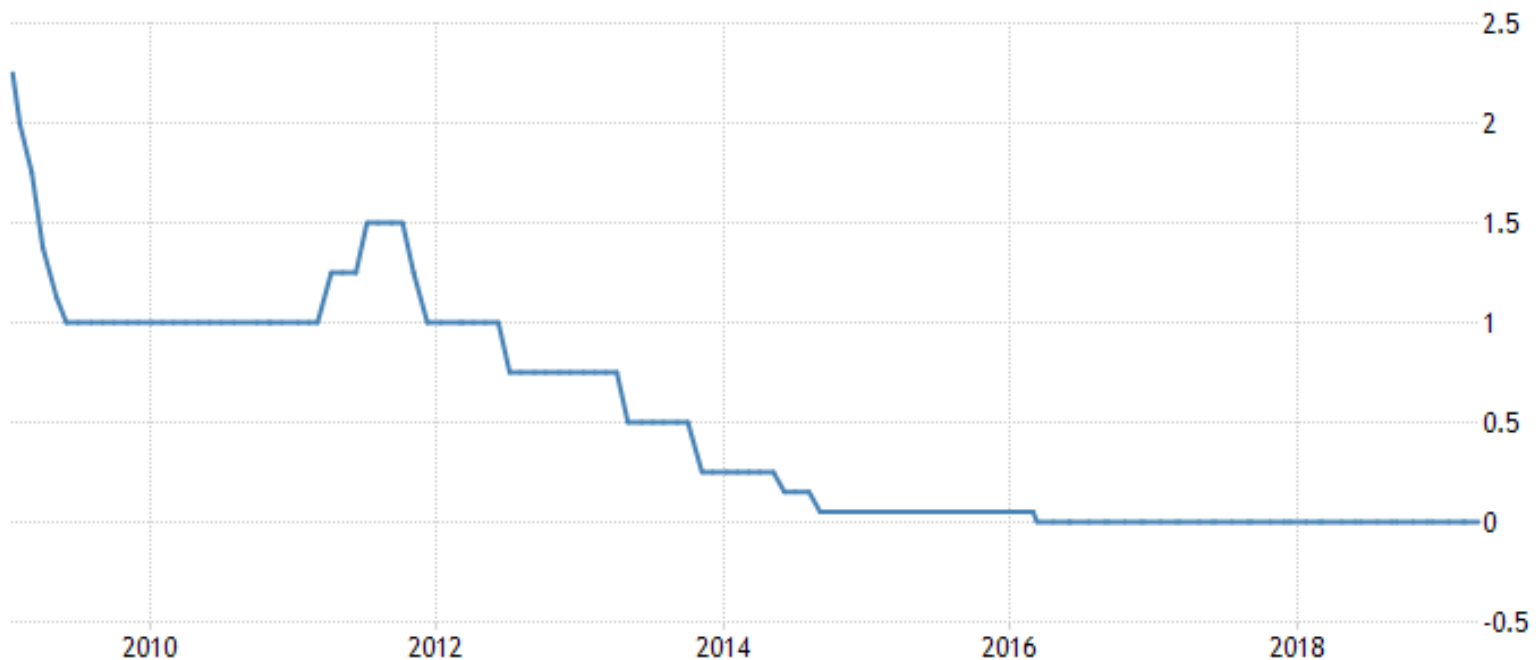
Current policy debates:

What is the future role of fiscal policy?

- *“Fiscal policy will have to play a much bigger role in the future than it has in the past. Surely, there is not enough space, even in the US, for monetary policy to respond adequately to a standard-sized recession.” – Olivier Blanchard and Larry Summers (2019)*



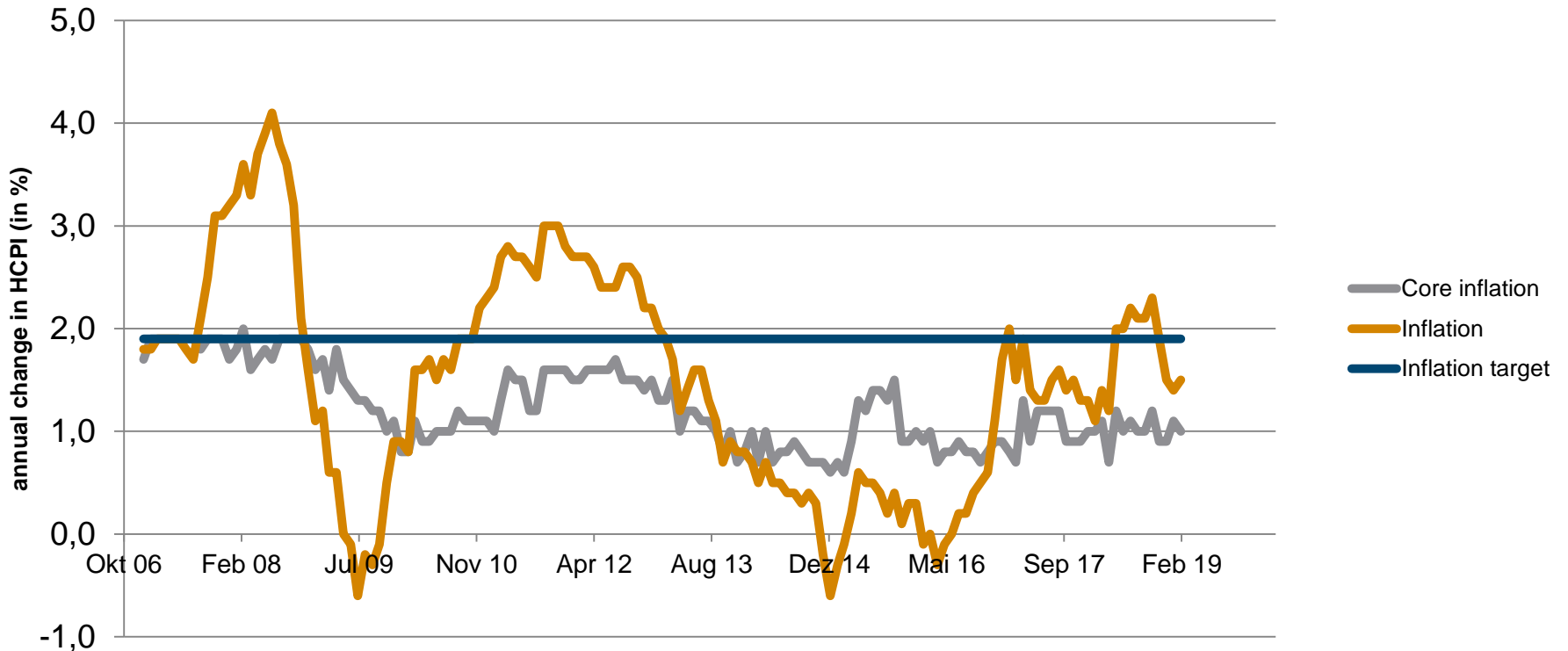
Key interest rates in the euro area remain at zero:
monetary policy constrained by the zero lower bound



SOURCE: TRADINGECONOMICS.COM | EUROPEAN CENTRAL BANK

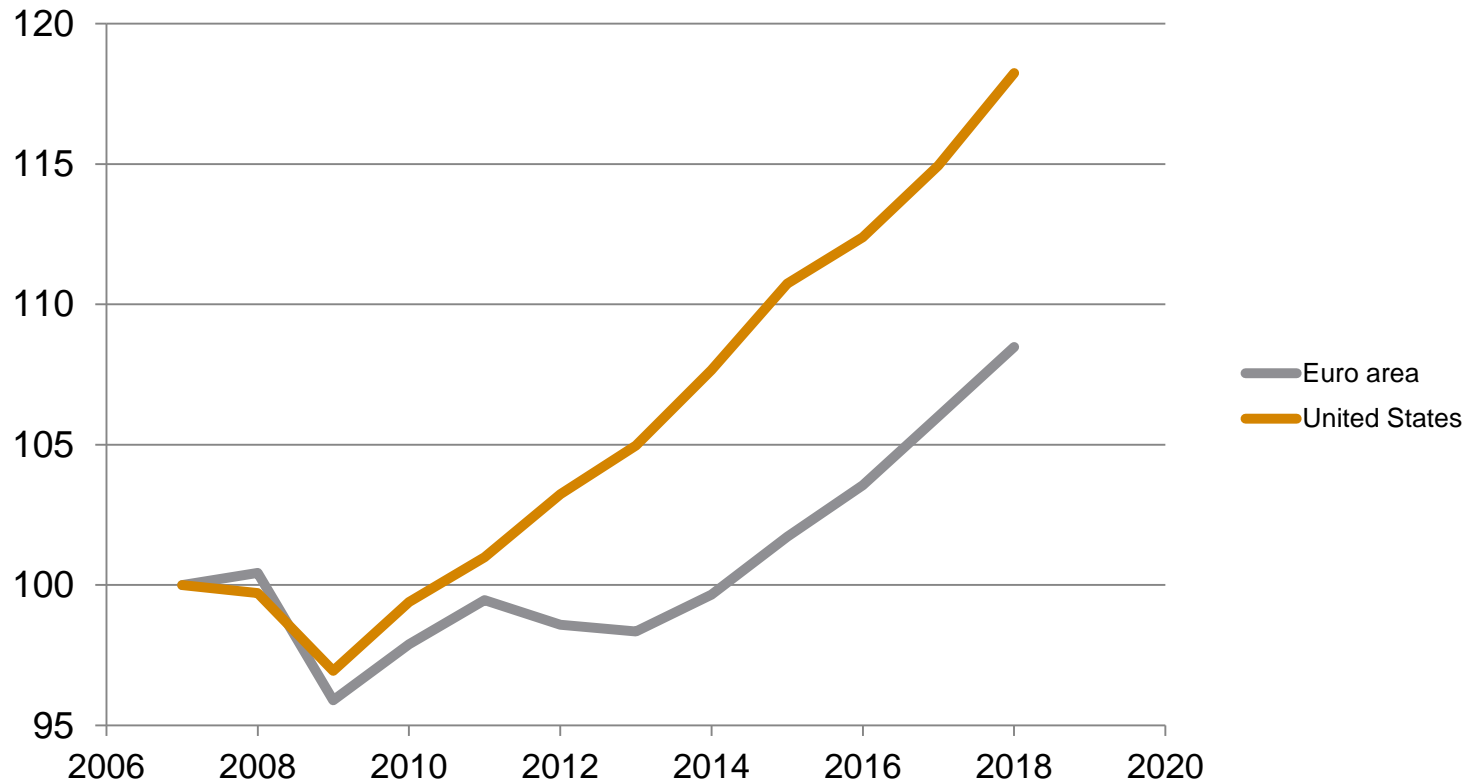
Despite expansionary monetary policy, inflation in the euro area remains below the ECB's target

Inflation in the euro area

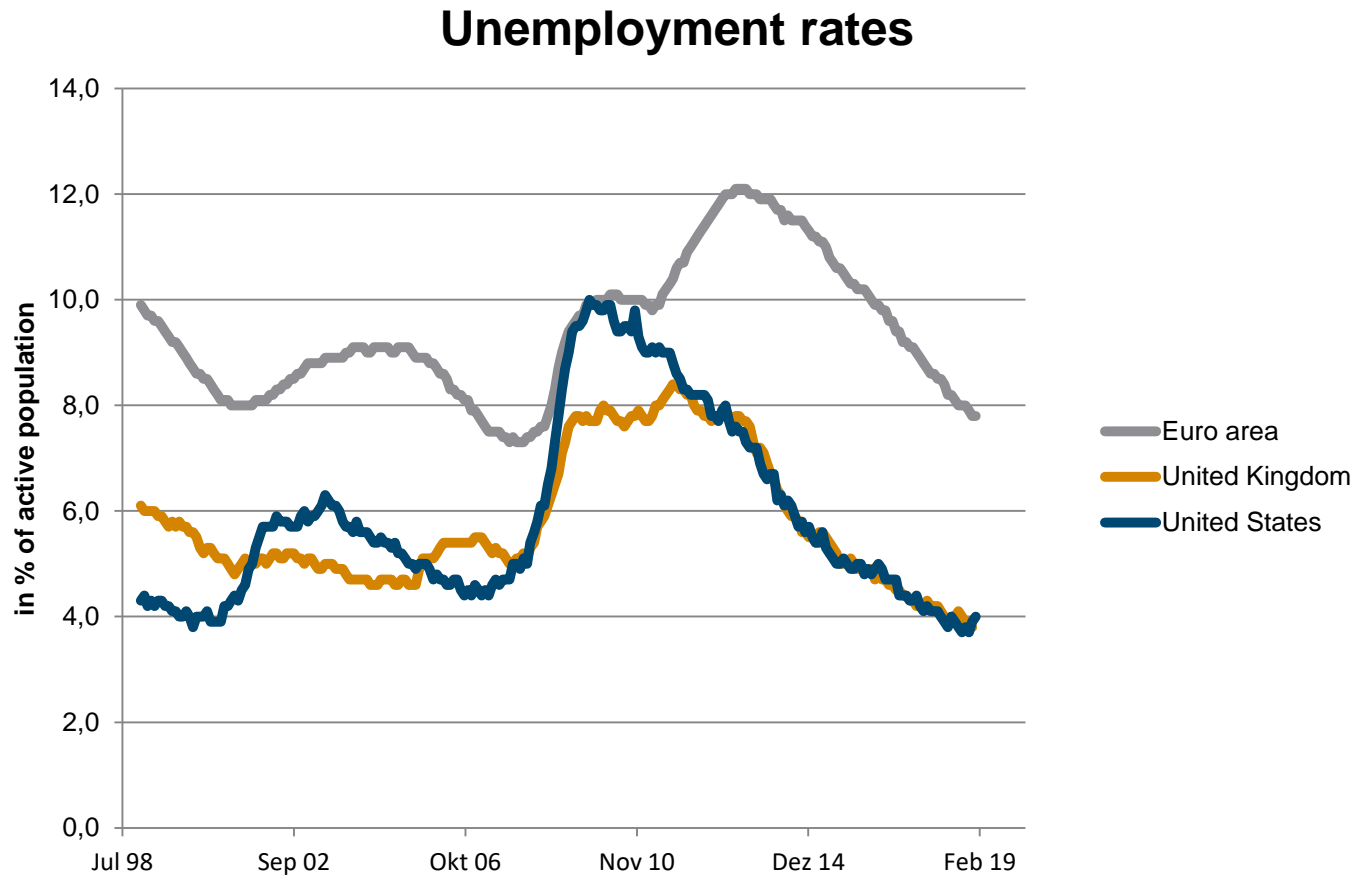


Over the last ten years, the euro area economy has significantly underperformed (compared with the US)

Real GDP 2007-2018, 2007=100



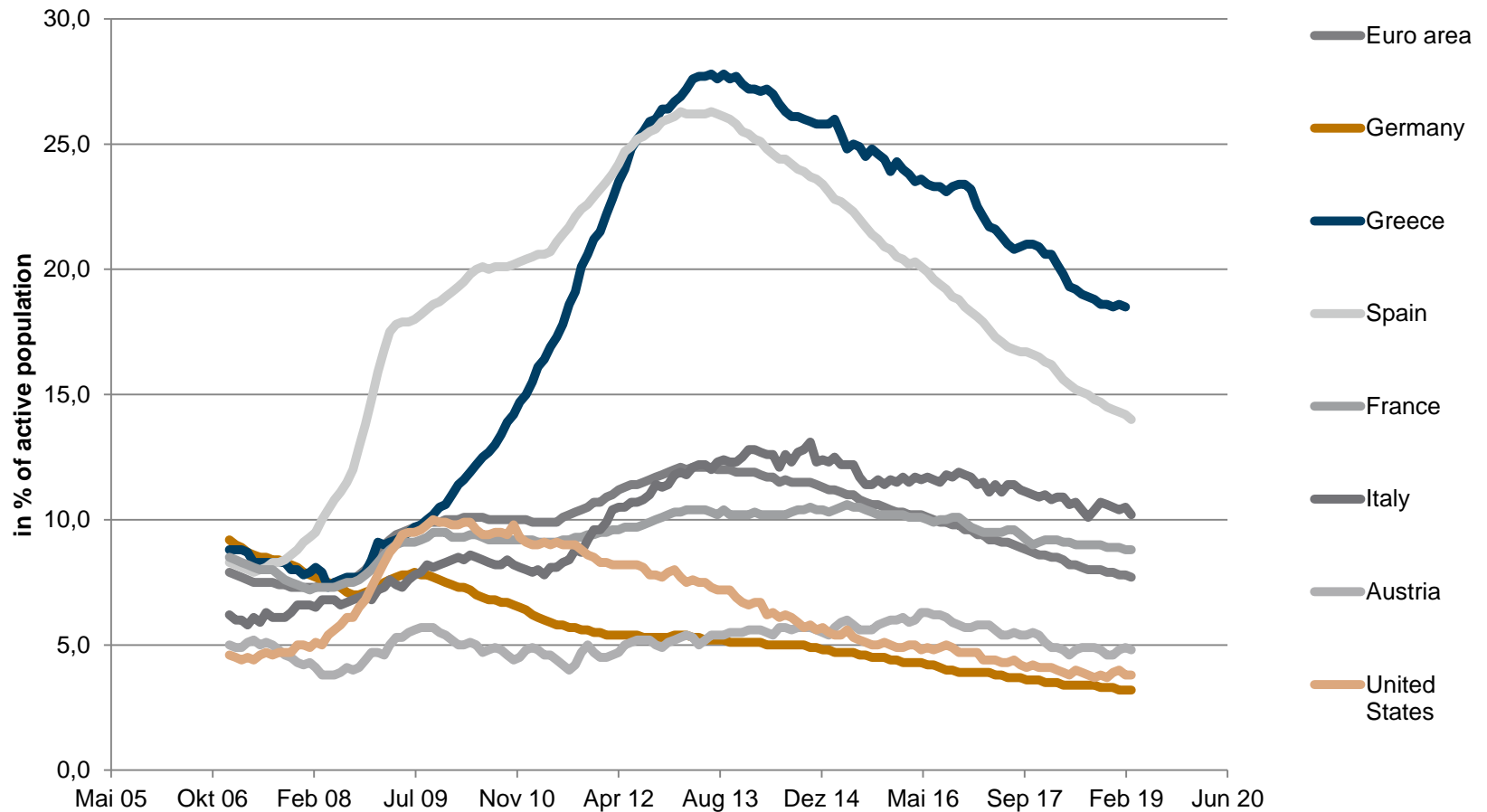
Unemployment in euro area is currently still about twice as high as in the US



Source: Eurostat.

Large divergences in unemployment within the euro area

Unemployment rates



Source: Eurostat.

The role of fiscal policy: What have we learned from the experiences during the crisis?

- Fiscal multipliers
- An international comparison of fiscal policies since the financial crisis
- Other macro effects of fiscal consolidation
- Current debates on fiscal policy in Europe

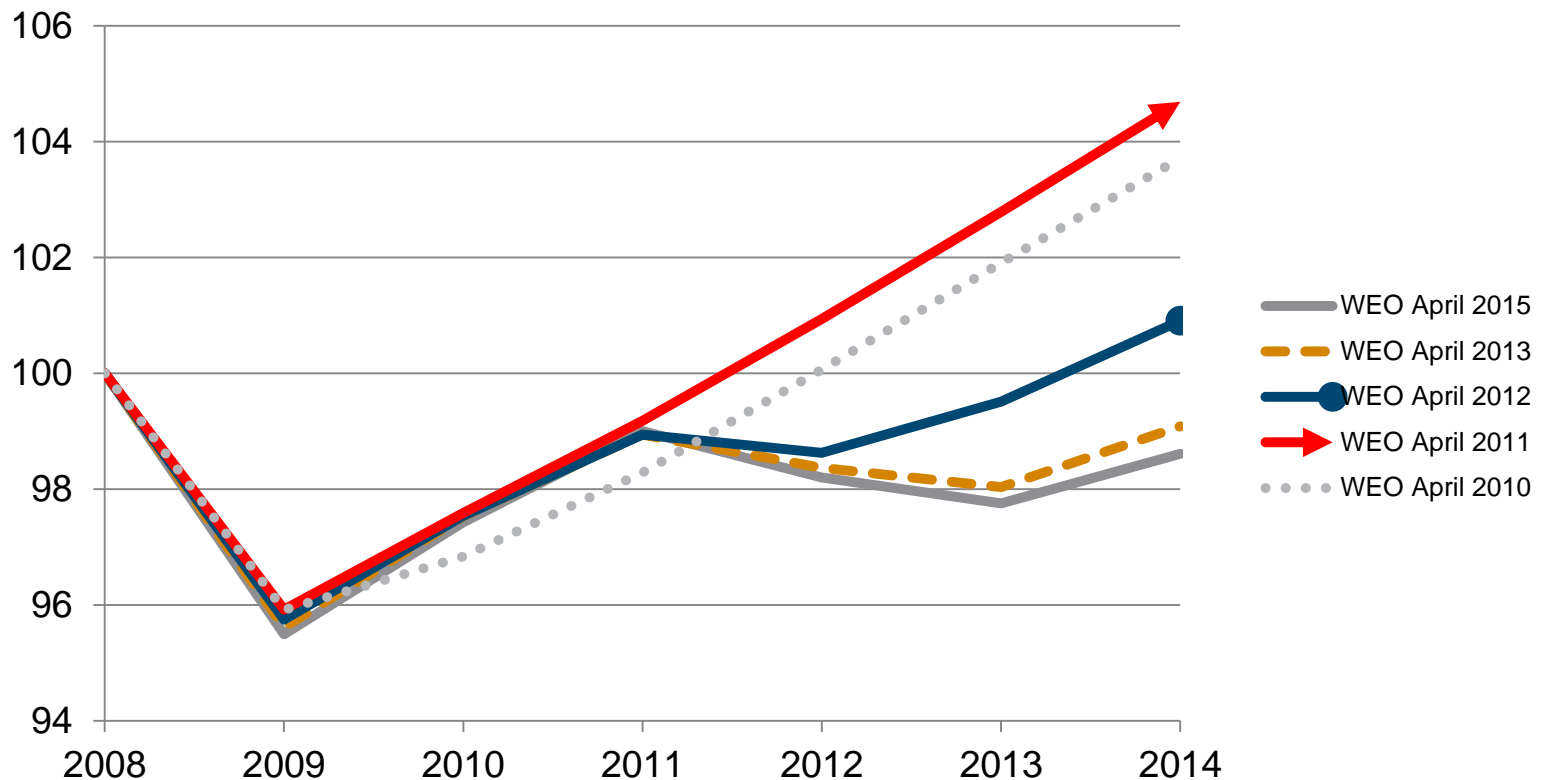
1. Fiscal multipliers

What are fiscal multipliers about?

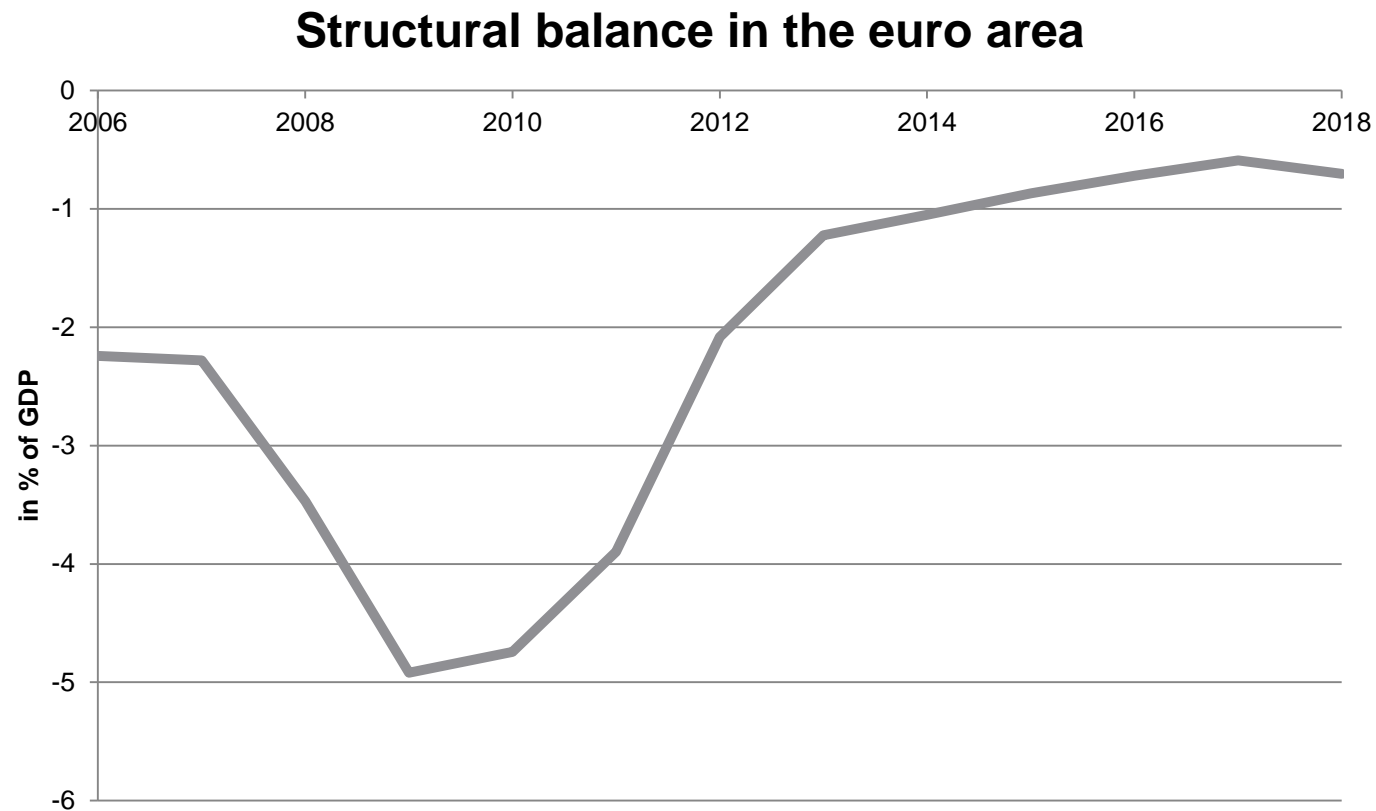
- measure the short-term impact of discretionary fiscal policy on output
- An example
 - (exogenous) cut in government spending by €1 leads to fall in output by €1.2 → multiplier of 1.2
- determine fiscal adjustment costs in terms of economic activity: the higher the multiplier, the costlier the fiscal adjustment will be in terms of output losses

The IMF was systematically too optimistic about the euro area's recovery from the crisis...

IMF GDP forecasts for the euro area



Fiscal consolidation efforts in the euro area increased from 2010 onwards



Source: IMF (WEO).

Estimates indicate substantial cumulative output losses from fiscal consolidation measures in the euro area

	<i>2011</i>	<i>2012</i>	<i>2013</i>
European Commission (2012), pp. 45-46	---	0.3 / 0.9	0.5 / 1.6
Rannenberg et al. (2015), p. 21	---	---	5.2
In't Veld (2013), p. 10*	0.7	2.0	3.2
Holland and Portes (2012), p. F8	0.5 / 1.5	1.0 / 3.1	1.7 / 4.0
Gechert et al. (2015), p. 6	4.3	6.4	7.7
Heimberger (2017a)	---	---	5.5-8.4

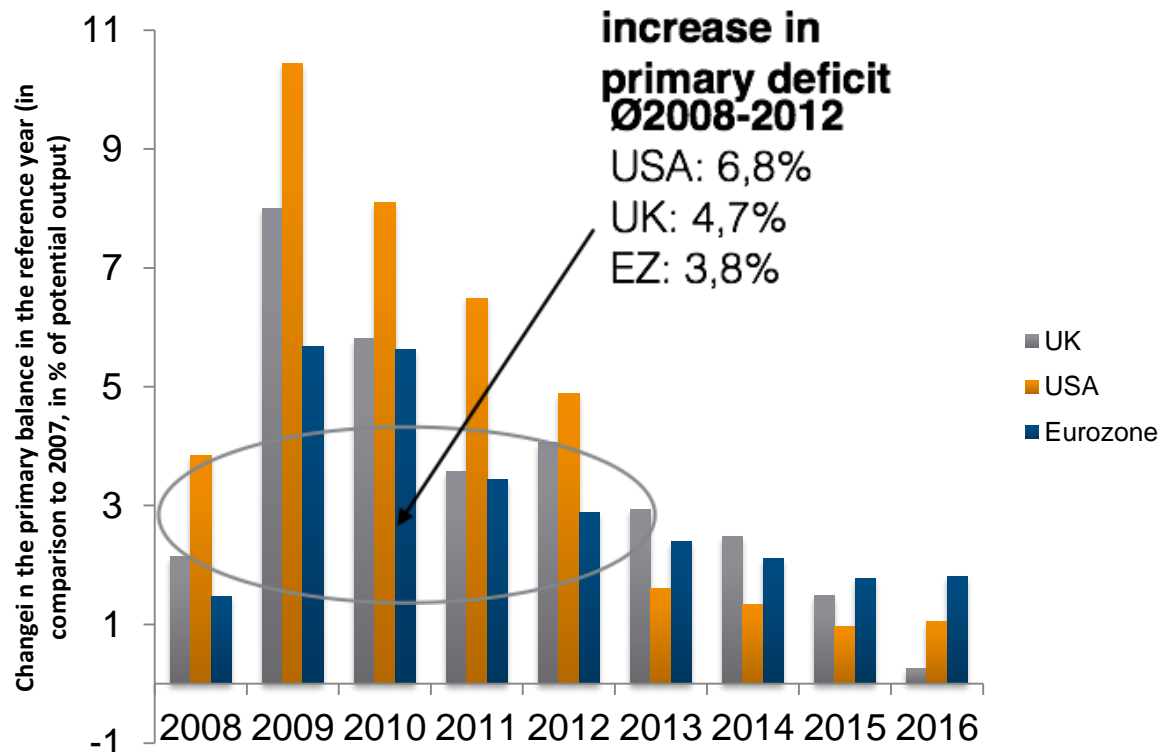
Multipliers in the euro area were most probably higher than 1.0 over 2011-2013

- There is not one multiplier for all countries and all times
- Multiplier higher than 1.0 when:
 - Economy is underutilised (e.g. DeLong, Summers, 2012; Jorda, Taylor, 2016)
 - Monetary policy is constrained by the Zero Lower Bound (e.g. Woodford, 2011)
 - The private sector is in deleveraging mode (e.g. Eggertsson, Krugman, 2012; Koo, 2015)
- Major conditions for multipliers higher than 1.0 were fulfilled in the euro area (during the period of the double-dip recession of 2011-2013)

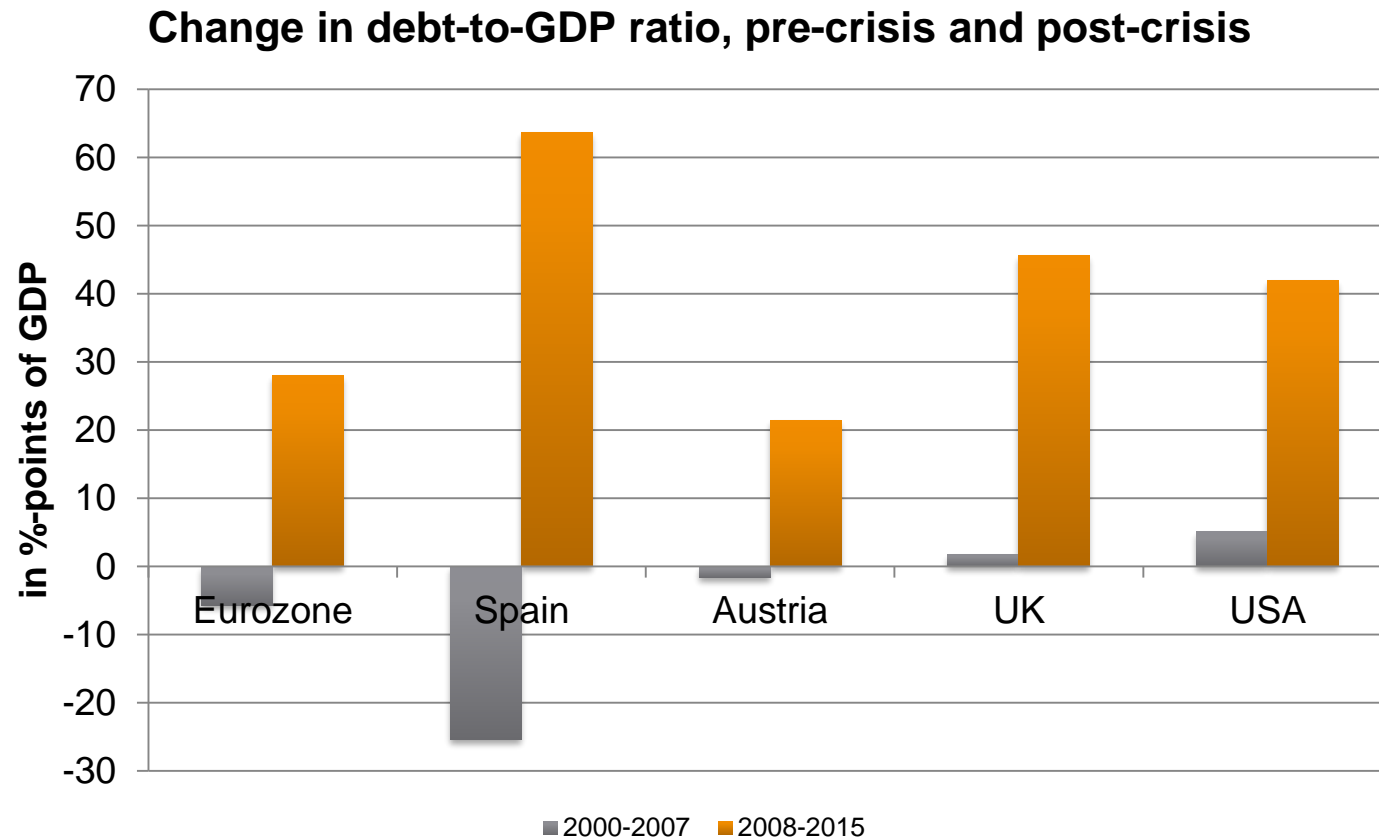
2. An international comparison of fiscal policies since the financial crisis

Fiscal expansion was most pronounced in the USA

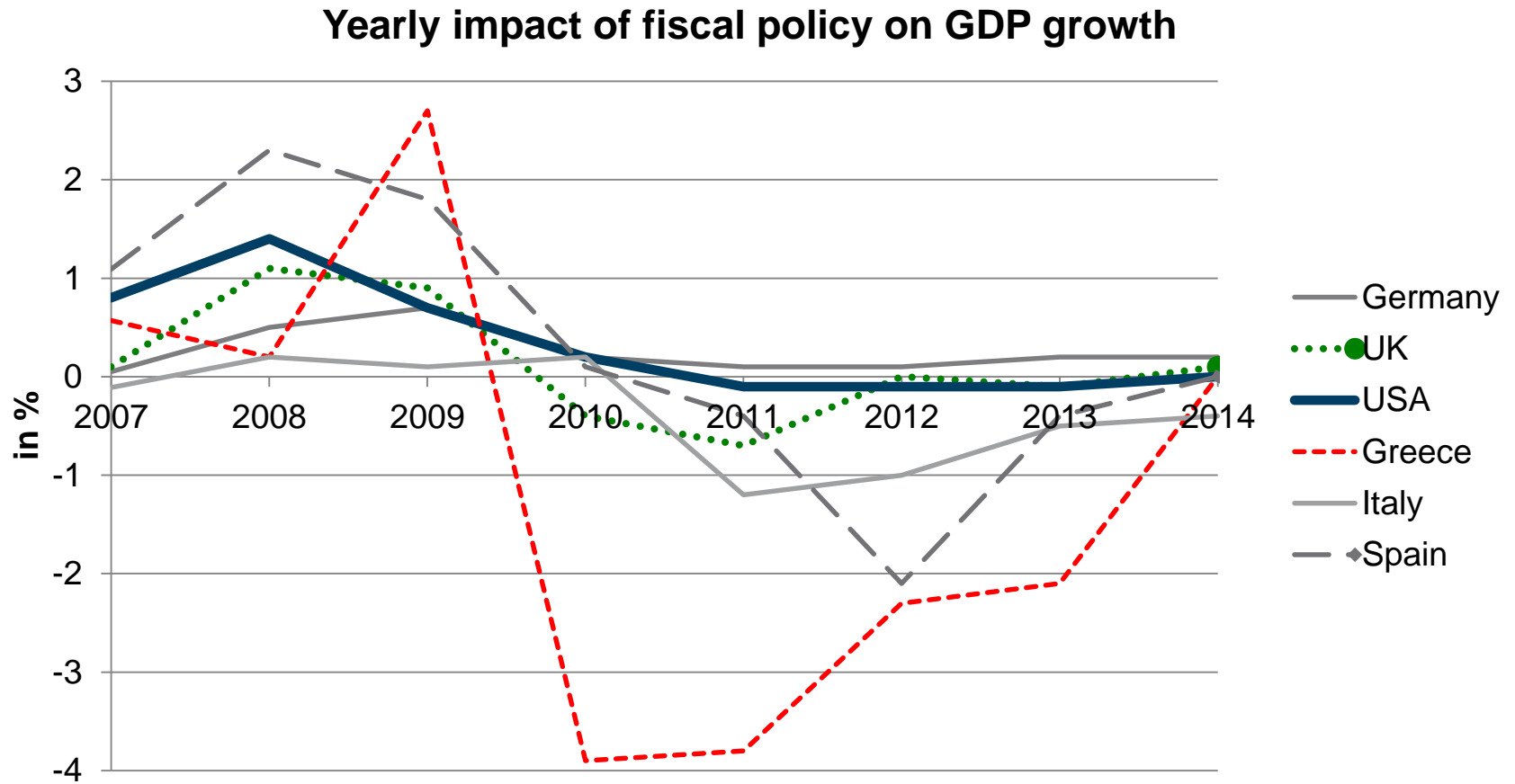
Fiscal expansion in international comparison



In the US and in the UK, public debt has increased more than in the euro area (since 2008)

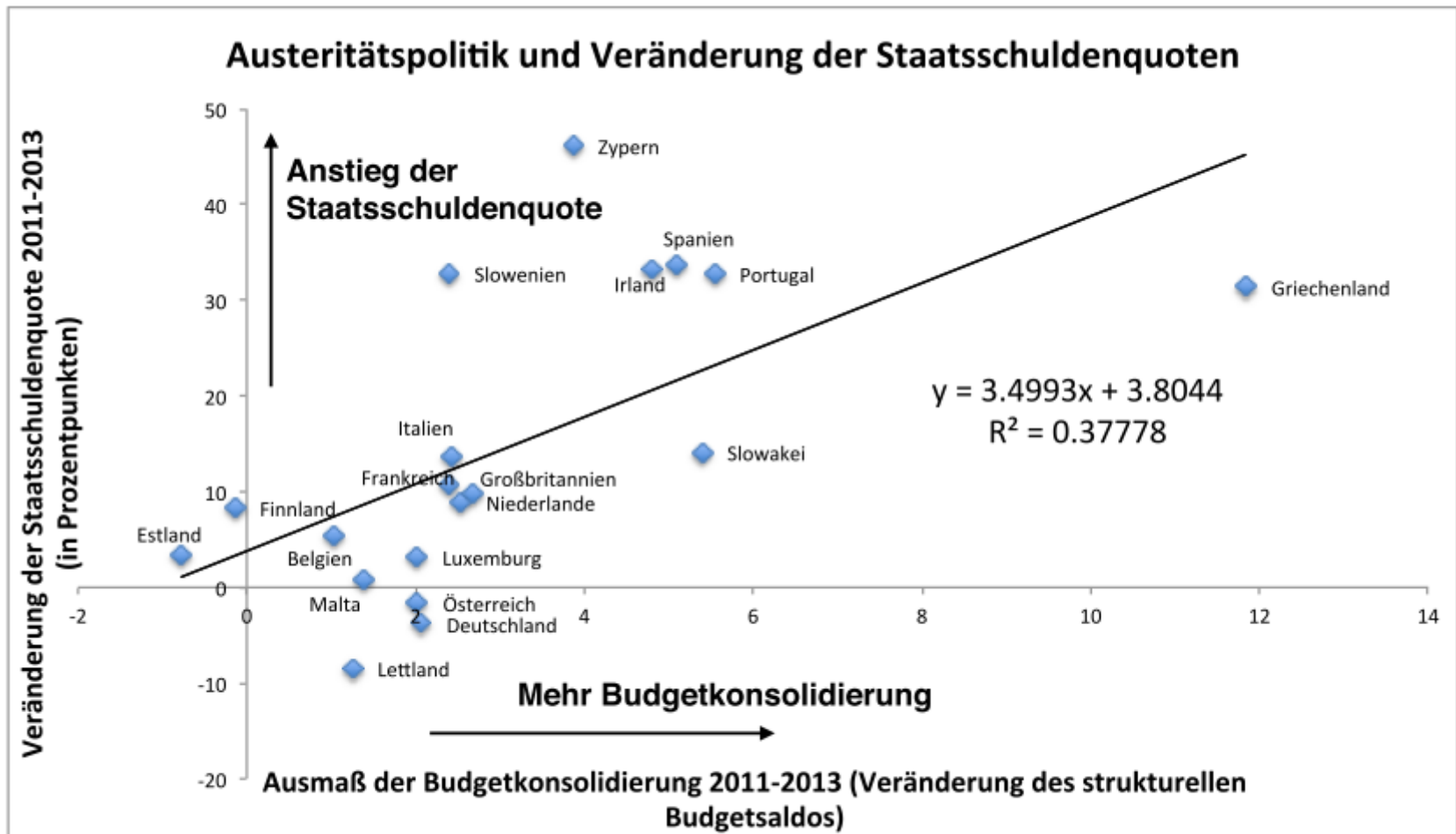


Growth effects of fiscal policy (2007-2014)



Source: Stockhammer et al. (2016), p. 23.

3. Other macro effects of fiscal consolidation



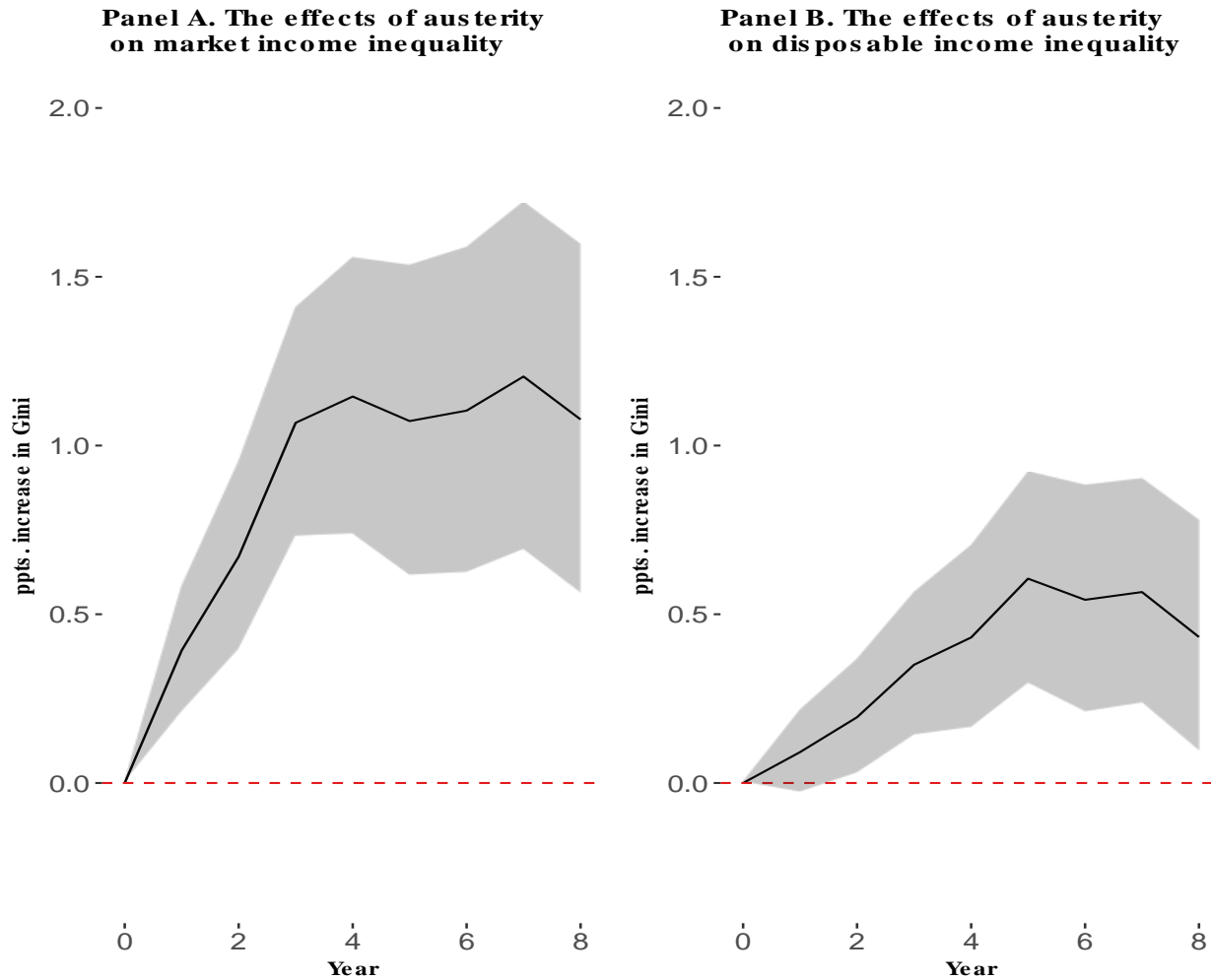
Daten: Europäische Kommission (AMECO, 3.5. 2016); eigene Berechnungen.

Fiscal consolidation may not only have growth and employment effects, but also distributional effects

- Potential (long-term) costs of fiscal consolidation
 - A. Income distribution and poverty
 - B. Physical infrastructure
 - C. Human capital

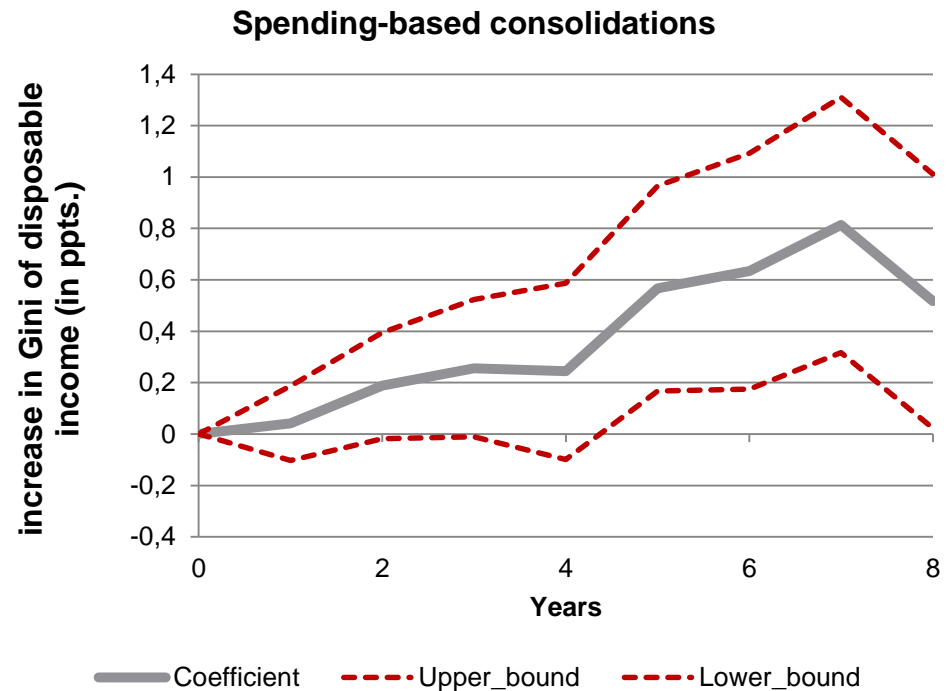
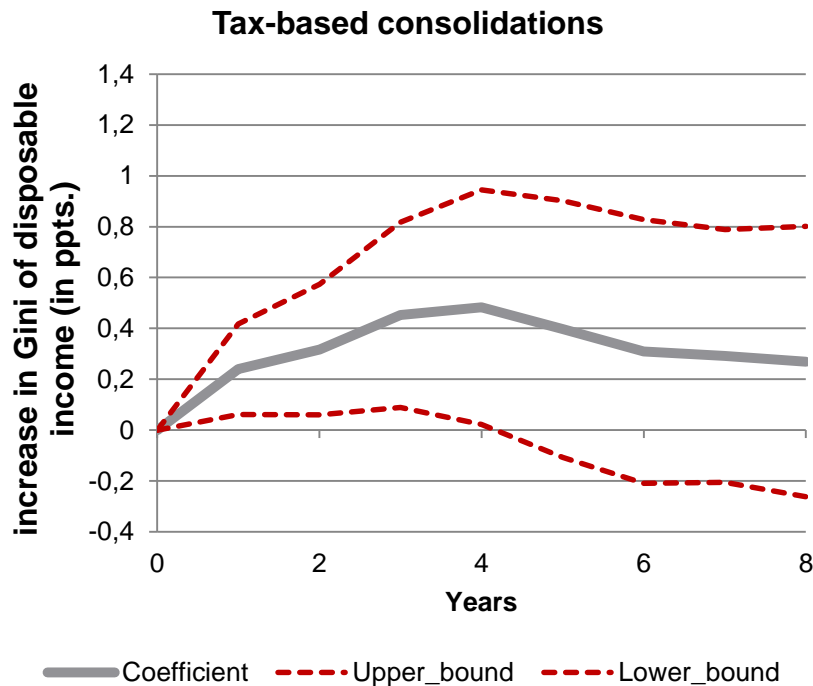
- Some empirical evidence on A) income distribution
 - Effects of fiscal consolidation episodes on income inequality
 - Gini coefficient of (disposable) income
 - 17 OECD countries (13 European, 4 non-European)
 - Time period 1978-2013
 - 'average response to fiscal consolidation shock'

Fiscal consolidation pushes up income inequality over the medium term



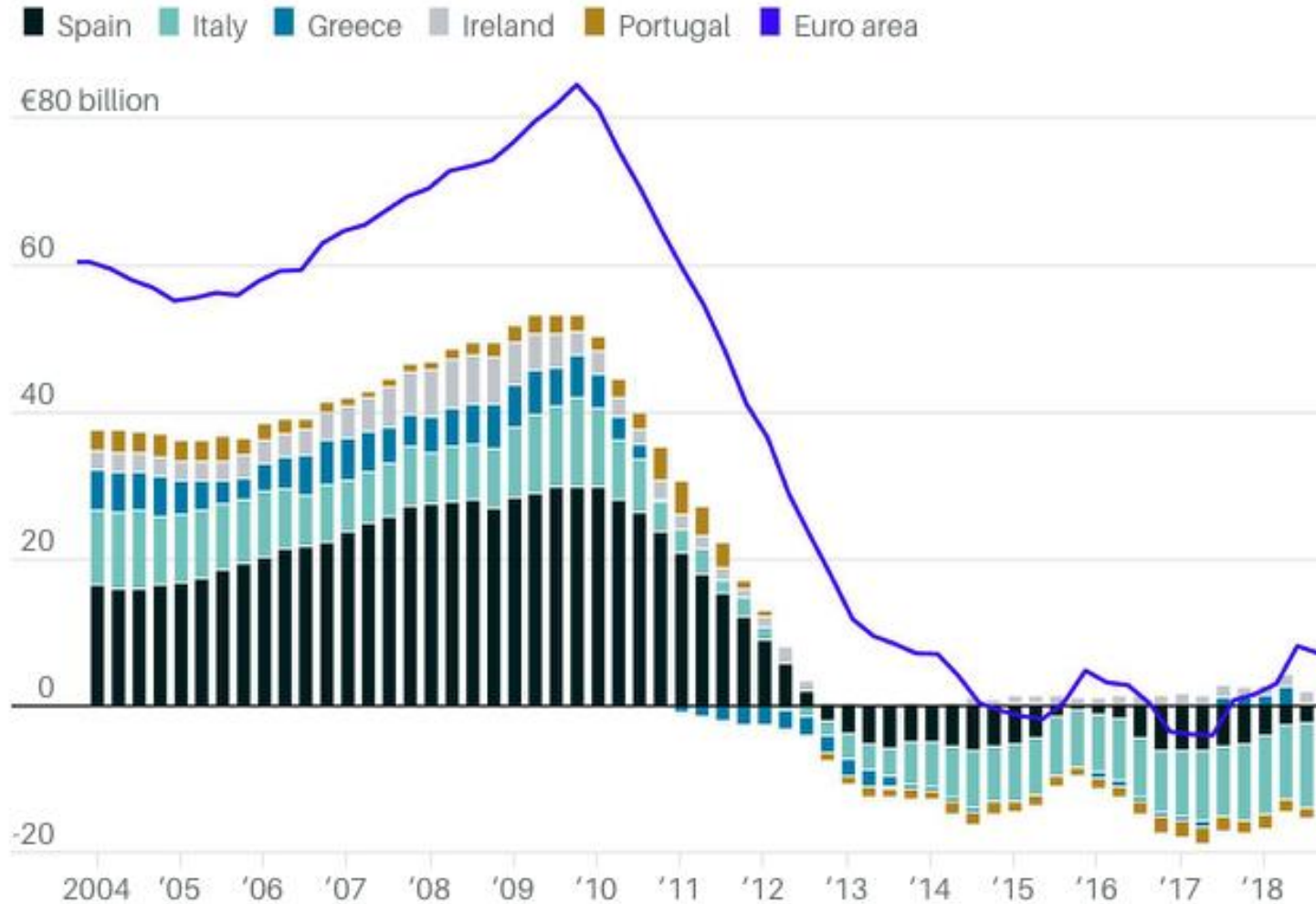
Source: Heimberger (2018).

Distributional effects are more pronounced for government spending cuts than for tax increases



The Crisis Caused the Collapse in Public Investment

Investment spending minus depreciation, billions of euros per year

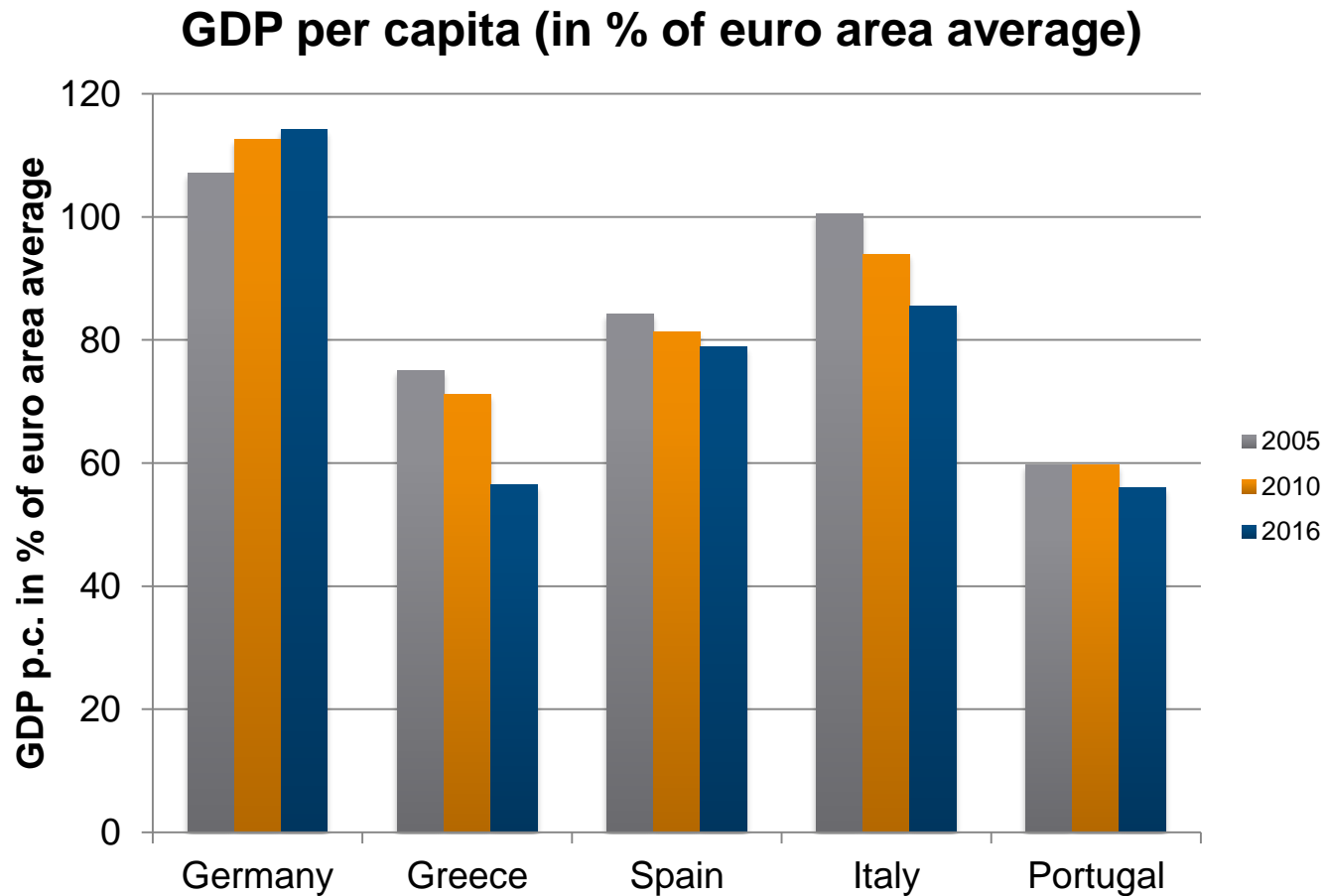


Source: Eurostat; Barron's calculations

Zusammenfassung: Wirtschaftspolitik im Vergleich

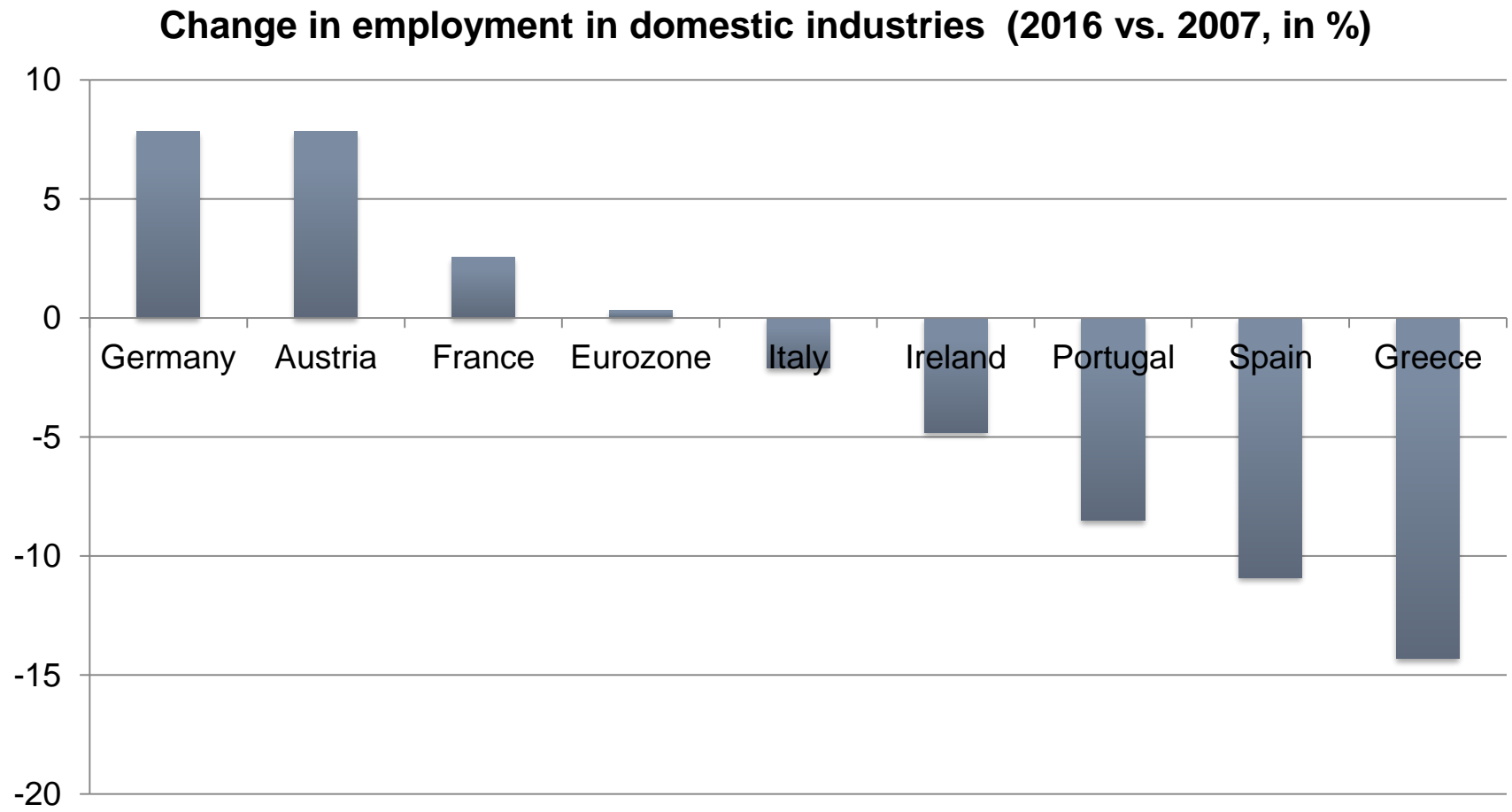
- **Austeritätspolitik ab 2011** als **zentraler Erklärungsfaktor** für **“Double-Dip”**-Rezession in der Eurozone
- Eurozonenländer mit fiskalpolitischem Spielraum nutzten diesen deutlich weniger als die USA, um Wachstum und Beschäftigung zu stützen.
- **EZB verabsäumte** es ab Beginn der Konsolidierungspolitik, dem durch restriktive Fiskalpolitik verursachten **Absinken der ökonomischen Aktivität** in der Eurozone entschiedener **entgegenzuwirken**.
- **Mischung aus Geld- und Fiskalpolitik** war in der **Eurozone restriktiver** als in den USA und Großbritannien
 - weniger Unterstützung für Wirtschaftswachstum und Beschäftigung
- **Unterschiede im geld- und fiskalpolitischen Kurs** erklären Unterschiede in der gesamtwirtschaftlichen Entwicklung

Income polarisation: Southern Europe falling behind

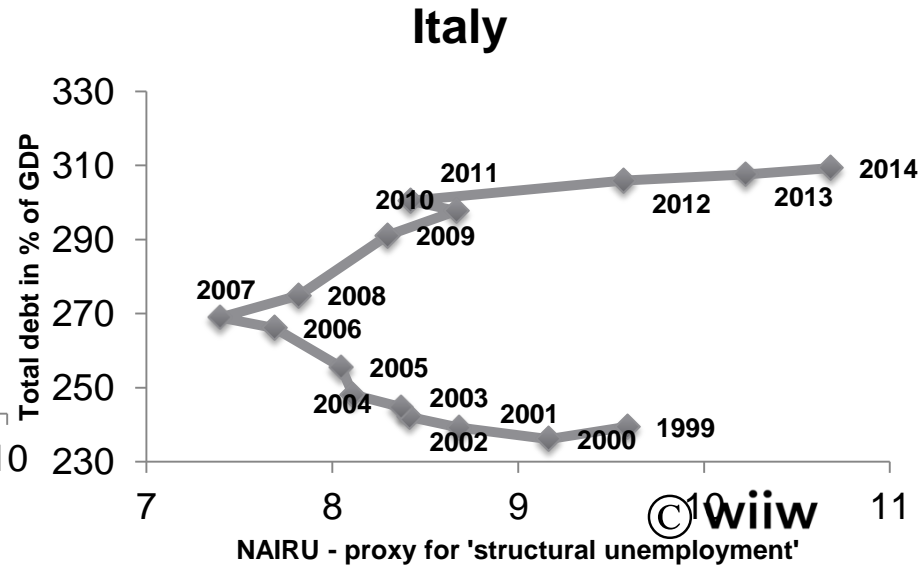
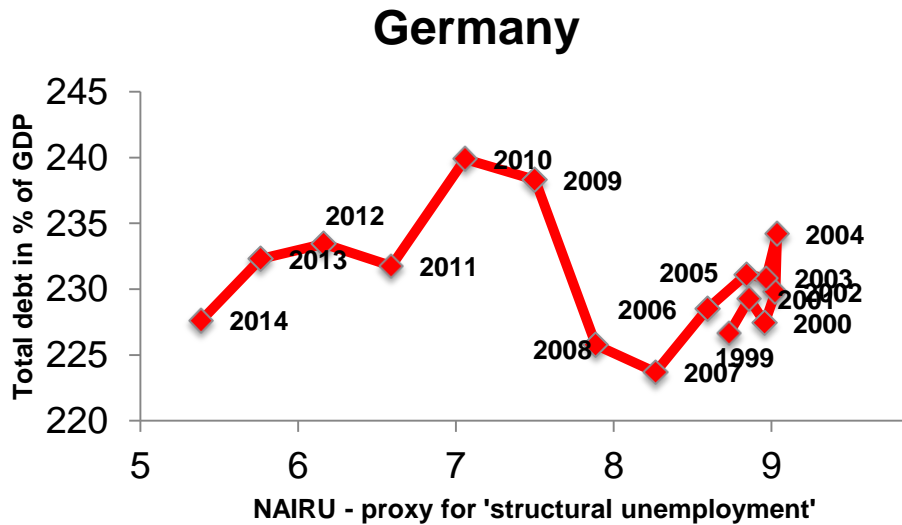
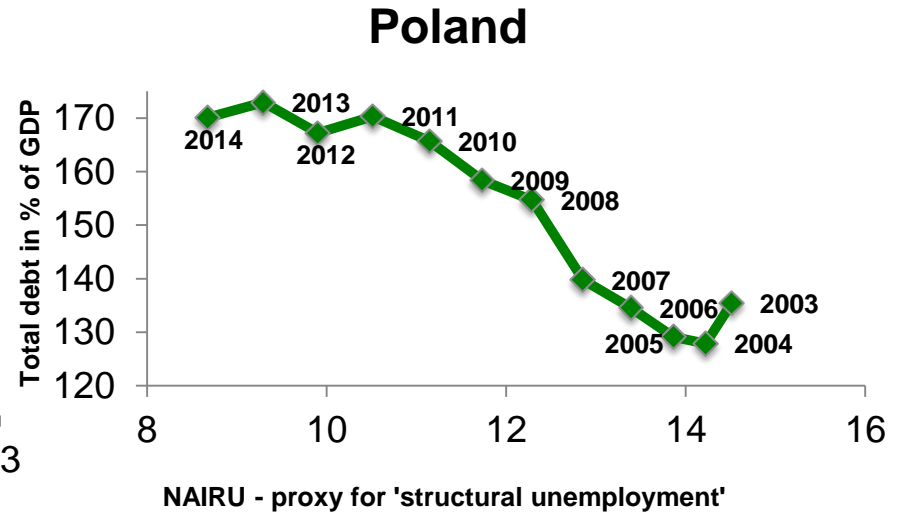
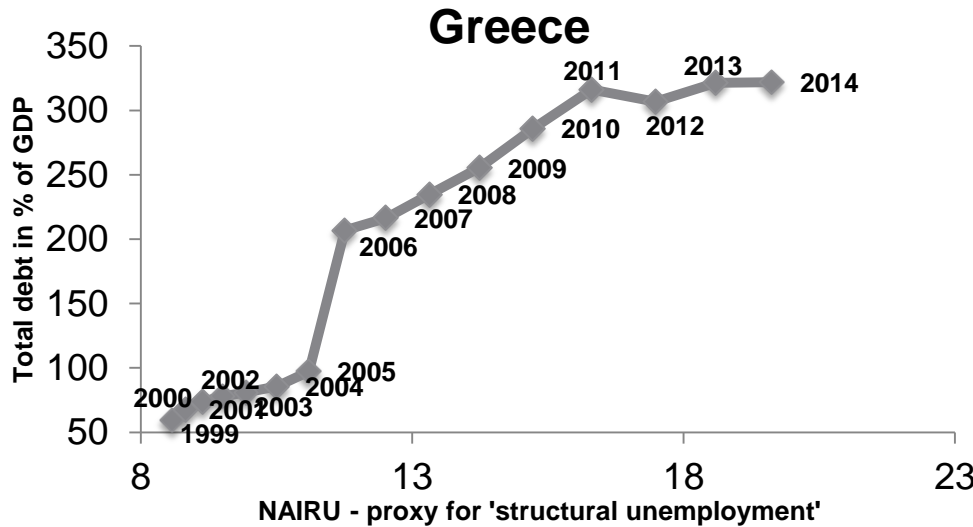


Source: AMECO; own calculations.

Polarisation in industrial employment



Structural polarisation in debt and unemployment



Source: OECD, AMECO; own calculations.

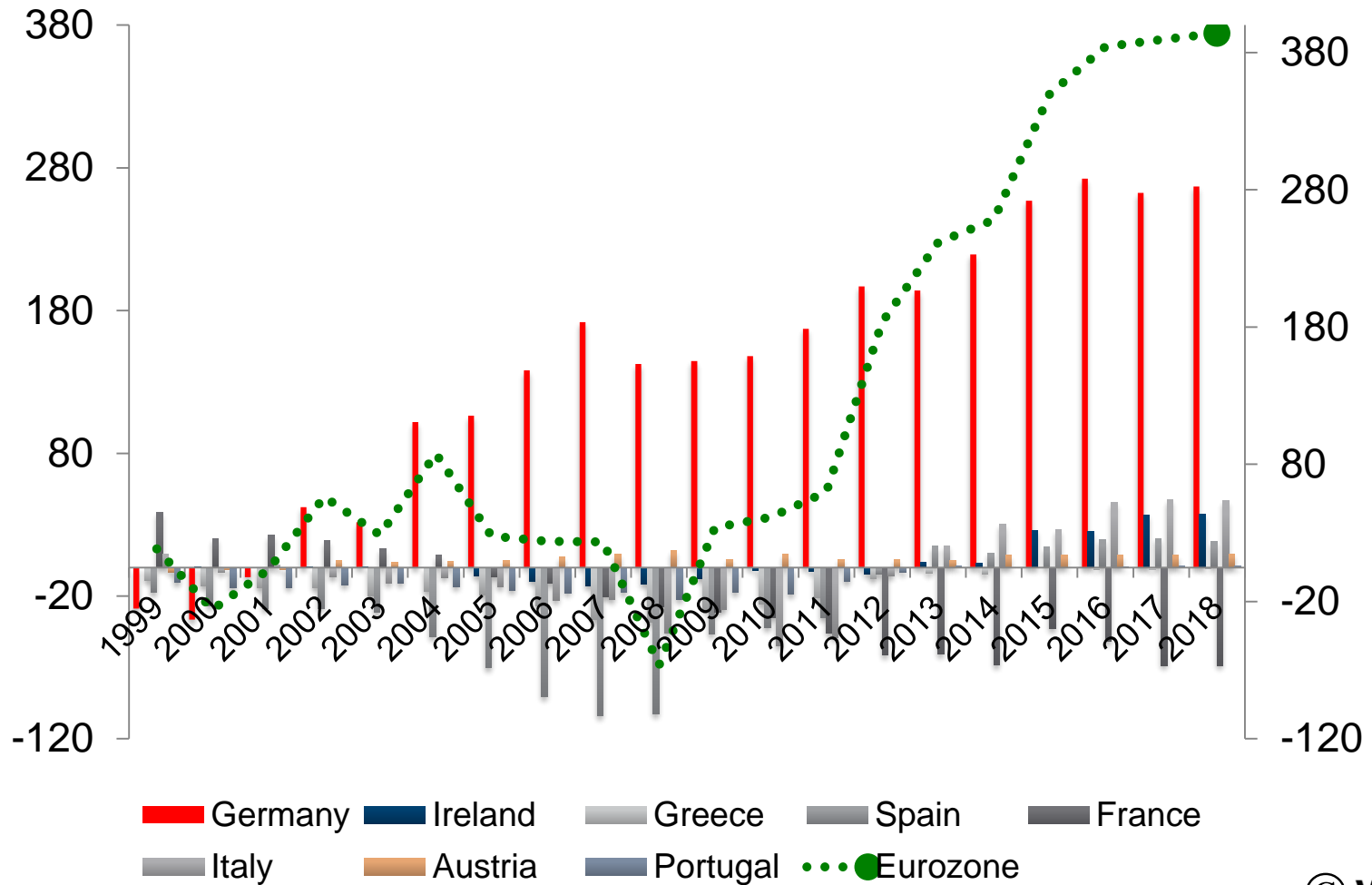
4. Current debates on fiscal policy in Europe

Current debates: How to move forward with fiscal policies in Europe?

- Should fiscal policy play a bigger role in the future in terms of stabilization policy? (Blanchard and Summers 2019)
- Does the current institutional framework allow for a proper stabilization role of fiscal policy?
- To what extent should public investment be used to address core long-term policy challenges (e.g. digitization, climate change) and macroeconomic imbalances?
- **Elements of the debate**
 - Allow for more flexibility at the national level?
 - Common euro area budget (with euro area finance minister)?
 - Fiscal transfers and automatic stabilizers?

Can fiscal policy help curb macroeconomic imbalances?

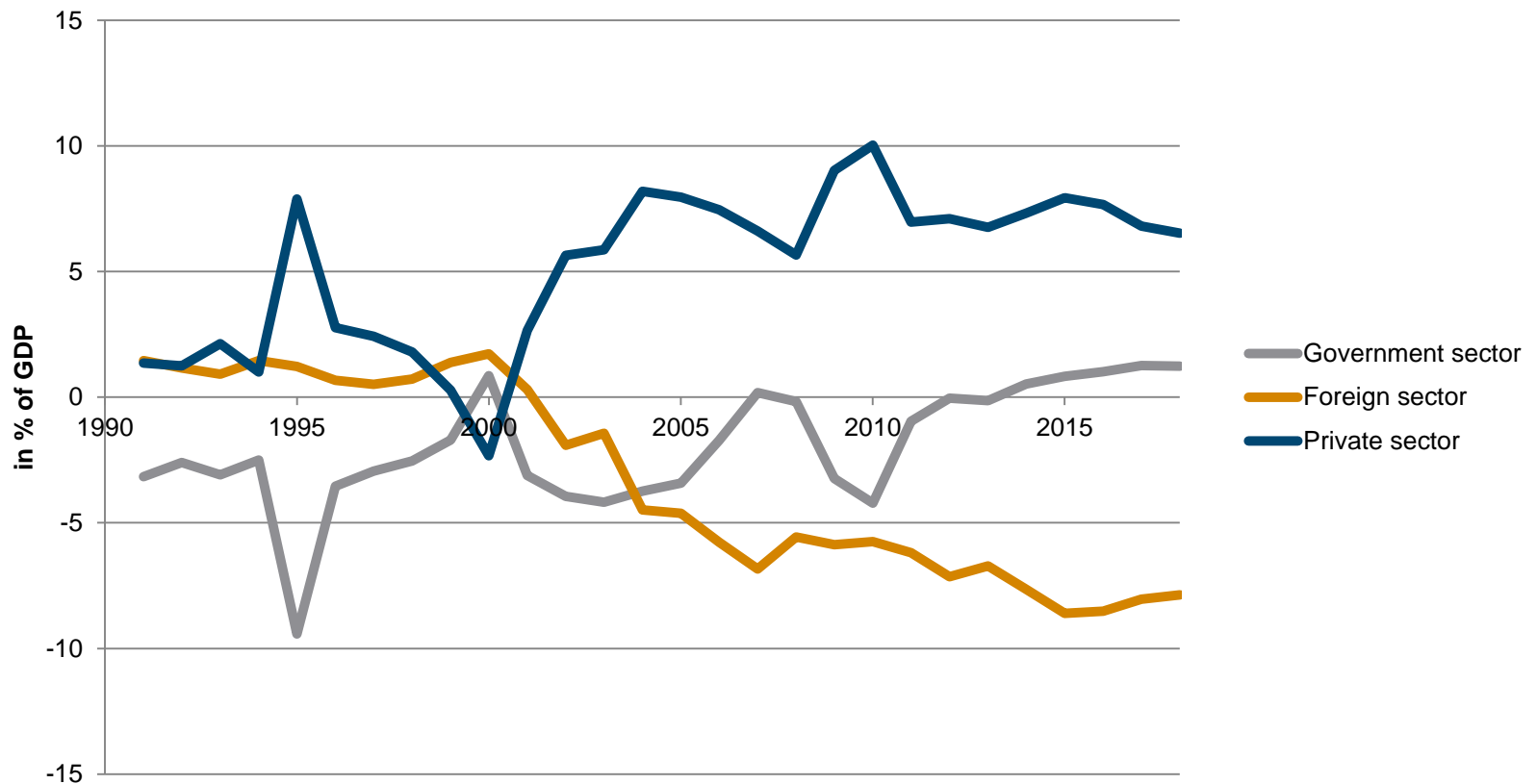
Current account balances (1999-2018), in bill. €



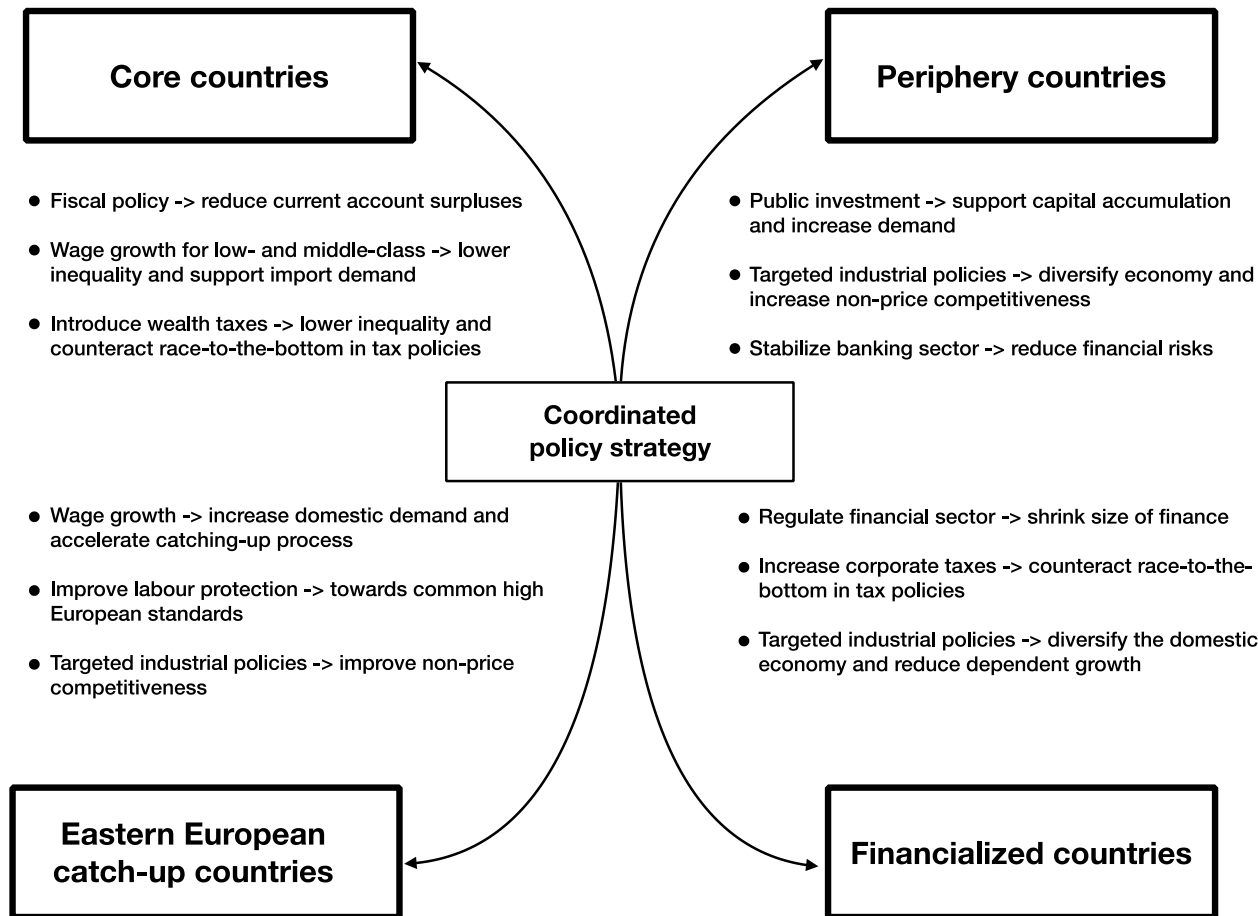
Source: AMECO

Private sector is saving massively in Germany; foreign sector accumulates large surpluses (capital outflows); the German government continues to run fiscal surpluses

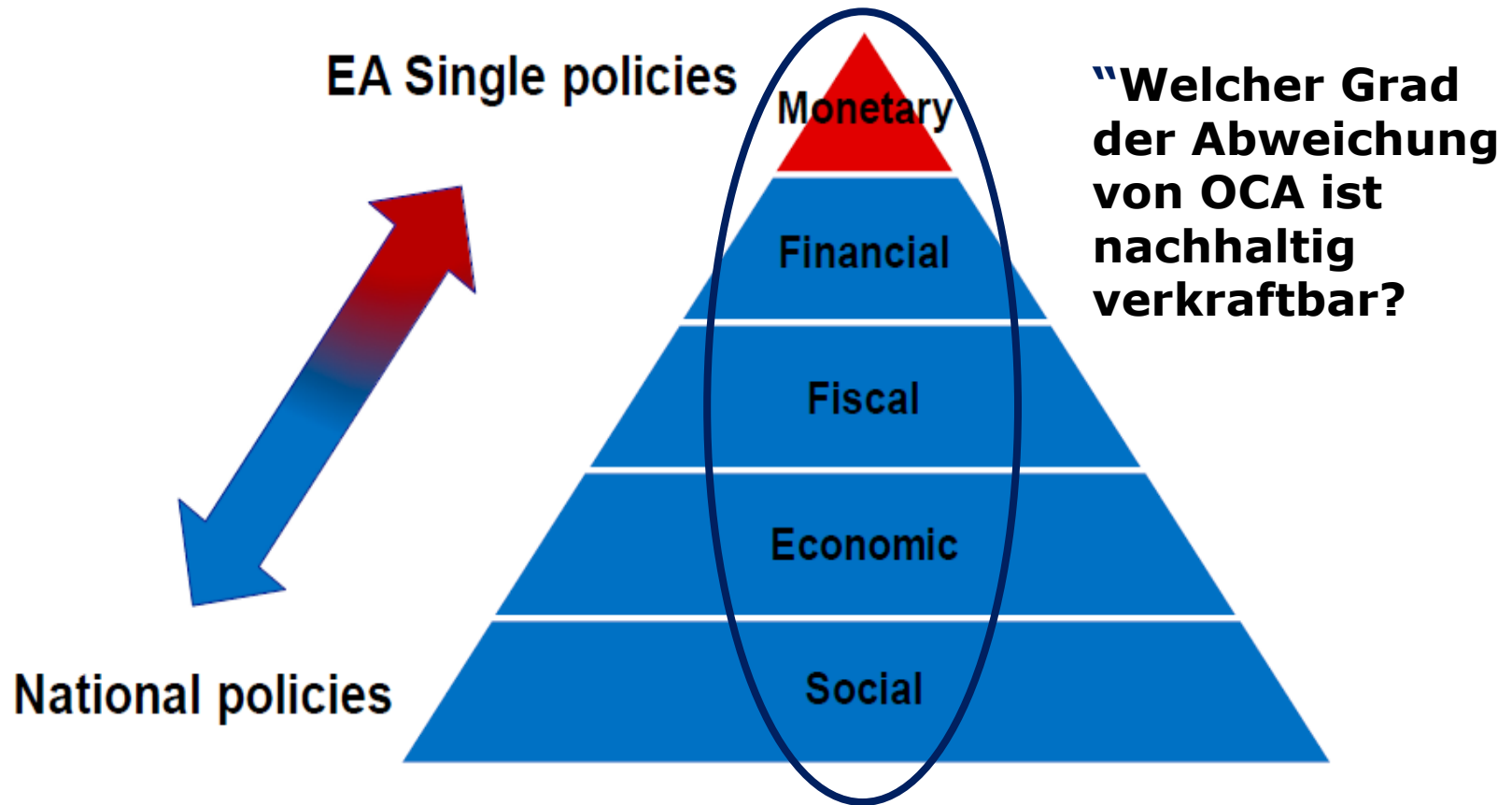
Financial balances by sector in Germany



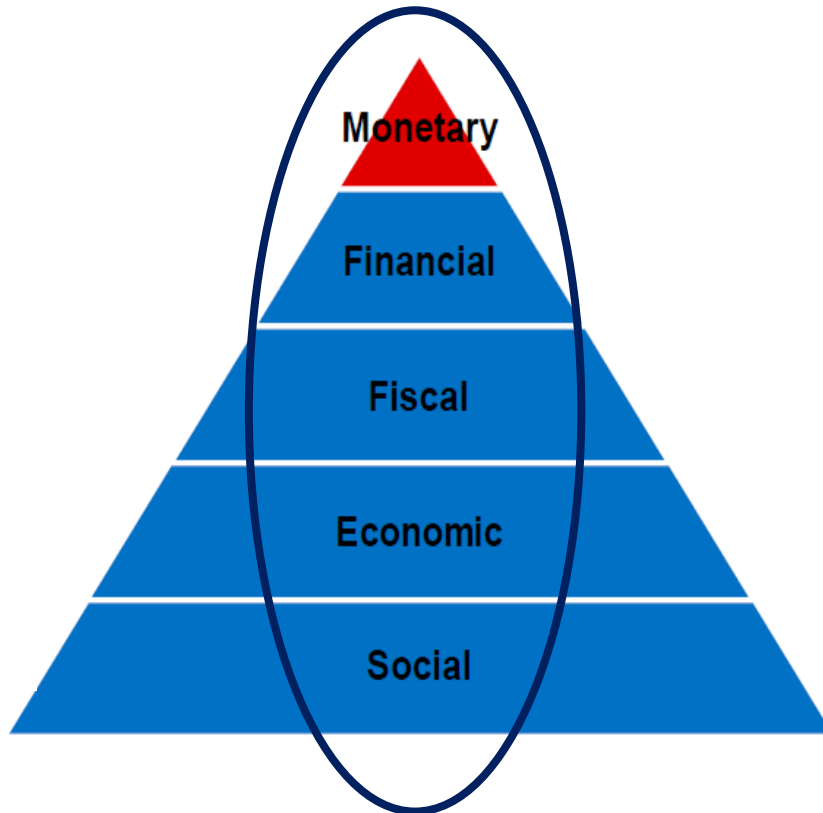
Coordinated European strategy to overcome polarization and reduce imbalances arguably requires using fiscal policy as an instrument



Institutionelle/Policy Konvergenz und Integration



Institutionelle/Policy Konvergenz und Integration



Ist der status-quo haltbar?

Geldpolitik trägt die Hauptlast

Jedoch: Limitierter Fortschritt mit

Banking union

Launch der capital markets union

Was ist die Minimum Fiskalunion welche Nachhaltigkeit der Währungsunion garantieren kann?

- Fiscal backstops
- Fiscal stabilisation auf zentraler Ebene
- Benchmarking economic and social policies

Wie geht es hier weiter?

- Blanchard, O.; Summers, L. (2019): Evolution or revolution? An afterword, VoxEU (May 13th 2019).
- DeLong, B.; Summers, L. (2012): Fiscal Policy in a Depressed Economy. *Brookings Papers on Economic Activity*, 44 (1/Spring), 233–297.
- Eggertsson, G.; Krugman, P. (2012): Debt, Deleveraging, and the Liquidity Trap: A Fisher-Minsky-Koo Approach. *The Quarterly Journal of Economics*, 127 (3), 1469–1513.
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- Koo, R. (2015): *The Escape From Balance Sheet Recession and the QE Trap*. John Wiley and Sons: Singapore.
- Rannenberg, A.; Schoder, C.; Strasky, J. (2015): The macroeconomic effects of the Euro Area's fiscal consolidation 2011-2013: A Simulation-based approach. *Central Bank of Ireland Research Technical Paper* 03/RT/2015.
- Stockhammer, E.; Qazizada, W.; Gechert, S. (2016): The Demand Effects of Fiscal Policy Since 2008, *Kingston University Discussion Paper* No. 2016/8
- Woodford, M. (2011): Simple Analytics of the Government Spending Multiplier. *American Economic Journal: Macroeconomics*, 3 (January), 1-35.

FIW Seminar – Europäische Integration

Migration und Migrationspolitik

Themen

- *Ökonomische Analyse der Migration – Limitation!*
- *Europäische Situation: von Ost-West zu Süd-Nord*
- *Zur österreichischen Situation*
- *Koordinierte EU Migrations- und Flüchtlingspolitik?*

Globale Trends

- ***Migrationsflüsse in den letzten Jahrzehnten gestiegen***
- ***Migration – Teil der Globalisierungstendenzen (Komplementarität zu Handel, Investitionen, Bildungsverflechtung; gesunkene Kommunikations-/Transportkosten)***
- ***Anstieg trotz Verschärfung von Migrationspolitik***
- ***Emigrationsraten höher bei ‘middle income countries’; inverse U-Kurve***
- ***Süd-Süd (intra-regionale) vs. Süd-Nord Migration***

Süd-Nord Migration: demographische Komplementarität - Europa und MENA-20

- **Population size:** Western and Central Europe: 2003: 467 mio; 2025: 466 mio; MENA-20: 2000: 316 mio, 2025: 492 mio (+56%); 2050: 638 mio (+73%)
- **Labour force** (15-64 year old): Western and Central Europe: 2000: 312 mio; 2025: 295 mio (-5.5%); 2050: 251 mio (-20%); MENA-20: 2000: 187 mio; 2025: 323 mio (+73%); 2050: 417 mio (+123%)
- **Ageing** (people older than 65): Western and Central Europe: 2000: 73 mio; 2025: 104 mio (+42.5%); 2050: 125 mio (+71%)

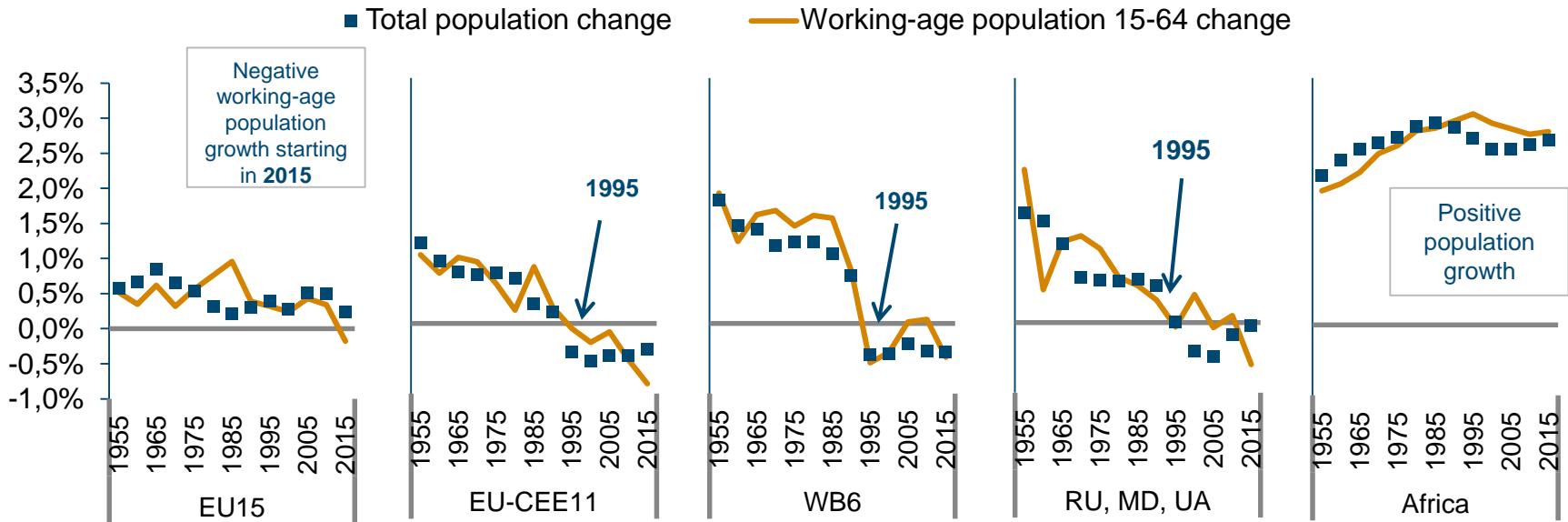
Western and Central Europe: EU-25 plus EEA plus Switzerland; MENA-20: Middle East plus North Africa plus Gulf states

Medium- to Longer-Term Challenge: Differentiated Demography in Europe



Strong decline in total and working-age population growth

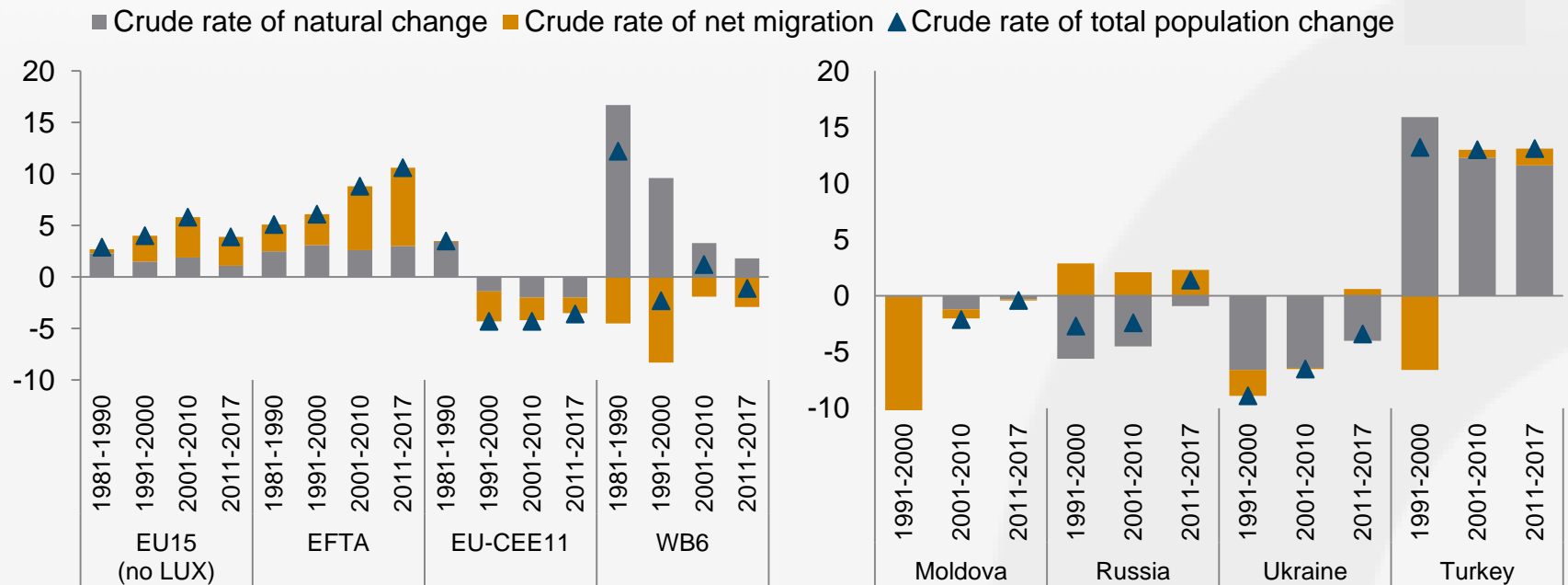
Total and working-age population growth, 1955-2015, %



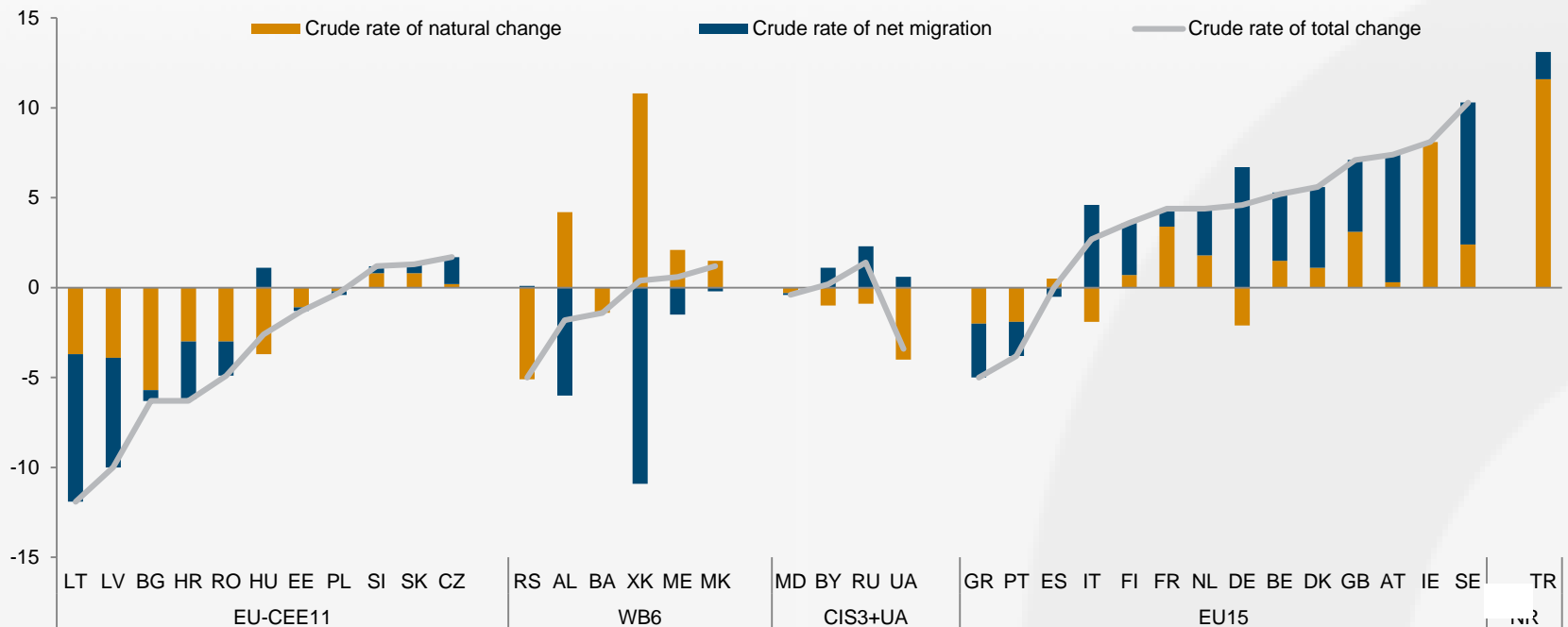
Source: UN Statistics, 2017.

What has been the impact of migration?

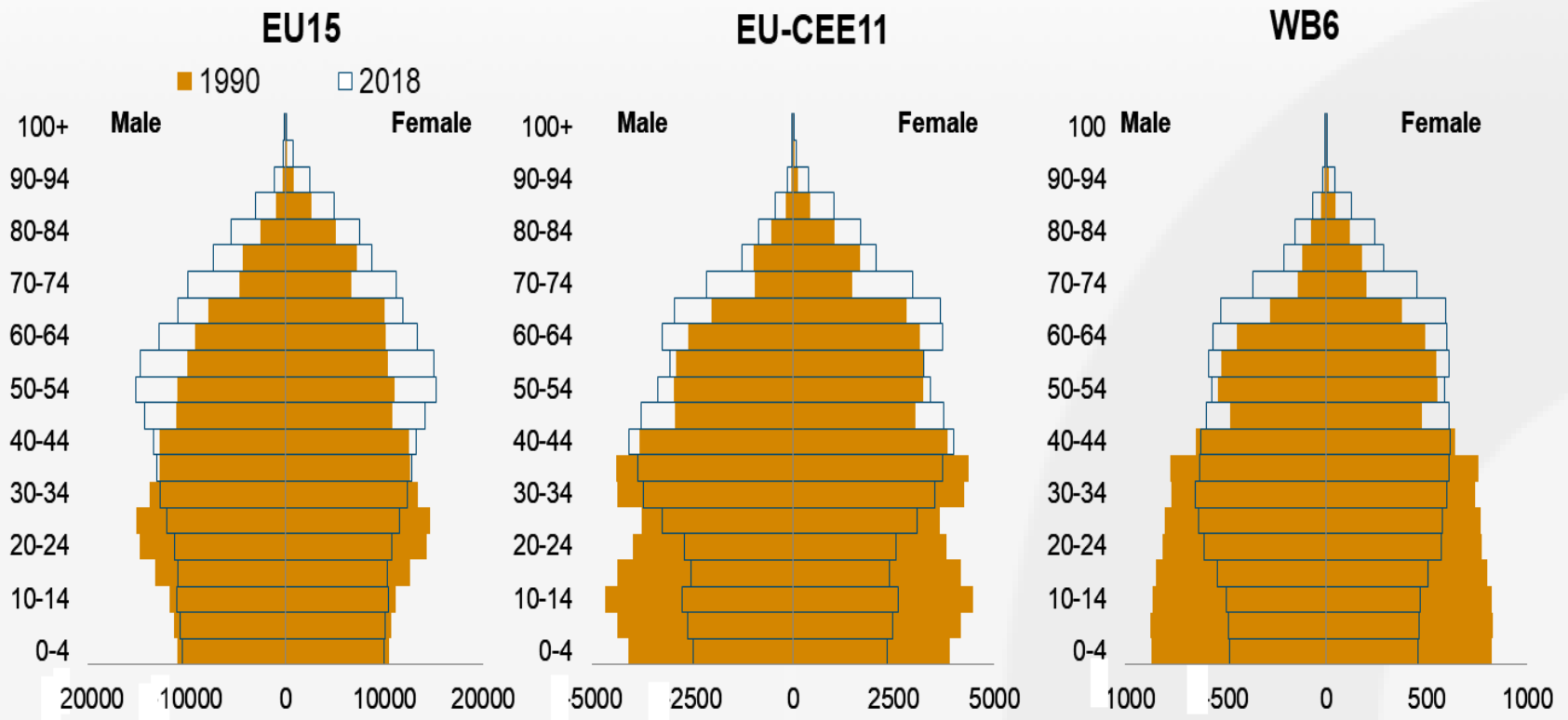
Population dynamics, 1980-2018, %



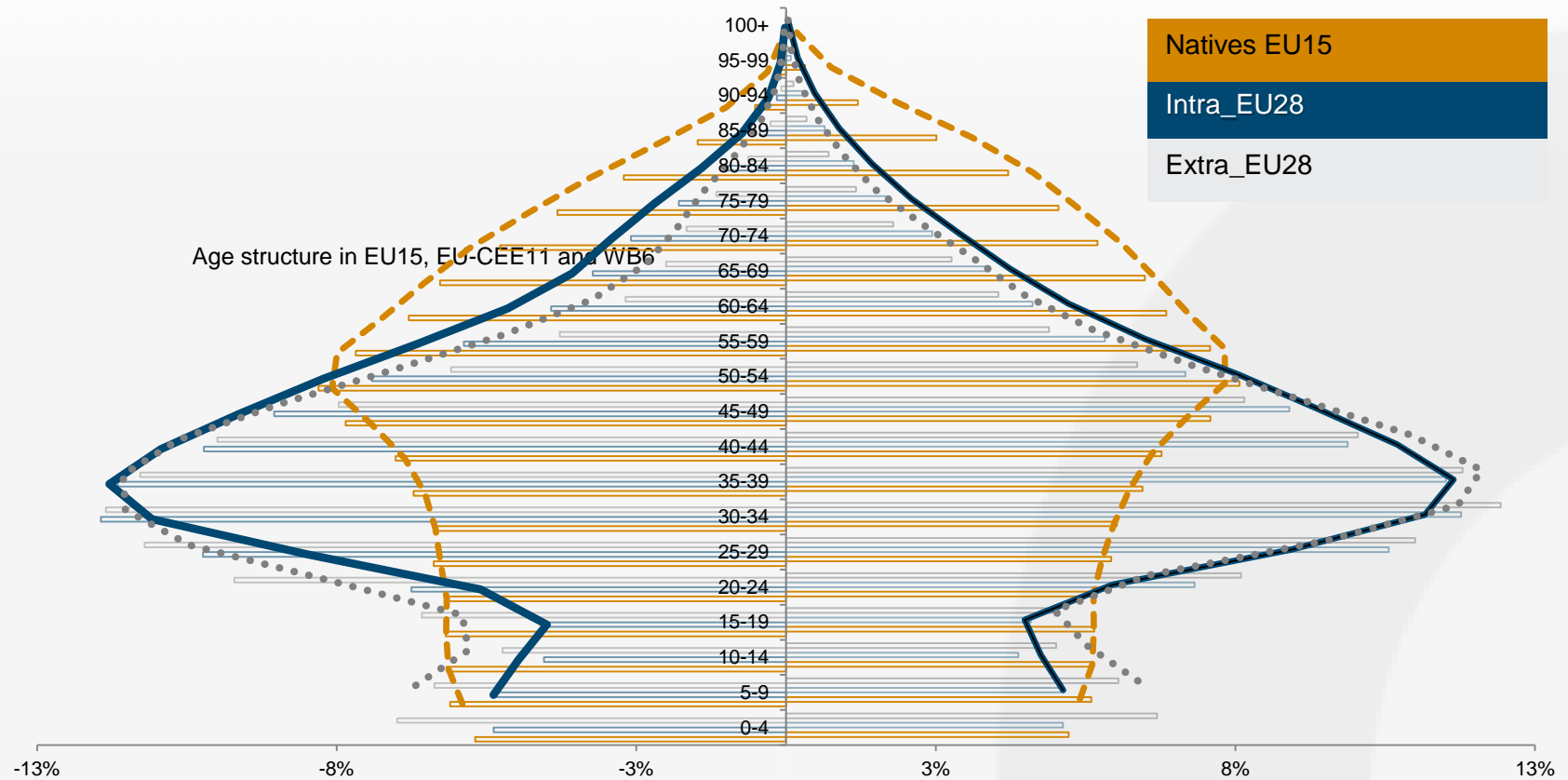
Average population change by individual countries, cumulative in %, 2011-2017



Age structure of population: EU15, EU-CEE11, WB6; 1990 and 2018

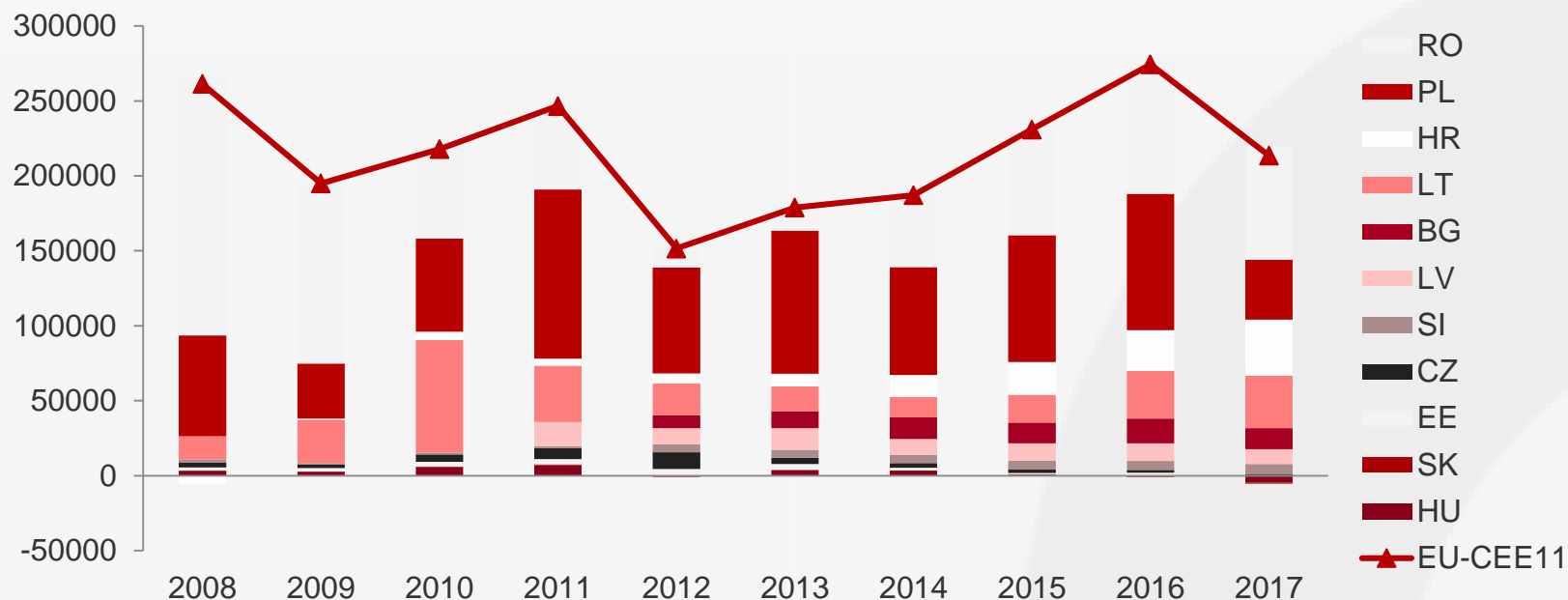


Age structure in EU-15: natives in EU-15; migrants from intra-EU28, from extra-EU28



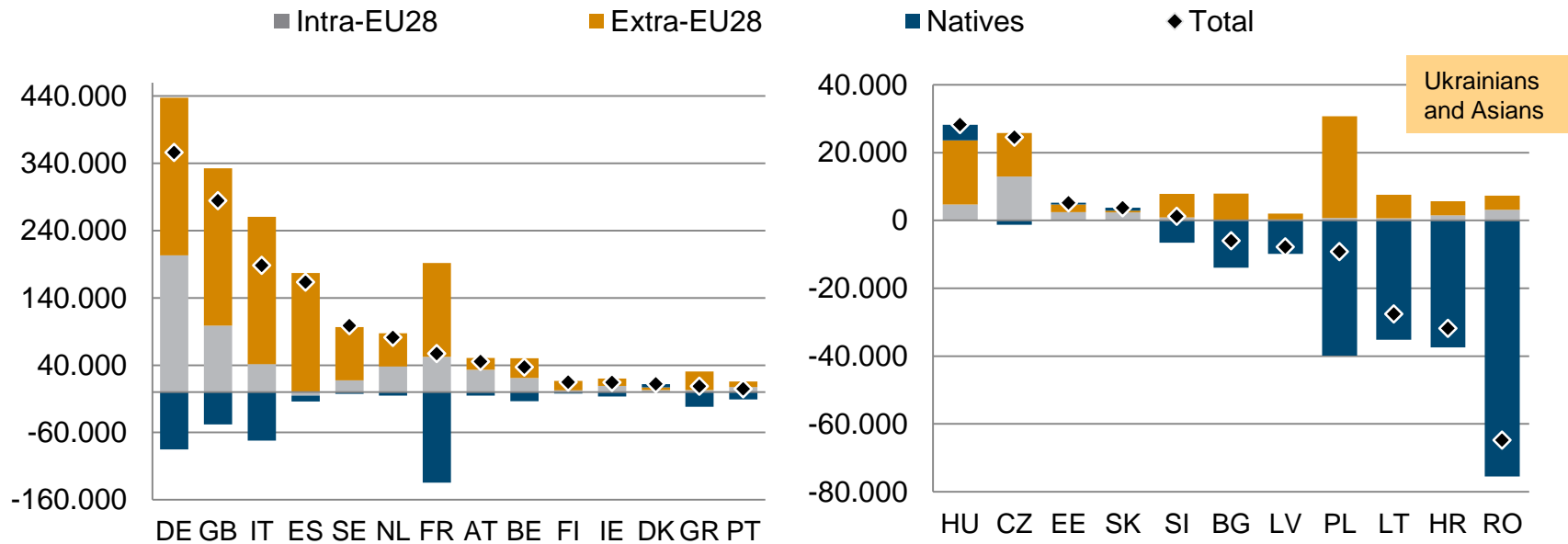
Net migration from EU-CEE11: Since 2008 between 150 and 250 thousand migrants left EU-CEE11 every year

Net migration from EU-CEE11, 2008-2017



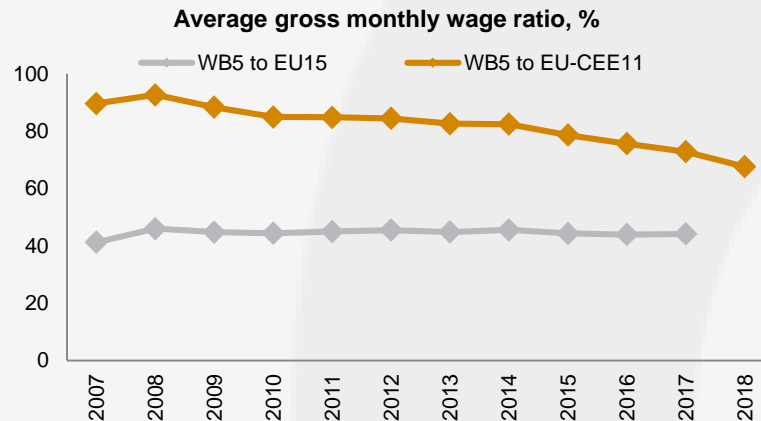
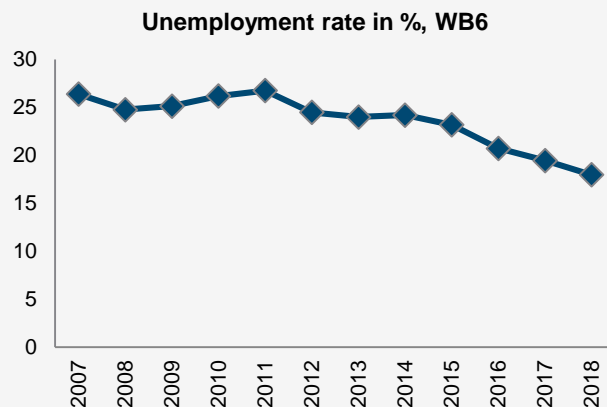
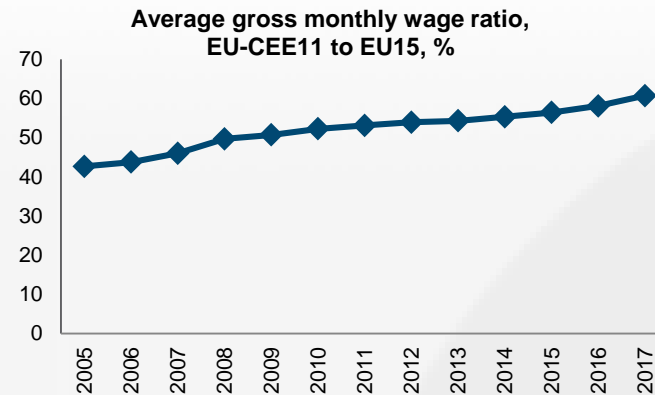
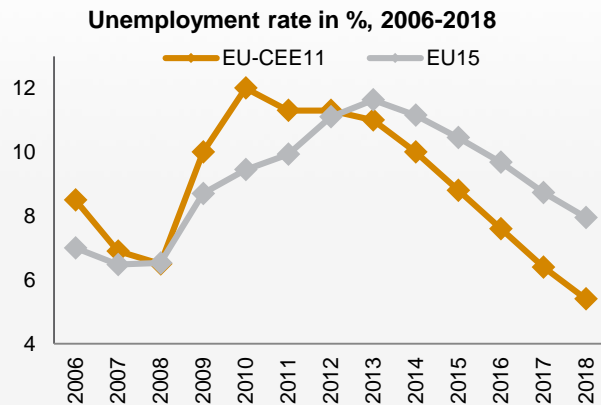
Positive net migration to some of EU-CEE11 countries in 2017

Net migration by nationals, EU28 and extra-EU28 migrants



Source: Eurostat.

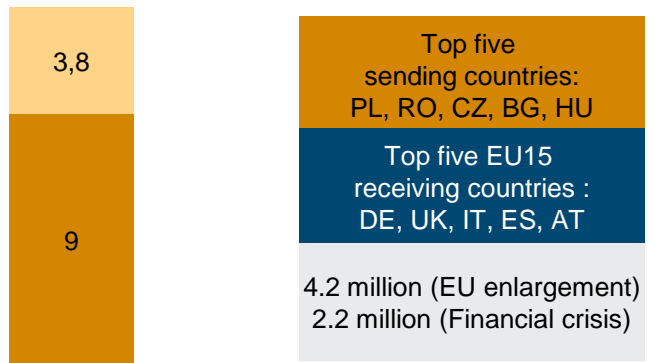
Different patterns of EU-CEE11 and Western Balkans: Unemployment rates and wage rates: EU15, EU-CEE11, WB5



Migration in numbers

**Emigrants from EU-CEE11:
 12.8 million in 2017**

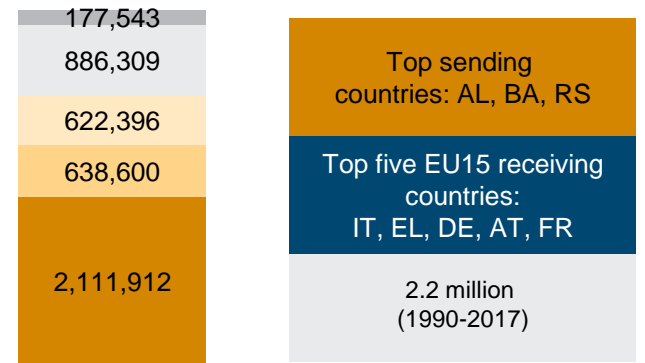
■ EU15 ■ Other



Main residing regions

**Emigrants from WB:
 4.4 million in 2017**

■ EU15 ■ CEE ■ WB6 ■ Other ■ Turkey

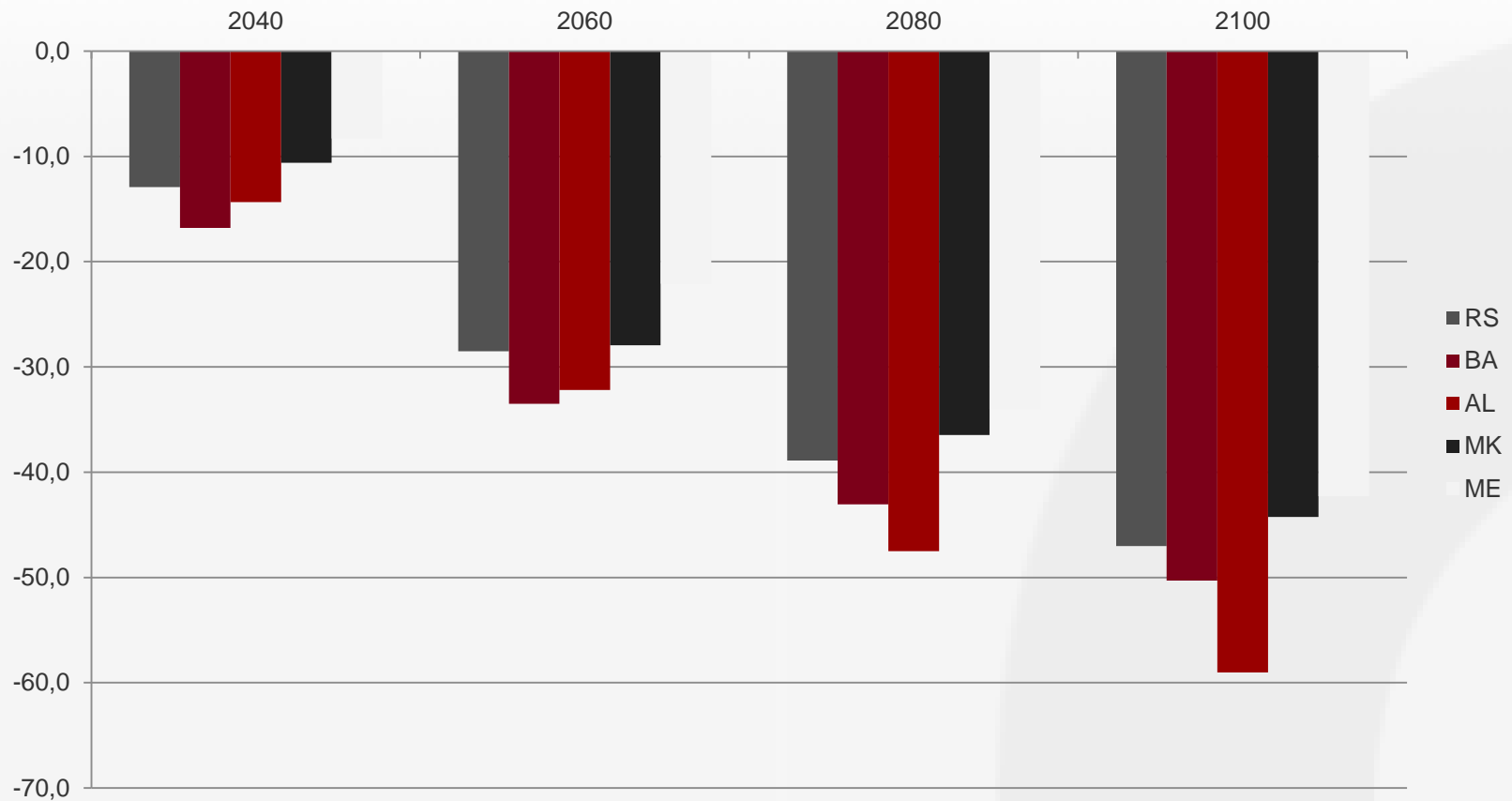


Main residing regions

Source: Eurostat, UN Statistics.

UN population projections: Western Balkans losing 30% of working age population by 2016

Demographic trends in working-age population, % change relative to 2020



Summary: Migration - Demography

■ EU-CEE running out of steam

- Outward migration **will slow down** due to:
 - strong drop in working-age population
 - rise in wages
 - drop in unemployment
- **Labour shortages** in EU-CEE and EU15 are likely to be **tackled** via **extra-EU** rather than intra-EU mobility
- Rise in **birth rate** is an option, but in the **long run**

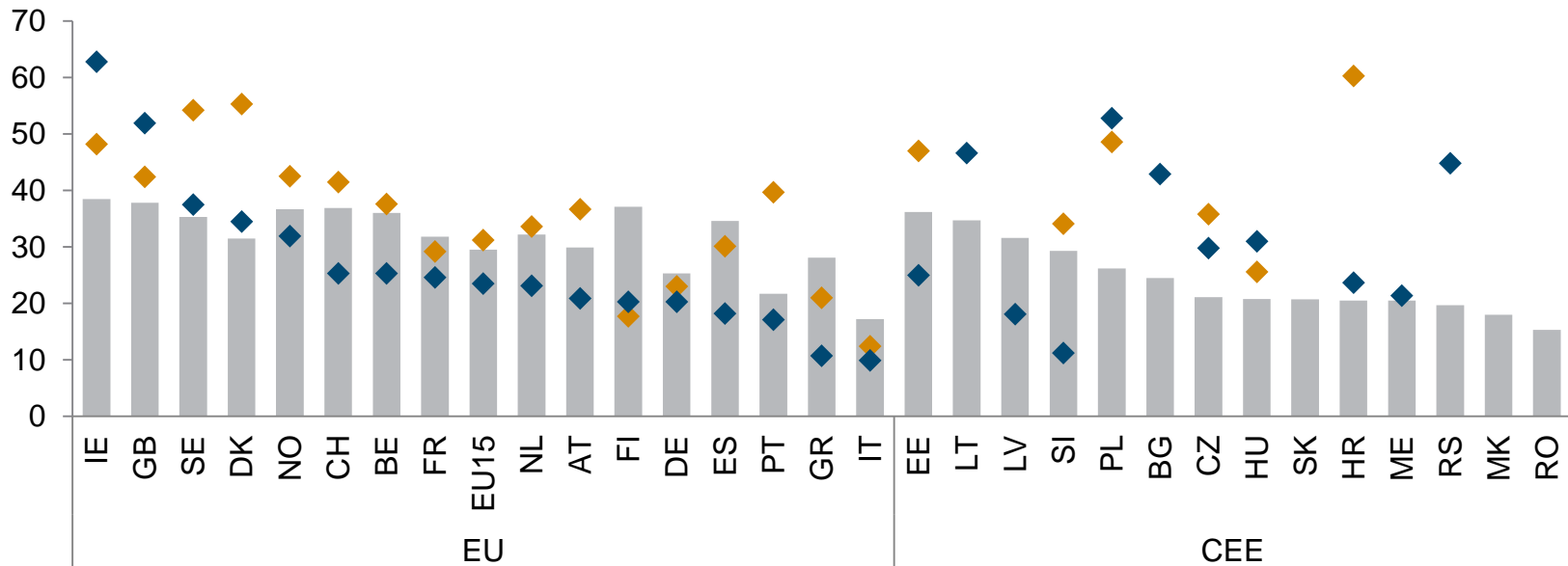
■ Potential migration from WB6 remains high

- Similar to EU-CEE11, WB6 has lost and will continue to lose the youngest and some its most skilled people
- Drop in total and working-age population and continued emigration puts at **risk**:
 - demographic structure
 - human capital
 - economic prospects of the sending countries
- Reducing migration pressure from WB6:
 - involvement of **diaspora**
 - Incentivise use of **remittances** into investment
 - General economic development (diversification, industry/exporting capacity, governance)
 - Encourage return migration

Intra-EU mobility and high skilled migrants

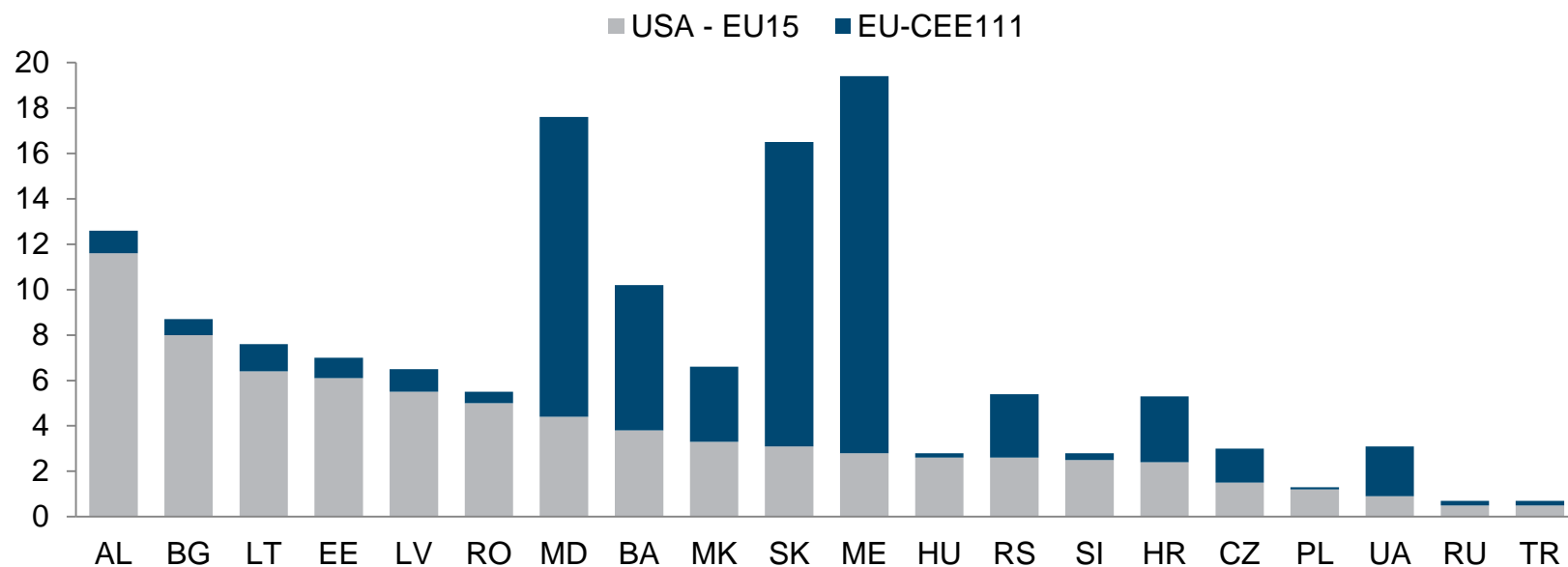
Population by Tertiary education (levels 5-8), in %, 2017: natives vs migrants

■ Reporting country ◆ Intra-EU28 immigrants ◆ Extra-EU28 immigrants



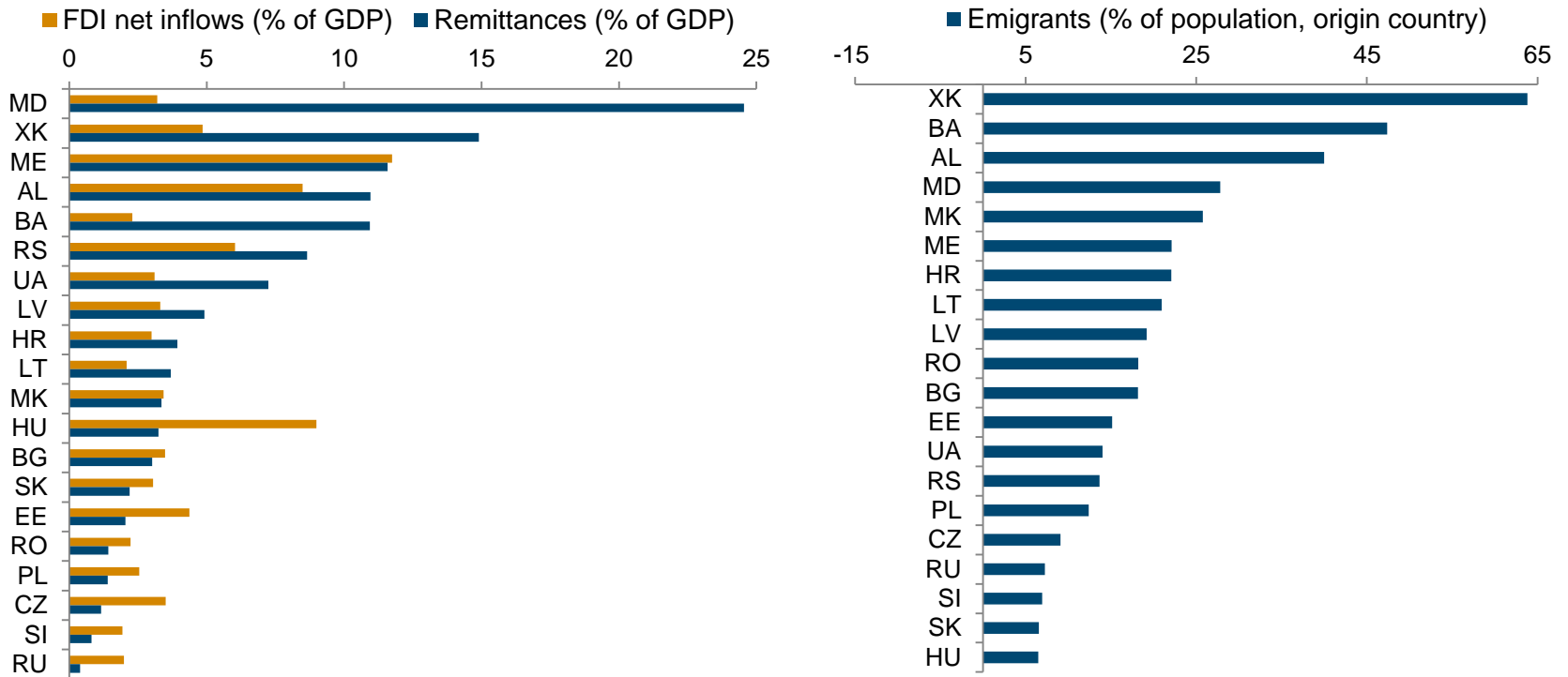
EU-CEE and WB6: student mobility

Outbound mobility ratio, international students , average 2012-2017, %



Note: Number of students from a given country studying abroad, expressed as a percentage of total tertiary enrolment in that country. Source: Eurostat

The other side of the story: high inflow of remittances and FDI

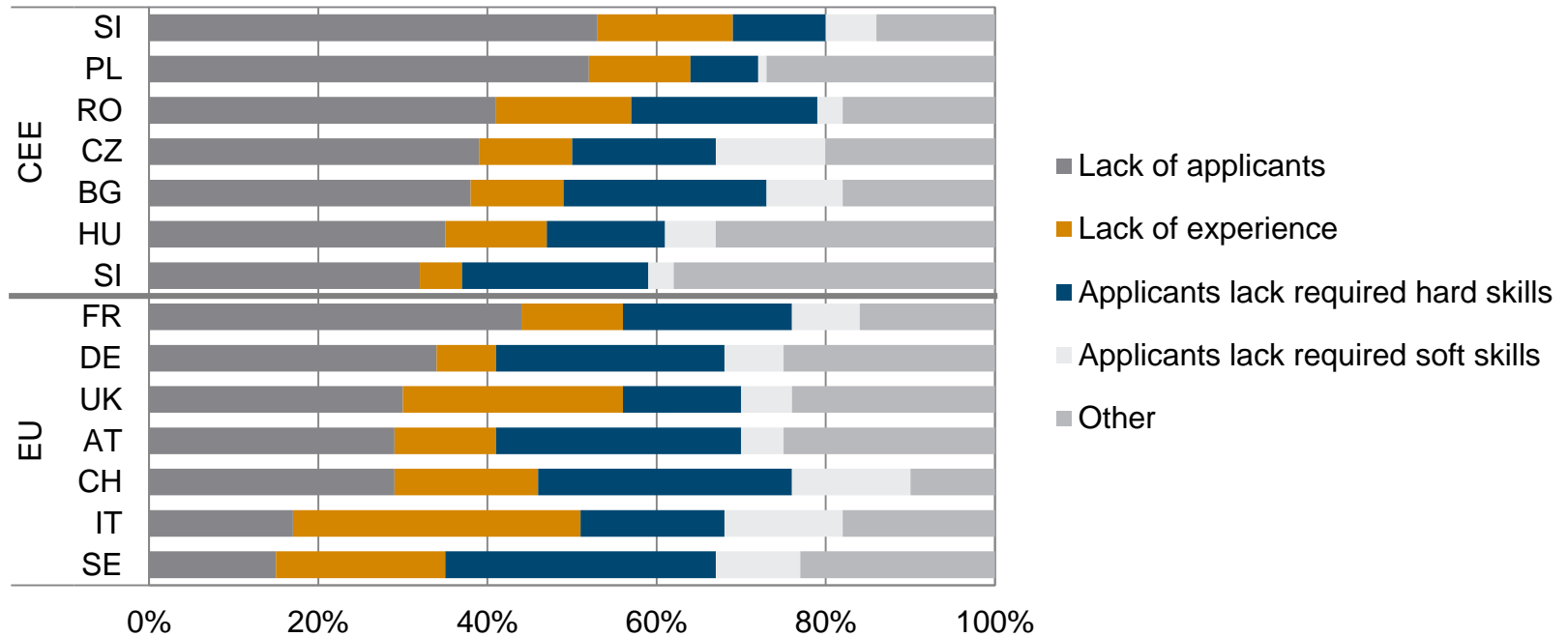


Source: wiiw database, World Bank Group; 2017 or latest year available.

Part II

Migration and labour market implications

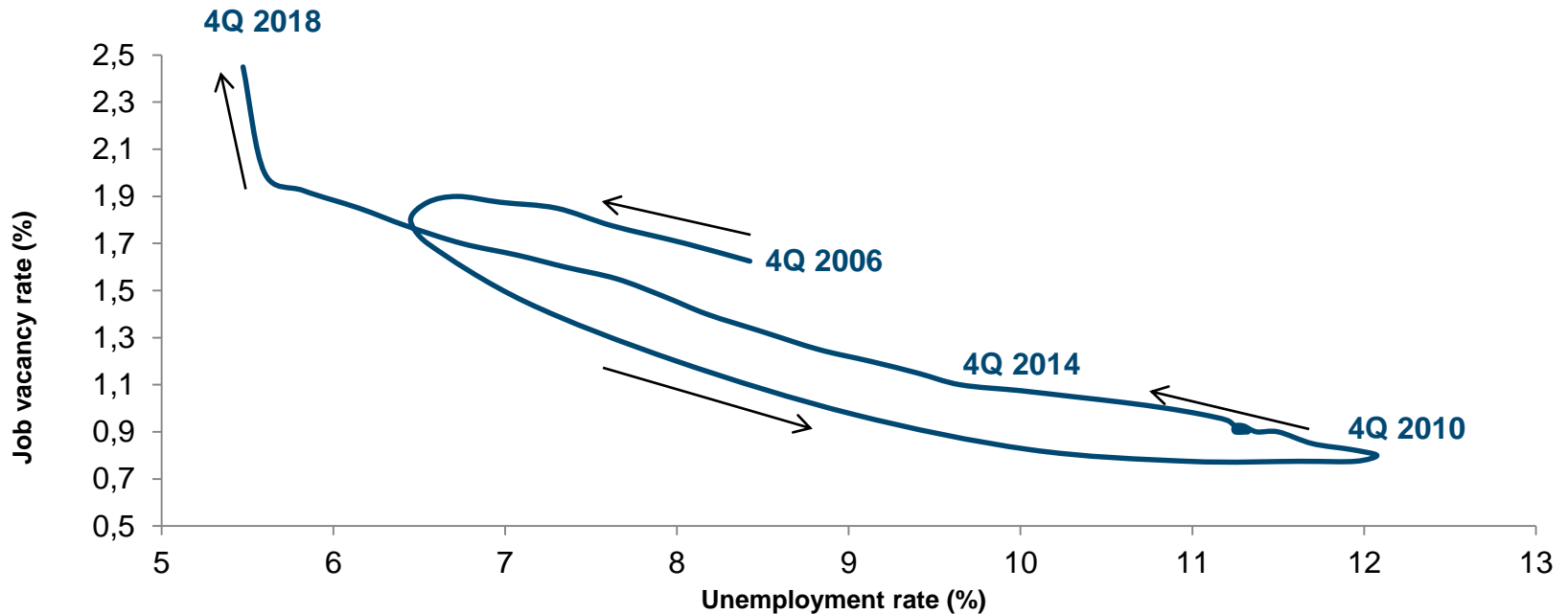
Main difficulties faced by employers to find workers, 2018



Source: Manpowergroup, '2018 Talent Shortage Survey'.

Strong drop in unemployment rate combined with rise in vacancy rates in EU-CEE11

Beveridge curve, 4Q 2006 - 4Q 2018 (four-quarter average rates)



Source: Eurostat.

Ökonomische Analyse der Migration

- ***Abschätzung von Migrationsströmen***
- ***Arbeitsmarkteffekte***
- ***Demographie: Effekte auf Altersstruktur***
- ***Fiskalische Implikationen***
- ***Effekte auf Produktivität, Innovation***
- ***Mobilität von MigrantInnen, Beitrag zu OCA***
- ***Job-Qualifikations(mis)match***
- ***Migrationsregime und Migrationsströme;
Umlenkungseffekte***

Ökonomische Analyse der Migration - Effekte auf Herkunftsländer

- ***Überweisungen/Remittances und deren Effekte***
- ***Brain drain, brain circulation; return migration***
- ***Auf Erziehung; Humankapitalbildung***
- ***Einkommensverteilung; Armut***
- ***Reduzierter Arbeitsmarktdruck***
- ***Soziale und politische Effekte***

Unterschied: Migrations- und Flüchtlingsströme

- ***Keine/wenige Netzwerke***
- ***Keine Vorbereitung bezügl. Qualifikationserwerb; Sprache etc.***
- ***Längere Integrationsprozesse; Beschäftigungsraten steigen langsam***
- ***Fiskalisches Break-even später***
- ***Starke Heterogenität unter Flüchtlingen (nach Herkunftsregionen, Bildungsniveau, etc.)***

Europäische Herausforderungen

- ***Innerhalb der/s EU/Schengenraum:
Vereinheitlichung des Arbeitsmarktes***
- ***Qualifikationsprofil von MigrantInnen
unterschiedlich in unterschiedlichen EU
Zielländern – daher auch unterschiedliche
Effekte; auch Unterschiede in Job-Skill
(Mis)match***
- ***Wichtiger Beitrag von Migration/Mobilität auf
gesamteuropäische Mobilität***
- ***Zukunftsperspektive: intra- vs. extra-EU Migration***

Europäische Herausforderungen

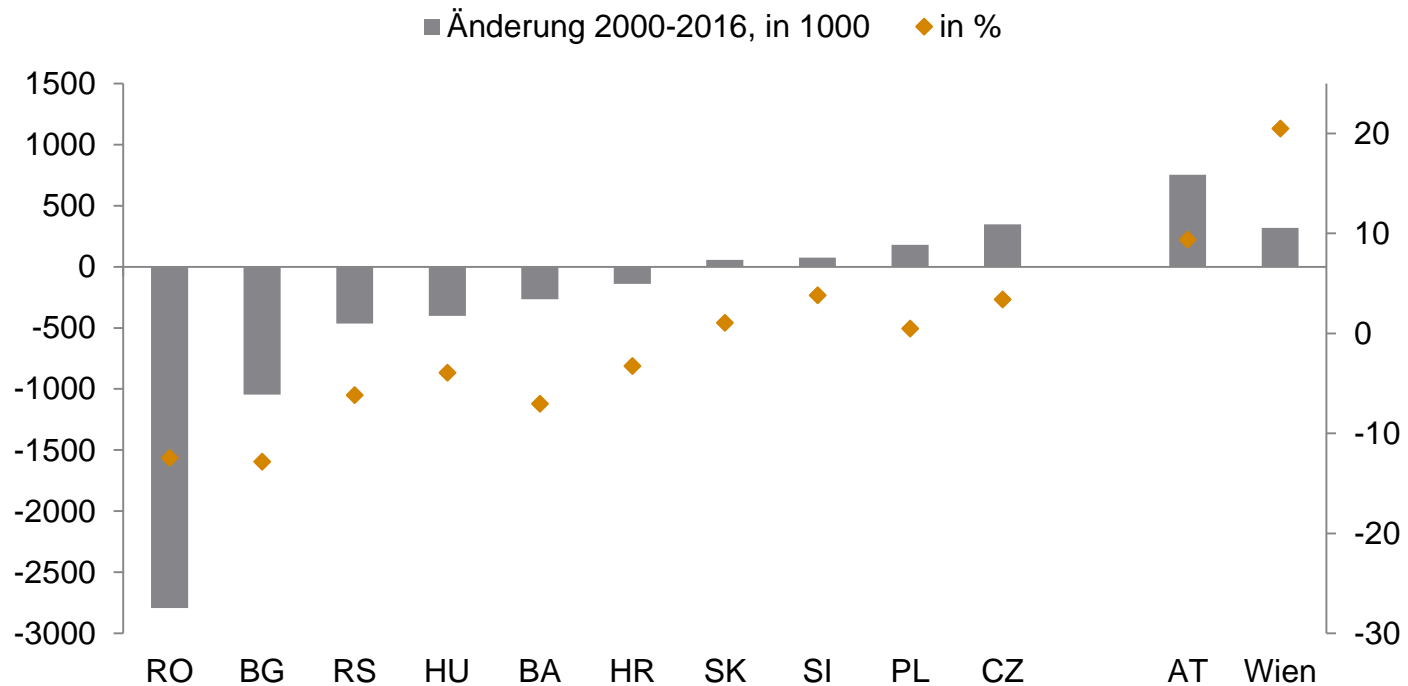
- ***Zukunftsperspektiven: the ‚Big Shift‘ (Ost-West zu Süd-Nord)***
- ***Starke demographische Komplementarität***
- ***Failed states/failed economies in Nachbarregionen***
- ***Geo-strategische Konflikte***
- ***Mehr middle-income countries in Afrika***
- ***EU hat bisher wenig Erfolg als ökonomischer, politischer, sozialer Stabilisierungsfaktor in Nachbarregion***

Spezifisch österreichische Situation

- ***Nettomigrationsströme buckelförmig für Einzelländer***
- ***Effekte von wirtschaftlichen/sozialen Krisen (z.B. Ungarn)***
- ***Jedoch: Arbeitsmarktsituation in Osteuropa verbessert; Alterung; Unterschiede CEE, Balkans***

Bevölkerung schrumpft in fast allen MOEL und in den WB-2, wächst nur in der Slowakei, Polen, Slowenien u. Tschechien

Bevölkerungsentwicklung 2000-2016

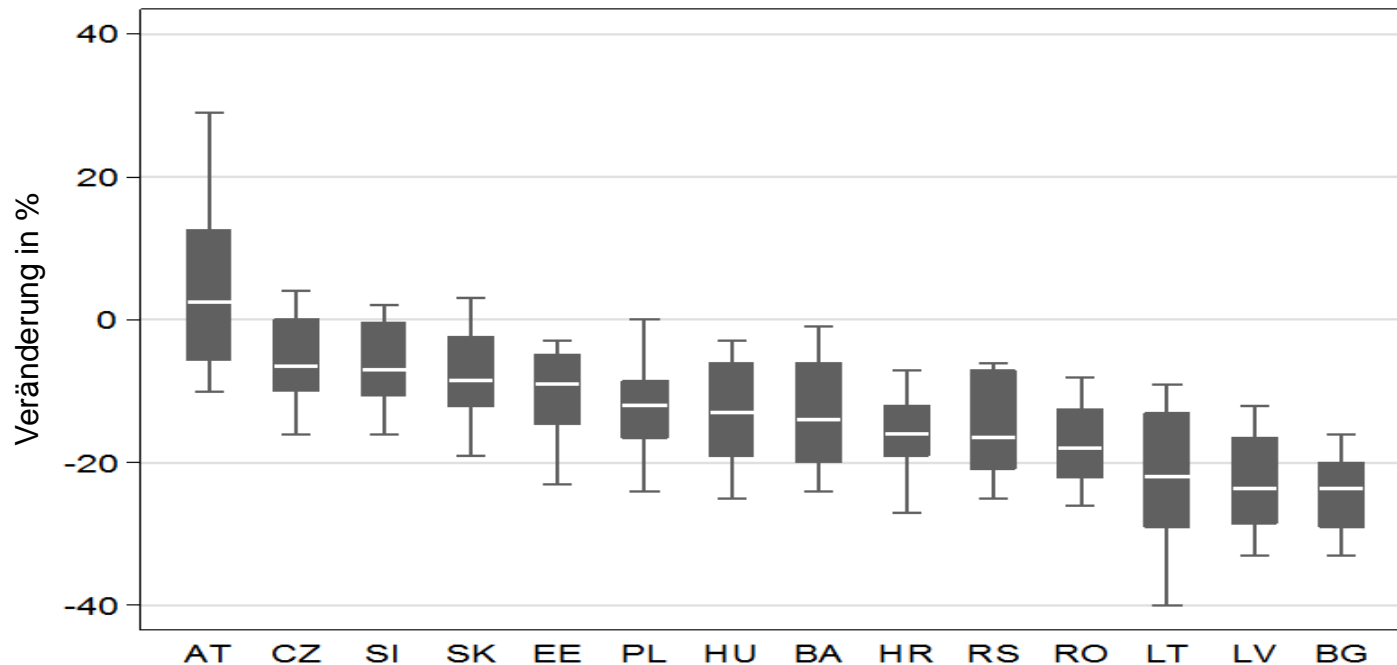


Demographische Entwicklung

- Bevölkerung in den MOEL schrumpfte im Zeitraum 2000-2016 um etwa 5,5 Millionen Personen
 - Gründe waren Migration und Alterung
- Teilweise starker Rückgang des Anteils der Bevölkerung 15-64 Jahre in den MOEL
 - Insbesondere schrumpft Altersgruppe 15-24 Jahre
- In Österreich stieg im gleichen Zeitraum die Bevölkerung um etwa 750.000 Personen
 - Stärkerer Anstieg von Männern (10% verglichen zu 7% Frauen)
- Langsame Annäherung der Bildungsstruktur hinsichtlich hochqualifizierter Personen
 - Aber heterogen über Länder

Demographische Prognosen im Überblick

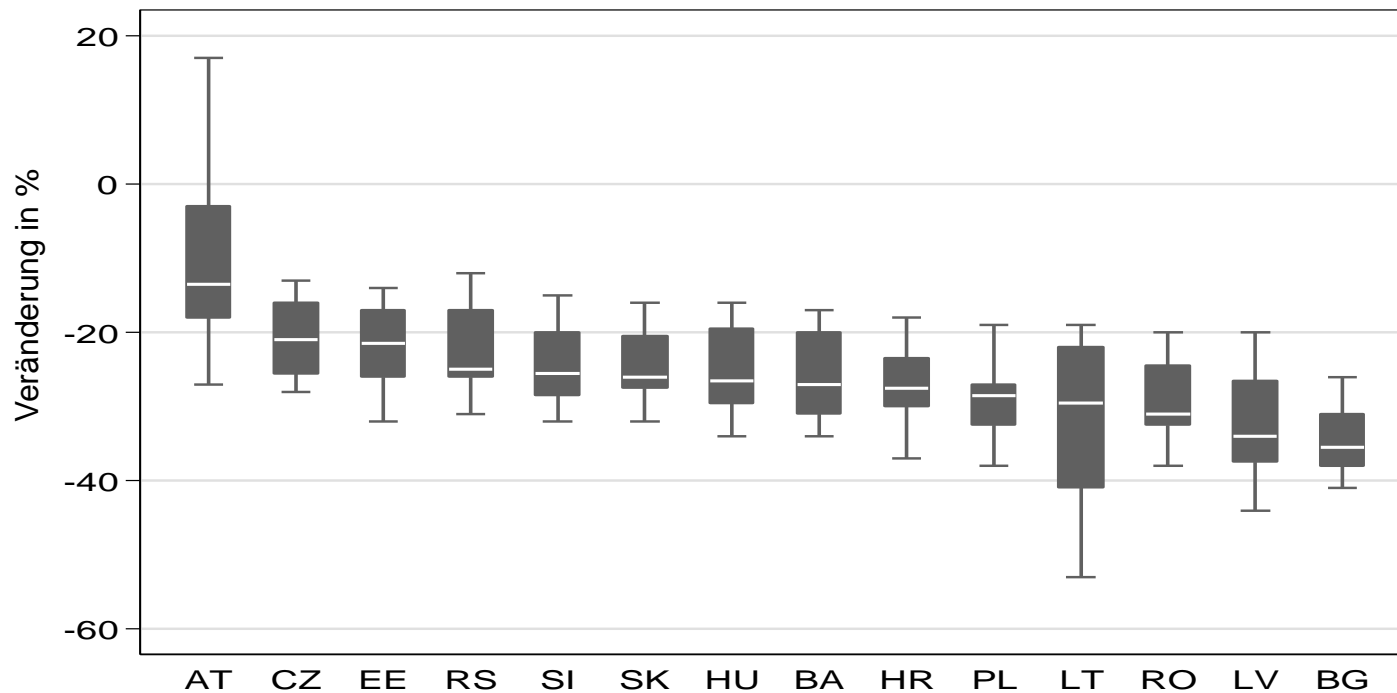
Änderung der Bevölkerung bis 2050, in %



➤ Starker Schwund der Bevölkerung zwischen 5% und 25%

Demographische Prognosen im Überblick

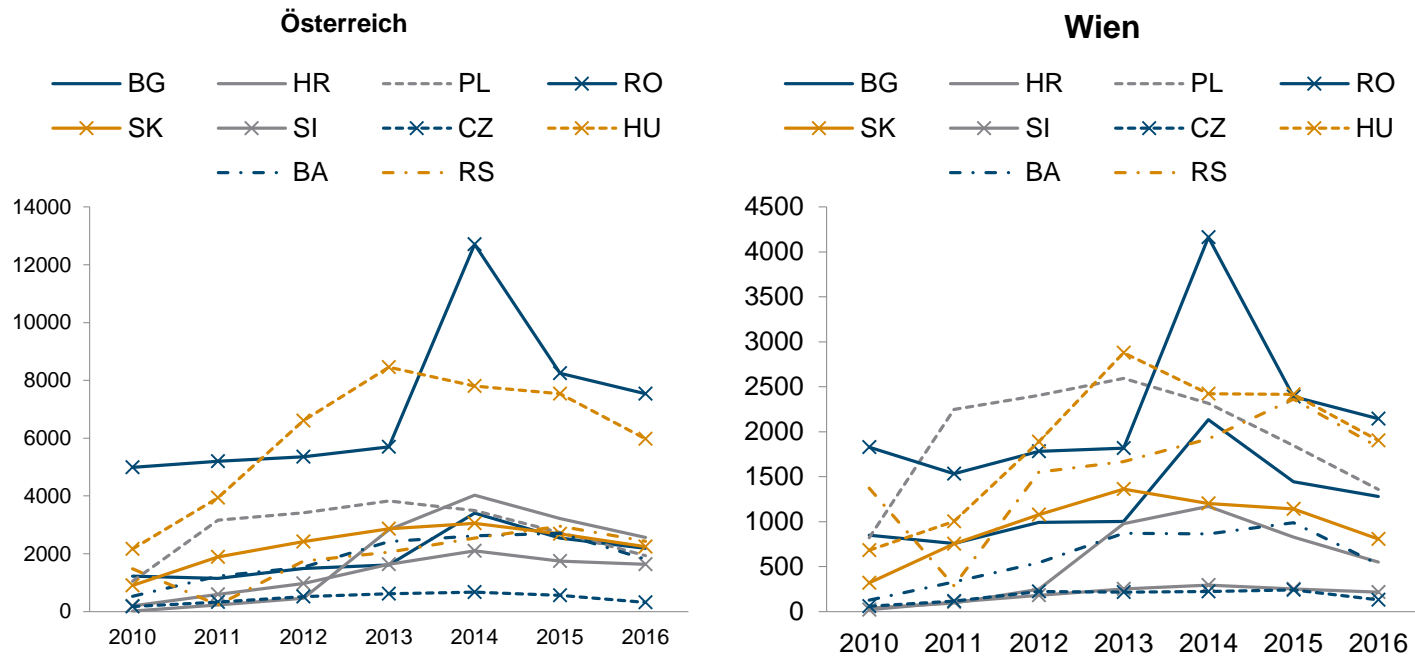
Änderung der Bevölkerung 15-64 Jahre bis 2050, in %



➤ Noch stärkerer Rückgang als für Gesamtpopulation

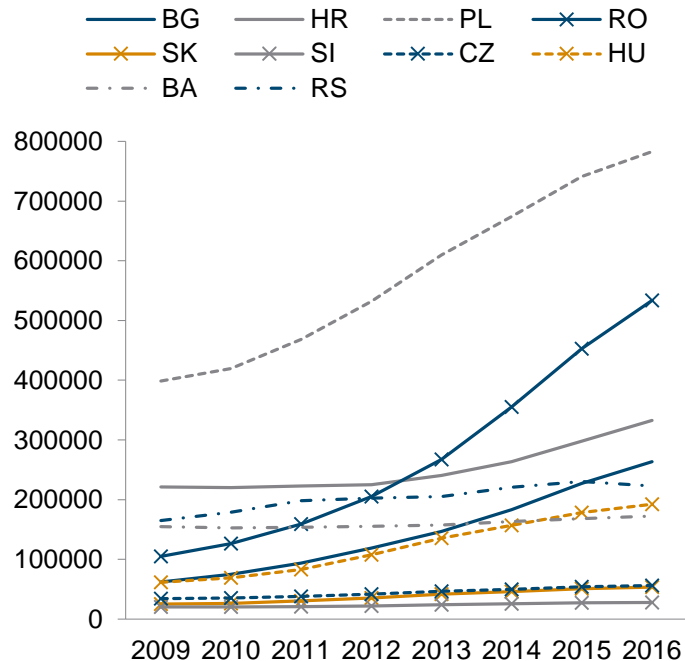
Nettomigration nimmt nach vorläufigem Höhepunkt infolge der Arbeitsmarktöffnung ab

Wanderungssaldo mit den MOEL und WB-2 2007-2016 nach Staatsangehörigkeit, in Personen

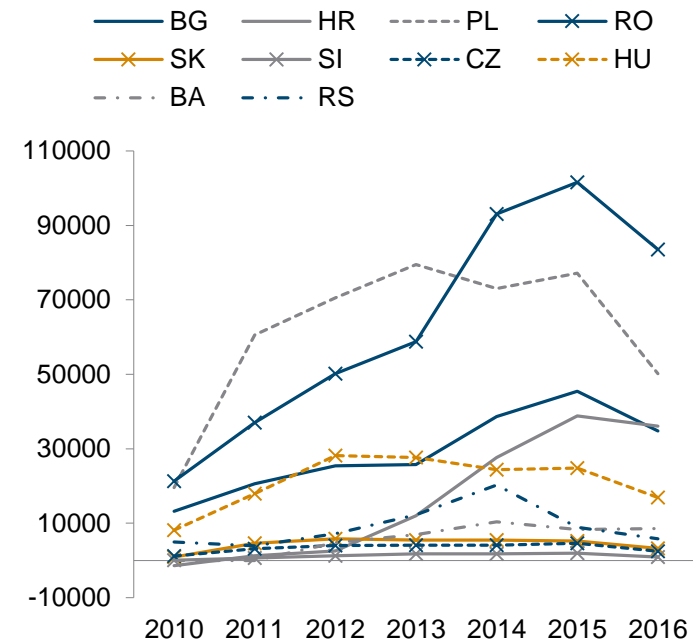


Deutschland: Polen (29%), Rumänien (20%) und Kroatien (12%) Hauptentsendeländer aus MOEL; Nettomigration seit 2015 rückläufig

Deutschland: MOEL und WB-2
Bevölkerung am Jahresende 2009 bis
2016

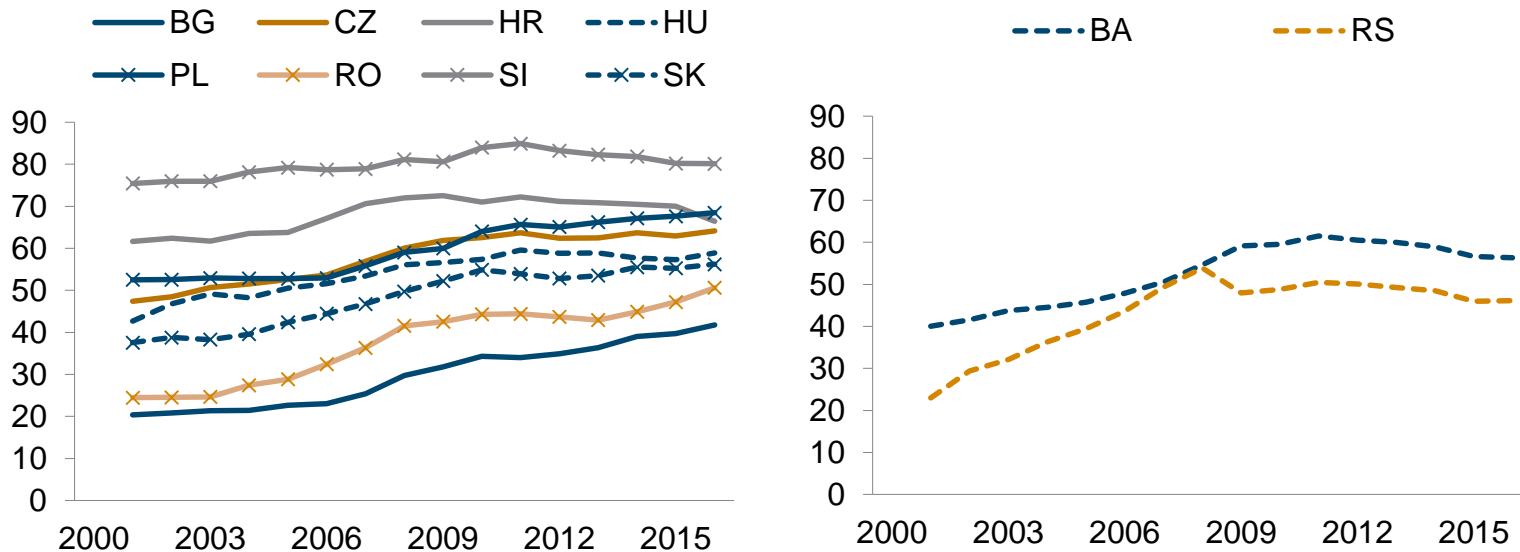


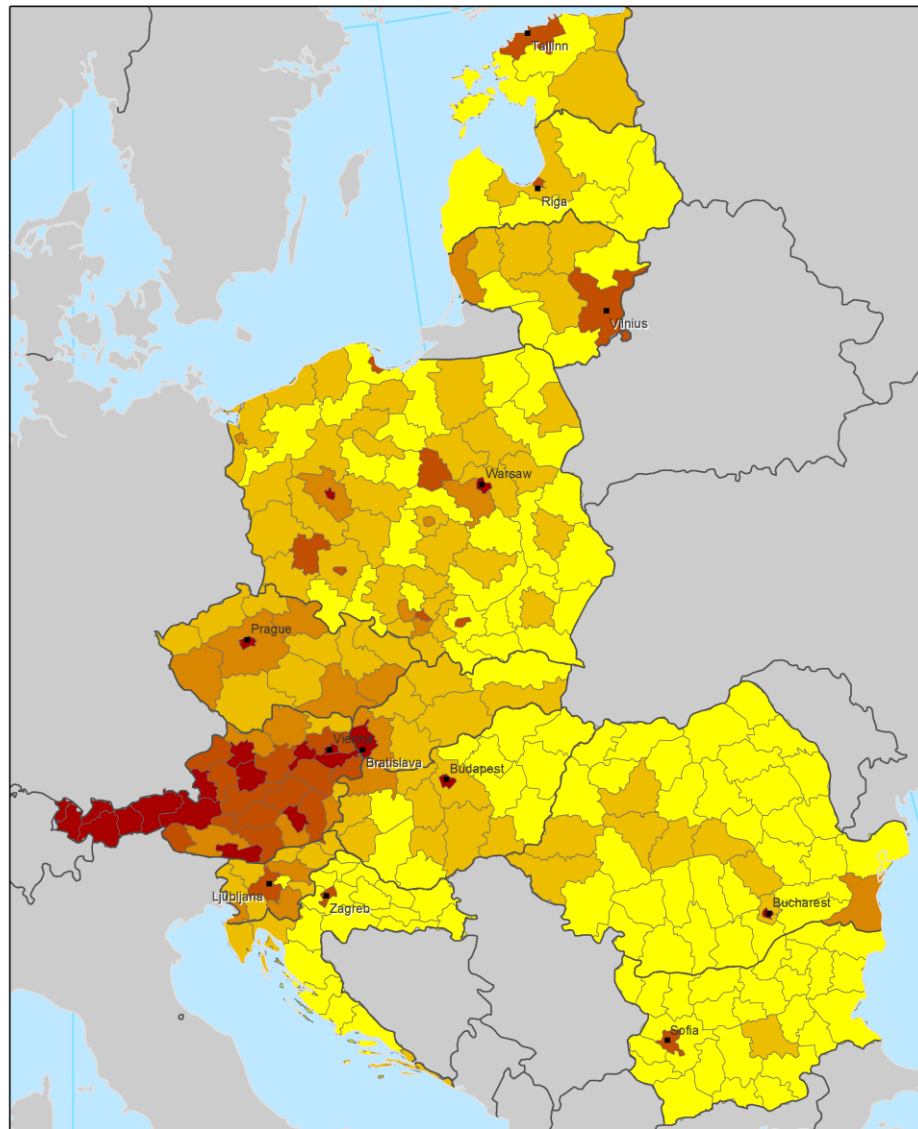
Deutschland: Wanderungssaldo mit den
MOEL und WB-2 2007-2016 nach
Staatsangehörigkeit, in Personen



Lohnunterschiede verringern sich im Vergleich zu Österreich, bleiben aber hoch

Brutto-Monatslöhne in EURO zu KKP, Österreich = 100










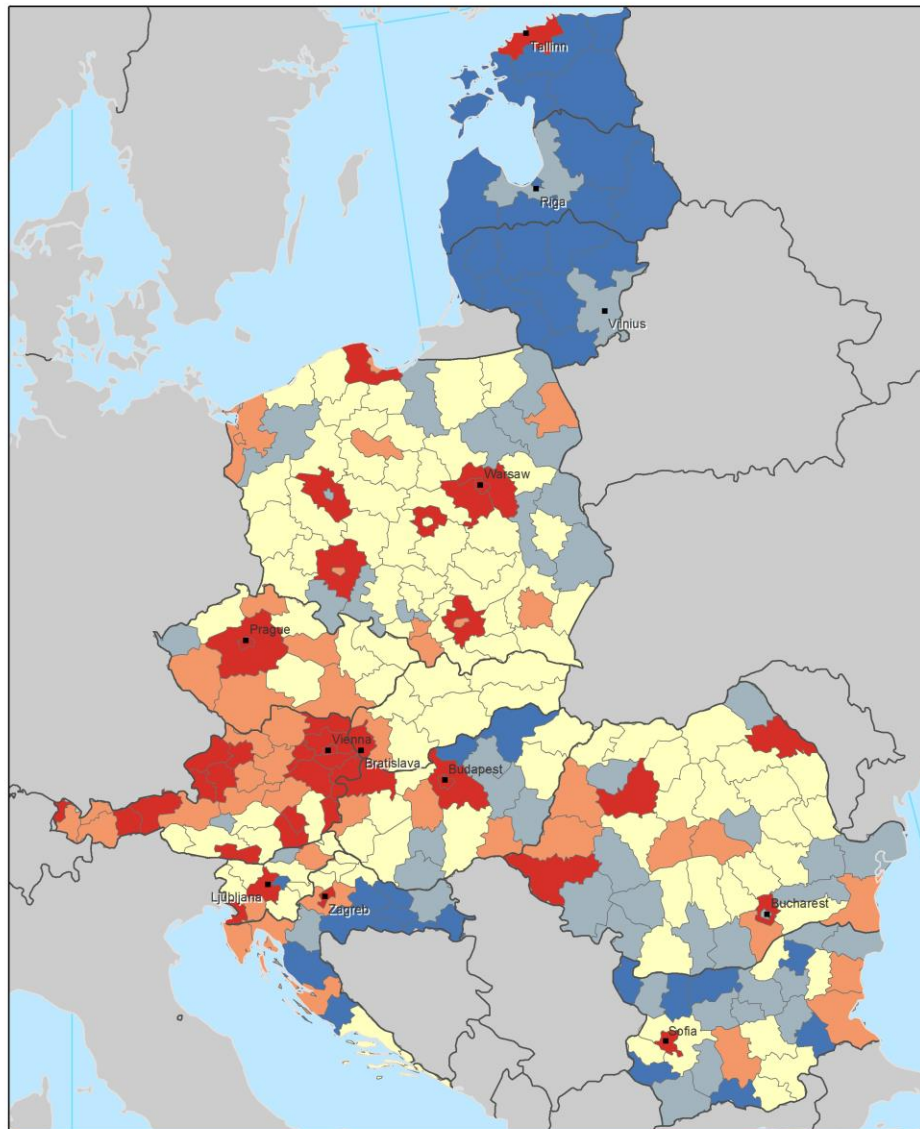
Regionales BIP pro Kopf, 2014

zu KKP, in % des EU-28 Durchschnitts

Kategorien

	unter 50%		90% - 120%
	50% - 75%		über 120%
	75% - 90%		

Quelle: wiiw, Eurostat








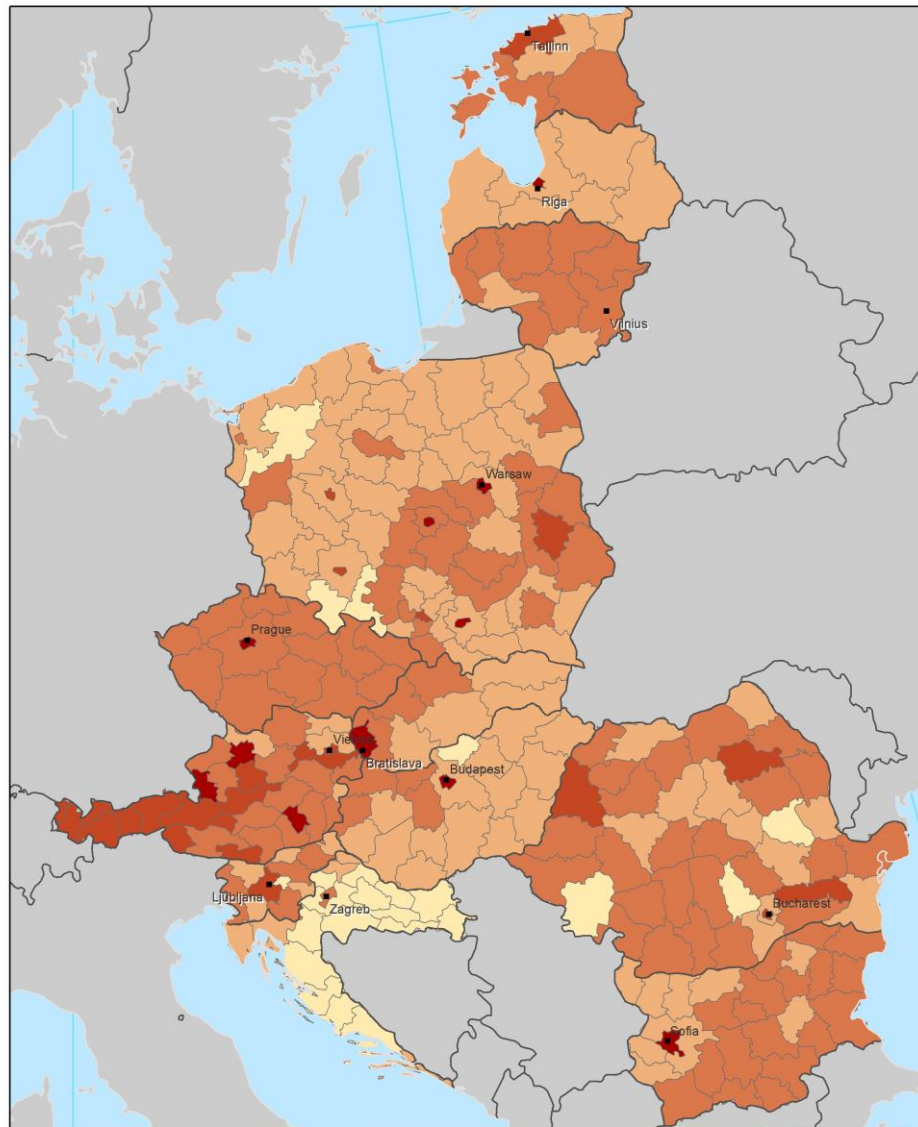
Migrationsrate

2010-2015, in%
 kumlierte Migration(2010-2015) /
 Bevölkerung(2010)

Quelle: wiiv, Eurostat

Kategorien

	unter -3%		0% bis +1,5%
	-3% bis -1,5%		über +1,5%
	-1,5% bis 0%		



**Beschäftigungsrate
2014, in%**

Beschäftigte/Bevölkerung (gesamt)

Quelle: wiiw, Eurostat

Kategorien



Are there strategies to manage migration?

- Only **three measures (or their combination)** are possible to manage migration:
- The first is to **increase the integration** of migrants already present in the countries of destination, who would thus have less motivation to constitute a diaspora interested in attracting other countrymen.
- The second alternative is to deliberately **increase all legal and political obstacles to further immigration**, resorting to prohibitions and obstacles, capable of increasing the costs of migration (including increasing human costs).
- The third is to work to **reduce the income gap between countries of origin and destination**, working on development policies (although we know that at the beginning migration could increase, due to the increased resources available to cover its costs).

References

- OECD, *International Migration Outlook*, 2018
- IOM, *World Migration Report*, 2018
- UNDESA, *International Migration Report*, 2017
- World Bank - KNOMAD, *Migration and Remittances 2019*
- Stephen Castles, Mark J. Miller, *The Age of Migration*, Palgrave & Macmillan, 2009
- Paul Collier, *Exodus, Immigration and Multiculturalism in the XXI Century*, Oxford University Press, USA, 2013

FIW Seminar – Europäische Integration

EU Erweiterung und Nachbarschaft: Westbalkan

Overview

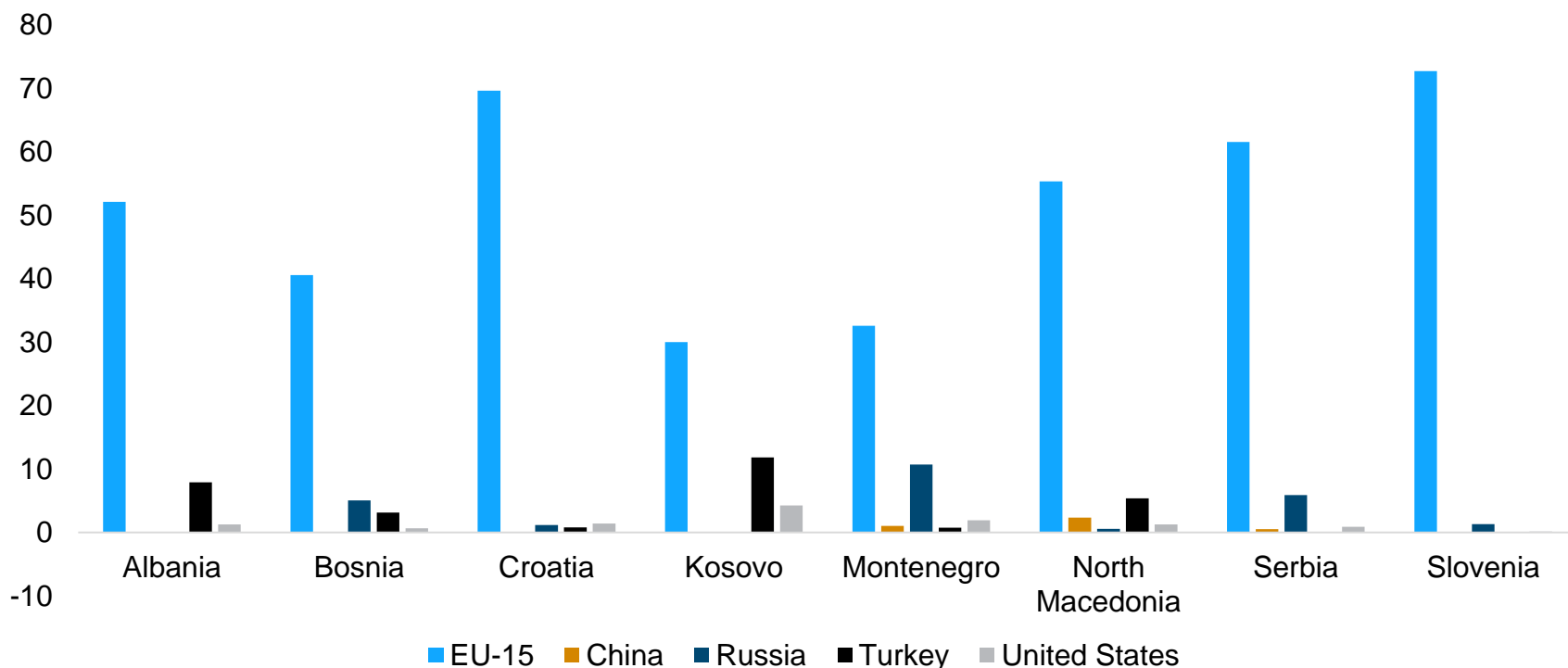
1. Big picture: Geopolitical and geo-economic plates are moving.
2. Western Balkans' trade, financial and investment linkages to EU very strong
3. But huge needs for infrastructure finance in the region: Chinese investments (loan-based) welcome – in principle EU and China could cooperate
4. Political rivalry/competition with Russia will persist.
5. Important longer-term economic issues in the Balkans: BoPs (very weak trade accounts; remittance dependency; late entry into regional production networks); terrible demographic situation and outlook.

Part 1. The geopolitical plates are moving: China vs US/West at the global level; Russia vs EU/US at the regional level



2. Western Balkans strongly integrated with EU in economic/financial/business sense...

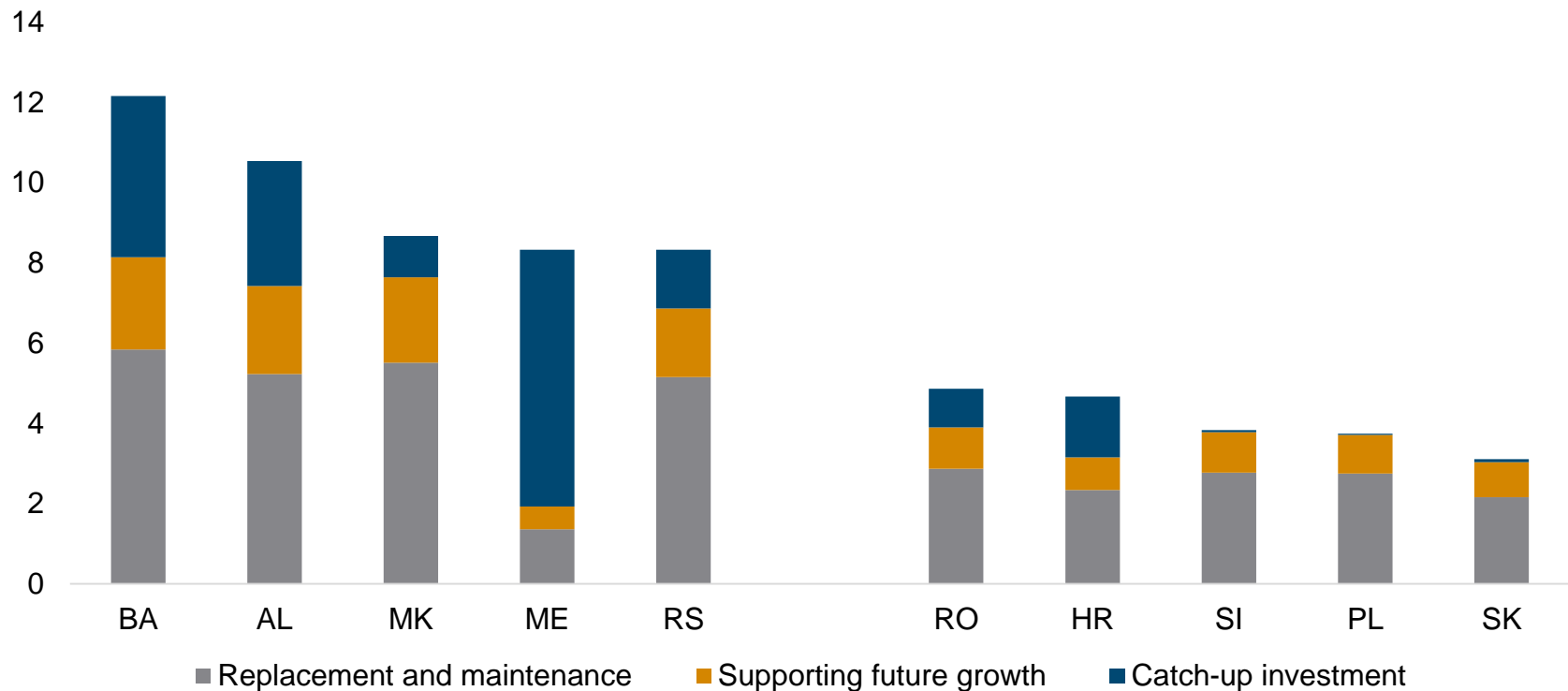
Inward FDI stock, % of total, by source



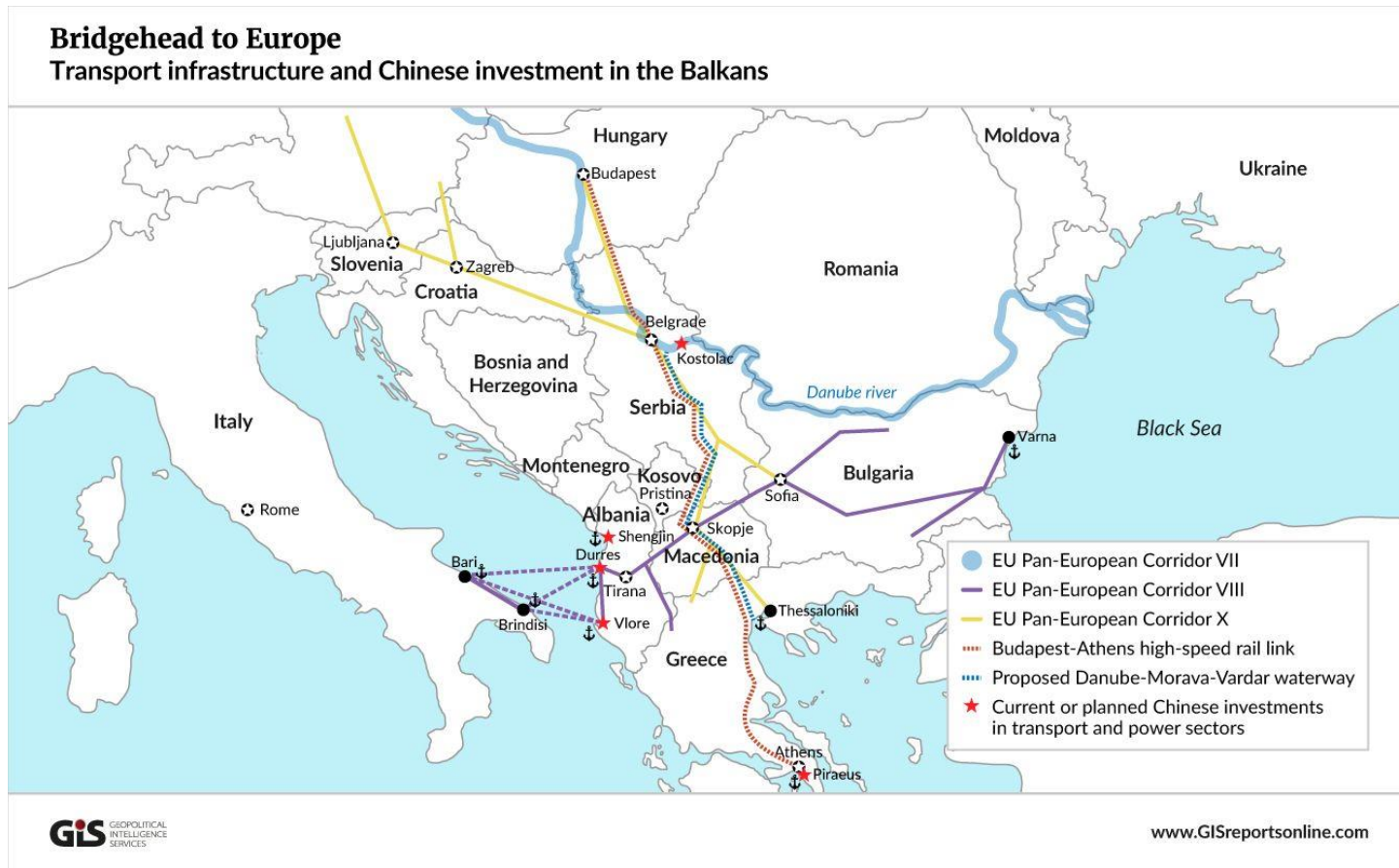
Source: wiiw FDI database. Note: 2018 data or latest available. Russian FDI may be higher than reported due to diversion via tax havens such as the Netherlands or Cyprus.

3. ...but serious infrastructure investment needs vs EU members, and limited access to capital

Infrastructure investment needs, 2018-22, % of GDP per year

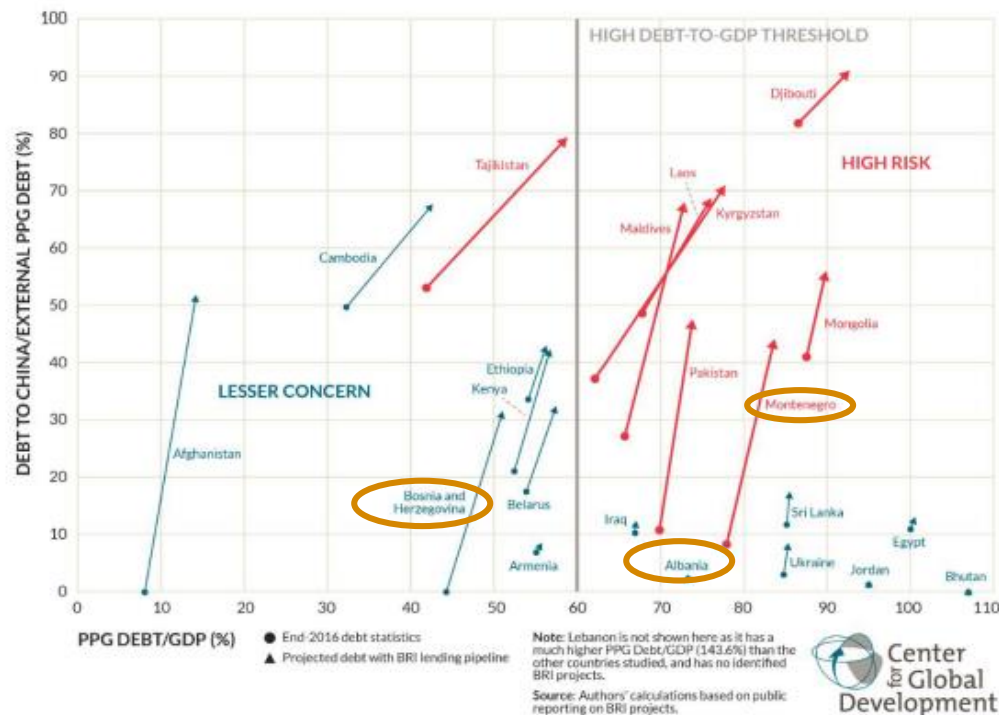


4. China is growing in importance in CESEE and especially Western Balkans – and financing infrastructure



4. China's arrival brings opportunities but also risks...

Immediate margin effect of BRI lending pipeline

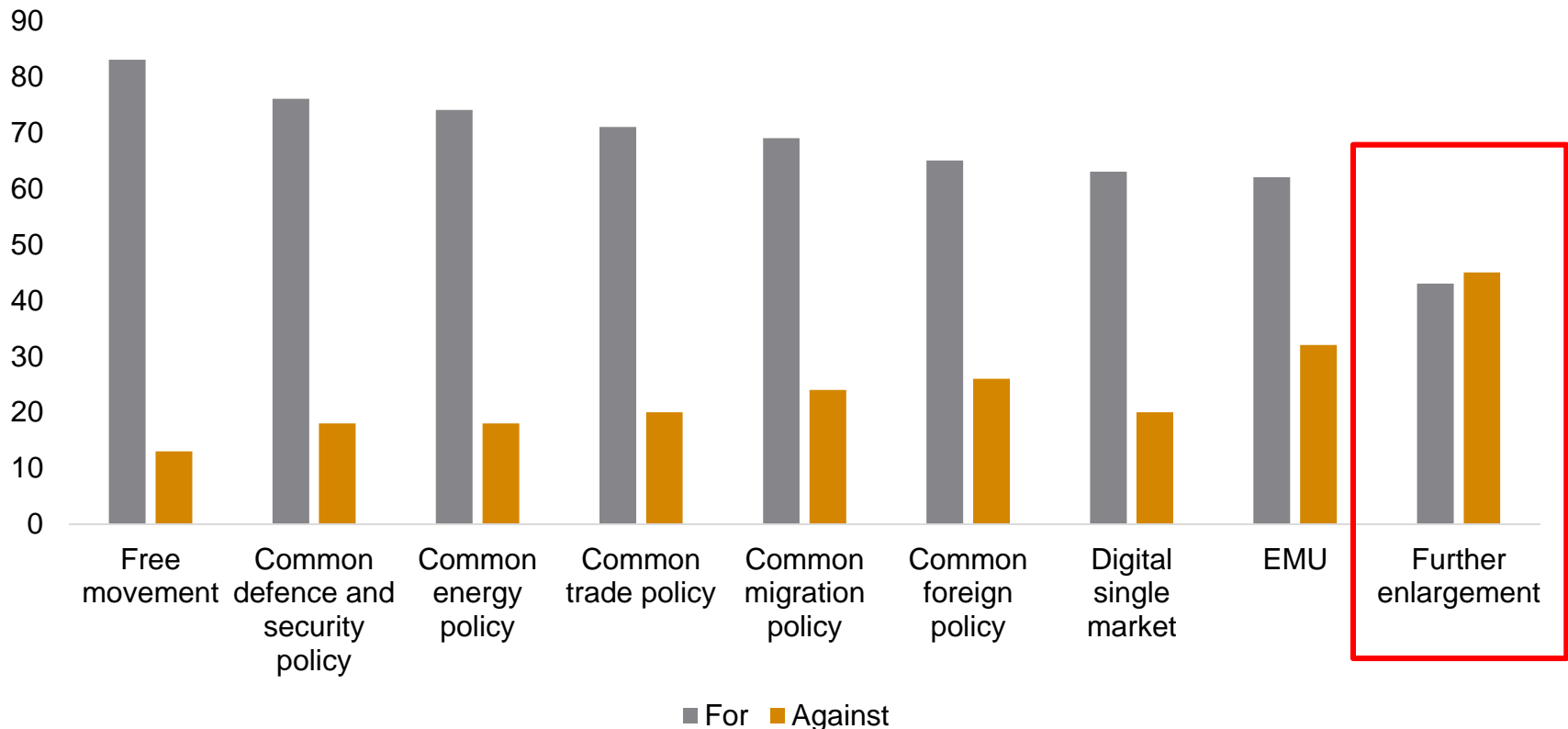


Source: Center for Global Development, 2018.

Note: Data are “worst case scenario”.

5. Quick EU accession is not likely, so the bloc needs a different plan to support the Western Balkans.

Respondents expressing support for EU policies, %



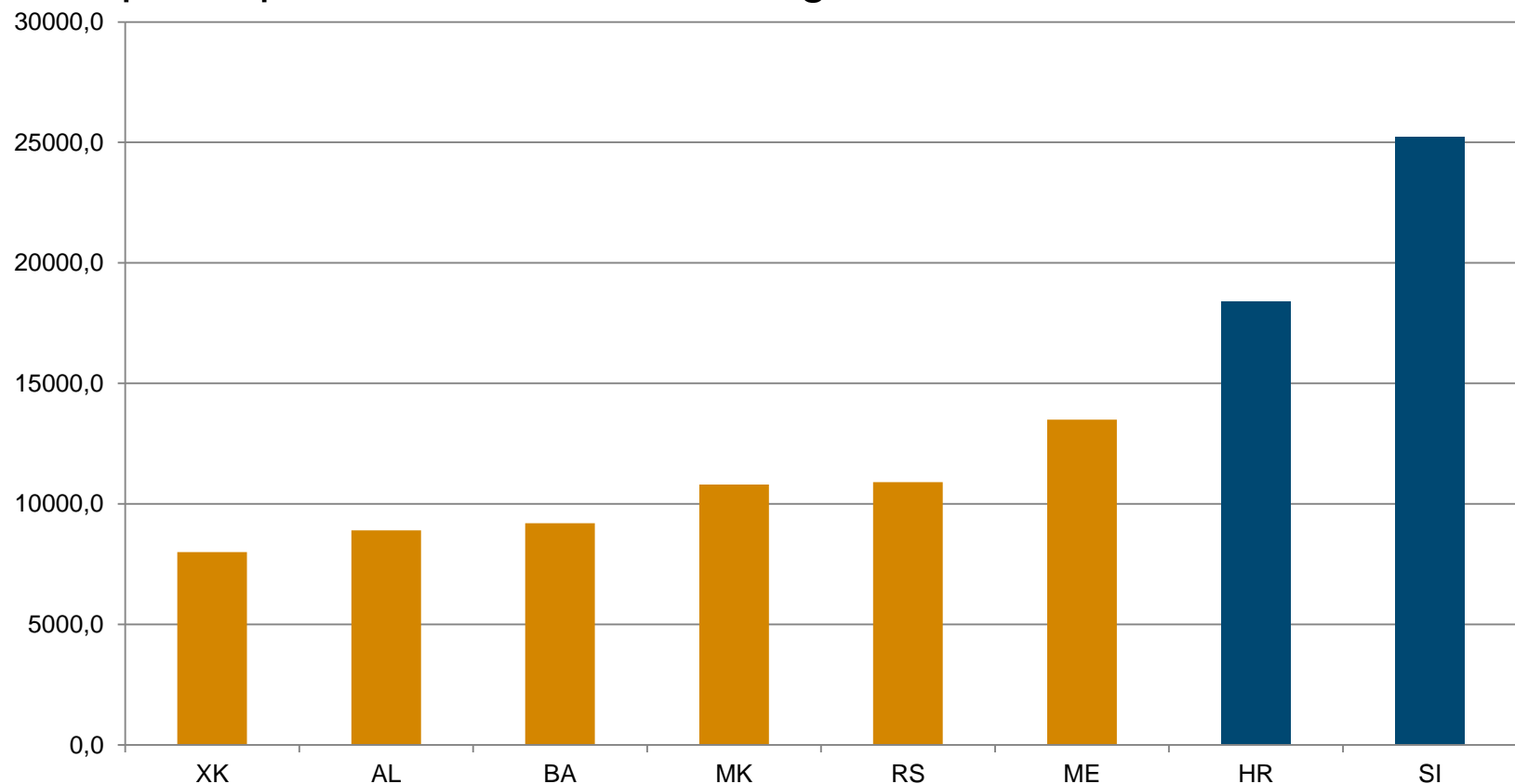
Conclusions

- Western Balkans strongly integrated with EU in economic/financial/political sense.
- But...cannot attract all the capital that it needs, especially in infrastructure.
- This creates space for China in particular – increasingly important presence in the region.
- Without speedy EU accession, risks that Western Balkans will be a contested area among “great powers”.
- EU and China can cooperate in the region, including on investment, but challenges/risks are significant.

The economic and demographic vulnerability of the Balkan region

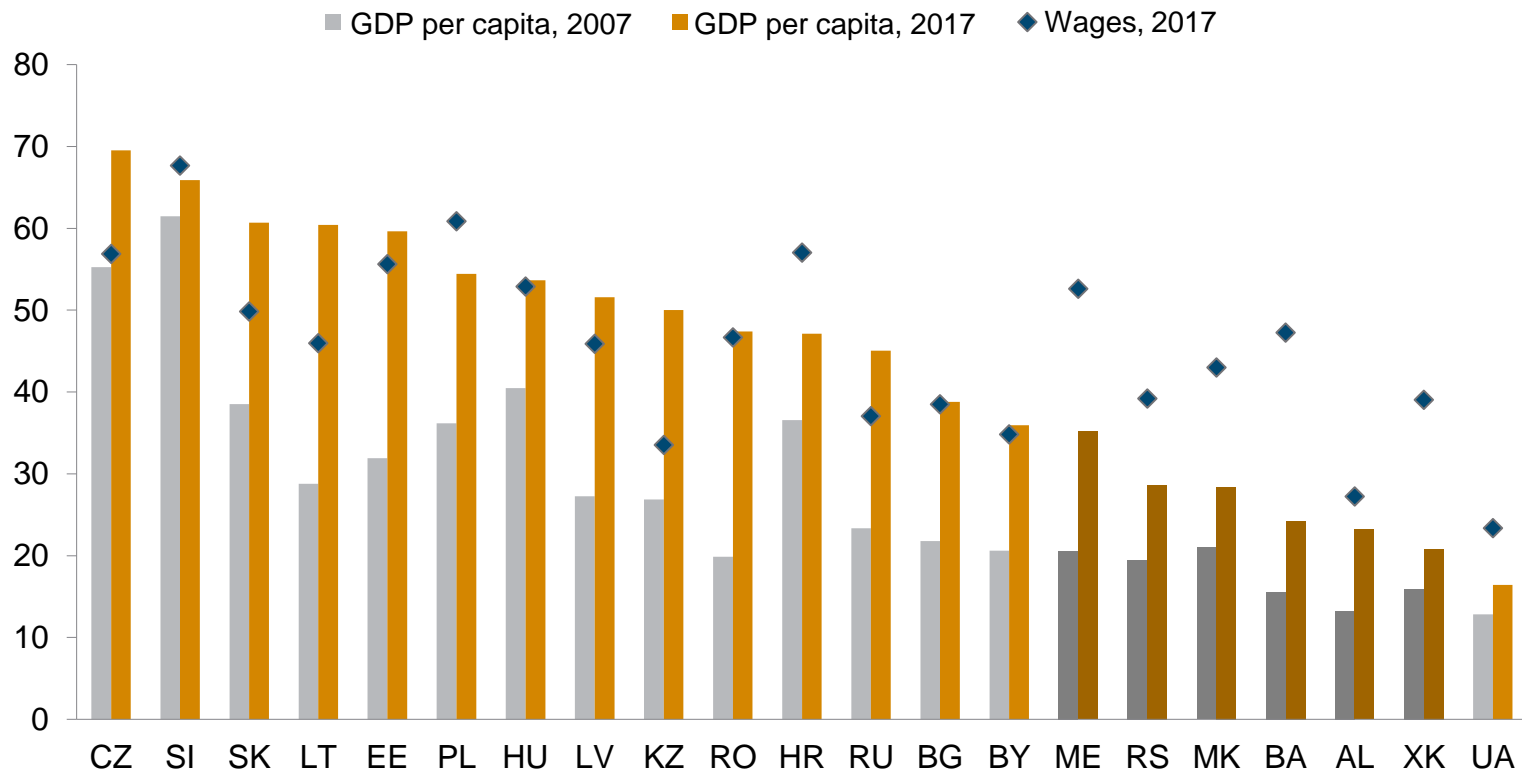
Income levels still far from those of their peers – big potential for catch-up growth

GDP per capita in EUR at Purchasing Power Standards, 2017



Convergence: Success but also disappointment

Indicators of convergence, Austria=100



Note: CESEE wages based on register-based surveys, Austria refers to national account data.

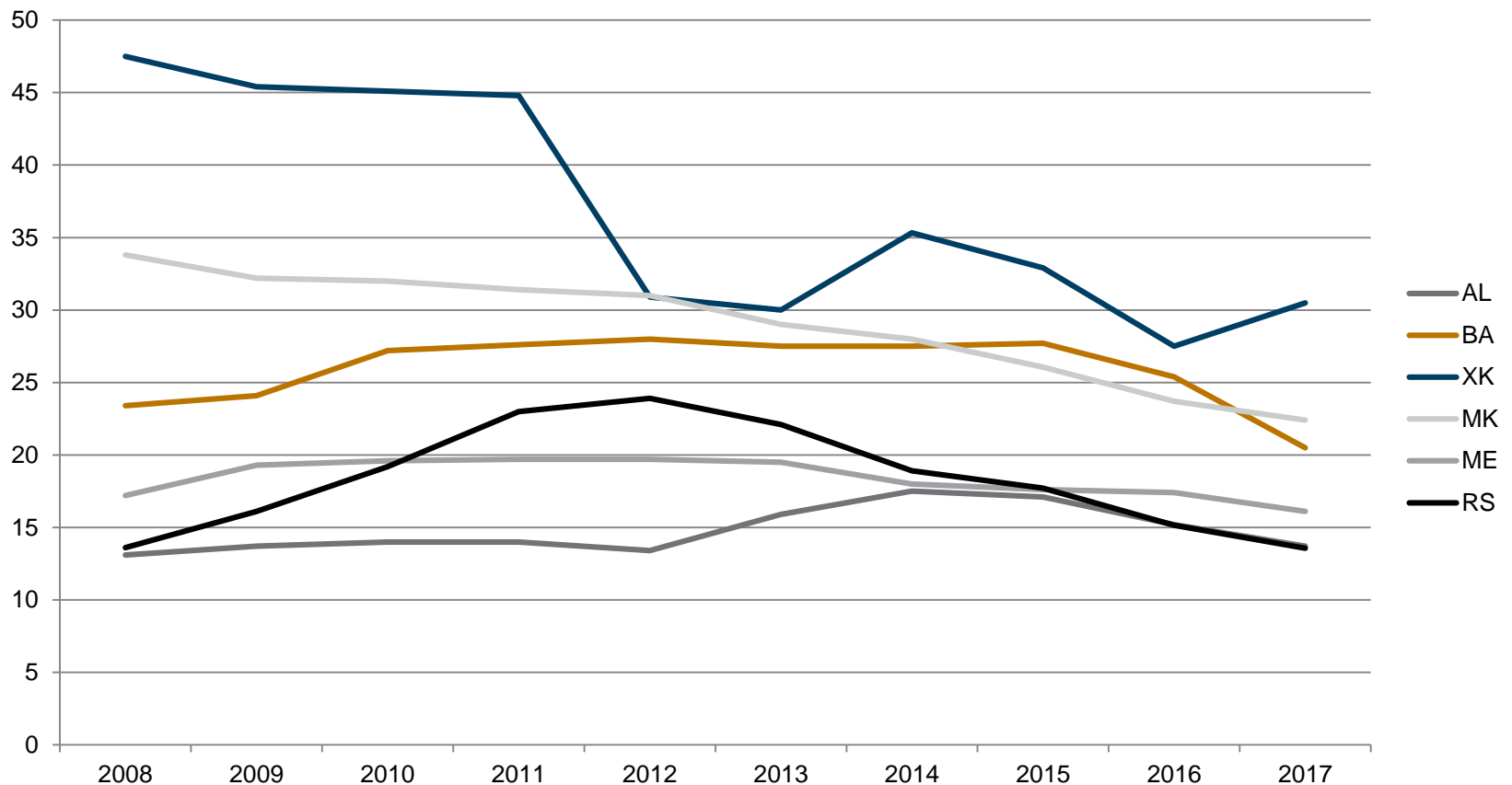
Source: wiiw Annual Database incorporating national and Eurostat statistics, own calculation.

Projected growth performance of wiiw (covered) regions

		Forecast, %				Revisions, pp		
		2018	2019	2020	2021	2018	2019	2020
EU-CEE11	BG	3.0	2.8	2.5	2.5	↓ -0.3	↓ -0.4	↓ -0.5
	CZ	3.0	2.6	2.7	2.8	↓ -0.3	↓ -0.6	↓ -0.4
	EE	3.9	2.9	2.5	2.2	↑ 0.4	↓ -0.2	↓ -0.2
	HR	2.7	2.6	2.5	2.5	↑ 0.2	→ 0.0	↓ -0.2
	HU	4.9	3.3	2.3	1.9	↑ 0.6	↑ 0.3	→ 0.0
	LT	3.5	3.0	2.6	2.3	→ 0.0	→ 0.0	→ 0.0
	LV	4.8	3.5	3.0	2.5	↑ 0.7	↑ 0.2	→ 0.0
	PL	5.1	3.7	3.3	3.3	↑ 0.1	↑ 0.2	→ 0.0
	RO	4.2	2.8	3.0	3.2	↑ 0.4	↓ -0.8	↓ -0.7
	SI	4.5	3.2	3.0	2.9	→ 0.0	↓ -0.4	↓ -0.5
	SK	4.1	3.6	3.0	2.5	↑ 0.3	↓ -0.5	↓ -0.3
WB6	AL	4.1	3.8	3.8	3.4	→ 0.0	↓ -0.2	↓ -0.2
	BA	2.9	2.5	2.6	2.7	↓ -0.1	↓ -0.9	↓ -0.8
	ME	4.0	2.5	2.2	2.0	↓ -0.2	↓ -0.6	↓ -0.9
	MK	1.9	3.0	3.0	3.0	↓ -1.0	↑ 0.2	↓ -0.1
	RS	4.4	3.4	2.9	2.9	↑ 0.1	→ 0.0	↑ 0.1
	XK	3.9	4.1	4.0	3.9	↓ -0.3	↑ 0.1	↓ -0.2
Turkey	TR	2.9	-0.7	3.2	3.7	↑ 0.4	↓ -1.7	↓ -0.8
CIS4+UA	BY	3.0	2.4	2.2	2.0	↓ -0.7	↓ -0.6	↓ -0.6
	KZ	4.1	3.0	3.0	3.0	↑ 0.1	↓ -0.1	→ 0.0
	MD	4.0	3.8	3.6	3.5	.	.	.
	RU	2.3	1.8	1.7	1.9	↑ 0.6	↑ 0.2	↓ -0.1
	UA	3.3	2.5	2.0	2.9	→ 0.0	↓ -0.2	→ 0.0

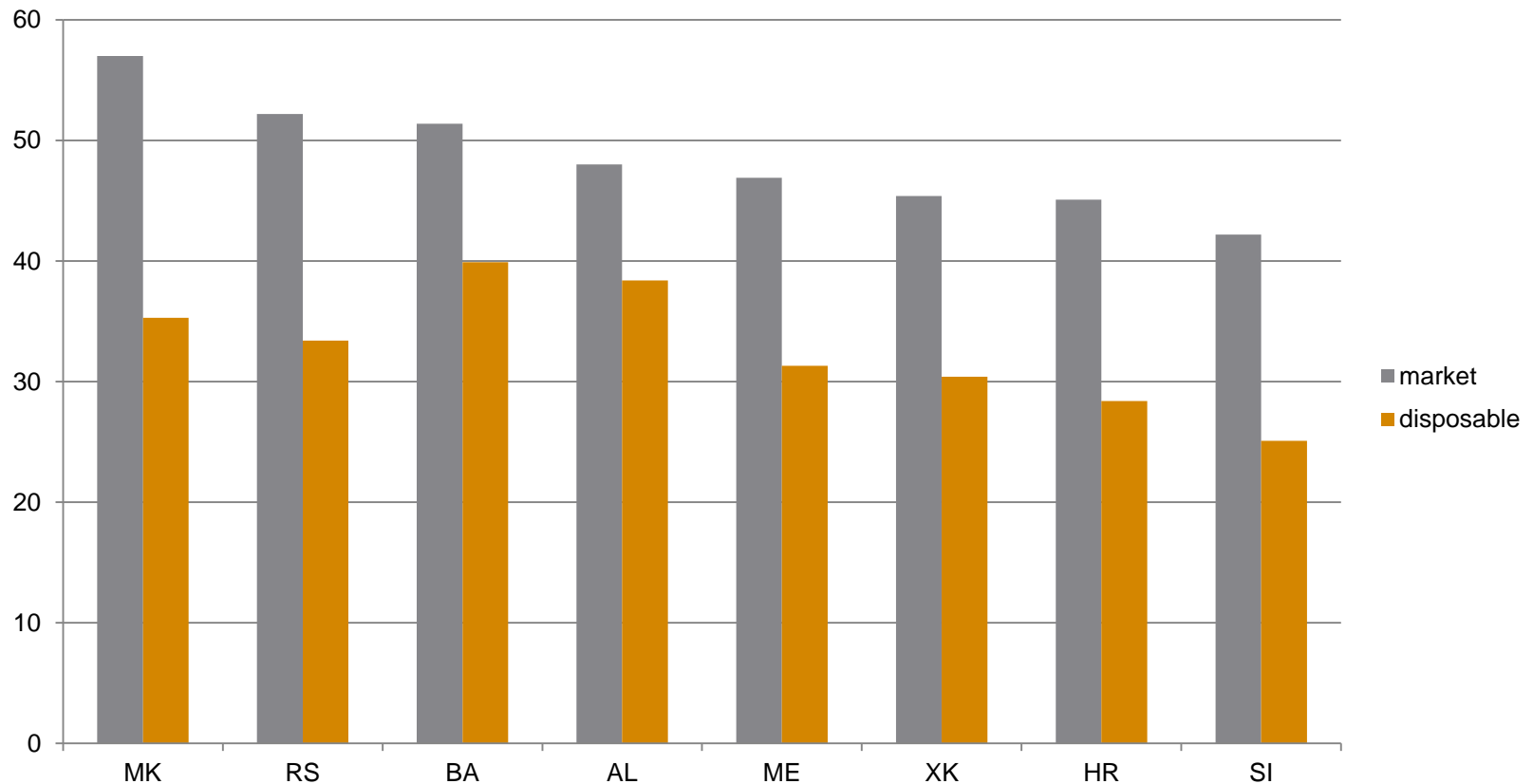
Growth has brought down unemployment rate and improved the social conditions of the population; Still in the double digit range

Unemployment rate, LFS, in %, period average, 2008-2017



Income inequality is high and redistribution mechanisms (taxes & transfers) are underdeveloped – especially in Albania and Bosnia

Estimate of Gini index of inequality in equivalised household income, 2015

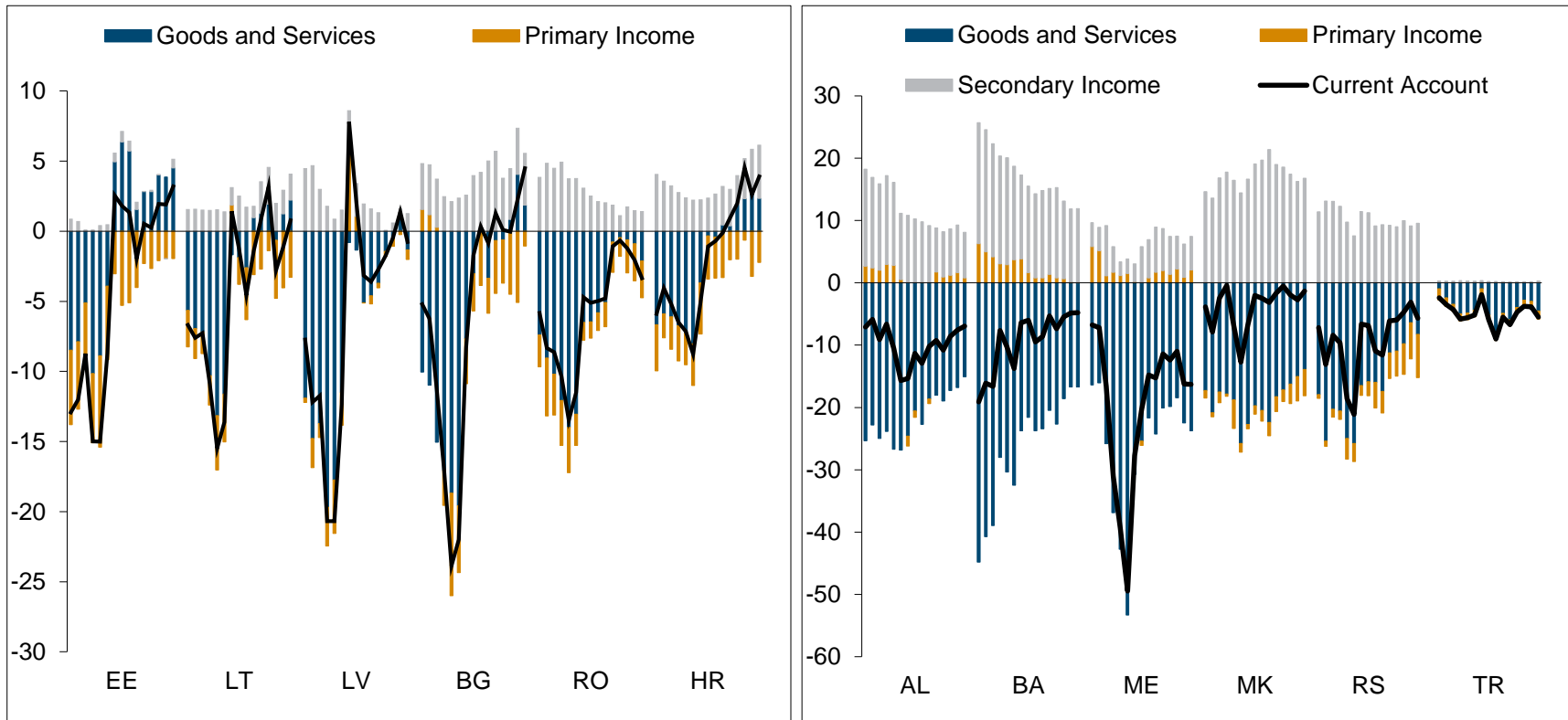


Note: Albania 2012, Montenegro 2014.

Source: SWIID 7.0.

External Imbalances

Composition of the current account of the balance of payments, 2003-2017, in % of GDP – **severe weakness in trade balances in the Western Balkans; remittance dependence**



Remark: Components refer to BOP 6th edition as far as available, BOP 5th edition before. Primary income refers to Income Accounts, secondary income to current transfers.

Source: wiiw Annual Database incorporating national and Eurostat statistics.

Summary

- West Balkan economies are growing so-so, from a very low level
- Mass unemployment hints at substantial macro-imbalances
- Strong influx of remittances covers large part of huge trade deficit
- Exports of manufacturing goods almost inexistent
- Wages are still low and mostly stagnating
- Transport infrastructure is weak and energy infrastructure dismal
- Chinese initiatives in the Western Balkans welcomed and ways of cooperation with EU initiatives could be explored

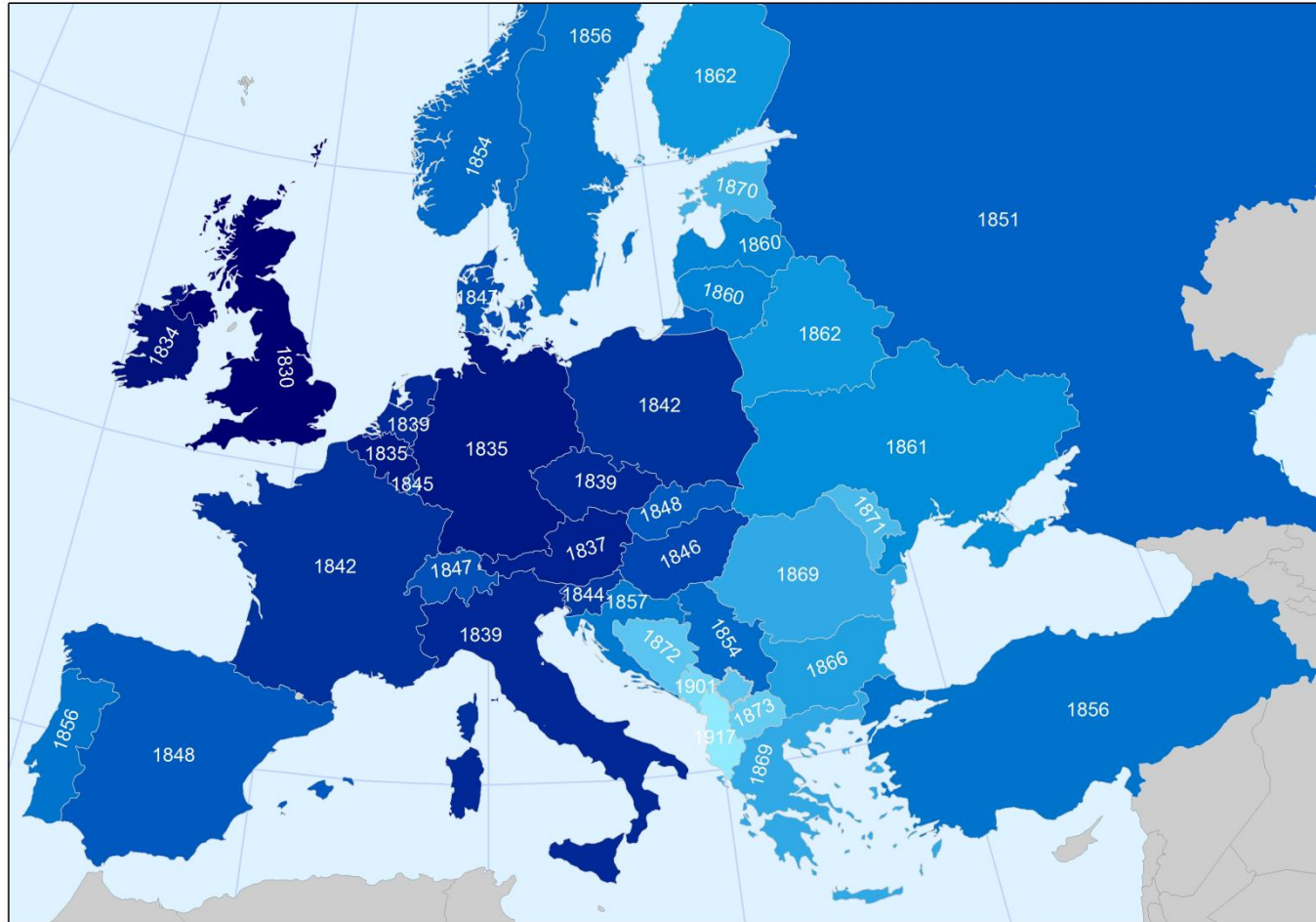
Policy recommendations

- WBCs need to increase export capacities massively, e.g. via manufacturing FDI support and support of domestic investment
- Reduce (car) imports, e.g. by higher registration fees for luxury cars, while increasing supply of public transport instead
- Given lack of exchange rate policy, introduce incomes policy that keeps an eye on macroeconomic conditions
- Lower domestic production costs by public investment in transport and energy infrastructure – especially rail and electricity network
- Invest in secondary education (specifically vocational training)
- Create short term job opportunities, e.g. labour intensive public works for local infrastructure with low import intensity



Railway time

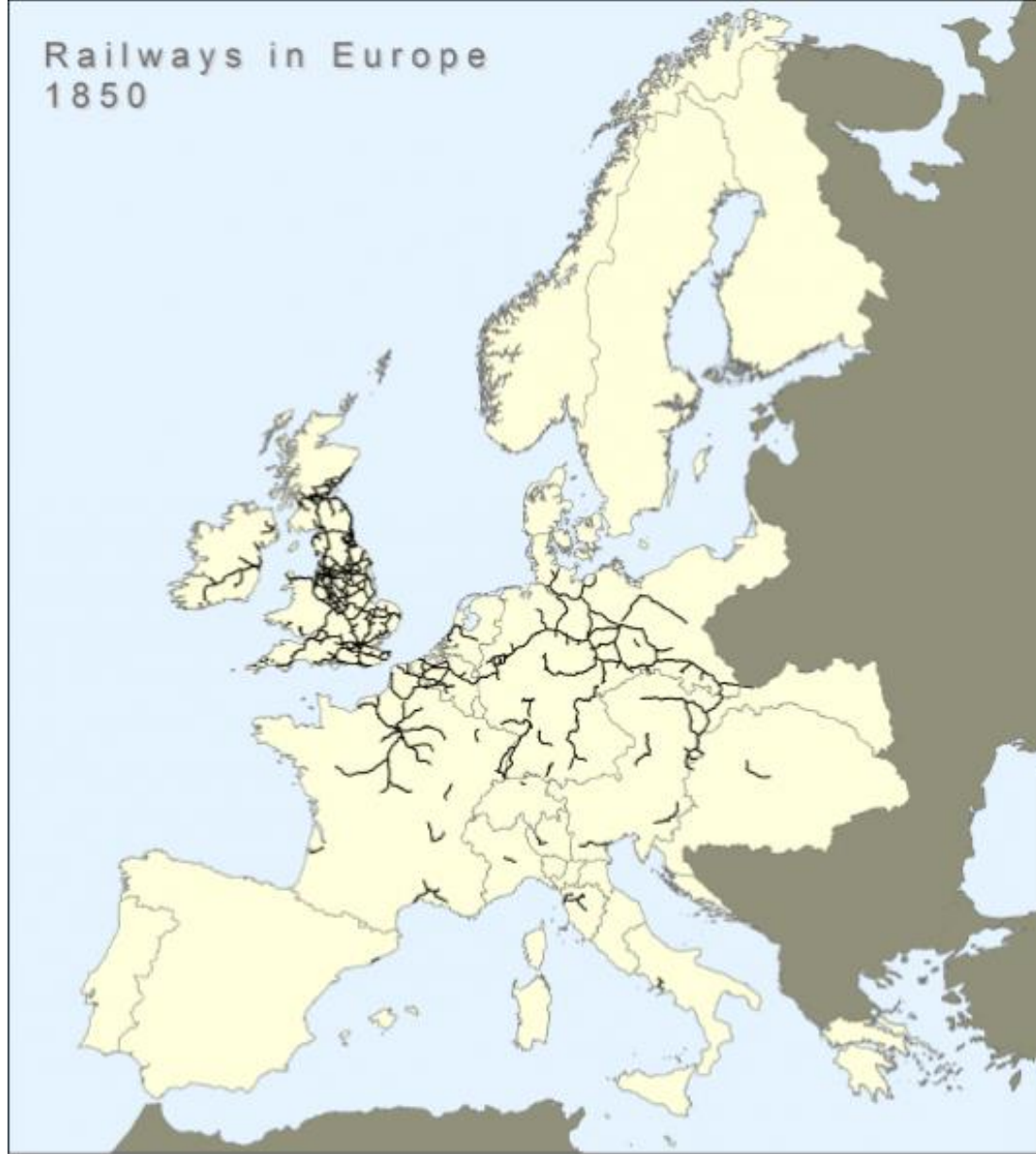
Year of construction of first railway line




Note: Kosovo 1874.

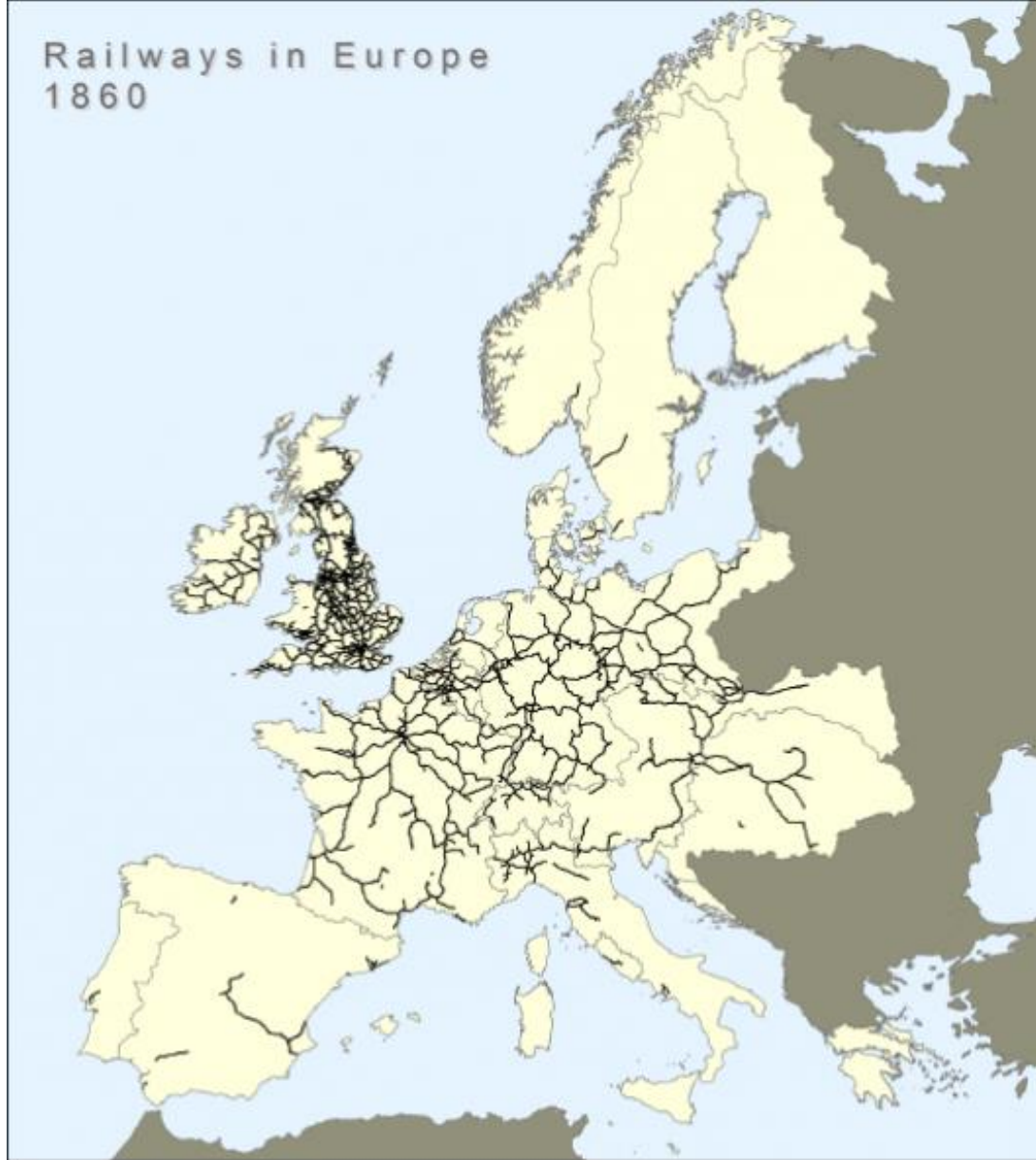
Source: Wikipedia, Wikimedia, FDV.

Railways in Europe 1850



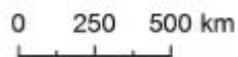
— Main lines

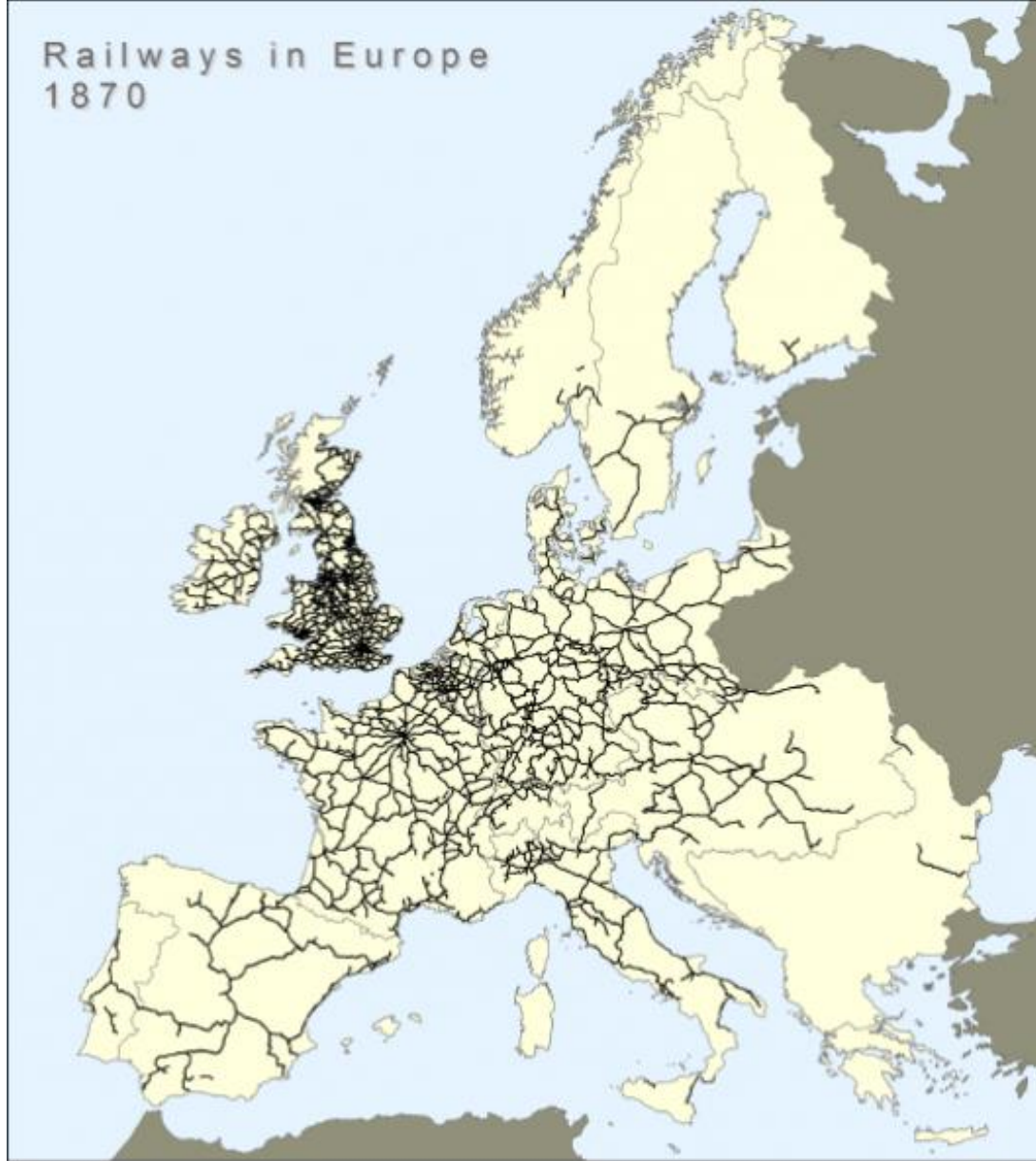
0 250 500 km




— Main lines

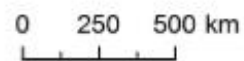
0 250 500 km

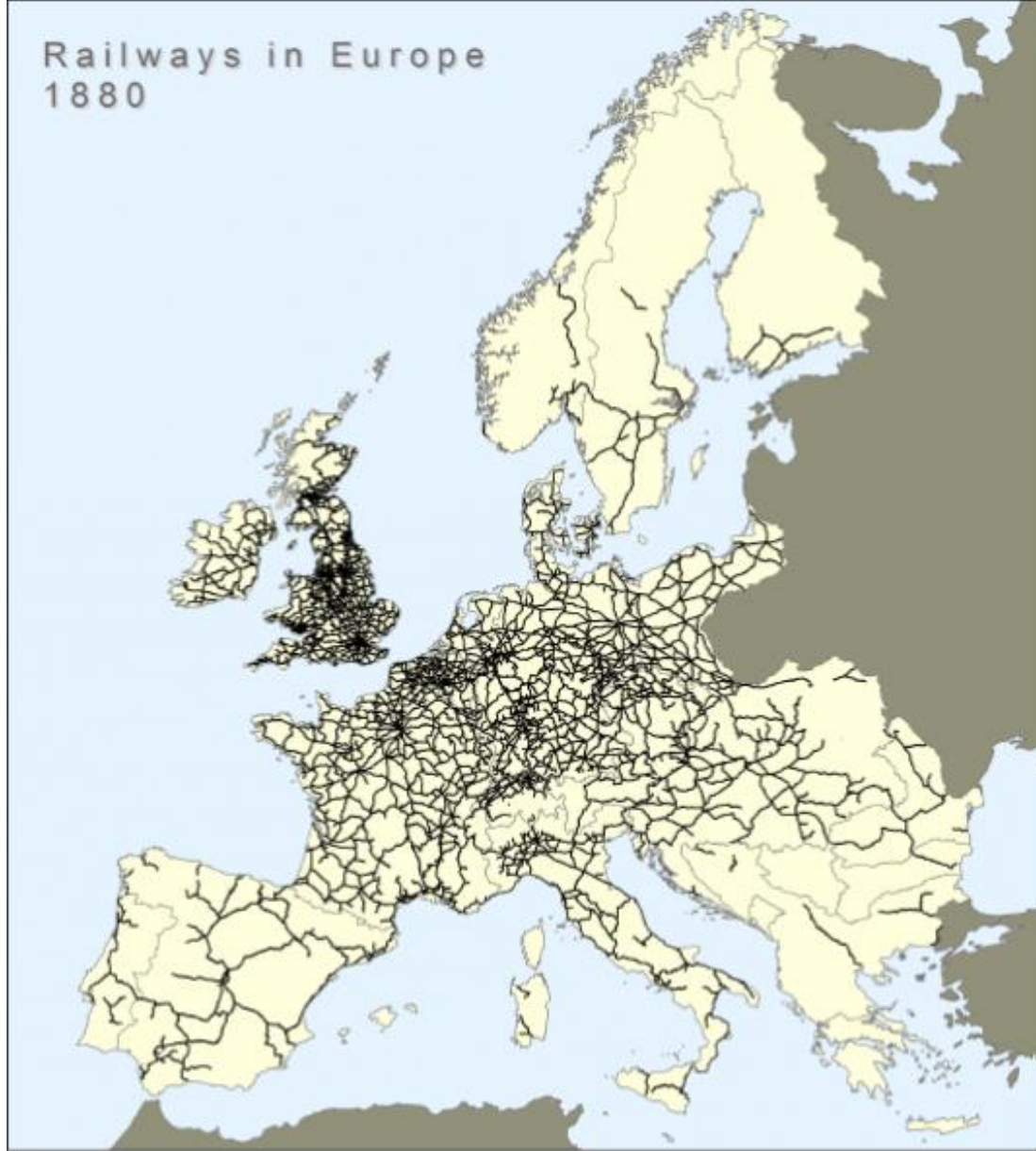





— Main lines

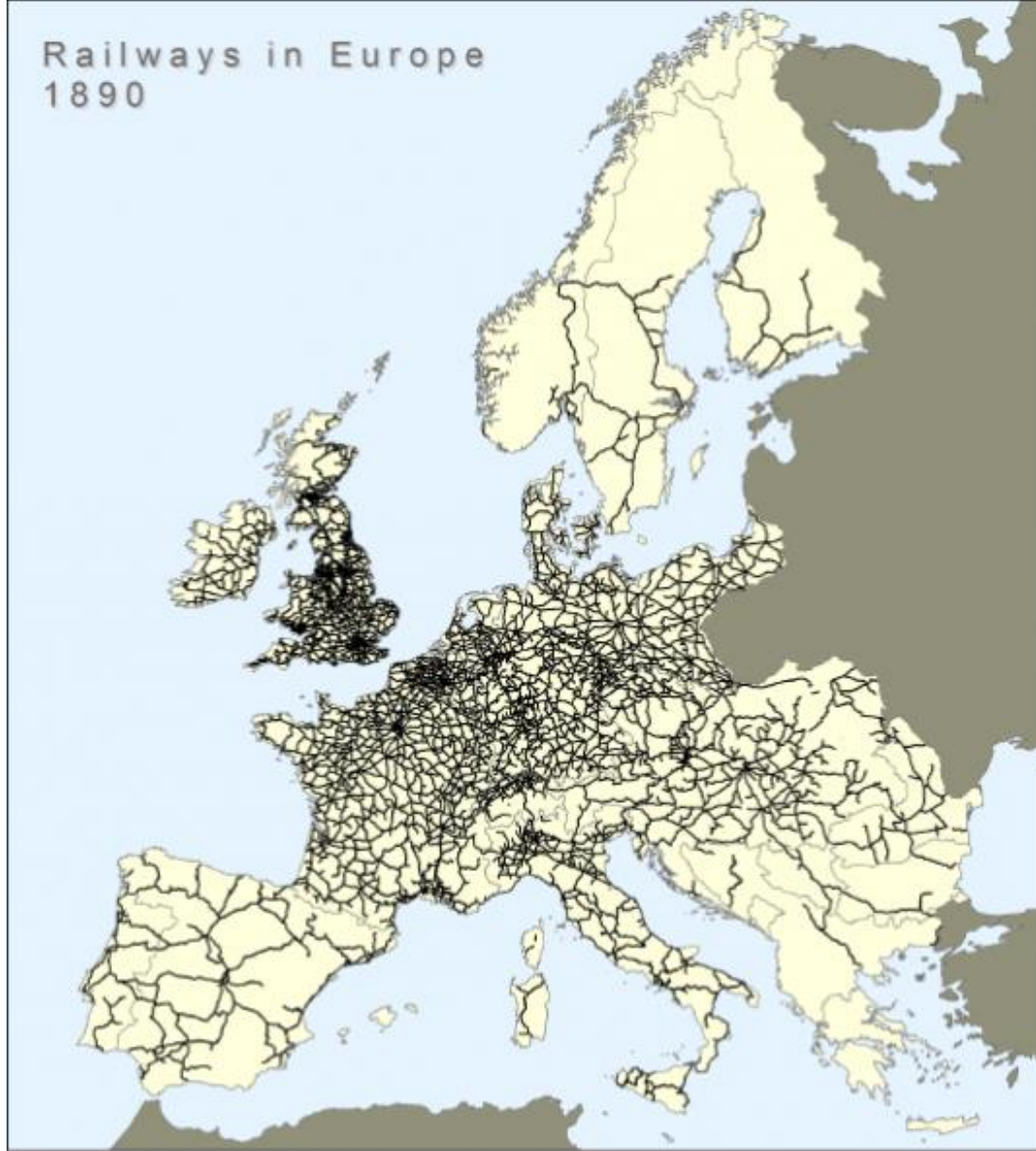
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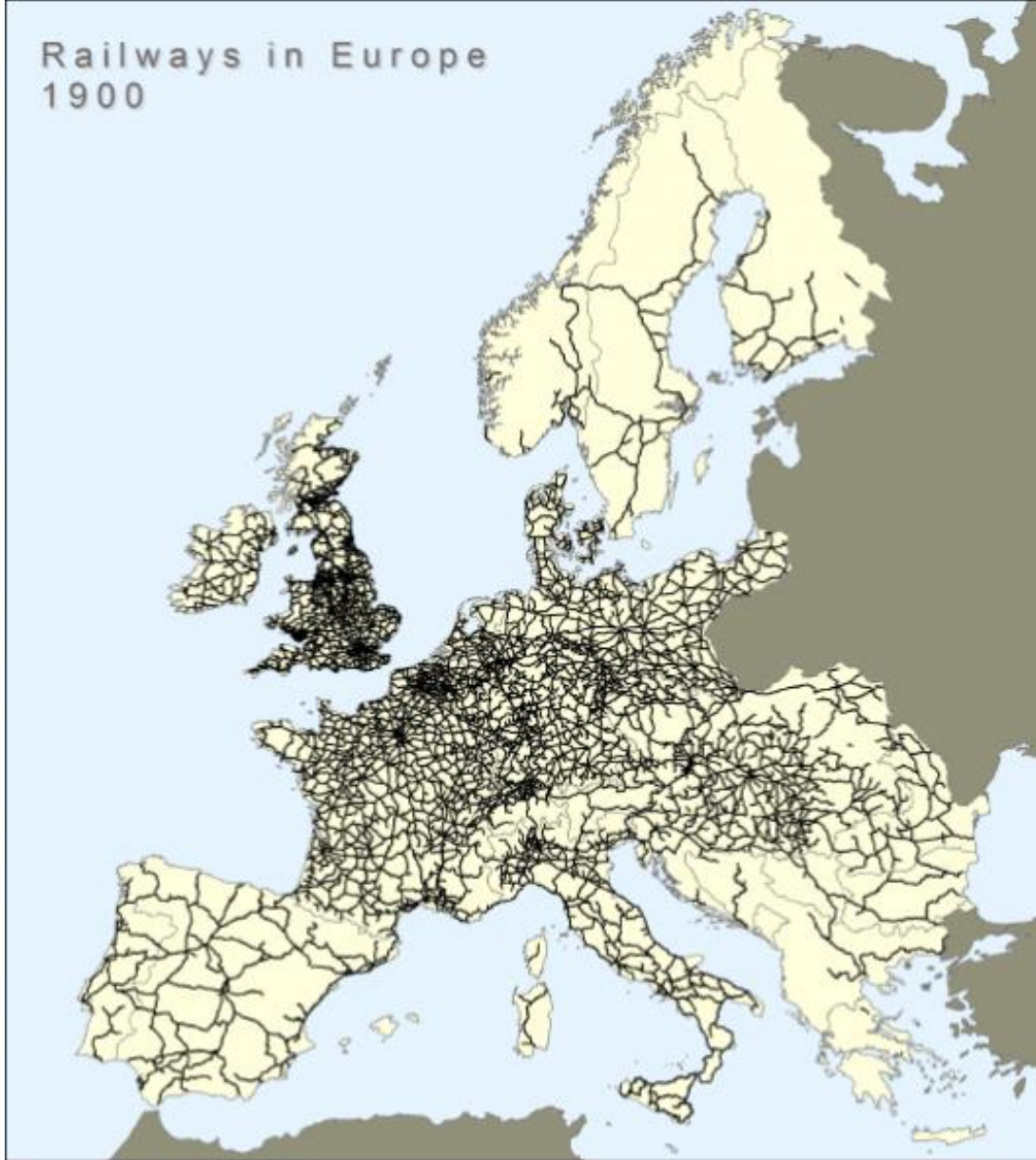
— Main lines

0 250 500 km





— Main lines

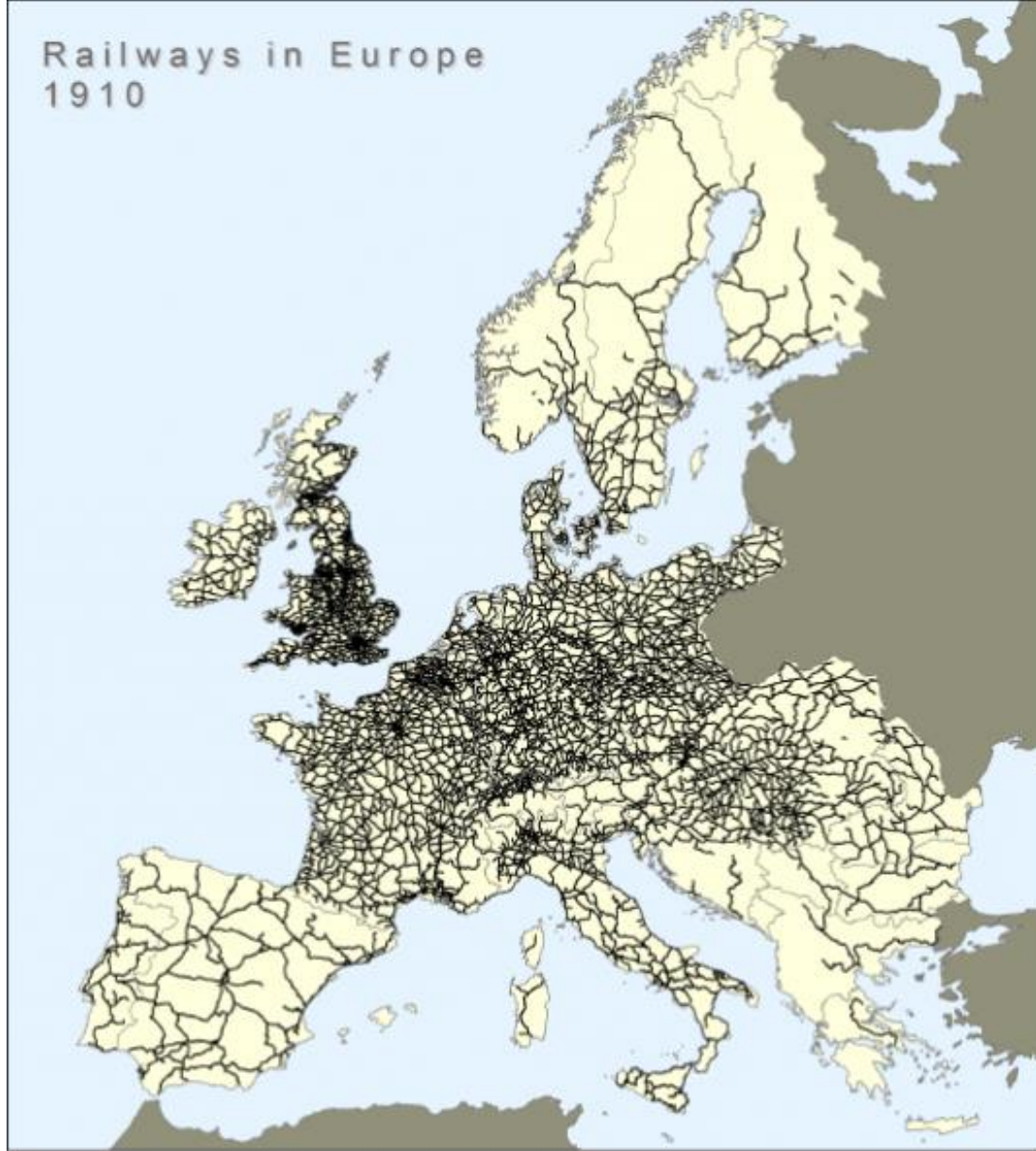
0 250 500 km




Railways in Europe
1900

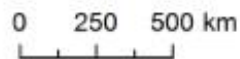
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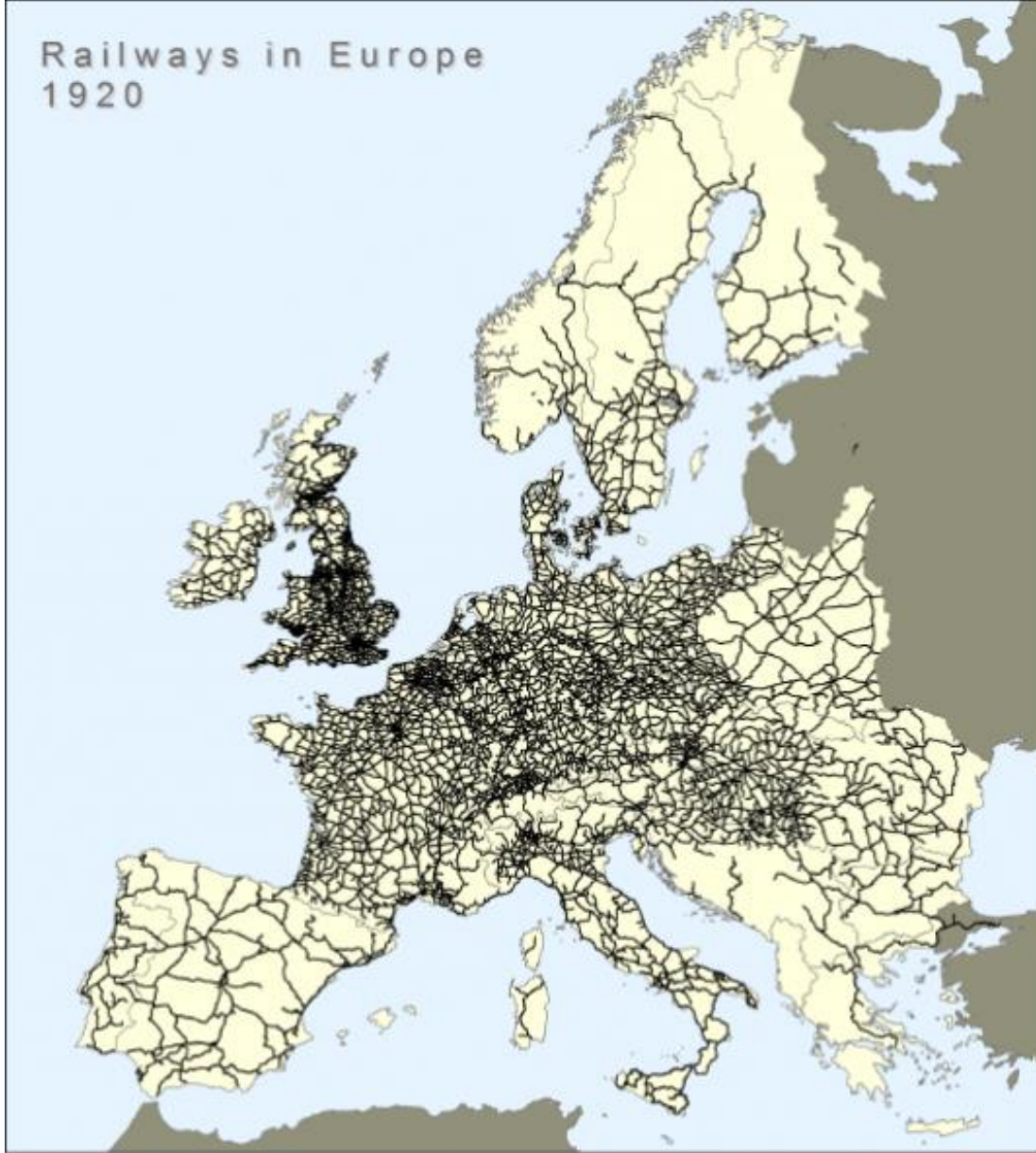
0 250 500 km





— Main lines

0 250 500 km

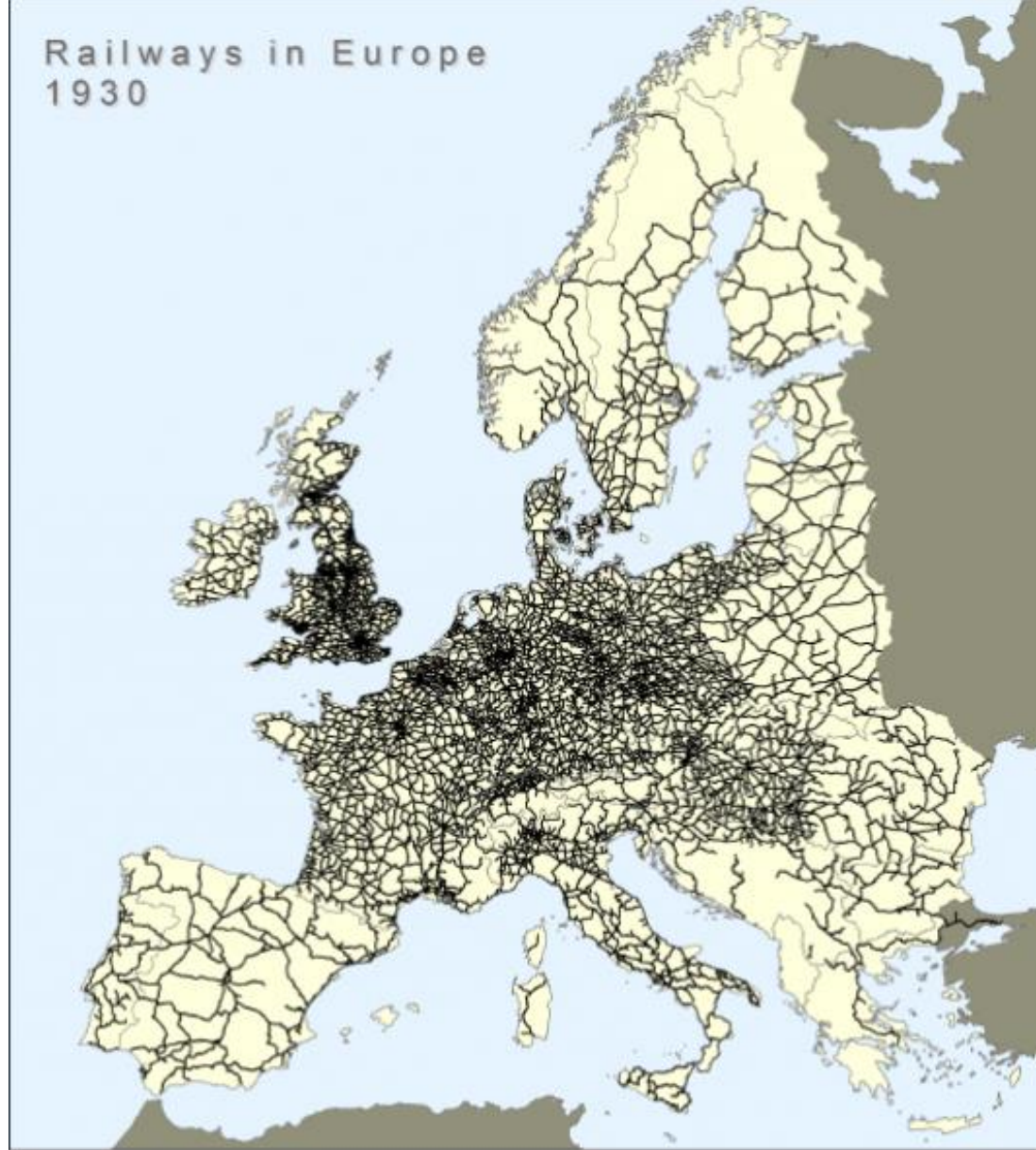





— Main lines

0 250 500 km


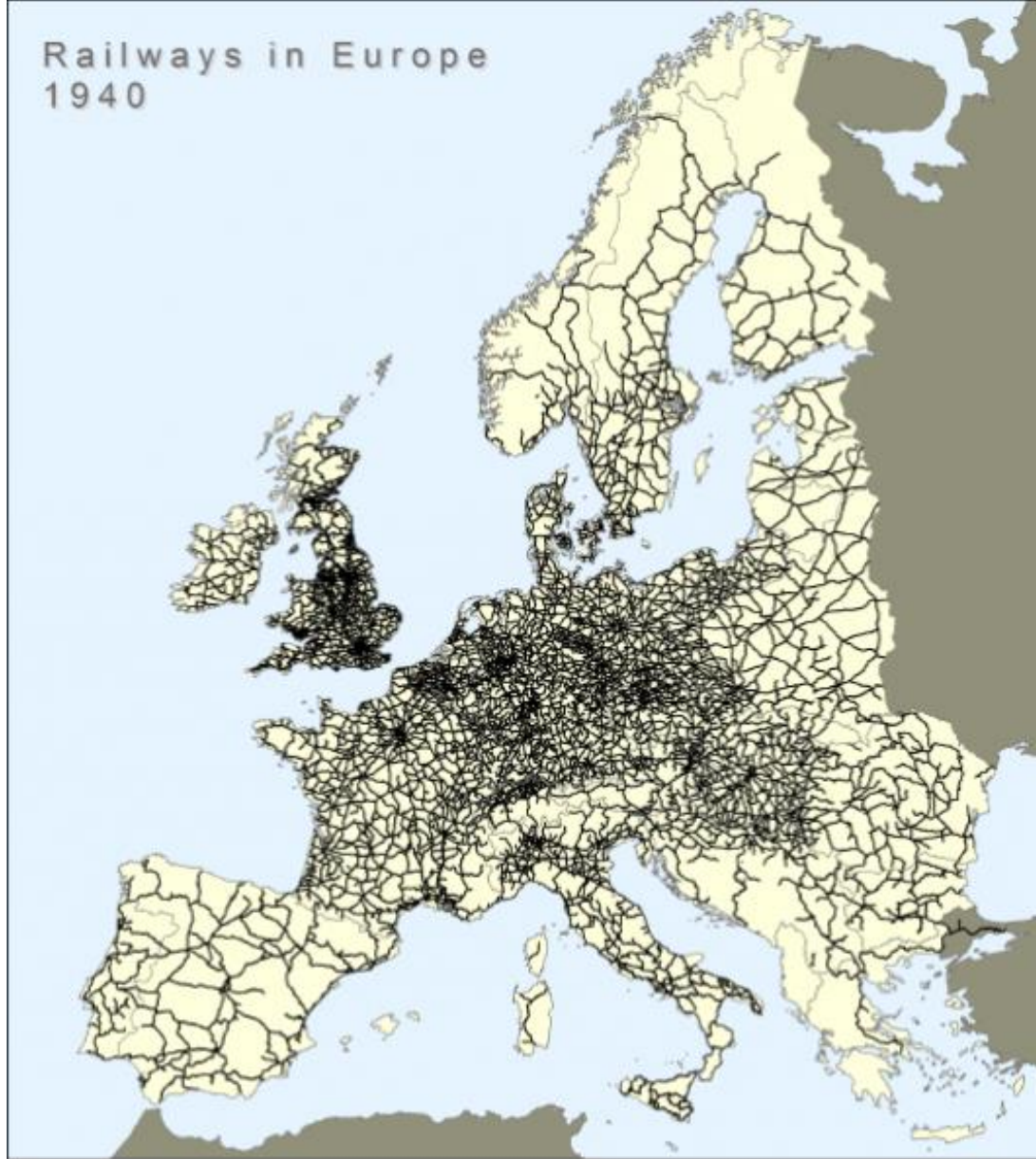
Railways in Europe 1930




— Main lines

0 250 500 km


Railways in Europe
1940

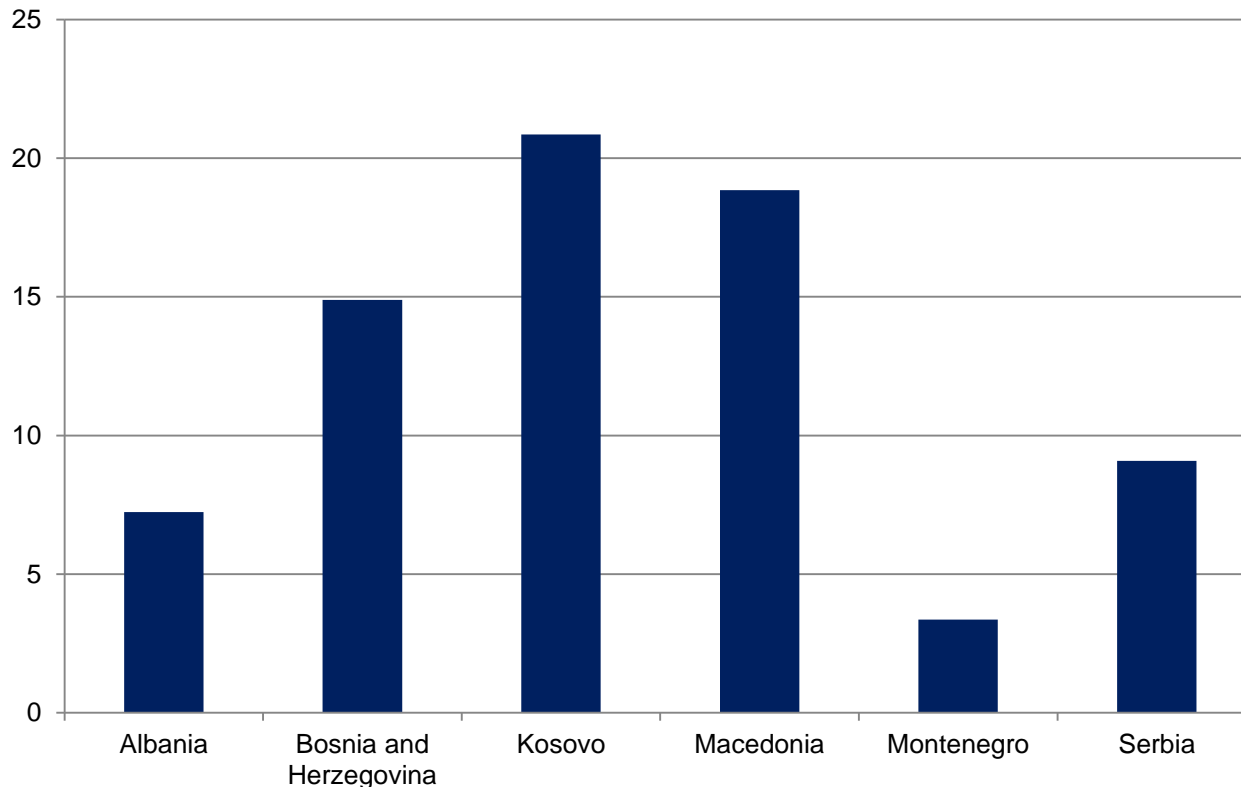


— Main lines

0 250 500 km


Net transfers (mostly from migrants) are pivotal...

Balance on secondary income, in % of GDP, BOP - 6th edition, 2014

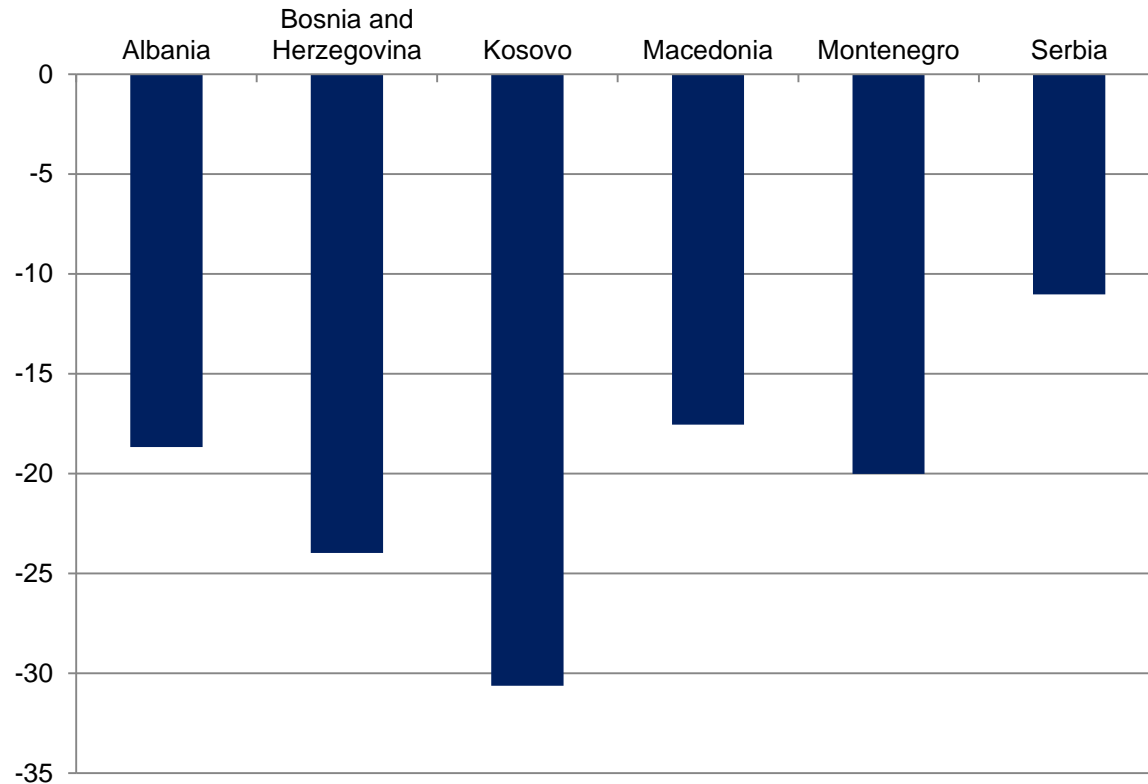


Note: For Montenegro current transfers, net, in % of GDP, BOP - 5th edition.

Source: wiiw annual database.

... for covering part of the huge trade balance deficit

Balance on goods and services, in % of GDP, BOP - 6th edition, 2014

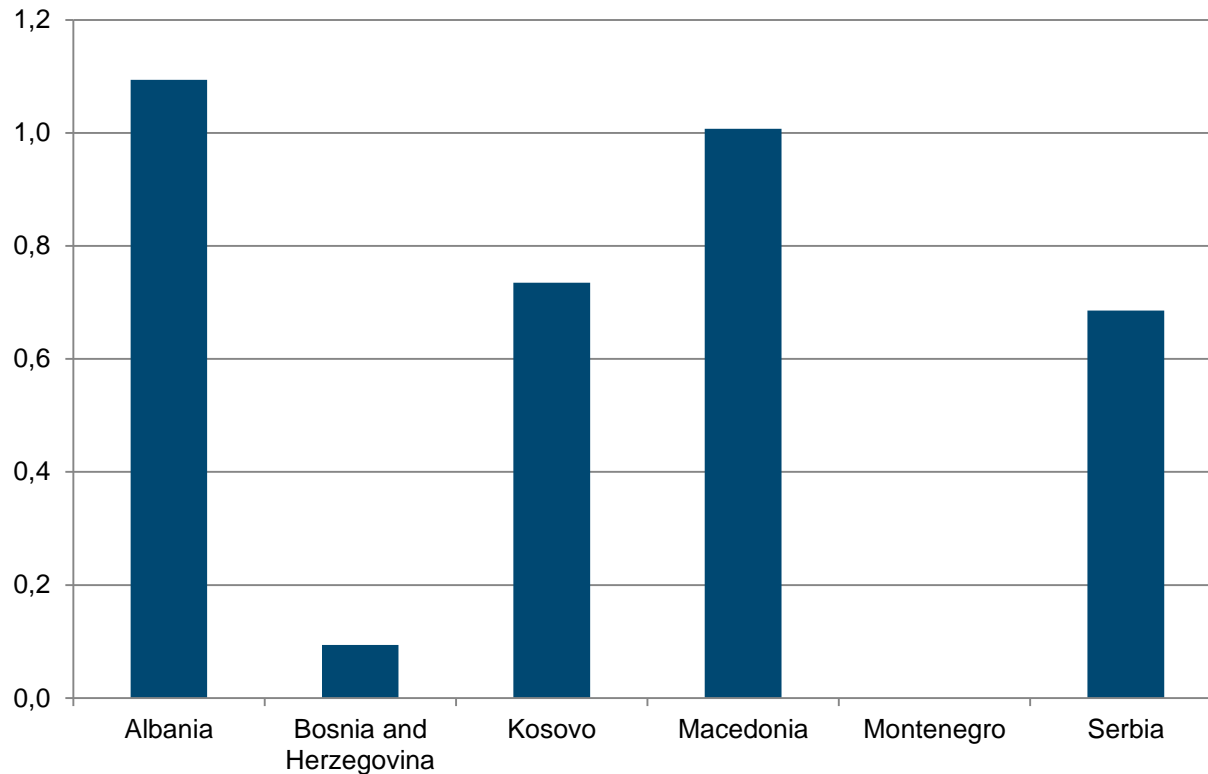


Note: For Montenegro goods and services, net, BOP - 5th edition.

Source: wiiw annual database.

Modern roads in some cases inexistent

Kilometers of motorways per 100 km² of land area, 2013

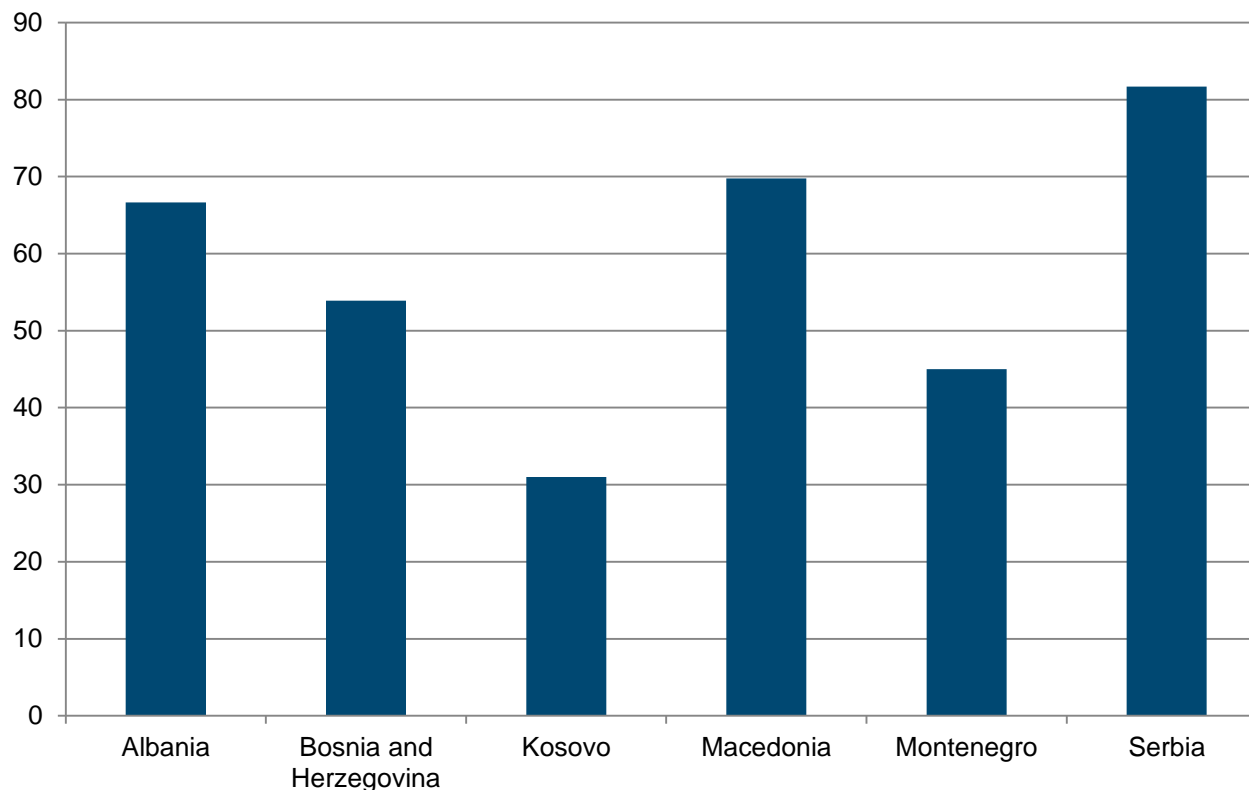


Note: For Albania and Bosnia and Herzegovina year 2012.

Source: Eurostat and wiiw estimates.

... and overall external indebtedness is rather low

Gross external debt, in % of GDP, 2014



Note: For Montenegro Gross external public debt.

Source: wiiw annual database.