

## The Trade creation effect of immigrants: characterising socioeconomic opportunities arising from linkages between people and goods flows inside the MENA region

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This Policy Brief is based on a FEMISE Research entitled: **“The Trade creation effect of immigrants: characterising socioeconomic opportunities arising from linkages between people and goods flows inside the MENA region”**

[Femise Research FEM34-01](#)

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### Main aim of the study

The main aim of the study was to highlight the link between networks of migrants along the MENA region and their trade creation effects. In particular, we have focused on the fact that *immigrants can have a positive effect on host and home countries* in economic and social terms, by promoting new bilateral commercial exchanges.

### Results of the research have raised two important issues:

**First, the existence of clear pro-trade effects of immigrants arriving to southern EU countries.** Italy, Spain, France and Portugal have shown clear trade creation effects from people flows arriving to these countries. Quantitative exercises reflect that every 10% of new immigrants living in those countries report extra-trade flows between 2-5%, once controlled for other trade-creation factors. Migrants' networks seem to affect similarly import and export flows, although in some cases those effects vary for types of products and commercial partners. Empirical results have also shown that the larger the distance between trading countries, in terms of culture, geographical distance or degree of development, the more important the existence of a network of migrants for pushing new trade flows becomes (given informational flows and the enforcement effects they provide). In this framework, the personal linkages that networks of migrants allow for, appear to be of help in pushing new trade flows to more distant areas, such as Asia, Sub-Saharan Africa, and Eastern Europe. Complementary to this those countries with a greater tradition of migration to the Southern EU region, such as the Maghreb, Latin America or Western Europe, show greater trade creation effects in parallel to imports, leading to the so-called “preference effects”. This means that when a migrant arrives to a new country he/she promotes the demand of their own home-produced products, then fostering the introduction of such products as new imports of the host country. With regards to the cases of Egypt and Tunisia we have also observed the existence of trade creation effects of migrants' networks, but only for specific types of products and not with all receiving countries. It seems that those countries occupy an intermediate position between their EU and Arab commercial counterparts. In fact they show typical trade flow structures of developed countries when trading with some less developed Arab countries, and of developing nations when doing it with EU partners. However, all the results regarding these two countries are still seminal, and would benefit from further research. As a general result, the first part of the research points to the existence of important pro-trade effects of EU-MED migration linkages. It seems that networks of migrants stimulate exports in both shores of the MED region, but mainly for manufacturers and to a lesser extent for primary products.

**Second, providing new evidence on the factors driving remittance capital inflows in MENA countries**, for the period 1990-2010. Remittances appear to be relevant in financial terms for the countries in the study. For example, in 2010 Lebanon received remittance flows accounting up to 20% of GDP, Morocco of around 10-15%, and Jordan of 13%. Moreover, for households receiving those capital flows in the MENA region, these could account for more than 200% of their average annual income per capita. Results of the investigation indicate that pivotal issues influencing the level of remittances per capita arriving to MENA countries are as follows: first, the level of education that the migrant person is endowed with, which clearly influences the volume of remits sent back home; second, the average level of income per capita that the sending country of migrants reflects because it determines the capacity of the migrant to cope with migration costs; and third, the economic conditions or conjuncture characterising destination countries, mainly the level of unemployment arising in host countries of migrants, followed by the exchange rate. Institutional conditions in countries receiving inflows of remittances also seem to play a role in this process, although these are of a second order.

### **Policy guidelines emerging from the investigation**

**In policy terms, the results of the investigation lead to the following recommendations:**

1. The main recommendation is that trade and migration policies should be viewed as complementary tools in fostering socio-economic development along the MED region. In this regard, policymakers responsible for these two common EU Policies should be more aware of the linkages they are sharing in practical terms.
2. Trade effects of networks of migrants are more important for manufacturers than for primary products, and for distant countries more than for closer ones. Both issues have clear policy implications for EU policymakers. Asian countries become an important target in this regard, given the high content of manufacturers in trade and the greater distance from the EU countries. A carefully-designed migration policy with that region would render important improvements in trade relationships between the EU and Asian partners.
3. Migration policy has of course been becoming more selective in recent years for some EU countries (France, Germany, Spain, Italy). In this study we have tried to highlight the positive effects that migration could render in terms of trade growth for host countries. Migration policies of EU countries, individually and as whole region, should integrate main results of the investigation in this crucial time of change in order to gain in flexibility and economic rationality.
4. Remittances from immigrants in the EU appear to be a relevant contribution to the development of the MENA countries. Measures supporting a reduction of transaction costs for remittances, particularly when referring to modest amounts, could be useful in reinforcing that positive impact.
5. Despite not being a specific aim of this research, a positive covariance among some crucial capital flows arriving to MENA countries has been found (remittances, foreign official aid, foreign direct investment). It would call for a comprehensive economic approach by EU institutions supporting the development of MENA economies in this regard. At the same time, we proved the positive effect on remittances, which could probably be extended to other flows of key institutional variables related to good governance. No doubt the EU Common Foreign and Security Policy could interact quite usefully with the mentioned comprehensive economic approach.
6. Education has become nowadays the most relevant variable when thinking about the socio-economic impact of currents of migrants for the host and home countries. This factor should be occupying the frontline in every policy design dealing with people flows.
7. Remittance inflows are used to increase income inequality at a social level, even in a region like MENA characterised by relative higher levels of GDP per capita among developing economies. This is a relevant issue to be dealt with in policy terms both at the level of host and home countries of migrants.
8. Finally, the positive conclusions reached through this research, in terms of the real and potential impact of immigrants, could only be sustained through the proper integration of immigrants into the recipient societies. In this sense, EU Migration Policy should allow for a more integrated focus, providing an ordered and sustainable path of migration flows. Welcomed and well-integrated migrants are those able to develop those positive economic impacts highlighted by this research.

### **Priorities and Opportunities**

As main priorities and opportunities presented by the research in policy terms we would focus on:

- Exploiting positive externalities of trade creation effects of immigrants through national and EU common migration policies (Asia, Latin America, Eastern Europe; manufacturers versus primary products).
- Accounting for the role of education in explaining the impact of migrants' flows, in order to design sound migration policies. Defining a wider approach for EU Migration Policy, integrating the MED regional focus.
- Exploring the effects of migration and remittance flows in promoting sound institutions and social equality in MENA countries during these pivotal times for those societies.

*The Femise Research and this policy brief have been produced with the financial assistance of the European Union within the context of the FEMISE program. The contents of this document are the sole responsibility of the authors and can under no circumstances be regarded as reflecting the position of the European Union.*