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The role of vicinity linkages in the EU-MENA region for trade growth: focus on migration, level of education, and social integration*

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1. Summary

Arguably, immigrants bring important benefits to host countries. Networks of migrants connecting source and receiving countries lead to identify business opportunities, creating new trade flows. In this Policy Brief we provide new evidence on this topic. First, we show how vicinity and historical linkages between EU and MENA countries result in additional pro-trade effects: EU and Maghreb immigrants living in EU countries show the highest additional pro-trade effects. Second, we observe that the contribution to the host economy highly differs according to the skills, abilities and life circumstances characterising the immigrant: Trade effects of tertiary educated immigrants are more than double those of less educated people. Language proficiency also appears necessary to speed up new business opportunities. Finally, we also found that as integration of immigrants at host country advances, the role of bilateral networks in creating new trade flows becomes less important. In this way, larger effects appear for recently arrived foreign-born people and those arriving in their adult age.

2. Introduction

Despite the contemporary negative stereotypes about migration, immigrants are nowadays actively contributing to OECD economies. Since year 2001, foreign-born people represented 22% of new entries into strongly growing occupations in the United States and 15% in Europe, including STEM-related jobs (Science, Technology, Engineering and Mathematics). Simultaneously, immigrants constituted a quarter of entries into the most declining occupations in Europe and the United States, filling jobs seen by domestic workers as unattractive or lacking career prospects (OECD, 2014). More generally, the discussion on the economic effects of international migration is quite present in the literature (see, for example, EEAG, 2015; Kerr and Kerr, 2011). The balance usually results positive for both the sending (remittances, brain gains after temporary brain drains), and host countries (improvement in the demographic dynamics, greater flexibility of the labour market, contributions of skilled immigrants). In some critical aspects, such as contribution to GDP growth or fiscal burden, the impact of immigrants appears less clear. It seems to depend on the stage of the business cycle when people arrive, or on their capacity to benefit from the welfare state services (health and education services, unemployment fees).

The literature on the impact of migration also studies how human diaspora can bring new capacities to host countries. Worldwide spread of creative and innovative capacity linked to people´s flows is a matter of research nowadays (Smith, 2017). The role of people´s networks in providing information helping migrants to find new jobs at host countries, and starting up new business, are important topics of research too. In this study, we focus on getting deeper insights of the pro-trade effects of migrants. The relationship between migration and trade has been studied since the seminal work of Gould (1994). Most results show that human networks significantly promote new business at host and home countries, resulting in new bilateral trade. The ability of such networks to reduce transaction costs, by moderating institutional deficiencies and improving information channels, is the main theoretical reason underlying this framework (see Rauch, 2001 for a review). Migrants can also inform domestic firms about consumer preferences at foreign markets, setting up the necessary contacts, and dealing with administrative or legal requirements. In this way, they would also contribute to the internationalisation of firms. In this context, countries with closer historical ties, resulting in larger stocks of migrants, could reach higher trade-enhancing effects, helping firms to overcome country-specific entry and expansion costs (Bastos and Silva, 2012).

In this Policy Brief, we present new evidence on the trade-migration nexus for the EU-MENA countries. The role of historical ties and proximity issues between countries is analysed. We also investigate how heterogeneity of migrants affects the trade creation process, mainly in what regards to their profile characteristics and their degree of integration at host countries.

3. Approach and Results

The analysis focuses on two case studies, namely France as a receiving country and Egypt as a sending country of migrants. France was the fifth top OECD destination in 2015 with a stock of 7.8 million foreign-born people, approximately 12% of the total population, and exhibiting historical ties with Maghreb and EU countries. Egyptian emigrants constitute roughly 4 million people living abroad. Egyptians in Arab and Western countries accounted for 72% and 10%, respectively, of the stock abroad in 2013. Temporary Egyptian emigrants settle in Arab countries, mainly Gulf countries, while permanent emigrants generally choose Anglo-Saxon countries in North America (USA, Canada), the UK or Australia.

In order to estimate the pro-trade effect of migrants, we employ gravity extended equations. The dependent variable is the bilateral trade flow between France and 92 partners, and Egypt with 68 partners, along the period 2000-2013 (Tradeijt). Explanatory variables include traditional gravity control factors driving trade exchanges (GDPs of origin and destination countries, existence of trade agreements, geographical distance, common language, past colony, border effect), plus country-time and country-pair fixed effects:

$$ln(Trade_{ijt}) = \beta_1 \ln IM_{ijt} + \beta'_1 \ln IM * REGION_{ijt} + \beta_2 GDP_{it} * GDP_{jt} + \beta_3 tradeagr_{ijt} + \beta_4 lndistance_{ij} + \beta_5 commonlang_{ij} + \beta_6 pastcolony_{ij} + \beta_7 border_{ij} + \beta_{it} + \beta_{jt} + \beta_{ij} + \varepsilon_{ijt}$$

The variable of interest is the stock of immigrants in the destination country, split into two terms, one for the stock of immigrants coming from the regions of interest (MENA, EU, Arab countries, Anglo-Saxon countries- IM*REGIONijt), and the other for the remaining partners (IMijt). This specification allows us to account for additional pro-trade effects arising from vicinity and historical linkages in our two case studies. Employing the same methodological approach, we also split the stock of migrants by profile characteristics (education level, language proficiency, occupational status) and related social integration issues (length of stay at destinations, age at arrival, and citizenship legal status). This allows to estimate how pro-trade effects vary according to these two dimensions of the migrant. Trade data is from COMTRADE database, migration data comes from national census, international databases from OECD (International Migration database

and DIOC database) and UN migration database. Data for gravity variables in the model is taken from a number of sources (see the FEM 41-13 Technical Report for details).

Results of the research show that migrants clearly contribute to the creation of new bilateral trade flows for France and Egypt. Additional effects appear for partners with closer historical ties. Following the literature, we run three estimations of the gravity equation, namely OLS, Poisson, and Instrumental Variables methods. We choose IV-Panel as our preferred method of estimation, to deal with potential endogeneity issues arising between trade and migration variables in the model. Results in table 1 contain the elasticities associated to variables of interest for the gravity models, showing how changes in the stock of immigrants at receiving countries would result in increases of trade flows. As shown in table 1, France would increase trade business around 1.4% for exports and 1.1% for imports if the stock of immigrants increased by 10%. The effect of immigrants from countries with vicinity ties with France would add some 0.4%-0.3% value. In the case of France, vicinity effects are shown to be higher for European Union immigrants coming from Germany, Italy and Portugal, and for MENA immigrants coming from Algeria, Morocco and Tunisia. In the case of Egypt, trade flows would increase by 1.6%-1.8% if the stock of people abroad grows by 10%. Vicinity and historical linkages of Egypt with their partners result in additional pro-trade effects of migrants of around 0.4%-0.5%. By countries of destination of immigrants, the highest trade effects are shown for people settling in Saudi Arabia, Jordan and other Gulf countries, followed by Egyptians emigrants living in the USA and Canada.

Table 1: Pro-trade effects of migrants: proximity issues, profile of migrants and social integration effects

	general effect	proximity effect	education effect	language prof. effect	+ 10 years of stay effect	arrived children effect
France						
Exports	0.14***	0.04***	0.10***	0.08***	0.06**	0.03***
Imports	0.11***	0.03***	0.08***	0.07***	0.04**	0.02***
Egypt						
Exports	0.16***	0.04***	0.12***		0.03**	
Imports	0.18***	0.05***	0.17***		0.02**	

(*,**,*** account for significance of coefficients at 10%, 5% and 1%, respectively).
Source: Femise FEM41-13 Research Report.

We also analyse how the profile and social integration issues of the immigrant behave in this setting. Table 1 shows that tertiary educated immigrants create the highest trade connections and exchanges with their home countries, accounting for the bulk of the general effect. In fact, tertiary educated immigrants in France show effects of around 1.0%-0.8% on trade. However, non-tertiary educated ones also show effects, although of smaller magnitude, with coefficients of around 0.5%. Moreover, immigrants with language proficiency show important effects on trade of around 0.8%-0.7%, while those who cannot speak fluently the language of the host country show coefficients of around 0.2%. In this way, providing education and language proficiency seems to be a good tool to foster the economic benefits of migrants, both at host and home countries. On the other side, higher levels of integration of migrants at host societies (more than 10 years at the receiving country or arriving as a child) result in lower pro-trade effects for France. People go losing contact with their home countries and network effects of immigrants decline. In regards to the effect

of social integration of immigrants, results show that those staying for longer time have pro-trade effects of 0.6%-0.4%, while those with a shorter stay of less than 10 years show values of 0.8%. Furthermore, those migrants arriving when children in France only show trade effects of 0.3%-0.2%, as shown in table 1, while those arriving being adults show effects of 0.8% in average. In the case of Egypt, findings show that personal characteristics and integration of migrants also matter in shaping trade effects. Trade effects of migrants appear to increase with the level of education, and decrease with the length of stay at destinations. In particular, highly educated Egyptian migrants show some 1.2%-1.7% effect on trade flows, versus 0.5%-0.4% of less educated. Longer-stayers show effects of 0.3%-0.2% in comparison with values of 0.8%-1.1% for shorter-stayers.

4. Conclusions and recommendations

The present investigation has provided deeper analysis of the potential benefits that migration can bring to sending and receiving countries, by creating new bilateral trade flows. Networks of migrants maintain connections with home countries, identifying new business opportunities and starting up new companies. In general, econometric results show clear pro-trade effects of immigrants. Moreover, historical and vicinity ties, leading to higher stocks of migrants at particular destinations, result in additional pro-trade and business effects. Furthermore, the profile of the migrant is also important in shaping such trade effects. In particular, level of education and language proficiency appear to be relevant issues to increase the trade-creation effect of immigrants. Finally, the higher the level of integration of migrants at host societies, the lower their related trade effects, so larger effects are shown for recently arrived adult immigrants.

Regarding policy recommendations, in the case of the EU countries, several issues emerge. First, results have shown how immigrants provide tangible economic benefits to destination countries, this being an important finding in times of crisis and populism. Highlighting these benefits should be important as a **communication policy** to reach the public opinion. Second, vicinity ties provide additional economic gains, together with other social and political benefits. **Strengthening socio-economic relationships between MENA and EU countries** is another general recommendation of the research in this direction. This particular area is facing an historical moment, with the war in Syria, and Arab Spring movements in the North of Africa. Remarking the economic benefits from vicinity ties could help to improve the necessary cooperation in the region. In any case, results encourage the **European Neighbourhood Policy** to reinforce vicinity ties as a source of economic gains. Moreover, as shown by the case studies, vicinity ties with higher effects are those of closer neighbouring countries. For example in the case of France, major effects arise from the same EU citizens moving along the **Single Market**, this being an important source of economic gains. After them, immigrants from Tunisia, Algeria and Morocco show the highest trade effects. For Egypt, highest effects are shown for immigrants reaching Persian Gulf countries. In this way, it is recommended that Neighbourhood polices **reinforce its sub-regional approach**. The Mediterranean region is a good candidate here. Turkish-Germany cooperation is another good example for this type of sub-regional policy focus.

The investigation also shows the need of adopting a **selective migration policy** at the EU level to maximize economic gains of immigrants. This type of policies are becoming a norm in the EU countries at present times. Correctly defined, they can result in higher positive economic outcomes for host societies, as shown by this research. Improving access to highly skilled immigrants is a must for the future of European economic growth, as stated by all experts in the field. The reform of the “EU Blue Card” policy has been trying to address such an issue recently. Moreover, education is always a desirable investment on immigrant population recently arrived to EU countries. It appears to be one of the most influential policies for integration of immigrants at Western societies, as shown by OECD and EU Reports. Tertiary education and language proficiency appear as important treats of immigrants to maximize economic gains at host countries. However, less educated immigrants also provide new economic activity and trade effects, despite being of a lower

magnitude. In fact, lower educated immigrants fill undesired jobs in EU and OECD countries allowing for the access of women to labour market, or taking care of our elder persons. In any case, the collective of immigrants living in EU countries show higher rates of over-qualification at work in comparison with their national counterparts. In this way, taking profit of the **whole stocks of skills of immigrants** is another recommendation of the research in order to maximize potential economic gains of people´s flows. **Speeding up the process of integration of refugees** or just-arrived immigrants at EU countries will also result in higher economic effects, given that people´s networks appear to be more efficient in the first years of arrival of the immigrant.

Last but not least, since emigration constitutes a potential source of wealth for sending countries, policy recommendation includes the possibility of launching new agreements that favour ordered and legal inflows of people in the EU market, particularly for those people with higher impact on host economies, as well as for family reunification as we are seeing recently.

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