

EUROPEAN STUDIES, AALBORG UNIVERSITY

# Rise in the East, Settle in the West?

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Examining Latvian Migration flows post EU-accession

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## **Abstract**

The purpose of this research is to examine the patterns of Latvian emigration post EU-accession and the prospects for future development. Simultaneously, it set out to challenge the conventional wisdom and political discourse on immigration exemplified through the recent debate regarding the UK's EU referendum. This is done through meticulous theoretical testing of the major theories in migration studies and their basic assumption. The first part of the research thus reviews and tests the theoretical assumptions of neoclassic theory (Borjas, 1989), new economics of labor migration theory (Stark & Bloom, 1985), segmented labor market theory (Piore, 1980), social capital theory (Gross & Lindquist, 1995), cumulative causation theory (Massey et al, 2005), world system theory (Sassen, 1988). The research is structured by the theories while the analysis is driven by data and empirical findings outlining the development in migration patterns and economic and structural factors through quantitative research. The research finds that the multiple factors dominant in initiating and perpetuating migration flows operate on many aggregated levels each important in a comprehensive understanding of migration. These are compiled into a comprised model of Intra-EU migration providing a theoretical perspective on the initiation, perpetuation and future development of migration flows. The second part of the research examines the prospects for the future development of Latvian migration flows utilizing the comprised mode of theoretical assumptions. This is achieved by analyzing several aspects found to have possible grand effect on the future development. Thus prospects of future developments in Latvian economic convergence, migration and social policies are reviewed. Furthermore, the effects of the possible Brexit are evaluated. The findings of the research suggest that Latvian emigration is returning to more sustainable levels. Continued demographic changes and increasing skilled labour shortages however, poses challenges to the prospects of continued economic growth and convergence. Thus further active and reactive policy initiatives are necessary to meet these challenges.

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## 1.0 Introduction

Since the turn of the millennium and the accession to the European Union (EU), an estimated 14 % of Latvia's workforce has emigrated. The migrants are primarily young and educated men and women looking to sell their labour on foreign labour markets (Hazans, 2010 & Hazans, 2013). But what underlying factors are behind the high emigration rate of capable workers and what are the consequences? There are multiple reasons for this high rate of emigration and a multitude of explanations; economic disparities, low wages, high unemployment, government failures, structural and social forces are a few of them. Two factors however seems to be more generally applicable 1) they are emigrating to sell their labour on foreign labour markets and 2) they are doing so without legal restrictions within the legal framework of the EU. So what are the consequences, if any? In the perspective of the EU, the free movement of workers is a fundamental principle enshrined in the treaty of the EU and the treaty of the functioning of the EU and one of four freedoms enjoyed by EU citizens. EU labour migration or intra EU-mobility is promoted through the initiatives of the Europe 2020 strategy, as an effective tool to allocate labour, meet the demands of the labour market and fill in shortages to strengthen economic development (EC, 2010). Thereby, migrants seeking work in other EU member states are simply actors reacting to forces of supply and demand of the European labour market and exercising a fundamental freedom as EU citizens. The actualities of the labour migration however, are a dense cluster of opinionated debates on economic interests, dispersed native workers, demographic challenges, social dumping, ethnicity and social cohesion.

One highly debated aspects of labour migration was manifested in the recent negotiations between Britain and the EU on the question of British exit of the EU – the so-called Brexit. The UK has been one of the largest receivers of migrants from Central- and Eastern European member states – a fact which has divided both political and public opinions. A February UK labour market survey by the Office for National Statistics (ONS, 2016), showed that from 2014 to 2015 the number of non-UK nationals from the EU working in the UK increased by 215,000 to 2.04 million. Further, a May opinion survey showed that '*control over the number of EU migrants centering the EU*' (51 %) was the number two most important factor in deciding on the vote, only topped by '*the economy*' (55 %) (ComRes, 2016). Thus one major concern and priority of the Prime Minister of the United Kingdom, Mr. David Cameron, has been to limit migration to the UK and the perceived effects thereof on British society. Acting on populist concerns of a Eurosceptic British public, Mr. Cameron attempted this through a revision on the current rights of workers from other EU Member States. This is reflected in the

final text of the reform proposals from the European Council President Mr. Donald Tusk, stating that on the matter of the social security systems of the Member States in regard to the free movement of workers;

*“It is legitimate to take this situation into account and to provide, both at Union and at national level, and without creating unjustified direct or indirect discrimination, for measures limiting flows of workers of such a scale that they have negative effects both for the Member States of origin and for the Member States of destination”* (European Council, Section D, 2016).

Further, the deal suggested an amendment to the regulation on the freedom of movement of workers, stating that; *“The Council would authorise that Member State to limit the access of newly arriving EU workers to non-contributory in-work benefits for a total period of up to four years from the commencement of employment”* (Ibid) thus applying an “emergency brake” to in-work benefits of EU immigrants. The scale of the intra-EU migration to the UK has thus reached a level where perceived threats to the welfare and social benefit systems – among other potent issues - are sprouting a willingness in part of the public to sacrifice membership to the EU. The EU – in this case represented by the European Council – on the other hand is willing to compromise on fundamental principles of the cooperation to decrease tensions.

Conversely though, the cause and effect of migration not only poses challenges to the receiving countries. Sending countries too are realizing the consequences of the high rates of migration beyond the mere positive impacts. Thus, in Latvia, migration shifted from a matter of immigration of foreign citizens – often forced through the ‘russification’ process initiated by the Soviet Union – to the challenge of emigration of its skilled workforce, in a decade (Šūpule, 2014). Though the dawning of this new reality was slow to reach the political elites, challenges of demography, rural depopulation and brain drain has reached the glossary of the politicians and become politicized topics. Thus the demographic challenges caused by the fleeing labour force – since 1995 the Latvian population was reduced by more than 20 % (CSBL, 2016a) - have found their way into the goals set in the *National Development Plan for 2014–2020*, of which *“political and civic engagement of diaspora”* is an objective to *“promote closer ties with Latvia and target state support to facilitate their return”* (Ministry of Culture, 2016). The Ministry of Economics’ response to this challenge has been policies focused on return migration of Latvian nationals, with a proposal of a plan to bring back 120,000 emigrants by 2030 to meet future estimates of labour market requirements - policies specified in the *Plan of Return Migration for 2013-2016* (here forth Plan of Return Migration) (Ministry of Economics, 2013). A rather ambitious goal but

nonetheless one which underlines the complexity of the free movement of workers as a mechanism to allocate labour according to regional or national shortages, viewed in a political context.

### **1.1 Latvian Migration Policies post-Soviet Union**

Migration policies regulating Latvian immigration first appeared after 1991 post-Soviet Union, ending the practices of unregulated migration from the USSR (Šūpule, 2014, 212). From 1998 Latvia began adapting to the EU acquis (presented in chapter 2.1.2) reflected in the Immigration and Asylum Laws from 2002-2003. These were amended in 2010 after much discussion. The aim was to attract foreign investors through opportunity of temporary residence in cases of substantial investment of capital into Latvian companies (at least 35,572 €), substantial amount of company taxes paid (at least 28,457 €) or invest into the country's banking institutions (at least 284,574 €). These amendments attracted 1,847 persons in 2011, mostly citizens of the Russian Federation, which was highly criticized by political right-wing party (Ibid). This reflects the public and political mood towards immigration, often contributed to the influx of ethnical Russians during the Soviet occupation changing the composition of the ethnic Latvians in the population - from 77 per cent in 1935 to 52 per cent in 1989 - and a simultaneous increase in ethnic Russians - from 9 per cent to 34 per cent (Ibid;212-214). Even more controversial was the coalition government's acceptance of the EU refugee relocation scheme of 2015, which indirectly resulted in the resignation of Prime Minister Ms. Laimdota Straujuma on December 7 of the same year.

The realization of the impact of the crisis on the economy and migration flows prompted a new political focus and subsequent response to the issue of emigration. The main target was policies aimed at reducing the risk of depopulation by promoting the return migration of Latvian citizens (Kārklīņa & Kļave, forthcoming). These were formulated and expanded in a number policy proposals and development documents, most notably the development strategy of *'Long-term investment in human capital'* was established in *Latvia's Sustainable Development Strategy until 2030* while the policy aim of creating *'Human co-operation, culture and civil participation as a base of belonging to Latvia'* was set in the *Latvian National development Plan for 2014-2020* (Ministry of Culture, 2016). Some of these measures were adopted through the Plan of Return Migration and the (not yet realized) Diaspora Action Plan (Kārklīņa & Kļave, forthcoming). The policy documents contain a great deal of provision largely consisting of informative measures and development of cooperative structure as opposed to financial assistance for return migrants (Ibid;3). Some of these measures are listed below (Mieriņa, 2015):



- *Development of one-stop agency*
- *Availability of labor market information*
- *Attracting highly qualified return migrants (e.g. writing off student loans in certain areas)*
- *Support for improving Latvian language skills*
- *Promoting cooperation with the diaspora, creation and maintenance of business linkages, including measures to inform the diaspora on the current events in Latvia and support for entrepreneurs, consultations on how to start a business, etc.*
- *Support for pupils who return and integrate into the Latvian school system*
- *Requirements of public administration / local government institutions and state-owned enterprises when selecting staff (possibility of interviews via Skype)*
- *Extension of the number of those people, who can apply for repatriate status*

Thus the main aim of the policies is *'to support those Latvian nationals and their families who live abroad, who consider the possibility or have already decided to return and work in Latvia or those who wish to establish their own enterprise or develop business network with Latvia'* (Ministry of Economics, 2013) targeting Professionals necessary for the labour market, migrant families with children, young people who have studied and gained work experience abroad (Ibid).

## **1.2 Baltic Tiger in Free Fall – the Case of Latvia**

We have seen that Latvia has a high rate of emigration which has gained political focus in the recent years, but what makes Latvia an interesting case to examine in the field of intra-EU migration study? Other EU member states have had higher emigration rates than Latvia not to speak of the actual size of the migration e.g. Poland, Romania and Bulgaria (EC, 2015). In terms of the actual impact of migration on the labour markets of the receiving member states, these countries would be obvious cases of study. However, Latvia as a case presents some interesting complexities and contradictions keen to academic study in economic and migratory development. One of these factors is the speed and depth of the transition and transformation from a Soviet Union republic to a free market democracy. This transformation was exemplified by the extraordinary growth of the Latvian economy in the years after the accession of 2004, with annual GDP growth rates averaging two-digit figures. Thereby Latvia earned the nickname Baltic Tiger – a colloquial term for the three Baltic States - as the country seemed to leap ahead in economic development. This development however drastically turned

with the onset of the economic crisis. The bottom fell out on the economy and Latvia experienced a 26 % decline in GDP over two years - the steepest of any nation ever recorded, according to McCollum et al (2013). Thus the economy went from one of the fastest growing in the EU to a recording-breaking decline in the matter of two years. This had a tremendous effect on emigration and the shock waves are still rippling through the society today. This development demanded a political reaction – one which we will examine.

Though the political response to the challenges of emigration was slow to materialize, the academic response – at least inside Latvia – was more promptly delivered. Professor of econometrics Mihails Hazans (2010, 2013), University of Latvia, has done extended study on the subject, contributing to numerous projects for OECD, World Bank, USAID and the European Commission etc. Furthermore, a large scale study – the largest of its kind in Latvia – on the diaspora of Latvia involving more than 14,000 respondents, was completed last year by the University of Latvia co-funded by the European Social Fund (<http://migracija.lv/inenglish>). Though awaiting final publication, empirical findings from the forthcoming publication will be utilized in this research.

Despite these factors, Latvian migration has not received much focus outside of the national academic field. This research project therefore sets out to examine the patterns and prospects of the Latvian migration flows. However, viewing the political debates surrounding the field of international migration, it is apparent that the different actors do not always speak the same language. Perspectives change as we move through the different government levels and argumentation vary to suit national interests and ideologies. Therefore, to access the actual mechanisms behind the migration flow, these must first be examined.

### **1.3 Challenging the Conventional Wisdom**

To understand contemporary international migration flows within the EU in all its complexity - and the multitude of factors behind actual migration flows - is also to challenge conventional wisdom and political discourse. One problem of understanding international migration derives from a conventional wisdom denoting the movement of individuals across borders to simple explanations based on behavioral assumptions of migrants as opportunists motivated by utility maximization and migration as a product of a lack of restrictions. This notion has been exemplified not only in the case of Brexit but also in the recent EU migration crisis, where we have seen political rhetoric and policy initiatives reducing the motivations of migrants to that of *homo economicus* i.e. the economic man motivated solely by maximizing utility. Here, it should be noted that the definitions of on the one hand EU citizens and the other non-EU citizens vary a great deal, especially viewed by the freedoms granted by the legal framework of the EU – which will be presented in chapter 2.

However, in both cases of labour migrants similar behavioral assumptions expressed through political discourse seem to apply. Thus the response in the cases of the EU migration crisis and the Brexit has been to limit possible financial gains for labour migrants and erecting barriers and restrictions to international labour mobility. Conversely, in order to understand the complexity of the actual migration flows, this research projects first sets out to examine and test a broad range of theoretical assumptions and explanation and thus challenge the conventional wisdom. Thus we will both examine functionalist and structural theories to achieve a comprehensive model of studying migration, eliminating falsified claims of motivations and structural factors. In order to structure this research we pose and set out to answer the following question:

## 1.4 Research Question and Design

*“Why has post EU-accession migration from Latvia persisted and increased through the economic crisis and what are the prospects for future development of migration flows?”*

This question reflects the twofold yet overlapping focus of the research. The research question deals with the migration flows to the EU member states after Latvia’s accession to the EU and the development in the following decade. The approach to answering this question will thus be to examine factors behind the migration flows structured by the theoretical review of a broad range of theories. The theoretical assumptions of these theories will be examined in accordance to the empirical findings of the case of Latvian migration. Thereby, we will derive at a number of theoretical assumptions structured into a theoretical model; a model which can be utilized to answer the research question i.e. *how will future migration flows from Latvia develop, affected by economic development, migration policies (Plan of remigration support activities for 2013-2016), social policies and the possible Brexit?* The research is presented in the following structure:

**Chapter 1.0** introduces the field of study and the political context through current political developments. It goes on to relate why the research is topical and a field of interest for further academic research. Following, the research question is introduced as well as the research design and method. **Chapter 2.0** presents the different theories and reviews the basic theoretical assumptions one-by-one through the empirical findings and data of the Latvian migration flows primarily post EU-accession. Section 2.1 reviews the neoclassic theory through the work of Borjas (1989). Section 2.2 presents the new economics of labor migration theory introduced by Stark & Bloom (1985). Here the functionalist assumptions of the neoclassic theory are revised. Section 2.3 presents the segmented labor market theory and the work of Piore (1980) and the introduction of

structural forces in labour migration. Section 2.4 presents the social capital theory through the works of Coleman (1988) and Gross and Lindquist (1995). Here the importance of social capital is evaluated. Section 2.5 presents the cumulative causation theory and the work of Massey et al (2005). Here several of the assumptions previously reviewed are combined to explain the perpetuation of international movement. Section 2.6 presents the world system theory and the work of Sassen (1988). The historical perspective on migration flows is introduced and assumptions of structural forces are further reviewed. **Chapter 3.0** comprises the verified assumption and explanatory findings and factors into a model of migration. **Chapter 4.0** utilizes the theoretical findings to analyze some key factors affecting Latvian emigration. These are economic development and convergence, migration- and social policies. Lastly the prospects for the future development are evaluated. **Chapter 5** concludes the finding of the research.

#### **1.4.1 Evaluating the Research Design**

The study of migration flows is a complex and interdisciplinary task. As argued by Castles & Miller (2009) migration is a process affecting every aspect of the migrants social existence, developing its own complex dynamics, and though the absolute majority of people are not migrants, migration still has a great effect on the their lives through changes to societies and communities (Ibid;21). Any attempt to capture a comprehensive picture of international migration movements therefore includes cross-disciplinary study, and require contribution from the major disciplines in migration studies. A comprehensive research of migration flows thus involves factors of economics, sociology, political science and demography etc.

This research thus sets out to examine and explain the migration system established through the Latvian emigration – were migration systems are defined as *two or more countries which exchange migrants with each other* (Castles & Miller, 2009, 27). The basic principle of the migration system approach is the attempt to bridge the gap between the different disciplines applicable within the study of migration. In this approach migration is the result of interaction between macro- and micro-structures (Ibid;28). The macro-structures refers to the large scale structures including the political economy of the world market, international relations and interactions between political entities and the law and structures of states and political entities promoting or restricting migration. The study of macro-structures are applied in the understanding of intra-EU migration and the effect of the institutional factors of the EU legal framework, and in the understanding of political economy and the effects on emigration through economic development. Conversely, micro-structures are the small scale informal structures developed by the migrants through social networks in order to cope with the challenges of migration - these networks can vary in size from a family entity to a whole community (Ibid;28). The two levels

of structures are further linked by what Castles & Miller refers to as meso-structures i.e. the intermediate structures consisting of individuals or organizations mediating between the migrant and the institutions (Ibid;29).

Utilizing this approach to study the initiation and perpetuation of migration flows, we can achieve a comprehensive understanding of Latvian emigration, but also a wide range of theoretical perspectives operating with different and often logical contradicting assumptions. These are apparent in the discussion of functional or structural forces and micro- and macro-level decision making. The functional approach to understanding migration is represented by the neoclassic economic approach. Neoclassic theory builds on the basic assumption of a rational utility maximizing actor exposed to perfect information. Here the migrant functions within the political and economic structures and reacts to them but retain the ability to make rational decisions based on an economic logic. Neoclassic theory is essentially a micro-level decision model assuming that decisions are made by the individual or the family. Conversely, segmented labor market theory - though operating with logic of economics – assumes that migration is determined on a macro-level by structural forces inherent to the economic development of modern societies (Massey et al, 2005, 28). World system theory further expands these assumptions of structural forces in a historical perspective. In order to apply the theories to the analysis of the different structural levels, this research thus utilizes a theory testing research design to determine the explanatory power of the different and logical contradictory theoretical prepositions. Thus the first part of the research strives to unite different theoretical perspectives, by determining the validity of the prepositions, not so much by their theoretical logic, but through empirical analysis of data on migration flows and economic development.

#### **1.4.2 Research Method**

This research thus utilizes an open exploratory approach to test the explanatory power of theories to achieve a comprehensive and updated model of bilateral migration flows. The research is structured by the theories and the prepositions, while the analysis is driven by data and empirical findings outlining the development in migration patterns and economic and structural factors through quantitative research. The open exploratory approach to theory testing, thus requires that the prepositions of the theory sets the base for what needs testing and how this is best approached. This approach is logically structured by two factors, leaning on the approach outlined in Massey et al (2009):

1) The research retains an open approach and is not guided by a certain theoretical level. Though the theories postulate causal mechanisms at many aggregated levels, they are not necessarily deemed contradictory on the basis of the theoretical assumption itself. Thus we remain skeptical of the atomistic assumptions denying any structural constraints on the individuals, and conversely, assumptions denying the importance of agency of micro-level decision making. Instead, we suggest that the theories can function on aggregated levels simultaneously. Determining which assumptions are useful to the analysis is thus an empirical task and not only a logical one. Thereby, each theory is first thoroughly examined to derive testable propositions and basic assumptions.

2) When the testable propositions of the theories are outlined, only then can we specify exactly which method and data is required to test them empirically. In the case of the neoclassic theory the propositions are clearly outlined through empirical predictions expressed in mathematical models. The model presented in chapter 2.1.5 prescribes some values to the causality between socio-economic factors and migration patterns. Yielding clear empirically testable preconditions to general theory of international migration, the neoclassic theory facilitates replication of the results with corresponding data from the Latvian migration flows, thus verifying or falsifying the propositions. Depending on the outcome of the initial theoretical test the hypotheses of migration flow mechanisms are then rejected, refined and/or expanded through the introductions of new testable propositions presented by other theoretical assumptions. The new economics of labor migration (chapter 2.2) for example assumes that migration is a mechanism to diversify risk in the face of market failures. It is then evident to test the correlation between market failure (as in the case of the economic crisis) and migration patterns, all things equal. However, as argued by Massey et al (2009, 53), all things are not equal. Market failure is typically correlated with low wages and unemployment which is a precondition of the neoclassic theory. We therefore introduce another precondition i.e. remittances; if risk diversification is the motivation behind migration, then remittances are a natural product of this migration. Furthermore, in the case of segmented labor market theory, it is argued that migration is caused by the demand in foreign dual labour markets. To test this proposition we examine data of the skill level, wage gaps and finally employment of immigrants to establish whether a segmentation of the labour market can be empirically verified. This process of replication is repeated for all the six different theories and their propositions. This allows us to gradually develop on a general theory – the model of intra-EU migration – encompassing all the verified theoretical propositions and assumptions.

## **2.0 Theorizing Latvian Migration Flows post EU-accession**

In this chapter we review the propositions and assumption of six theories of international migration, each of them having contributed and made their mark on the field of migration studies. The choice of theories is derived from the work of Massey (2001), Massey et al (2005) and Castles & Miller (2009). These compiled works of migration research are based on a similar selection of theoretical perspectives, echoed through this research, while utilizing the neoclassic theory as a starting point of theoretical review. Thus we will first present the neoclassic theory and its assumptions on the initiation of international migration and migrant behavior. Through this review the EU legal framework for intra-EU mobility will be introduced and following the cases of Germany and the UK will be introduced in this context. We then go on to present the three waves of Latvian migration.

### **2.1 Neoclassic Theory**

Neoclassical theory remains a dominant school of thought in economics and has played an essential role in the study of migration (Castles & Miller, 2009, 21). Neoclassic theory of migration focuses on push-pull factors, referring to its explanation towards migration causes as divided into push factors; factors impelling people to leave their area of origin such as demographic growth, low living standards, lack of economic opportunities and political repression, and pull factor; factors attracting people to a certain area such as demand for labour, availability of land, good economic opportunities and political freedoms (Castles & Miller, 2009, 22). Neoclassic theory has a functionalistic approach emphasizing the individual decision to migrate, relying on a rational approach and cost-benefit analyses. The cost-benefit approach of the theory implies that people have perfect knowledge of the wage levels in the receiving countries and the employment opportunities. A central concept is human capital i.e. skills, knowledge and personal attributes embodied in the ability to perform labour. In this perspective migration becomes an investment in one's human capital for expected economic payoff (Ibid).

Thus the neoclassic approach of examining migration is to apply the methodology of economics to migration flows. According to Borjas (1989) economics study the allocation of scarce resources among alternative uses as neoclassic theory study labor as a scarce resource which can be allocated to different labour markets. The theory is based on the behavioral assumption that individuals are rational actors who migrate to certain areas seeking to maximize benefits and while minimizing cost and thereby achieve the largest payoff in their human capital investment. Unlike other forms of capital, labour is limited by restraint in the form of physical capital and migration policies (Borjas, 1989, 460). Beyond the limitation of these restraints however, the individual will

choose the best option for maximizing their well-being. This rational approach to the theorization of migration facilitates the existence of the immigration market (Ibid).

On the immigration market the potential migrants can go to exchange information and compare various options. The Immigration market can be assumed to be the combined sum of information of host countries' offers i.e. the opportunity to migrate and find work given host countries immigration policies, unemployment rates, wage levels etc. (Borjas, 1989, 460). The potential migrant will thus review the offers on the immigration market and engage in a cost-benefit analysis to determine the best destination country. Immigration policies, economic fluctuations and wage levels of the destination country therefore have significant effects on the migration flows by altering cost and benefit (Ibid). In the following, we test these basic assumptions and basic logic behind the immigration market to evaluate the application of neoclassic theory in understanding actual migration flows.

### **2.1.1 Theoretical review**

In the following chapter we explore the immigration market and the theoretical prepositions. This is done by examining bilateral migration flows between Latvia and a given destination country. The focus of the research is post EU-enlargement of 2004 - a period of change in immigration policies as EU member states gradually lifted the restrictions on the new Accession 8 (A8) member states<sup>1</sup>. In the theoretical perspective, the free movement of workers from the new member states functioned as a key variable in determining migration flows. Therefore, we first look at policy restrictions and the effect thereof on migration. We then proceed to examine macro-economic factors and their effect on bilateral flows focusing on the cases of Ireland and the UK. These cases are selected because they were the largest receivers of Latvian immigrants (Hazans, 2010, 71). In order to examine the effect of macro-economic factors we utilize the observations from a gravity equation for migration presented in the European Commission's report '*Labour Market and Wage development in Europe 2015*' (EC, 2015). The report presents a number of variables and their effect on bilateral migration flows. The observations will be utilized in the case of Latvia and the destination countries to determine whether they provide a feasible explanation applicable to the empirical findings. Firstly though, we look at the EU legal framework on mobility.

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<sup>1</sup> Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia.



### 2.1.2 The EU legal framework

In April 2004 the EU brought together one previous Regulation and 9 Directives in one directive (EC 2004). The directive specifies that the citizen and their family - if accompanied - can freely move and reside in the territory of an EU member state under a few conditions specified in the directive (Boswell & Geddes, 2011, 177-178). In order to reside in an EU member state for a period longer than 6 months the directive states that the citizen must be:

- *Engaged in economic activity or be self-employed*
- *Have sufficient resources, including health insurance, so that they do not become a burden on the member state that they move to; or*
- *Be following vocational training and have sufficient resources to support themselves;*
- *Be a family member of an EU citizen who falls into one of these categories.*

Further EU citizens acquire a right to permanent residence following a 5-year period of uninterrupted legal residence not subject to any conditions. EU citizens who are residents in an EU member state are also entitled to equal treatment as nationals to that state i.e. entitled to access to social services etc.

The provisions in the directive basically state that EU member states are not allowed to control access to their countries by other EU member states citizens. This is an important component to basic principle of the EU (Boswell & Geddes, 2011, 178). However, following the EU enlargement of 2004 transition measures were used on the new members (Ibid; 180). For up to 7 years after accession, restrictions could be were imposed on the access to the labour market of any member states justifiably choosing so. Consequently, the UK, Sweden and Ireland were the only member states to grant access to the new members immediately after the accession on May 2004. Other member states agreed to a 2+3+2 formulation which stated that the restrictions could be put in place for 2 years, with the possibility of subsequent 3 years extension and finally 2 more years in the case of serious disturbances to the domestic labour market. All restrictions thus had to be lifted by 2011 (EC, 2016a).

In the perspective of neoclassic theory the free movement of workers changed the cost-benefit analysis of migration as potential migrants could now compete for jobs on equal terms with the domestic labour force. This however already became possible in 2004 in the case of Sweden, Ireland and the UK who lifted all restrictions immediately. Therefore we should see these countries as primary destination countries for intra-EU migration. To establish this connection we look at the case of the UK and Germany - two of the largest

economies and migration countries in the EU who choose different approaches to restriction of workers from the new member states.

### **2.1.3 The UK and Germany and the EU enlargement**

On the turn of the millennia both Germany and the UK sought less restrictive policies on labour migration as a part of a broader economic strategy of attracting highly qualified labour migrants. Despite the similar strategy and argumentation, public reaction to the proposed policies differed (Boswell & Geddes, 2011, 88-89). In the UK the Labour party succeeded at convincing the opposition, media and the public of the economic benefits in a more liberal policy towards labour migration. Therefore, the UK became one of the first member states to grant immediate labour market access to nationals of the A8 member states. This decision by the UK led to the largest influx of migrants in the history of the UK (Ibid). In Germany the ability to adopt liberal labour market policies was challenged by political opposition and a negative public debate raising concerns of potential displacement of domestic workers from letting in a large number of migrants in a labour market with high unemployment (Boswell & Geddes, 2011, 89-90). Germany therefore chose to implement restrictions on the free movement of the citizens.

In the UK the number of A8 migrants was estimated to be somewhere in the lines of 5,000 to 13,000 yearly (Ibid;91). This was based on projections accounting for all the member states opening their labour markets to the migrants. Instead, more than two million migrants have registered their presence in the UK as of February 2016 (ONS, 2016). At the time of the accession, Germany already had a history of migration flows from Poland, and did also experience a rise in polish migration after the enlargement. Therefore Germany did also experience a larger amount of migration than the UK all in all, but the UK by far saw the greatest relative increase in migration from the A8 countries - most of which were also polish migrants (see Appendix 4). Before the enlargement the largest single group of migrants to the UK was Indian nationals, but they were surpassed by Polish migrants (Boswell & Geddes, 2011, 27).

This case suggests that the lack of restriction on free movement in the UK had a major effect on the wave of migration from the A8 countries. The lack of restriction on the rights of workers comparably made the UK a more attractive destination country. In the following we examine this effect in the case of Latvia and the UK, Ireland and Sweden, but firstly we introduce the three waves of Latvian migration.

#### 2.1.4 The three waves of Latvian migration

Three waves of migration can be observed in Latvia post-Soviet Union. The first was initiated after the fall of the Iron Curtain and the subsequent great changes which occurred to the economy, state and society in the transition to free market capitalism and democracy (Šūpule, 2014, 217). The second wave of migration came after the new millennium and was accelerated by the EU accession, as free movement of workers increased opportunities for intra-EU migration. The years after the accession were also characterized by economic growth in the (old) EU15<sup>2</sup> member states which prompted the demand for labour in the national economies. Simultaneously, Latvia experienced rapid economic growth as the real GDP growth annually averaged 10.23 % (Eurostat, 2016a) between 2004 and 2007, while unemployment fell and wages rose (Hazans, 2013, 77). This meant that expected migration was curved and the return migration of pre-accession migrants increased. The consequences of these changes though, were slower to be felt in the society than the institutional changes affecting migration cost (Ibid). Further, availability of information through meso-structures increased as European job portals (European Mobility Portal, EURES) started operating in Latvia. Return migrants from previous waves provided further information about job opportunities and network possibilities. Lastly, transportation cost decreased following the increase in demand for cheap flights to destination countries (Ibid). Therefore, the overall increase in migration was substantial, but the largest wave came in the wake of the crisis of 2008 which had a tremendous effect on the economy of Latvia.

Latvia is a small and open economy vulnerable to changes in the European and global economy which was proven in the financial crisis of 2008-09, during which GDP decreased by 26 % while employment decreased by 25 %. At the end of 2009 the unemployment rate among males reached 25 % and 16 % for females, however, only one-third of the jobseekers received unemployment benefits. Further, recipients with less than 20 years of social insurance faced reduced benefits amounting to only 57 Euros per month. Many workers who kept their jobs experienced pay cuts usually by 25 to 30 %. Data from Eurostat (2016b) shows that in the years following the economic crisis Latvians at risk of poverty (defined as *60 % of the national median equivalised disposable income*) increased from 34.2 % in 2008 to 40.1 % in 2011 - way above EU average of 24.3 % in 2011 (Ibid).

By 2010 the economic activity in Latvia was recovering and in 2012 the growth of the GDP (at constant prices) was 5 % - compared to -3.3 in 2008, -17.7 % in 2009, -0.9 % in 2010 and 5.5 % in 2011 (Šūpule, 2014, 217). However, as a result of the shock of the downturn the stock of Latvians who had emigrated was substantial.

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<sup>2</sup> Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom.

Between the turn of the millennium and 2013, it is estimated that the working age population was decreased by 14 % (Hazans, 2013). The high rate of emigration is reflected in the population statistics (CSBL, 2016a). Here we see that the population has steadily decreased from 2.5 million in 1995, to 2.26 million in 2004 and the year of the EU accession, down to 1.97 million in the second quarter of 2016 – a total reduction of more than 20 % (Ibid).

### **2.1.5 Examining the Impact of the Economic Crisis on Migration**

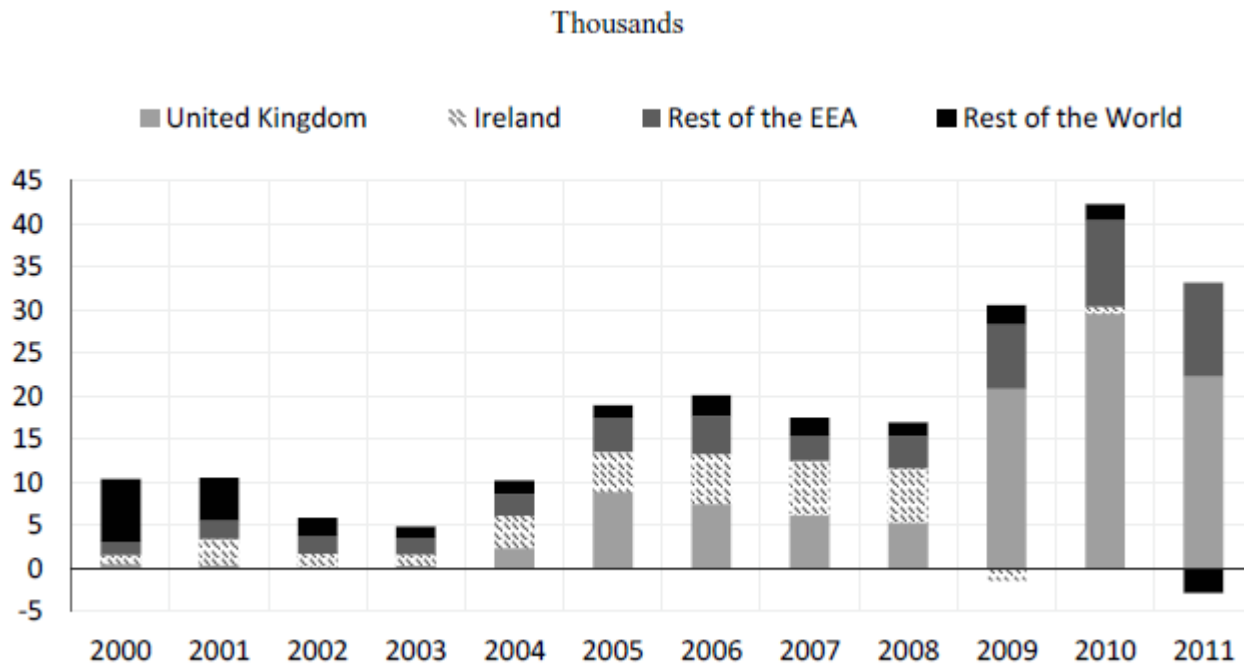
Figure 2.1 (Hazans, 2013, 70) illustrates the substantial rise in emigration from Latvia following the onset of the economic crisis in 2008 with a delayed effect into 2009 and the following years. This clearly shows the effect of the push factors on the emigration flow i.e. the increase in unemployment combined with low wages and poor social benefit programmes contributing as determining factors in emigration. It also shows that though the share of Latvians immigrating to UK has been high since the accession to the EU in 2004, there was a many-fold increase following the crisis compared to all other destinations. The rest of the EEA - 28 EU member States plus Lichtenstein, Iceland and Norway - has the second highest occurrence of Latvian migrants after 2008. These 29 remaining European countries still only represent a small part of the collective stock compared to the staggering amount of migrants to the UK. Applying the theoretical perspective of neoclassic theory to this data generates an explanation stating that the UK must be the best country in term of migration offers.

Ireland and Sweden – like the UK – chose not to erect any restrictions to the free movement of workers. In the case of Ireland this is also reflected in Figure 2.1. Here we see that Ireland received large flows of Latvian migrants between 2004-2008; some years even more so than the UK. Conversely, Sweden is not proportionately represented despite having almost twice as large a population as Ireland (CIA Factbook, 2015). From 2005 to 2007 only 951 Latvian immigrants were registered by the Swedish Migration Board while, 289 Latvian emigrated (Kahanec & Zimmermann, 2010, 166). Thus only 0.7 % of Latvian migrant flows went to Sweden in 2005 and 1.8 % in 2007 (Ibid;259). Not unlike Sweden, several other EU member states that opened their labour market to Latvian migrants subsequently were not proportionately represented in the statistics<sup>3</sup>. This suggests that policies alone cannot explain migration flows. In the next section we therefore look at macro-economic factors and their effects on bilateral migration flows.

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<sup>3</sup> Spain, Portugal, Finland, Greece and Italy lifted restrictions in 2006, the Netherlands and Luxembourg in 2007 and France in 2008

**Figure 2.1 Net emigration of Latvian nationals by destination 2000-11**



### 2.1.6 Macro-economic factors in migration flows

In order to test the effect of macro-economic factors in determining bilateral migration flows, we utilize the observations presented in the European Commission report *Labour Market and Wage development in Europe 2015* (EC, 2015). The report presents a number of variables and their effect on bilateral migration flows. These variables were found by analyzing a huge quantity of data comprising gross bilateral migration flows from the OECD International Migration database and include information about migration from 200 origin countries to 38 destination countries 1992-2011 (Ibid;100). Control variables such as geographic distance between countries as well as information about common language and colonial history were also included. This information was then calculated through a gravity equation or gravity model to determine variables affecting bilateral migration.

The model is relevant to the review of the explanatory power and basic assumptions of neoclassic theory because it derives from the same logic of migrant labour as a resource to be distribute across borders, as it was initially utilized to explain trade flows (EC, 2015, 99). Further, the model produces similar conclusion in determining migration flows as presented by Borjas (1985) with the control variables being an exception. The

model thus derives a limited number of determinants which can be tested in cases of Latvian bilateral migration. They are as follows (EC, 2015, 102):

- *“The product of both countries’ populations and their relative level of GDP per capita have a strongly significant effect on migration flows. The estimation suggests that if either the origin or the destination country’s population increases by 1%, gross bilateral migration increases by about half a percent. In a similar vein, if per capita GDP in the destination country increases by 1% relative to the origin country, the gross bilateral migration flow increases by about 0.06%.”*
- *“The relative unemployment rate is estimated to affect migration significantly. If the unemployment rate of the destination country increases by 1% relative to the origin country, the bilateral migration flow to this country is estimated to decrease by about 0.14% in the specifications with country effects.”*
- *“Mutual EU membership is estimated to increase bilateral migration flows by about 25%, everything else being equal, in the specification with country effects.”*
- *“Other traditional control variables (distance, common language, past colonial relationship, initial bilateral migrant stock) have a strongly significant effect on bilateral migration in the expected direction.”*

The first three observations all fit the proposition of the neoclassic theory as presented by Borjas (1989). The increase in the population of the origin country or sending country indicates demography as an effect, the increase of GDP per capita indicates a relatively-poor-to-rich migration, the increase in the unemployment rates reflect negative macro-economic changes and the consequent effect on migration, and as we have already seen, EU membership promotes intra-EU mobility and closer ties to fellow member states in general. The last observation from the control variables, however, does not entirely fit in the perspective of neoclassic theory because it relies on structural factors as determinant in the development of migration flows. This will be discussed at the end of chapter 2.1. We now test these observations utilizing empirical findings in order to establish if similar results can be replicated with the data from Latvian bilateral migration flows.

Here we examine three datasets from Eurostat including data from Latvia, Ireland and the UK (2004-2014); population change (Appendix 1), GDP per capita (Appendix 2) and unemployment rate (Appendix 3). By calculating the change in population, GDP per capita and unemployment rate in the data between the years

2003-2004 (expected change from EU enlargement), 2008-2009 (expected change from the onset of the economic crisis and the subsequent recession) and finally 2010-2011 (expected change from the turning-point in economic recovery) and subsequently utilizing the relations between these and expected change in bilateral migration flows in the case of *Latvia-Ireland* and *Latvia-the UK*, a comparison can be made with data on migration flows from Hazans (2013). The results can then help to determine the explanatory power of the model compared to the actual migration flows.

### **2.1.7 Bilateral migration flows: Latvia-Ireland and Latvia-UK**

Examining the results of the 2003-2004 calculations in the case of Ireland, we see that there is no apparent effect of GDP per capita; both Latvia and Ireland's values rose two percentage points to EU28 average resulting in no relative change. The change in the unemployment rate of Ireland showed a decrease of 0.1 % which translates to an estimated migration change of 0.014 % i.e. if this significance is consistent to decrease in unemployment rates. However, this is still an insignificant rise. Population change showed a substantial rise in Ireland of 1.8 % which would translate to an estimated increase of 0.9 %. *However*, in the same period Latvia's population decreased by 1.1 %. The question here is whether the rise in population is an effect *on* migration or an effect *of* migration. Here causality is of importance. No matter the causality we would expect to see an increase in migration to Ireland of an estimated 0.9 to 1.1 %. Lastly, we look at the mutual EU membership effect. Given Latvia's accession to the EU we should see an increase of 25 % in migration flow. All in all, given the slight significance of population change, unemployment but also the effect of common EU membership, the effect should be an increase in migration between 25 to 27 %.

From 2008-2009 we see a slight increase in Ireland's GDP per capita of 4 percentage points, however, this is only relative to Latvia which GDP per capita decreased by 7 percentage points to Ireland's decrease of 3 percentage points. This on the other hand, only translates to an increase in migration of 0.2 %. The decrease in the unemployment rate of Ireland by 5.6 % thus translates to 0.7 % decrease in migration. However, the continued rise in the population of Ireland of 1 % translates to an estimated effect of 0.5 % increase of Latvian-Irish migration – canceling out the negative effect of the recession.

Lastly from 2010-2011 despite relative decline in Ireland's GDP per capita of 2 %, increase in unemployment of 0.9 %, again we see no clear change in the estimate of migration. Now we look at the data from Hazans (2013) on the actual migration flows.

**Table 2.1 - Net emigration of Latvian nationals by destination 2000-11**

Thousands

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Year	United Kingdom	Ireland	Rest of the EEA	Rest of the OECD	Former Soviet Union countries	Rest of World	Total
2000	0.50	1.05	1.58	0.74	2.76	3.77	10.40
2001	0.40	3.02	2.10	0.97	1.12	2.89	10.49
2002	0.21	1.54	2.07	0.90	1.08	0.08	5.88
2003	0.37	1.23	1.97	0.54	0.69	0.07	4.88
2004	2.38	3.76	2.44	0.65	0.95	0.03	10.22
2005	8.88	4.64	4.00	0.76	0.59	0.05	18.91
2006	7.50	5.79	4.34	0.93	1.47	0.08	20.10
2007	6.23	6.22	2.98	0.70	1.32	0.03	17.47
2008	5.38	6.22	3.75	0.40	1.15	0.02	16.91
2009	20.84	-1.39	7.55	0.57	1.44	0.13	29.15
2010	29.56	0.79	10.02	0.64	1.14	0.12	42.26
2011	22.37	-0.03	10.79	0.80	-3.71	0.11	30.33
2000-11	104.61	32.84	53.59	8.50	10.90	7.38	217.00

According to the calculations we should see an estimated increase in migration flow 2003-2004 of 25-27 % instead we see an increase of 206 %. From 2008-2009 we saw little to no change with an actual decrease of 547 % and from 2010-2011 we again saw no significant change while the real flow decreased drastically. When looking at the same measurement from the case of Latvia-UK migration, we get the similar result i.e. unreliable results which do not reflect the actual flows. One possible explanation for this is the failure to include the control variables which take into account historical and structural factors.

### 2.1.8 Evaluating the Explanatory Power of Neoclassic Theory

It is impossible to rule out the importance of macro-economic push-pull factors in migration flows. The data in table 2.1 clearly reflect the substantial changes to society and economy in Latvia, and non-surprisingly, the accession to the EU in 2004 shows a more than 100 % increase in migration flows mainly to Ireland, the UK and the rest of the EEA, while the push factors of the economic crisis in Latvia signifies a steep increase in 2009 and the economic recovery a decrease in 2011. These effects are also clear in the case of Ireland. From 1995 to 2007 Ireland had a period of GDP growth averaging 6 % annually (CIA Factbook, 2015) while employment between 2003 and 2007 increased 17 %, resulting in an unemployment rate between 3.7-4.5 % (Kahanec & Zimmermann, 2010, 147). Data from 2008 also shows that immigrants from the EU12 countries<sup>4</sup> had a higher

<sup>4</sup> All new EU member states from the 2004 and 2007 EU-enlargements



employment rate (80 %) than Irish nationals (59 %). In comparison, the Swedish employment rate from EU10 migrants was 58.6 % (46.9 % for Latvians). This suggests that positive macro-economic factors contributed to the high rate of migration in Ireland. Furthermore, we see the drastic decrease in the bilateral migration flow coincide with the onset of the crisis in Ireland. GDP per capita fell 15 % in 2008 and unemployment rates rose from 4.8 % in April of 2008 to 17.3 % in March 2010 (Šūpule, 2014, 217). Thereby, negative macro-economic development contributed in the subsequent decrease in migration.

Conversely, in the case of the UK-Latvian bilateral migration we see a drastic increase coinciding with the economic crisis. This might be explained by the deterioration of the Irish economy shifting the flows to the UK – neighboring country, same language – but in the optic of the neoclassic theory the flow is determined by the best offer in terms of cost-benefit and possible lifetime earnings. Macro-economic factors show that GDP per capita of the UK fell by an annual average of 3 % between 2007 and 2011 before slowly increasing again by 1 % annually until 2014 (see Appendix 2). The unemployment rates rose by 2 % to 7.6 % in 2009 and by 0.3 % and 0.2 % in the following years before slowly decreasing from 2011 (see Appendix 3). This still placed the UK in low end of the scale with an EU average of 9.6 % but 8 countries showed lower rates including Germany (7.5 %) and the Netherlands (4.0 %) - in contrast Latvia had the highest unemployment rate in the EU at 22.8 % (Eurostat, 2010). This poses the question why Latvia-UK migration flows were so persistent?

If we look at Germany and Netherlands we see both lower unemployment rates and higher level of GDP per Capita (Appendix 2). Both countries are big immigration countries (Boswell & Geddes, 2011, 4) and Germany has the largest immigration of Polish migrants – several times larger than the UK – consistently after the EU enlargement (see Appendix 4). According to numbers from the OECD migration database, the UK received an annually average of 42,500 polish immigrants 2004-13 while Germany received almost 144,484 (appendix 4). If we compare the cases of Latvian and Polish migration flows we see two divergent pictures in terms of best country in the objective of neoclassic theory. Data from the OECD migration database (Appendix 5) shows that Latvians consistently migrate to the UK in larger numbers after the enlargement – also after 2011 when Germany lifted the last restrictions. Here the annually average stock of Latvian migrants to Germany was 21,847 2011-13 while the number was 73,667 in the UK (Appendix 5).

If we evaluate migration flows based on the assumption that migrants are rational actors in a market with perfect information motivated by highest wages, we might expect to see more symmetry between Polish and Latvian migration flows. To achieve a more comprehensive understanding of migration flows, more variables

thus need to be included. This was also shown in the gravity model, where various control variables (distance, common language, past colonial relationship, initial bilateral migrant stock) was shown to be significant. Thereby, we can reject the assumption that migration is solely determined by macro-economic factors and that migrants are exposed to perfect information. Instead we can conclude that the migration flows from Latvia after the EU accession was affected by economic push and pull factors, but these do not necessarily provide the full explanation and broad perspective necessary in comprehending all the factors and finesses of actual migration flows. Thus we need to include to the study more theoretical prepositions and assumptions. These are as follows:

Migrants are motivated by other factors than purely wage differences and higher earnings (new economics of labor migration). Jobs in secondary sectors unwanted by the native work force create a demand for migrant labour and thus promote immigration (segmented labor-market theory). The continuation and growth of bilateral migration flows from Latvia to the UK is supported by migration channels and networks (Social Capital Theory). The continuation of migration from Latvia causes social and economic changes which again promote further migration and thus becomes self-perpetuating (theory of cumulative causation). Lastly, in order to fully understand the migration flows from Latvia it is necessary to look at the historical context and the transition from a communist republic in the Soviet Union to a neoliberal state and a member of the EU (world system theory).

### **2.1.8 Summing up**

In this section we examined the assumption of neoclassical theory that migration is driven by a basic desire to maximize benefits and reduced cost governed by push and pull factors. In the case of Ireland we saw that economic growth and rapid expansion of the labour market led to an increase in the demand for migration labour. Ireland's lack of restrictions of the A8 workers created a fall in the cost of migration and a rise in benefit making it a best country for migration. The subsequent economic downturn after 2008 illustrated the effect of economics fluctuation on migration flows when the immigration of Latvian nationals shifted to emigration. Instead, the rise in unemployment, limited social benefits and fall in wages after the Latvian recession resulted in a drastic increase in emigration primarily to the UK. In the UK the recession was less severe and unemployment remained fairly low compared to Ireland and Latvia.

These cases showed that neoclassical provides some explanatory power in understanding the empirical findings behind contemporary migration flows. However, neoclassic theory is often critiqued as being too

focused on economic factors and cost-benefit analyses of the individual and the assumption that potential migrants have full information of wage levels and job opportunities in receiving countries (Castles & Miller, 2009, 22). We found this critique to be justified. Thus in the following chapter we strive to challenge the neoclassic perspective by introducing the New Economics of Labor Migration to achieve a more comprehensive picture.

## **2.2 The New Economics of Labor Migration**

The new economics of labor migration like neoclassical theory operate on the assumption that migration is a micro-level decision but one conceived by the individual and the family. Further, both operate on the assumption that the migrants sell their labour on the immigration market driven by economic push factors but disagree on assumptions of maximizing utility or minimizing risk.

According to Stark & Bloom (1985) individuals will engage in income comparison with people in their reference group and upon this comparison feelings of relative satisfaction or deprivation can be had. The same person may wish to migrate in order to change position in the reference group or change reference group all together. If a reference group is characterized by inequality individuals on the lower end are thus more likely to migrate. Furthermore, if an individual choose to migrate and thereby successfully change his position in the reference group, the relative deprivation perceived by non-migrants in the same group may increase and thereby encourage them to migrate (Stark & Bloom, 1985, 173-174). In contrast to neoclassic theory, new economics' perspective on migration is not limited to the individual level and the factor of permanent income maximization. As stark & Bloom argues, the migrant in not necessarily the sole decision maker in the evaluation on the benefits of migration. Instead, migration decisions are made by an entity consisting of the migrant and some nonmigrants e.g. a family. The family shares the cost and the returns of the migration and the remittances. Thereby the family enters into an agreement mutual beneficial to all parts. The purpose of this agreement is to minimize risk through the migration (Ibid;175). Here Stark & Bloom argues that the migrant and the family will share the risk and potential loss of a migration investment in order to overcome a greater one; the economic risks of market failures and poorly developed government programmes. In contrast to neoclassic theory viewing migration as taking advantage of wage disequilibrium by moving away permanently to reap higher lifetime earnings, new economics of labor migration thus view migration as an act of moving away temporarily to overcome market failures through earnings and remittances shared with the family (Massey, 2001).

### **2.2.1 Theoretical Review**

The new economics of labor thus offers some different behavioral assumptions than the neoclassic theory. To review the application of these theoretical assumptions in understanding the empirical findings of Latvian migration, we now look at some factors previously unexplored. First, we look at the migration patterns and cycles of migration from Latvia after the enlargement and the economic crisis to establish the correlation between migration and risk minimizing. Second, we examine data on earnings, expenditure and remittances to test the proposition of the family as a factor in emigration.

### **2.2.2 Patterns of Latvian Migration**

Examining the migration flows from the A8 countries post EU-enlargement (and pre-crisis), it is well documented that migration flows are predominantly temporary or circular i.e. repeated migration between sending and receiving country (Hazans, 2010). A European Commission report (EC, 2008) found evidence that many intra-EU migrants intend to only stay in the receiving EU member state for a few months or years. The report also found that 60 % of A8 migrants registering in the UK's WRS (Workers Registration Scheme) between April 2007 to March 2008, indicated that they intended to stay *less than three months* (Ibid;121). Migrants might choose to extend their stay longer than previous intended or write wrong information on application, but evidence from the stock of migrants in the UK measured against registration to the WRS, indicated that many of the migrants are repeat migrants (EC, 2008, 121):

*While the WRS recorded a total of 769 300 (approved) workers from the EU-8 between May 2004 and December 2007, the stock of employed EU-8 residents in the UK increased by around 390 000 between 2003 and 2007, according to LFS data. In other words, around half of the EU-8 citizens who came to work in the UK since enlargement may have already left the country again.*

Data from registration schemes from Ireland shows a similar picture, but here the stock of migrants in the country made up less than half of the registrations between May 2004 and December 2007. Hazans found that between 2002 and 2007 more than half of all Latvian migrants returned home within a year (Hazans, 2010). Studies of the labor market activity upon return also shows that more than 20 % of returnees with foreign work experience within the last 2 years were inactive in the national labor market (Ibid;284). This however, does not point to a difficult transition in to the labor market, but can be explained by a period of inactivity between stays abroad, coinciding with data showing that 27 % of returnees are ready to work abroad again (Ibid). These findings points to a high frequency of temporary or repeat migration between Latvia and Ireland and the UK

pre-crisis. These patterns also show that return migrants could afford longer periods of inactivity due to accumulated savings from the work abroad.

### **2.2.3 Changes after the Economic Crisis**

As showed in the previous chapter the economic crisis had a severe effect on the unemployment and wages; in 2009 the Latvian government cut public wages by an average of 30 % (Dovladbekova, 2012). Thus emigration almost doubled in 2009. Though the crisis also affected the migrant receiving EU member states and available employments became more scarce, unemployment remained low (3 to 4 %) in Norway, the Netherlands and Austria, and fairly low (around 8 %) in the UK, Germany and Sweden. The job vacancy rate in these countries was five to eight times higher than in Latvia and the employment rate of the migrants were very high at 84 % among crisis period migrants (Hazans, 2013, 80). Further, social benefits became a factor of both push and pull; in Latvia after 6-9 months of unemployment the income replacement was about 40 % for social assistance and housing benefits, while the income replacement levels in the UK and Germany were around 70 % of previous earnings (Ibid). The increase in unemployment, decrease of wages and poor social benefit programmes all contributed to an increase of more than 15 % - from 2009 to 2011 - in the number of households struggling to make ends meet. At the peak this amounted to more than half of all Latvian household (Hazans, 2014). Estimates further show that more than 75 % of migrants were in the lower part of distribution of domestic earnings prior to emigration (Ibid). Conversely, Koroļeva & Mieriņa (forthcoming) found that when asked about the financial situation of the migrants households abroad and the ability to make ends meet, 85.5 % of the migrant surveyed replied either 'Fairly easily', 'Easily' or 'Very easily', suggesting a major improvement compared to some non-migrants.

This suggests that migration from Latvia to the UK served as a mean to minimizing risk. Another indicator which might contribute to a more comprehensive picture is research on public sentiments towards the economy and government programmes. In 2009 public sentiment indicators (on a scale of 0-10 points) based on the European Social Survey, showed a general dissatisfaction with *the state of the economy* (1.81 points), *the National Government* (1.8 points), *the State of Education* (4.62 points) and *the state of Health Services* (3.53 points) (Ibid;69). This clearly reflects the severity of the then ongoing crisis and the budget cuts to the Ministries of Welfare and Health and the general consolidation of government spending implemented during this period to ensure financial stability (Dovladbekova, 2012). A survey from the EC Public Opinion poll (2015) showed a similar picture. When asked to cite the number one concern for their country, the most cited responses among Latvians were *Health Service and Social Security* (31 %), *Unemployment* (30 %) and *the*

*Economic Situation* (25 %) (EC Public Opinion, 2015). When asked to judge the current economic situation 23 % responded 'Good' while 76 % responded 'Bad', and further, when asked about the economic crisis 56 % responded that 'the worst was yet to come' while 33 % thought 'the crisis had reached its peak' (Ibid). This is quite surprising given the fact that the survey was years after the peak of the crisis (with GDP as an indicator). Further to this point, forthcoming data from Koroļeva & Mieriņa (forthcoming) shows that asked about 'Main reasons for leaving Latvia' the three most cited reasons for emigration are 'Financial difficulties, including inability to pay loans' (18 %), 'Did not like the political processes and political environment in Latvia' (15.8 %) and 'Willingness to improve the quality of life, to live in a country with better social guarantees' (15.1 %). Thus we see that market failures and poor government act as push factors for migrants and persistent concern for non-migrants.

#### **2.2.4 Migration Patterns after the Economic Crisis**

The economic crisis thus affected the economic situation, employment, wages, the sentiment towards these and the scale of the migration and as a survey of EURES clients in 2009 showed; it also changed the patterns and characteristic of migration (Hazans, 2013, 82). Here the survey reflected a change from pre-crisis migration where most profiles were; *planning to move alone; looking for temporary, low skilled job; had minimal knowledge of foreign language; planning to return*. To post-crisis migration where most profiles were; *planning to move with family; looking for permanent, skilled job; had better knowledge of foreign languages, higher qualifications; Interested in legal employment and social security*.

In order to examine the continued development of the scale of migration and the effects the economic crisis, we look data Central Statistical Bureau of Latvia (CSBL, 2015a) on long-term migration. Here long term-migration is defined as the 'movement of the population from one administrative territory to another with an aim to change the place of residence permanently or for a period of at least a year'. The data is listed as long-term migration by country group:

**Table 2.2 International Long-term Migration by Country Group**

	2008	2009	2010	2011	2012	2013	2014
<b>Emigration Total</b>	27045	38208	39651	30311	25163	22561	19017
<b>EU-28</b>	19154	29283	30417	23810	19087	16503	14455
<b>EU-15</b>	18250	27757	28609	23025	18395	15655	13812
<b>EU candidate countries<sup>5</sup></b>	64	68	81	19	30	55	32
<b>EFTA<sup>6</sup></b>	1047	1393	1406	2191	1741	1396	1338
<b>other countries</b>	6780	7464	7747	4291	4305	4607	3192
<b>CIS<sup>7</sup></b>	5083	5224	4911	3758	3698	3741	2376
<b>Immigration Total</b>	4678	3731	4011	10234	13303	8299	10365
<b>EU-28</b>	2955	1712	1524	6271	7299	4794	5794
<b>EU-15</b>	1598	1119	1060	5597	6232	4211	5257
<b>EU candidate countries</b>	12	41	43	88	93	40	32
<b>EFTA</b>	76	83	51	319	282	295	251
<b>other countries</b>	1635	1895	2393	3556	5629	3170	4288
<b>CIS</b>	1211	1552	1998	2876	4771	2572	3608
<b>Net Emigration</b>	22367	34477	35640	20077	11860	14262	8652

In the table we see a continued decrease in the net emigration after it peaked in 2010 at 35,640 migrants (or 42,260 according to Hazans<sup>8</sup>) only interrupted in 2013 by a sudden decrease in immigration. The data also shows that the overwhelming majority of emigration is focused on the EU15 member states and that the majority of immigration (with the slight exception of 2008) likewise arrives from EU15 countries. This suggests a high rate of return migration seeing as the Central Statistical Bureau of Latvia defines an international long-term immigrant as ‘a person arriving from another country (...) for permanent residence or at least for one year’ (CSBL, 2015a). Here we see that the immigration to Latvia (and possible return migration) from the EU15 countries increased manifold in 2011 and slightly increased again in 2012 before decreasing in 2014. This coincides with the economic crisis reflected in the negative GDP growth 2008-10 before returning to a growth of 5.5 % in 2011. In these years we also see a significant lower immigration rate from the EU15 countries.

<sup>5</sup> Turkey, Montenegro and Former Yugoslav Republic of Macedonia

<sup>6</sup> European Free Trade Association: Norway, Switzerland, Iceland and Lichtenstein.

<sup>7</sup> Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

<sup>8</sup> The data in Table 3.2 shows some discrepancies with the data from Hazans (2013) shown in table 3.1. We thus assume that the estimates from table 3.1 are more reliable, as it features data compiled from the several sources i.e. the Central Statistical Bureau of Latvia, the receiving countries and surveys of return migrants. The data in table 3.2 serves to get a sense of the development after 2011.

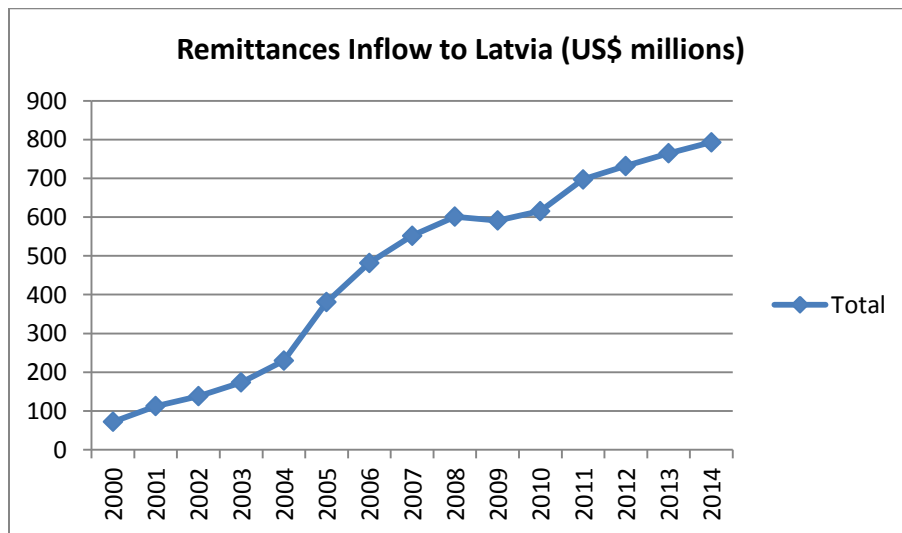
### 2.2.5 Summing up

In the theoretical perspective of the new economics of labour migration, the deteriorating economic situation in the years following the economic crisis and the increase in factors of market failures parred with low quality government programmes, created an incentive to utilize migration as a mean to overcome these challenges. Here, EU15 member states provided an opportunity for investment with a high chance of positive payoff given the difference in vacancy rates, wages and social benefits. As the economy slowly recovered the rate of migration slowly decreased. However, the severity of the economic crisis and the following recession seems to have changed the characteristics of migration. To further access the theoretical assumption of the agreement between the migrant and the family we turn to look at remittances.

### 2.2.6 Remittances and Inflows

Figure 2.2 (World Bank, 2015) shows that there was a sharp increase in remittances to Latvia following the EU-accession. This can be explained by increase in the stock of migration Latvian population which had increased steadily as well. The exception is the development in remittance inflows from 2008 to 2009, where the amount decreased, correlating with the onset of the crisis. This tells us that though there was an increase in net emigration of 54 % from 2008 and 2009 (Table 2.2) reaching an all-time high, remittances fell in the same period, indicating that the crisis affected the available finances of the migration stock sending back remittances.

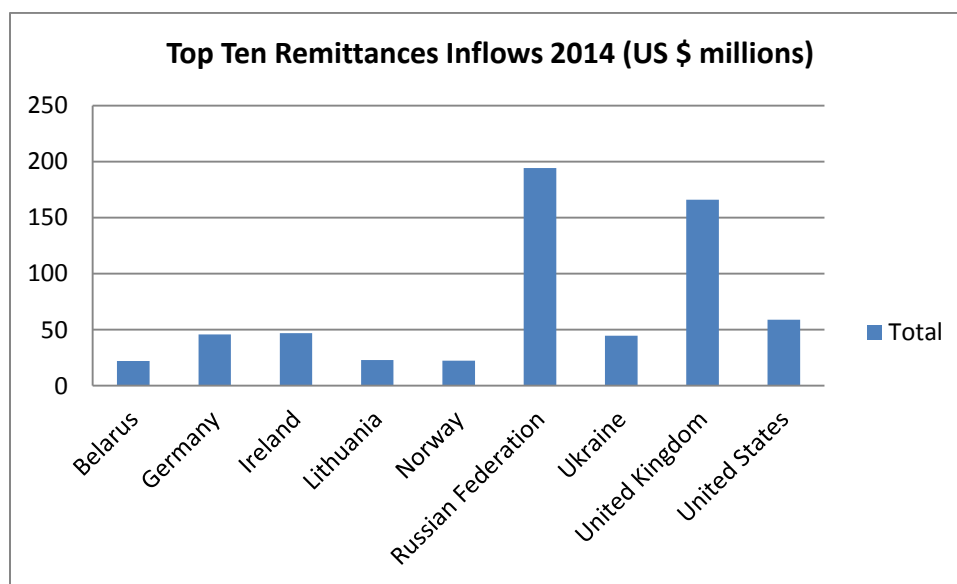
**Figure 2.2 Migrant remittance inflows to Latvia 2000-15**





To put it into perspective, remittances amounted to a 2.5 % share of GDP<sup>9</sup> in 2014 (World Bank, 2015). However, the World Bank warns that the true size of remittances is believed to be larger. This is caused by migrants using informal channels to bring in money, often personally transporting remittances rather than sending them through established channels (Hazans, 2010, 295). In Figure 2.3 (World bank, 2015) depicting the ten largest remittances inflows, we see that the remittances from the United States of America (USA) are surprisingly high, ranking at the third largest amount of remittances in 2014. Seeing as immigration to the USA was low after 2000 (reflected in ‘Rest of the OECD’ in Table 2.1) compared to the UK, Ireland and the rest of the EEA, it should be reflected in the amount of remittances. Data from Koroļeva & Mieriņa (forthcoming) shows that when asked about the frequency of visits to Latvia 12 % of migrants replied ‘*At least once every 3 months*’, 25.7 % ‘*Once every 6 months*’ while 50.6 % applied ‘*Less often than once every 6 months*’. This might provide a plausible explanation for the high rate of remittances passing formal channels, suggesting that short geographical distances and circular patterns of migration allow EU migrant to utilize informal channels for migrations, in contrast to Latvian migrants in the USA.

**Figure 2.3 Bilateral Remittances 2014**



<sup>9</sup> It should be noted that there are some discrepancies between different data sources. Data from Eurostat (2015) for example list personal remittances inflows to Latvia in 2014 as 1.337 million Euros and the corresponding share of GDP as 5.7 %.

Figure 2.3 also shows that in 2014 the largest amount of remittances inflows in to Latvia came from the Russian Federation. The large amount of remittances from Russian is non-too-surprising given the large amount of ethnic Russians residing in Latvia. Population statistics from 2012 showed that 14 % of Latvians are non-citizens; this is due to Latvian legislation stating in 1995 that former USSR citizens having neither Latvian or any other citizenship would be denoted as non-citizens (Šūpule, 2014, 211). These non-citizens thus consist mainly of former Russians, Belarussians and Ukrainians. This is reflected in the inflows of remittances indicating persistent bilateral economic ties between each of these countries and Latvia. Other main sources of remittance inflows came from the UK, Ireland, Germany and Norway. If we look at data from OECD showing the stock of Latvians in selected countries in 2013 (Appendix 5) we see that the size of the stock is somewhat consistent with the size of the remittances (with the exception of Ireland where no data was available from 2013). In Germany, non-surprisingly, the largest increase occurred in 2011 after the last restrictions on free-movement of labour were lifted. Thus we have established a correlation between remittance patterns and migration pattern. We now examine how earnings and remittances are spent and the effect of the domestic economy.

### **2.2.7 Remittances: Effect and Spending**

In the previous section we saw that estimates place the size of remittance inflows to Latvia in 2014 to be equivalent to 2.5 % of GDP without accounting for remittances passing through informal channels. This roughly amounts to 400 US Dollars annually per person in Latvia (using population statistics from 4<sup>th</sup> quarter of 2014). Though this figure appears as a relatively small contribution to the Latvian economy given the large amount of migrants working abroad at the time, Hazans (2010) argues that even these under-estimated amounts are substantial viewed in the perspective of the receiving families (Ibid;296). According to a survey from 2007 7.2 % of the population had family members working outside of Latvia. If we assume that this number increased to 10 % in 2014, we can calculate the amount of remittance per person in Latvia with family members working abroad to almost 4000 US Dollars annually. This estimate – rough as it is – does point to the significance of remittance into an economy where 32.7 % of the population was at risk of poverty or social exclusion in 2014 (Eurostat, 2016b). Further, it should again be noted that the real size of remittances could be much higher.

Data shows that respondents with family members working abroad have significant higher average incomes than respondents without family members working abroad (Hazans, 2013). This amounts to a 25 % difference in average income, if the respondents both have foreign work experience and family members currently working abroad (Ibid;89). Further, the pre-crisis survey data shows that earnings and remittances of return

migrants are mostly used for *everyday needs* (63.4 %), *house* (28 %), *other durables* (22 %), *car* (19 %) and *education* (11 %). While recent data from Koroļeva & Mieriņa (forthcoming) show that almost 60 % of migrants working abroad have property in Latvia in the form of land, an apartment or a house. This supports the theoretical assumption that migration can be utilized to overcome failures by acquiring credit to pay off loans, purchase durables and everyday items. Migration thus measure as a viable investment for families seeking to overcome disparities caused by the market failures and low quality government programmes. However, data from 2004-08 shows that only roughly 30 % of migrants sent back some form of remittances (Hazans, 2010, 297) suggesting that not all migrants support family members. However, this data might be skewed by the remittances passing through informal channels.

### **2.2.8 Summing Up**

We thus conclude that the new economics of labour theory deliver important assumptions and evaluations in understanding the processes of migration from the sending countries and consequently delivers an expansion of the push factors presented in the neoclassic theory. Thus the family entity and remittances were introduced as important factors of further analysis. In the next chapter, however, we turn the focus to the receiving countries to expand the valuations of pull factors present beyond income i.e. understanding why the labour markets of receiving countries produce demands for migration labour which consequently allows the migrants to sell their labour to obtain goods and services which are unobtainable due to the failures of the sending country. This is done through the introduction of the segmented labour market theory.

## **2.3 Segmented Labour Market Theory**

Segmented labour market theory emphasizes the importance of institutional factors in the emergence of labour market segmentation (Castles & Miller, 2009, 22). Arguing that migration is caused by advanced economies structural demand for highly skilled and lower skilled labour in the primary and secondary sectors, the theory focus more on structural explanation than the functionalist approach of neoclassic theory and new economic of labor market theory. The theory thus argue that a gap emerges between the highly skilled members of the majority ethnic group and on the other hand migrants (Ibid;23-24). This perspective thereby emphasizes the pull factors of the equation, focusing on the structural demand driven inherent to highly developed modern capitalist economies. Piore (1980) argues that in examining migration processes some basic salient characteristics emerge:

*“(1) the jobs that migrants hold in different countries and at different historical time periods seem to be a piece; (2) the strategic factor in initiating the migrant streams to fill these jobs is active recruitment on the part of employers or their agents from the developed region; (3) the ease with which employers are able through recruitment to initiate a new stream of migration suggests that (...) the supply of potential migrants is completely elastic (...); the migration process, once under way, has been extremely difficult to halt (...) (Piore, 1980, 16-17).”*

Here Piore (1988) argues that the jobs typically held by migrant workers tend to be unskilled labour; often but not always low paid jobs which carry connotations to lower social status; often involving some form of unpleasant or hard or even unsafe working conditions with little or no opportunities for advancement (Ibid;17). In examining statistics from Northern Europe (France and Germany) Piore shows that these jobs are overwhelmingly manual labour and unskilled service jobs in the construction, manufacturing, agriculture and domestic services (Piore, 1980, 20). One common denominator for migrant jobs is thus that they are generally unattractive to the native labour force and thereby prone to labour shortage. This trend creates a segmented or dual labour market where a demand for labour in lower social status jobs are filled by migrant workers who meet the requirement of the secondary sector (Ibid;26).

In order to attract native labour to these jobs employers would have to raise wages. Alternatively, employers choose to import labour migrants willing to sell their labour at a lower cost (Ibid; 27-29). Furthermore, social forces and hierarchy place an important role in determining the jobs belonging to the secondary sector. According to Piore, workers are very aware and motivated by the hierarchy and the social status connected to a certain job. Consequently, employers cannot raise the wages of the low level jobs without raising the wages of the higher level jobs as well. This is because wage levels and social status' are interconnected (Ibid;32-33). Furthermore, bottom level jobs provide little or no motivation to keep ones position in the hierarchy or to move up and are essentially 'dead-end' jobs, thus recruitment of native workers is exceedingly difficult. Migrant labour thus provides a solution to this problem because they are apart from the social structure. This does not mean, that migrants only hold low motivation job, Piore argues, but it does suggest the core of migrant jobs hold low social status (Ibid;34).

### **2.3.1 Theoretical Review**

Segmented labour market theory vary distinctly from neoclassic and new economics of labour migration theory in the aspect that migration is not examined as a functionalist micro-level decision by the individual or the household trying to maximize income or minimizing risk. Instead labour migration is argued as being an intrinsic characteristic of modern industrial societies. Thus segmented labour market theory argues that migration flows are not caused by the push factors of the sending countries as much as they are caused by a structural demand in the receiving countries. Therefore, to examine the theoretical assumptions we look at the skill level and the characteristics of the migrants. Thereafter, we look at the jobs held by Latvian migrants in the receiving countries – focusing on the case of the UK as the primary receiving country.

### **2.3.2 Latvian Migrant Population Profile**

In order to get a sense of the composition and characteristics of the Latvian migrant population including factors such as skill level, age and gender, we first look at the data collected from the Latvian population survey; *the National Identity: Place, Capability, Migration* (NIPCM) survey (Hazans, 2013, 82). This survey conducted at the end of 2010 examined the characteristics of migrants from the period 2000-10 by asking Latvian residents about their family members who left Latvia. The results are presented in Table 2.3.

Table 2.3 shows that a majority of migrants who left Latvia 2000-10 where females accounting for 57 % of the migrant population. In contrast females made up only 39 % of return migrants. The table also shows that the age structure is unevenly divided between the migrant and non-migrant population where the age group 25-34 is highly overrepresented in the first. Thus 45 % of the migrant population is in this age group while it only amounts to 18 % in the non-migrant population. In contrast migrants from the age group 25-44 are somewhat proportionately represented while the age group 45-54 is well underrepresented. The data thus suggest that Latvian migrants who left 2000-10 where predominantly female, between 25-34 years old and less likely to return than their male counterparts. This is also consistent with recent data from Koroļeva & Mieriņa (forthcoming) showing that of surveyed migrants living abroad 59 % were female, 39 % were between 25-34 years old and 47.7 % had a high level of education.

**Table 2.3 Latvian migrant population profiles, 2000-10**

	Emigrants (by year of departure)				Latvian population, March 2011		
	% distribution <sup>1</sup>				% distribution <sup>2</sup>		
	2000-03	2004-08	2009-10	2000-10	All		Return migrants <sup>3</sup>
				Age-adjusted <sup>4</sup>	Aged 18-74		
Males	46.5	45.2	39.9	42.8	49.1	46.5	61.3
Females	53.5	54.9	60.1	57.2	50.8	53.5	38.7
Age							
18-24	6.9	23.4	32.7	22.6	22.6	13.7	20
25-34	54.3	48.1	38.8	44.9	44.9	18.3	37.6
35-44	29.7	18.3	17.9	19.6	19.6	18.3	22.8
45-54	7.2	8.3	9.3	8.5	8.5	19.5	12.8
Educational attainment							
Below secondary	5.3	5.4	4.6	6.0	21.0	21.0	11.6
Secondary	53.8	70.6	59.9	61.8	51.9	54.2	70.2
Tertiary	32	21.5	27	24.2	27.1	24.8	18.1
Unknown	8.9	2.5	8.6	8	0	0	0
Main occupation							
Wage earner	55.2	84.8	79.9	78.3	54.5	47.7	59.4
Self-employed or employer	0.0	1.8	3.6	2.1	6.0	5.9	6.2
Student	1.7	6.2	5.7	5.0	10.3	5.6	6.6
Unemployed	0.0	0.6	1.5	0.9	14.7	12.4	16.9
Other or n.a. <sup>5</sup>	43.1	6.7	9.3	13.7	14.5	28.4	10.9
Number of observations	57	215	144	471	1 880 000		89

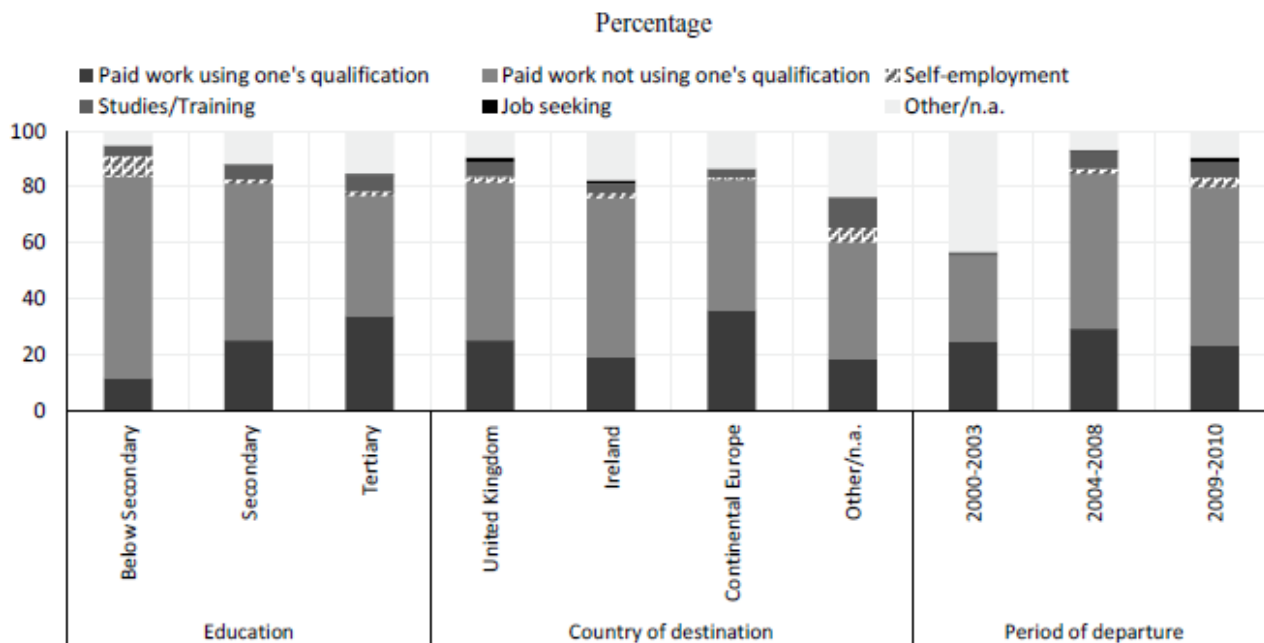
If we look at the skill levels of the migrants denoted by their educational attainment divided into four categories; below secondary, secondary, tertiary and unknown , we see that the proportion of migrants with a tertiary education is slightly lower than their non-migrant counterpart when age-adjusted, but it also shows that the proportion of tertiary educated migrants increased during the crisis years 2009-10. Furthermore, this group is underrepresented among return migrants, while migrants with educational attainment below secondary are underrepresented in the migrant population while being overrepresented among return migrants. Further, secondary education amount to the majority of both migrants and non-migrants but are also overrepresented in the migrants as well as the return migrant population. This suggests that secondary and tertiary educated Latvians are much more likely to migrate than Latvians with an educational attainment below secondary while the tertiary group is less likely to return than the other groupings. Education thus seems to be

a factor in the propensity to migrate. This might be contributed to several factors such as various forms of capital contributing to successfully overcoming the cost of migration e.g. human capital, physical capital and network capital (this will be further examined in section 2.4). Now that we have established the skill levels and characteristics of the migrant population, we look at the migrant economic activities and employments in the UK.

### 2.3.3 Educational Attainment and Economic Activity

Data from the NIPCM survey also show how migrants utilize their skill in employment by *educational attainment, country of destination* and *period of departure* depicted in Figure 2.4 (Hazans, 2013, 86). On average 26 % of migrants were employed in a job where they used their qualifications (Ibid;85). We can also observe that migrants with a tertiary education were most likely to use their skill in employment abroad, while Latvians who immigrated to Ireland were least likely to use their education (19 %). Continental Europe had the highest rate (36 %) while the rate in the UK was only slightly higher than in Ireland. Lastly, we see that migrant who migrated during the crisis had a lower rate than those who migrated after the accession, suggesting that they were less particular about their employment. This also corresponds with the overall lower employment rate during the crisis in the receiving countries.

**Figure 2.4 Migrant employments 2000-10**



A great majority of migrants with tertiary education does not utilize their qualifications and the number is even lower for migrants with a secondary education. Further, this tendency has increased during the crisis suggesting that migrants are willing to work in positions below their educational attainment, which is consistent with the behavioral assumptions of migrants in the segmented labour market theory. The theory assumes that the migrant will undertake a behavioral pattern of the economic man of neoclassic theory. Separated from the social structures of their home country, the migrants are less concerned with the possibility of advancement and social hierarchy of the labour market, but more concerned with the economic benefits of the employment and the job therefore become a means to an end (Piore, 1980, 52-56). Instead, the migrant is orientated towards the social structures of their home country and the social advancement made possible by the economic benefits reaped from the work abroad. This also fits well with the findings suggesting that many return migrants utilize their earnings for larger material purchases and every day needs. Furthermore, Koroļeva & Mieriņa (forthcoming), through research on Latvian migrant identity in diasporas, found that when asked about '*sense of belonging to different social groups*', most participants answered '*Inhabitants of Latvia*' (56 %) and '*People of your ethnic group*' (73 %) over '*People living in [country]*' (50 %) and '*People living in your neighbourhood (...)*' (47 %) - thus retaining a stronger sense of belonging to the social structures of Latvia. To further review the theoretical assumptions of the segmented labour market theory, in the next section we look at a study by McCollum (2011) on migration trends and the UK labour market during the recession. Here, we examine labour market sectors and Latvian employment to test the preposition of segmented labour market pull factor.

#### **2.3.4 Employment and Labour Market Sectors**

McCollum (2011) set out to examine the migration and employment trends of A8 migrants in the UK after the accession and the changes to these during the recession, using data from the WRS and the Annual Population Survey (APS) (Ibid;78). McCollum finds that though immigration from the A8 countries decreased during the economic crisis and the recession, there was still a net immigration from these countries. Further, the APS showed that between July 2007 – June 2008 and July 2008 – 2009, Latvian nationals in the UK increased with over 60 % - second only to the percentage increase in Hungary nationals (Ibid;83). To understand the apparent contradiction between the consistent net immigration during a significant increase in unemployment, McCollum examines the WRS data to observe labour market trends and the changes during the recession.

Registrations to the WRS between May 2004 and June 2010 show that by far the largest economic sector of employment for A8 migrants were in '*Administration, Business and Management*' (42 %), followed by



'Hospitality and Catering' (18 %), Agriculture (10 %) and 'Food Processing' (6 %). However, according to McCollum, the large amount of registrations to the Administration, Business and Management sector are misleading. Rather, the registrations in this sector reflect the number of migrants recruited by agencies to work under contract in other part of the economy such as Agriculture and Food Processing (Ibid;80).

A second significant feature in explaining the increase of immigrants is the complementary nature of the jobs held by migrants. Sectors such as Agriculture were affected by the crisis but given the low interest in occupation in this sector by the domestic workforce, demand remained high (McCollum, 2011, 83). Using data from the WRS registration we see that the sectors least affected in terms of changes in employment of A8 migrants were Agriculture and Food Processing. This is not surprising given the fact that in the Agriculture sector alone, up to 40 % of all employees were A8 migrants in June 2010 (Ibid;85). Calculations on WRS data from 2004-08 by Hazans (2010) show a similar picture for Latvian migrants (Ibid;276). Here, roughly 40 % of Latvians were registered in Agriculture while the combined share of Latvian migrants working in Agriculture and Manufacturing was over 60 % (Ibid). These findings thus suggest that the continued immigration to the UK during the recession were mainly supported by a continued demand in the complementary labour market sectors such as Agriculture and Food processing. Furthermore, Dustmann et al (2010) finds evidence suggesting that though the A8 migrants are better educated compared to the UK labour force, they earn far less (Ibid;29):

*"Our findings suggest that A8 immigrants are highly educated: around 35 per cent (and 17 per cent of natives) left full-time education at or after the age of 21, and only 11 per cent (56 per cent of natives) left school before the age of 17. Despite this, A8 immigrants receive low wages, particularly in the initial period after entry to the UK."*

This can be contributing to the migrants accepting jobs in the secondary sector characterized by low paying job. However, Dustmann et al (2010) also found that though migrants earn less than their native counterparts, their wages tend to increase at a higher rate:

*"The numbers show a remarkable increase in average wages with time spent in the UK: for example, the wages of the 2004 arrival cohort have increased by 40 per cent four years after migration; wage growth for later cohorts follows a similar pattern. Mean wage growth across all arrival cohorts has averaged around 5 per cent per year, which is substantial compared with the real wage growth of natives over the same period (...)" (Ibid;11).*

In terms of the behavioral assumption of the rational 'economic man', this development in wages might help to explain surveys showing a significant positive link between time spent abroad and expected duration of further stay in the host country (Hazans, 2010, 283). Another explanation, as argued by Piore (1980), is that over time migrants become integrated into the social structures of the host country and this inevitably leads to the migrants seeking employment with a higher social status and thus higher wages. Koroļeva & Mieriņa (forthcoming) also finds that of surveyed Latvians living abroad 30 % are '*Fully integrated in their host country*' while only 13 % are categorized as '*Poorly adapted to the host country (...)*' and the remaining '*Moderately adapted (...)*'. Still, none of these explanations exclude the other; they do however rely on different assumptions of behavior and motivation of the migrant.

A third perspective on behavior and motivation is the assumption that the length of the stay is determined by the economic risks and market failures of the home country and the perceived goal of the stay i.e. the time it takes to accumulate a certain amount of savings for the purchase of a house or a car or the severity and persistence of market failures in the sending country. As showed by Hazans (2013), the NIPCM survey of 2010-11 suggests that the total share of Latvian who planned to return *within the next six months* and *within five years*, only amounted to 20 % (Ibid;83). This is in contrast to observations from 2005-6 where more than two-thirds of the total share of post accession migrants planned to return within 2 years, and more than half planned to return within 3 to 11 months (Hazans, 2010, 283). These findings suggest that the economic crisis – besides drastically increasing the amount of migrants from Latvia to mainly the UK – also incited more permanent migration. Thus we see that while the economic crisis in Latvia forced deeper incentive to migrate and for a longer duration, the segmentation of the UK labour market created a continued demand which facilitated persistent bilateral migration flows of an increasingly permanent nature.

### **2.3.5 Summing up**

Thus with the additional theoretical perspective of the segmented labour market theory, we have seen how the segmentation of the UK labour market constitutes a pull factor on labour migration because of the continued demand for cheap labour in the secondary sector – easily supplied by the steady flow of migrants. Especially Latvian migrants affected by the increasing failures of the market and government programmes during and after the economic crisis, found in the UK labour market an option for minimizing risks and/or maximizing utility. In terms of behavioral assumptions of the migrant the findings in this section suggested that migrants act according to the logic of the 'economic man', when removed from their domestic social structure, however, this changes as the migration cycle transforms from a temporary to a more permanent state.

Findings from both this and the previous sections showed that this transformation became more frequent with the economic crisis, while elapsed duration of stays abroad also showed a clear effect on propensity for more permanent migration. This suggests that while the rate of migration has slowed down since the peak in 2009/2010, migrants who left during this period are more prone to stay permanently than those who left before the crisis.

Though we have identified the existence of pull factors and low cost of migration in the form of limited restrictions in the bilateral migration flows between Latvia and the UK, we still have to deliver a more comprehensive explanation for this persistent flow with the emergence of other viable alternatives within the EU. Previously we touched upon the terms of social capital and network capital. These will be further elaborated in the following section on social capital theory.

## **2.4 Social Capital Theory**

In the three previous sections we have dealt mainly with theoretical perspectives on why and where migration flows occur, examining macro- and micro economic factors and assumptions of migrant behavior in these varying contexts i.e. the initiation of international movements. Now however, we turn to a slightly different perspective i.e. the perpetuation of international movement (Massey et al, 2005).

Social capital theory builds on the basic assumption that social capital i.e. social networks, family networks etc. functions by the same logic as physical capital and human capital; social capital is productive and makes possible certain actions which in its absence would otherwise not be possible (Coleman, 1988). Unlike other forms of capital it derives from relations between and among actors, and is not inherent to the actor itself or some physical production. However, because purposive organizations can be actors as well, relations between or among corporate actors also constitute social capital (Ibid;98). Thereby, actors gain access to social capital through networks and institutions and convert it into other forms of capital for personal gains (Massey et al, 2005, 42).

### **2.4.1 Migrant networks**

Migrant networks defined as *“sets of interpersonal ties that connect migrants, former migrants, and non-migrants in origin and destination areas through ties of kinship, friendship, and shared community origin”* increases the propensity for international migration because they lower the cost and risk of migration and increase potential return (Massey, 2005, 43). Thus, migrant networks becomes a form of social capital that potential migrant can utilize to transform their labour or human capital into forms of financial capitals e.g.

foreign employment, higher wages, and the possibility of accumulation of earnings for savings and remittances (Ibid). Thereby, if someone within a personal network migrates, that person becomes a valuable asset which can be used to gain access to foreign employment. By this logic each act of migration creates social capital for the actors in the migrants' network and increases the possibilities for potential migrants. The first actors who migrant to a certain destination however have no social ties to utilize for their advantage - making migration costly and prone to a high level of risk - but for consecutive acts of migration costs and risks are considerably lower (Ibid). After a migrant network has been firmly established, migration becomes an extremely attractive mean for minimizing risk and maximizing utility.

In the following we therefore look at interpersonal ties as a social capital. Furthermore, as argued by Coleman (1988), organizations too are actors whose interactions constitute social capital, and as argued by Gross and Lindquist (1995), migrant institutions – defined as “*brokers of information and advice*” and entities which “*regulates interaction and structures access to overseas employment through the operation of institutional rules and resource*” – are a complement to migration networks (Ibid;335-336). Migrant institutions – whether they are for-profit organizations or humanitarian groups – thus constitutes another form of social capital that migrants can draw upon (Massey et al, 2005, 44). As argued by Massey et al (Ibid), recruiting agencies can even initiate new immigration flows to areas with labour scarcity. Therefore, in the following section we examine the assumption of migration networks and institutions as important migration channels in the case of bilateral migration flows between Latvia and the UK.

#### **2.4.2 Theoretical Review**

In previous section we have already mentioned social networks and migrant institutions as an important factor in migrations. As we saw in the previous section and as argued by McCollum (2011), up to 43 % of workers registered through the WRS in the UK between May 2004 and June 2010, were registered through recruitment agencies, suggesting that the recruitment agencies plays a significant role in employment of foreign labour in the UK. Hazans (2013) also argues that the increased operations of European Job Portals (European Mobility Portal and EURES) along with the social networks of former migrants played a significant role in the post accession wave of migration (Ibid;77). To get a more comprehensive understanding, we now look at research by McCollum et al (2013) on labour migration channels from Latvia to the UK from the accession to the recession. In this research McCollum et al (2013) presents the results of in-depth interviews with UK employers, Latvian policymakers and recruitment agencies, in order to examine the importance of social

networks and migrant institution in the bilateral migration flows, as well as changes brought on by the UK recession (Ibid; 693).

### **2.4.3 Recruitment Agencies**

In examining the recruitment agencies McCollum et al (2013) finds that besides reflecting the existence of a migration system, recruitment agencies are also partly responsible for the structuring of the of said system – constructing what Castles & Miller (2009) refers to as meso-structures (Ibid;689). This derive from the fact that agencies operate selectively in filtering out potential migrants who do not qualify for employers needs while actively recruiting potential migrants who does. The agencies thus function on the nexus of employers seeking labour and potential migrants seeking employment. Further, they operate both in the sending countries and the receiving countries, and may be responsible for some or all of the processes which is associated with labour migration i.e. recruitment of labour in the sending country, mobilization of the migration and arrangement of the employment in the receiving country (Ibid;689-690). The research also showed that agencies are one of the most important factors in channeling temporary and permanent worker from Latvia to the UK. Further, it showed that the agencies operate according to three main systems (McCollum et al, 2013, 693);

- *In partnership with an agency based in the receiving countries;*
- *As part of an international agency with offices in Latvia and the receiving country, and;*
- *By providing labor directly to overseas-based employers.*

The agencies functions as middle or a direct link in providing migrant labour to foreign employers, working in a field with competition amongst agencies for scarce vacancies. According to McCollum et al (2013), the agencies thus play a subservient role to the employers complying with the preferred procedures of the employers (Ibid;693). This suggest that the agencies contribute to the segmented labour market by recruiting actively on behave of employers from secondary sectors. The recruitment agencies often work as a for-profit organization – connecting labour and employer for a fee – but there are also non-profit organizations working in the field e.g. EURES. McCollum et al found that this organization is quite popular as a migration channel and that they mainly recruit labour for seasonal work in agriculture and the services sectors of hotels and restaurants. Because of the relative low pay of the seasonal work, the for-profit agencies are often too expensive for an employer to use (Ibid;695). Instead employers, according to a policymaker quoted in McCollum et al (2013); “(...) UK employers that use EURES usually look towards Latvia and I think that’s

*because they see our people as hardworking and flexible and more willing to accept salaries that local people will not.” (Ibid;695).*

#### **2.4.4 Change of Migration Channels**

Recruitment agencies thus provide social capital as actors in relations with employers and employment organizations in the receiving country or as an extension with the employment organizations. Through membership of these agencies potential migrants can then convert this social capital into physical capital in the form of employment and the goods that follow. However, with the exception of the free agencies such as EURES, membership to these organizations entails some cost in the form of human and physical capital i.e. qualifications and fees. But as McCollum et al (2013) finds, the internal relations in the migration channel system are not static and the dynamics between migrants and agency changed radically leading up to and during the economic crisis. The institutional changes which occurred with the removal of barriers and restrictions to labour migration after the accession in 2004 opened up new migration opportunities to mainly the UK and Ireland, and the establishment of migration channels through a rapid growing migration industry (McCollum, 2013, 696). Since the accession provided new migration opportunities, social networks had not yet matured, and therefore the for-profit organization found room to expand their business, as a policymakers explains it;

*“Before 2004 there weren’t many agencies recruiting for abroad because it wasn’t possible because there wasn’t free movement of our workers so we didn’t have access to other labour markets. But this type of business increased rapidly around 2004 and peaked at about 100 in 2007(...)” (Ibid).*

This however changed as the social network became well-established by the post accession migration wave to the UK and Ireland, and alternative channels of migration were developed around the recruitment agencies;

*“(...) but now the numbers going overseas through agencies is very small because in the crisis period people who have a friend or something already overseas mainly go by personal contacts and over the past few years those contacts have been the main reason for how they go. . . maybe in 2004 when there was the first migration for working abroad there weren’t so many contacts for people but then they developed them over time” (Ibid).*

The economic crisis and recession changed the quantity and quality of workers Latvian labour migrants – as we have shown in previous sections – it did also change the availability of qualified native labour in the UK. The decreasing demand for qualified migrant workers and decreased the demand for the services of recruitment agencies – demand for unskilled labour remained resilient however (McCollum, 2013, 696-697). This view is echoed by a labour provider in food production and processing i.e. employee of a recruitment agency;

*“Some of the jobs that employers still need East Europeans to fill, they get people who are in the UK already so many companies don’t need new people to arrive because they just take people who are still in the UK and who are available” (McCollum, 2013, 697).*

It is clear from the findings of McCollum et al (2013) that there was a shift in migration channels from dependency on the agencies to the reliability of social networks, which was manifested in the third wave of migration building on the social networks established in the previous four years of post-accession migration. Non-conversely, the establishment and maturing of social networks in the UK (and Ireland) thus contributed to the UK as a favorable destination – one which still remain the most popular destination among Latvian migrants even after 2011 and the end of the restriction on A8 workers in e.g. Germany.

Thus the initial opening of the UK labour market to AB migrants, the rapid expansion of the business of recruitment agencies in Latvia, the maturing of social networks, the flexibility of the segmented UK labour market and the continued demand for migration labour and low language barriers, all contributed to making the UK a popular destination country. Thereby the meso-structures supported by the demand of the segmented UK labour market were essential in supporting the continued emigration. However, that is not to say that wage differentials and risk diversification are not significant factors. Employment with higher wages are of course a main determinant in the decision of labour migration, however, income maximization in itself is not the determinant of destination country. Conversely, all EU15 countries have higher wages than Latvia and no restrictions on movement of Latvian workers, and several EU15 countries have higher wages than the UK (see Appendix 6). Thus higher wage levels in employment is a motivation for migration and in deselection of migration destinations, but all findings of the previous sections suggests that it is not as significant in selecting destination countries – here a broad range of determinants are at play. Social capital theory thereby provides some explanation to identify and understand these determinants – both in terms of push and pull factors – and in perspectives on the perpetuation of migration flows. Before we move on to the second-to-last

theoretical perspective expanding this perspective, we look at one last finding from McCollum and pair it with a factor previously untouched by our analyses i.e. ethnicity.

#### **2.4.5 Target Recruitment and Ethnicity**

McCollum et al (2013) finds that besides their significance in determining the geographical destinations of Latvian migration, recruitment agencies also play a role in the geographical selection of migration in Latvia, through target recruitment in rural areas, where unemployment is higher and educational levels are lower, thus making it easier to recruit migrants for certain seasonal labour in the secondary sector mainly in the UK, as explained by a labour provider (Ibid;698):

*“The difference between Riga (the capitol) and the countryside is like chalk and cheese, here in Riga they [candidates] still want loads of money but if you go to the Russian border they just want a job... they have potatoes, cabbages and carrots so they can always have food there but they never have money, so most of the people we send come from there (...).”*

The recruitment agencies thus target the rural population close to the Russian border because they are more likely to accept low paying jobs. Hazans (2013) finds a higher propensity to migrate among minorities with citizenship and an even higher among minorities without citizenship – i.e. mostly ethnic Russians (Ibid;80). One explanation for this propensity is the high unemployment rate among minorities with citizenship and even higher rate among minorities without citizenship. As we saw in the previous sections, unemployment is a strong push factor in migration, and in 2011 the unemployment rate was 13.4 % for ethnic Latvian nationals, 20.9 % for minorities with citizenship and 22.1 % for minorities without citizenship (Ibid). This tendency is also reflected in data from Koroļeva & Mieriņa (forthcoming). Here, 35.9 % of the Latvian migrants surveyed were of Russian ethnicity while 58.1 % were Latvian. This is a disproportionately large compared to the ethnic composition of the Latvian population where 25.8 % were Russian in 2015. In contrast the number of Russians amounted to 29.6 % in 2000, signifying that Russians have been migrating in a larger amount than Latvians (CSBL, 2015b). Contrary to what might be suggested by the labour provider, minority citizens (36 %) and minority non-citizens (25 %) are more likely to have a tertiary education than Latvian nationals (23 %) (Hazans, 2013). We thus see that in the case of minorities and non-citizens high unemployment rates signifies a higher propensity to migrate while human capital in the form of higher educational attainment also increase the propensity to migrate.



## 2.5 Cumulative Causation Theory

The theory of cumulative causation offers assumption and perspective on factors significant in the perpetuation of migration flows, and builds on assumptions of social capital theory, new economics of labor migration and segmented labour market theory as well. Cumulative causation theory provides the theoretical perspective that over time migration tends to become self-sustaining and foster further additional migration (Massey et al, 2005, 44). Massey et al (2005) list several factors in which this cumulative causation is present. *Expansion of networks*, as discussed in the previous section, is a central factor in cumulative migration (Ibid;46). Another is *distribution of income* building on the theoretical assumptions of the new economics of labor migration, as presented by Stark & Bloom (1985) in section 2.2. Here we discussed relative deprivation and inequality in one's reference group as a cause of migration. The cumulative causation herein derives from remittance as a factor to promote inequality in a reference group - e.g. a rural village - and thereby generate a sense of relative deprivation among non-receivers of remittance which in terms promote further out migration (Ibid;173-174).

Another factor is the *culture of migration*. In section 2.3 on segmented labour migration, we presented the theoretical perspective of Piore (1980) and found that migrants tend to extend the duration of their stays with time elapsed abroad. Further Piore (1980) argues that temporary migrations tend to become more frequent with the number of migratory cycles completed, thus creating a cumulative effect. On the community level migration further becomes imbedded in the culture where the benefits achieved through migration – such as human and physical capital – comes to characterize former migrants as enterprising and desirable (Massey et al, 2005, 47). This also fits well with the finding that return migrants earn 15 % more on average solely contributed to the effect of foreign work experience (Hazans, 2010, 286). Kaprāns (forthcoming) also found that the public discourse towards emigration has changed over time (ibid;1):

*“Initial accusations of betrayal and cowardice have changed into a pragmatic “exit strategy,” and initial claims that Latvian émigrés were shameful losers have turned into the belief that people are seeking and creating their own fortune.”*

Massey et al (2005) also present the assumption of *distribution of human capital* as a cumulative driver (Ibid;48). Here it is argued that migration functions as a selective process which tends to draw upon the human capital from the sending country in the form of the highly-skilled and motivated people. This effect, they argue, tends to be visible in the initial phases of migration flows and become less pronounced as migration

become available to the greater society as cost fall and social networks are established (Ibid). As we have found in the previous sections this effect is clear in the presented research, conversely, this effect was reinforced as migration flows developed and increased during the crisis and recession, where the amount of tertiary educated migrants increased. Massey et al (2005) further argues that when the migration of highly-skilled workers is firmly established, it will in terms cause socio-economic change in the sending societies of negative impact to productivity as human capital flees the country (Ibid;48) Instead the human capital of migrants workers will contribute positively to the productivity of the receiving country. Thus, over time, the differentials in productivity become more pronounce further strengthening the bilateral migration flow. This assumption however, is difficult to evaluate as it entails incomprehensible number of factors, but as we have seen, growth in GDP has still not reached the levels present before the economic crisis and the third wave of migration (see Appendix 2). In chapter 4.0 we will further discuss the impact of high-skilled emigration on economic development.

Overall the cumulative causation theory builds on the assumption that migration is perpetuated by a whole range of effects; several of them shown to explain cumulative effects throughout the research – several more not listed here. This assumption - though it does not provide completely new perspectives - contributes to a more comprehensive understanding of the development of bilateral migration flows and the perpetuation thereof and thus provides some explanatory power in analyzing migration flows as a whole process; which is exactly what we will do in the following. First, however, we introduce world system theory – a historical and structural theory – which will function as the frame for our model of migration flows.

## **2.6 World System Theory**

In contrast to the theoretical assumptions of neoclassic and new economics of labor theory, and more in line with the segmented labour market theory, world system theory does not view international migration as a consequence of individual or household decisions, rather it is viewed as a product of structural forces in the expansion of capitalist markets within a heretical political system (Massey et al, 2005, 36). The basic theoretical assumption of world system theory is that the penetration of capitalist economy into non-capitalist societies creates an uprooted population prone to migration (Ibid). Sassen (1988) argues that movements between countries are to be understood as movement within the entity which encompasses these countries and examines how the internationalization of production within this entity contributes to the formation of labour migration (Ibid;1-2). Here, the classic explanatory factors of migration are reviewed i.e. overpopulation, poverty and economic stagnation. Sassen (1988) finds that though conditions of poverty, unemployment and

overpopulation pressure the possibilities for migration, these factors cannot explain migration by themselves e.g. countries under the effect of economic stagnation and high unemployment are not necessarily migration countries and migration countries may have been affected by these factors long before the migration flows materialized (Ibid;3-6).

A focus on national socio-economic conditions leads to the view of emigration as a domestic matter - and immigration as a domestic matter or problem for the receiving country. In this view the lack of economic development becomes a driver of emigration. Conversely, Sassen argues that economic development in itself is a driver of migration, when capitalist economic development and foreign investment disrupt traditional livelihoods and structures. Traditional economies here refers to a whole range of activities from semi-waged work to industrial activity geared to the domestic market and typically with little or no foreign investment. This development is argued as a shift from agrarian societies with autonomous modes of subsistence in the use of rural farm land to a use of land as a commodity with the penetration of capitalism. This development thus created a '*mass of landless peasants with little or no alternative to becoming part of the rural or urban labor reserve*' (Sassen, 1988, 33). This labour reserve prone to migration is recruited by more developed countries.

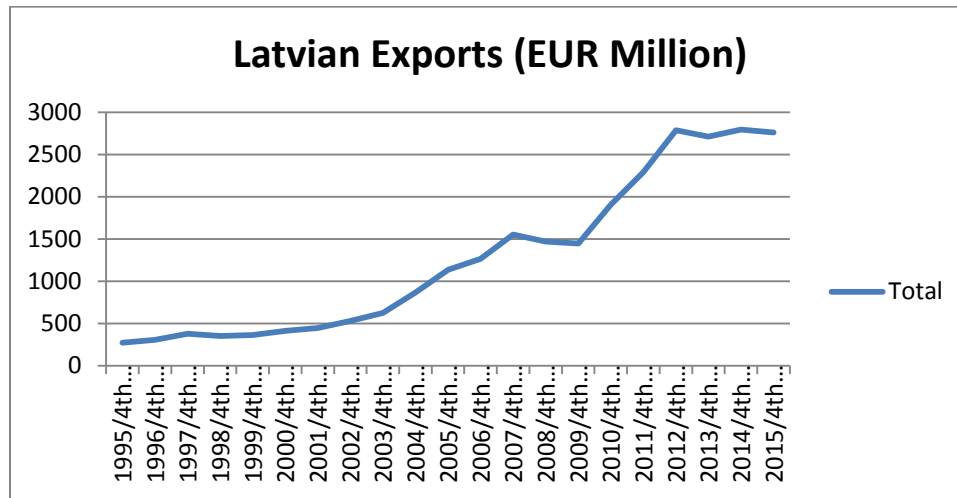
### **2.6.1 Theoretical Review**

Sassen thus argues that the penetration of developed countries into the new capitalist markets through direct foreign investment, cause a displacement and movement of rural populations into urban areas with high rates of unemployment. This uprooted population prone to migration can then be recruited to foreign labour markets - especially in low-wage sectors of industry unattractive to native labour – where they typically consume less than they produce and therefore are attractive to the receiving economy (Ibid;39-40). Sassen argues that this trend is more apparent in countries with high levels of agricultural exports – which are typically less labour extensive than industrial export production. Further, this trend creates a link to the investment country (economically and culturally) which in terms promotes the investment country as an immigration destination (Sassen, 1988, 94-99). Foreign direct investment thus becomes a migration push and pull factor in itself.

### **2.6.2 Export and Agriculture**

To review the basic assumptions of world system theory and the application in the analysis of Latvian migration flows, in the following we shortly look at Latvia as an exporter and recipient of foreign direct investment and Latvia's economic transformation from a Soviet country with a plan 5-year plan-economy to a capitalist market economy. We do so by examining statistics on the development of export rates in Figure 2.5:

**Figure 2.5 Latvian Exports post-Soviet Union**



Source: Central Statistical Bureau of Latvia

Figure 2.5 shows Latvia's emergence as an exporting market economy and an emerging member of the world economy after the regained independence and the shift from plan economy. This is illustrated by the steady increase in exports - with the exception of a stagnation and slight decrease during the economic crisis and again after 2012 until present day. This trend is affected by the continuous low growth rates in the Eurozone (accounting for around a third of exports) and the deterioration of the Russian economy (accounting for about 10 % of exports) (OECD, 2015). The geographic location, the geopolitical situation and the openness of the small economy mark Latvia by high volatility. Furthermore, Latvia is lagging behind in the development on the global-value chains and integration into knowledge-based capital and innovative capacities (Ibid; 9) - Latvia's main exports remain low technological products. In 2014 Latvia's main export groups were agriculture and food products (19 %), wood (17 %), electrical equipment (17 %) and metal and mineral products (17 %) (LIAA, 2016).

The development of opening the market for exports of agriculture came as a result of the decollectivisation which took place in Latvia in the years following the independence. The law '*On Privatisation of Agricultural Enterprises and Collective Fisheries*', came into effect on 1 July 1991, whereby more than 80 % of agriculture land were managed or used privately in 1995 (Davis, 1997, 1410-1415). However, by this time 40 % of agricultural land was still utilized on a household basis, with farmers relying on other sources of income and only 17 % of farm land managed by corporate farms (Ibid;1415). Following the collapse of agriculture production in the transition period to privatization, production was slowly being reestablished and the food

industry expanded its exports by 47 % from January to September 1996 (Ibid;1416). Not unlike present day, the main exports were wood (29 %), textiles and textile products (15,6 %) and food products (up to 14,5%). Even though, agriculture and forestry was emerging as a key part of the economic output, and though average unemployment remained fairly low in Latvia - 6,8 % in January 1998 – the disparities between the urban area of the capitol Riga (4 %) and other rural areas remained high, with some areas exceeding 26 % (EC Agriculture, 2016). Further, this was during a time when the agriculture production was still not completely modernized, lagging modern machinery and therefore relying on workers in production (Davis, 1997).

### **2.6.3 Privatization and Displacement**

According to Žakevičiūtė (Žakevičiūtė, 2016) the transition to privatization was followed by a clear vision of family owned farming, which instead led to the displacement in the rural social structures:

*“The post-Soviet Baltic rural transformation was based on the vision of a strong family farm. The political decision to follow decollectivization strategies promoted by the international institutions was strengthened by a nostalgic view of history and interwar farming traditions as well as public request for historic justice (...) It was anticipated that individual farmers would reach the highest levels of productivity and efficiency and would thus dominate the rural economy. Instead, the path of shock therapy and neoliberal policies have led to the destruction of material resources and human capital in the countryside, high levels of unemployment, poverty, and an unexpected change in the rural social structure.” (Ibid;1)*

Žakevičiūtė argues that the high productivity of the Baltic States agriculture production of the 1980's - placing them among the top agriculture producers in the USSR - was subsequently diluted by collapse of the Soviet Union and the main Baltic export countries plus the rapid privatization which followed. This was partly contributed to a poor and slow distribution of land to private actors and a desynchronized distribution of land and non-land asset i.e. machinery for farming (Žakevičiūtė, 2016, 1-4). This meant that larger-scale farming as intended, was replaced by small 'plot-farming' linked to greater poverty, and thus poverty rates increased in the rural areas relative to the urbanized areas. According to Žakevičiūtė, this effect peaked in the early 2000's (Ibid). High levels of unemployment, poverty and a generally lack of a civil society came to delineate the rural post-Soviet areas and promote depopulation through mortality (of the ageing population) and migration. The lack of real reform policies in the years after the 'shock therapy' of privatization and the shift to capital market economy meant that the transition phase was severe and prolonged. According to Žakevičiūtė it was only in

the beginning of the new century and the perspectives of accession to the EU which started a process of modernization (Žakevičiūtė, 2016, 1-4). However, though processes of modernization were completed, there are still great disparities between the rural areas of Latvia and the Capital. Overall, Žakevičiūtė finds that the aim of entrepreneurial family farming with privatization has failed, and instead mainly resulted in stratification between large-scale corporate farming and a rural population dependent on a wage income combined with private farming (Žakevičiūtė, 2016). These findings are consistent with the description by the labour provider in the section on social capital theory, stating (rather crudely) that “(...) *they have potatoes, cabbages and carrots so they can always have food there but they never have money, so most of the people we send come from there...*”.

Thus we have seen that the effects of the decollectivization and privatization in the transition to capitalist market economy had a significant effect on the rural areas and population of Latvia, causing major disparities between rural and urban areas and thereby promoting depopulation through migration. Whether this effect can be contributed to a disruption of traditional economies – it’s arguable that this process already occurred during the period of Soviet occupation – or whether this effect was caused by the transition to capitalist economy alone or exaggerated by unfavorable reform and a lack of policies – is uncertain to this research. However, we have established the explanatory power of the theoretical assumption of world system theory on the initiation of international migration – along with social capital theory assumption of the perpetuation of migration – in understanding the process of migration and recruitment of the rural population of Latvia. Now we turn to look at the assumption on foreign direct investment as a mean of establishing economic and cultural links between the sending and receiving countries and thus promoting bilateral migration flows.

#### **2.6.4 Foreign Direct Investment and Bilateral Migration flows**

Utilizing data from Bank of Latvian on foreign direct investments (FDI) in Latvia (stock in million EUR) by country, we examine the data to obtain an overview of bilateral economic links which can then be compared to the bilateral migration flow. The data is compiled into a graph depicting 12 selected countries and their stock of FDI during the years 2000, 2004, 2008 and 2015 (Appendix 7). The 12 countries were selected by two criteria 1) size of FDI stocks and 2) top destination countries for Latvian immigrants. The years were also chosen from two criteria 1) the first and last available data, and 2) periods of high migration rates.

The graph (Appendix 7) shows some apparent tendencies; it is clear that the neighboring countries of Baltic Sea Region and Russia have a strong presence through FDIs. Geographical proximity thus seems to have an

impact on the tendency to invest, as we also see from the disproportionate large stock of FDI from Estonia relative to the small size of the country and economy. Lithuania is also well represented in 2008 and 2015. As an exception to this we see the Netherlands, the UK and the US - with the Netherlands emerging as the second largest investor in 2015. Lastly, we see that Sweden has had the largest or second largest stock in all the years measured.

In order to compare the economic links and the bilateral migration flows, we look at the actual migration flows – unfortunately we can only observe the last two migration flows because of the limited data on FDI. However, comparing the data from the last two waves of emigration does not suggest causality between the FDI and bilateral flows. Conversely, Sweden - which has been one of the most substantial investors in Latvia (also prior to 2000) and was among the first three EU members to allow equal access to its labour market - has a relative small stock of Latvian labour migrants (Appendix 5). The Netherlands – another substantial investor – have an even smaller stock of Latvian migrants, while Ireland and the UK – two main destination countries during the last two migration waves - are dwarfed by Sweden and the Netherlands sized by FDI. Thus we see no explanatory power for this theoretical assumption. One obvious factor which might upset the application of Sassen’s theoretical assumption is membership to the EU. Thus membership to the EU might indicate a number of other links – both cultural and economic – besides FDIs. However, Ireland’s emergence as the most frequent receiver of Latvian immigrants in 2004 (table 2.1) - the year of accession - with little to no FDI in 2000 and 2004, suggests that the assumption does not apply to the case of Latvian bilateral migration flows.

### **2.6.5 Structural Transitions and Migration**

Where single economic parameters as measurements and indicators of migratory developments fall short – as we also saw in the case of the neoclassic gravity model – empirical findings suggest that structural changes can provide a more comprehensive perspective in understanding the initiation of international movement in the case of Latvia – not unlike the perspectives of structural factors provided by the segmented labor market theory in the understanding the perpetuation of international movement. Neoclassic theory does however provide a highly applicable assumption in the emphasis on migration policies as a deterrent of migration flows. We saw this repeatedly in the case of the EU-accession and the change in immigration policies of the receiving countries. Another obvious example is the change in emigration policies brought on by the collapse of the Soviet Union and the Iron Curtain. Both of these examples were also brought on by major societal and structural changes during the economic crisis and the structural changes which followed – i.e. changes in employment, public spending and private investment in the banking sector – and facilitated change in

migratory flow though not brought on by change in migration policies. In this perspective, the assumption of Sassen in understanding migration flows as consequence of change in capitalist development is highly applicable in the case of the EU-accession. Here deeper market integration and free movement of workers enabled the migration of actors seeking to minimize the risks inherent to the capitalist Latvian society or maximize the utility of their labour through the demand for cheap labour in EU member states. Thus we now arrive at a comprehensive model of migration based on the actual migration flows of Latvia. This will be shortly outlined in the following chapter. Hereafter we move on to the final analysis of prospects for continued migration flows and demographic challenges.

### **3.0 Model of Intra-EU Mobility**

In this chapter the model of international migration within the EU is presented based on the revised theoretical assumptions of the previous chapter. The model thus consists of the assumptions and propositions of the six theories which were verified according to the empirical findings of the Latvian migration flows and deemed to hold sufficient explanatory power to contribute to the understanding of the migration flows in question. Further, the model is inspired by the work of Massey et al (2005) and utilizes the same overall selection of theories. The model presented here will however vary from that of Massey et al (2005) in many factors; given that the data and conclusions obtained throughout the analyses of the previous chapter differentiate from those of Massey et al.

#### **3.1 Presenting the Comprised Model of Theoretical Assumptions**

Migration flows originate from the great political and economic changes to society, occurring as a consequence of the transition into a free market capitalist economy. This is foremost caused by a disruption of existing social and economic arrangements, creating an uprooted rural population prone to migration (world system theory). High rates of unemployment and low wages – particularly prevalent in minority groups and among non-citizens - prompts the uprooted population to seek other forms of income with the goal of managing risk and acquiring capital. One way they can overcome these economic challenges is to sell their labour on foreign labour markets made available through the lack of restrictions and low migration cost through the integration into the EU. The higher wages and possible human capital investment of foreign work thus prompts some individuals to sell their labour on the immigration markets (neoclassic theory). For other individuals and their families the act of migration instead serves as a mean to manage and minimize the risk of the capitalist economy and a failure of government programmes (the new economics of labor migration). Highly skilled people are disproportionately



overrepresented in this category. Through migration the individual is able to accumulate savings for larger purchases, everyday living expenses and/or send back remittances to family members in the sending country. The duration of the migration thus rely on the severity of economic disparities and extend of government programme failures plus the elapsed duration of the migration. Therefore, great structural changes and economic fluctuations affect the patterns of migration. The EU-accession and the economic recession thus served to respectively further the possibility for migration and extend the disparities in the EU; increasing and extending migration.

The individual prone to migration by economic push factors is exposed to the pull factors inherent in the disparities within the EU. However, the migrant is also exposed to limited information and faced with the multiple insecurities in the investment of migration, thereby limiting the pull factors to information acquired through micro- and meso-structures i.e. social networks and recruitment agencies (Social capital theory). The active recruitment of foreign workers is also inherent to the disparities between the sending and receiving country and initiated by the demand for cheap labour to fill shortages in the secondary sectors of the more developed receiving country (segmented labour market theory). The secondary sector often represents low paying jobs in seasonal industries such as agriculture and manufacturing, which are unattractive to the native worker thus creating demand for complimentary foreign workers. Recruitment agencies are essential in the initial development of meso-structures but these structures become less important as micro-structures are established.

When the migration flows are initiated several factors will contribute to their perpetuation 1) The expansion of social networks aid potential migrants in the process of finding work and housing abroad through networks 2) inequalities between migrants and migrant families and non-migrants creates a feeling of relative deprivation promoting migration 3) and the manifestation of a culture of migration resting in the benefits of migration spreads and perpetuates this development (cumulative causation theory). Once established migration flows will peak and extend with the increase of economic push factors and persist through a wide range of supporting factors. Similarly, migration will slowly decrease and return to a circular pattern as economic growth increases and markets and government programmes return to a well-functioning state. This movement resembles a curve or a 'migration hump' (Massey, 2001), one which developing countries and new capitalist economies crosses through the process of capitalist economic development. However, emigration can also reflect back negatively on the economic development in the form of loss of human capital (cumulative

causation theory). Thus migration is initiated by the forces of economic development and economic integration but will also cease as the economy develops and increasingly converge with the receiving countries.

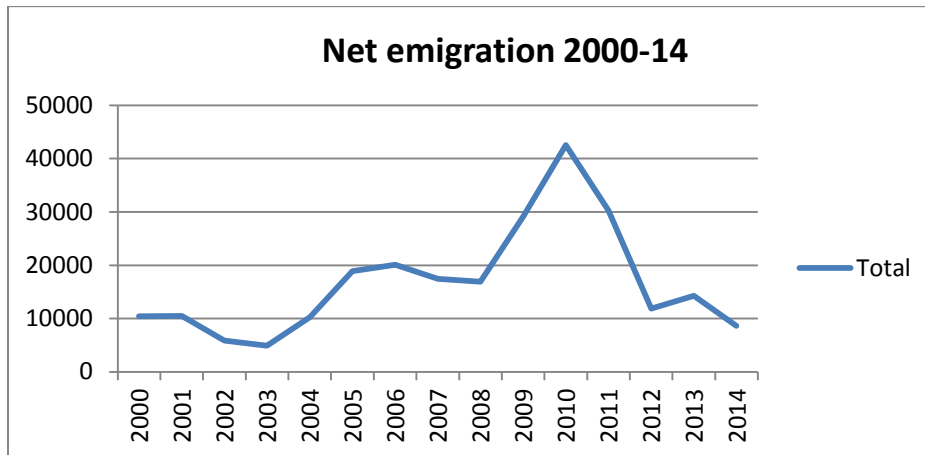
## **4.0 Prospects for the Development of Migration flows**

Against the backdrop of the model presented in the previous chapter we move on to the evaluation of the current and future development of Latvian migration flows examined in the perspectives of economic development, migration policies, social policies and the possibility of the Brexit. In the following we will shortly introduce the findings of the model in the perspective of future demographic challenges and thereafter we discuss these four perspectives and the possible implications on migration flows and thus demographic challenges.

### **4.1 Demographic Change and Challenges**

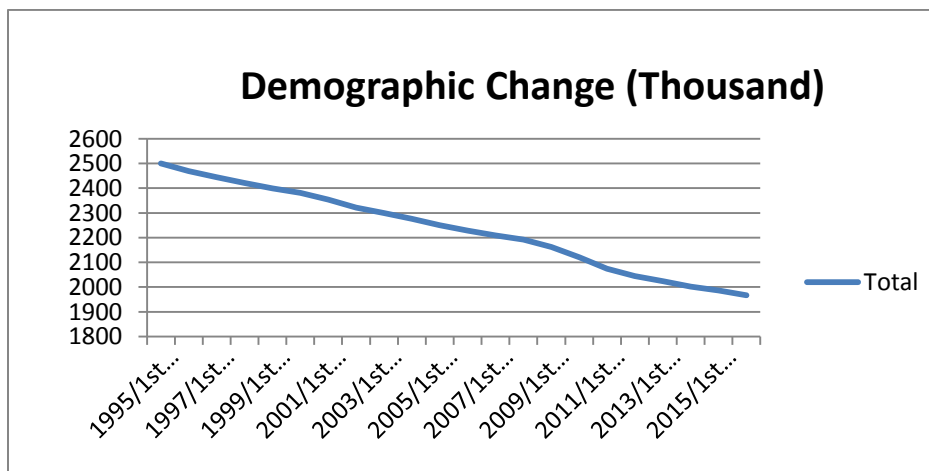
As concluded in the previous chapter and the model of migration, we found that once migration flows are initiated they form a curve which is overcome through economic development and a decrease of disparities between the sending and receiving countries. However, this curve can be upset by events causing great structural or economic fluctuations. This is clearly reflected in Figure 2.1 where we see changes in emigration brought on by the EU-accession and the economic crisis. In both cases the event is followed by the consequential effect, a peak and a subsequent decline. Examining the latest developments in crossing the migration curve, data on net emigration presented in Table 2.2 shows us that net emigration in 2014 amounted to only 8652. This amount is substantially below that of 2008 when the effect of the economic crisis were first setting in, but also lower than the amount of 10220 in 2004 when the effect of the EU accession first materialized. Emigration has not returned to the levels in the years immediate before the EU accession, but it does however seem to be closing in on the low end of the curve(s) initiated by the accession and recession. This is depicted in Figure 4.1 comprised of data from Hazans (2013) and the Central Statistical Bureau of Latvia (CSBL, 2015a):

**Figure 4.1 – The Migration Curve 2000-14**



However, looking at population statistics it is clear that Latvia is still facing some major challenges. This development is reflected in Figure 4.1 comprised of statistics from the Central Statistical Bureau of Latvia (CSBL, 2016a).

**Figure 4.2 – Demographic Change in Latvia 1995-2015 (Thousand)**

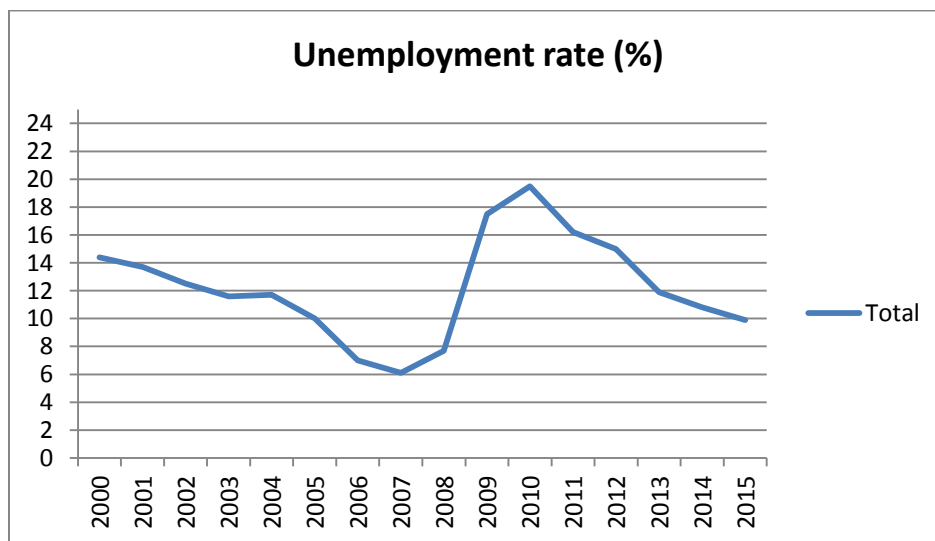


Though emigration has slowed down, it is still adding to an ongoing depopulation which since 1995 has amounted to a 20 % decrease. Both natural decrease and emigration have contributed to this trend, but emigration has been the main driver and estimates from Latvia’s Ministry of Economics point to a continued population decline if the trend is not deterred (Ministry of Economics, 2013). The Ministry expects an unchecked decline to reduce the population to 1.86 million by 2030, but estimate that the successful effects of

policies realized through the Plan of Return Migration would level out the decline - instead reaching a population level of 1.94 million by 2030 (Ibid). The urgency for foiling a continued steady population decline is partly reflected in the economic targets and growth prospects also presented by the Ministry of Economics. In 2013 it was forecasted that the economic growth rate would remain at 4-5 % annually (Ministry of Economics, 2013).

Examining the recent economic development the effect of convergence (the hypothesis of a catch-up effect between poorer and richer countries) does seem to have some effect when measured in real GDP growth. In 2015 Latvia’s real GDP grew by 2.7 % compared to the EU average of 1.9 % and the Euro Area average of 1.6 % (Eurostat, 2016c). However, these growth rates remain below estimates and according to a forecast by the European Commission they will only increase minimally to 2.8 % in 2016 and 3.1 % in 2017 (EC, 2016b). These relatively low growth rates will put a slight damper on the development of unemployment rates and wage levels compared to recent years. Wage growth is thus expected to slow down though only minimally, while the unemployment rate will decrease to 9.6% in 2016 and 9.3% in 2017 following a period of rapid decrease. This is reflected in Figure 4.3<sup>10</sup> (CSBL, 2016b) depicting the unemployment rate from 2000 to 2015:

**Figure 4.3 – Unemployment rate 2000-15**



<sup>10</sup> It is worth noting that the curve in Figure 4.3 on unemployment rates resembles that of Figure 4.1 on net emigration after the EU-accession in 2005. This further suggest a correlation – is not causation - between the economic push factors of unemployment and the act of emigration.

According to the Commission the unemployment rate is estimated to decline less rapidly as job creation is set to face structural restraints. This is inherent to the decline in the working age population caused by the emigration and in addition some labour market sectors are reporting increases in the shortage of skilled labour (EC, 2016b). These collective factors indicate that the process of convergence will take a long time. According to an OECD Economic survey (2015) Latvia is placed as 55 % below the best performing OECD countries at the current speed of convergence. By this rate of convergence it is estimated that it will take one and a half generation to catch up to the above average performing OECD countries (Ibid). Furthermore, population ageing and emigration constrain the prospects for growth. Therefore suitable policy options are a necessity to meet the challenges of continued population decline, labour shortages of skilled labour and future growth. According to the Ministry of Economics' estimates, the potential mismatch between labour force and labour demand could amount to shortage in the thousands. In the following we therefore examine the policies of the Plan of Return Migration (and the Diaspora Action Plan) to evaluate the proposed effects as estimate by the Ministry of Economics.

## **4.2 Evaluating Emigration Policies**

Dismissing for a moment the complications attributed to the funding and implementation of some of the return migration policies - as noted in the research by Kārklīņa & Kļave (forthcoming) - and instead evaluating the policies as proposed implemented, three immediate tendencies can be highlighted 1) the policies rely on the creation of meso-structures to act as agency to promote ties between emigrant workers and businesses in Latvia 2) they focus on reconnecting ties between the diasporas and Latvia through diaspora cooperation, culture and language, and 3) the provisions in the policies provide little-to-non financial assistant to the potential return migrants. In the following these will be reviewed.

### **4.2.1 Meso-structures**

The creation of meso-structures presented in the Plan for Return Migration with the main goal of developing connection with entrepreneurs and skilled workers in the diaspora, is generally reviewed as a positive initiative by experts consisting of specialists from Latvia's public institutions (Kārklīņa & Kļave, forthcoming). The experts express support for the return migration of skilled labour, referring to the experience of other countries in immigrating highly skilled labour as a mean to avoid greater completion in the low paying sectors of the labour market (Ibid;14). Further, one expert expressed the opinion that for low skilled workers – according to whom a high percentage are on social security support abroad – return migration represent a negative change (Ibid;15):

*“The differences in pay, minimum wage and some social benefits are more likely to be evident for low qualified jobs. Employers are not willing to pay more to low qualified workers. Therefore, employers have problems attracting employees.”*

In this perspective promoting the return of highly skilled is more feasible because they might be able to find a job in a high paying sector better matching the wage levels abroad and because it contributes to the labour market and competitiveness. As seen in the data from Koroļeva & Mieriņa (forthcoming), ‘Financial difficulties, including inability to pay loans’ (18.2 %) and ‘Willingness to improve the quality of live, to live in a country with better social guarantees’ (15.1 %) ranged high among the reason for leaving Latvia. Conversely, returning to Latvia might represent a negative change in financial aspects for the low skilled workers – especially if the financial difficulties they faced before departure have not been overcome. Creating meso-structures for the ‘recruitment’ of highly skilled migrants might therefore be a positive initiative in facilitating some return migration. Further, making information available on labour market issues and establishing a two-way communication mechanism allowing migrants to communicate directly with potential employers (Kārkliņa & Kļave, forthcoming, 17) is also a positive step given the limited information migrants are exposed to. As we observed in the last chapters, meso-structures have been essential in facilitating and initiating emigrations. However, if the potential return migrants are not affected by economic push factors in the current situation abroad or significant pull factors in Latvia in the form of economic gains or better living conditions, then some other connections must be established to facilitate the migration.

#### **4.2.2 Reconnecting with the Diaspora**

The reconnection to Latvia is pronounced through the support for cultural events and cultural cooperation with the diaspora, but also through the offer of vocational training for migrants living abroad with a focus on work, and weekend school for Latvian children abroad with a focus on reconnecting with Latvian language and culture. One group targeted by the policies is families with children living abroad, and therefore the vocational training has been a priority in establishing and retaining cultural and identity links to Latvia. Experts however, express concerns that these initiatives only reach a small part of the diaspora (Kārkliņa & Kļave, forthcoming, 10):

*“There is the education system [as a whole]. [...] It is important, of course, but I think of efficiency [...] [if] from the 5,000 to 6,000 Latvian school age children only 370 participate [in*

*the weekend school]. Consequently, in this manner the potential for the diaspora is probably being lost”*

Other experts express thoughts on underfunding of the diaspora schools (Ibid;11):

*“This year, only 20 thousand has been allocated for supporting 36 Latvian weekend schools in Europe. Each gets less than a thousand, and money is distributed by lottery. [...] How many Latvian pupils are there in Ireland, Germany, Norway, the UK, and how many Latvian pupils are there in Augšbebru village? What is the cost of it?!”*

Despite problems of outreach and funding in the implementation of the policies, data from Koroļeva & Mieriņa (forthcoming) show that Latvian migrants in the diaspora do maintain an interest in Latvian culture. When asked how often they follow cultural events in Latvia 29.6 % responded ‘regularly’ while 47.9 % responded ‘every once in a while’ and 22.5 % responded ‘never’. And asked about how often they follow current event in Latvia 66.8 % responded ‘regularly’, while 31.2 % responded ‘every once in a while’ and only 3.5 % responded ‘never’. The question however remains how important the cultural connection and these policies are in the grand scheme of things. From the theoretical perspective we know that social capital and networks had an effect on formation and perpetuation of the migration flows. Data also show that 90 % of Latvian migrants have close friends in Latvia (Ibid) and therefore retain social connections to Latvia. Thus we see that cultural and social connections remain relatively strong between Latvia and the diaspora. This suggests that migrants planning to return or considering returning might have an easier transition to Latvian society through micro-structures and that meso-structures might facilitate a professional connection. However, it does not signify that Latvians living abroad will have a higher propensity to return to Latvia. As we have seen repeatedly; economic considerations remain essential in this aspect.

#### **4.2.3 Financial Aspects**

Perhaps the policies in the Plan of Return Migration are best summed up by Ministry of Economics representatives in presenting the Plan:

*“It will not offer solutions for the all acute problems in the economy, society and country in general, but It will offer a practical help for emigrants, their families, for those who wish to return, see the possibility to return and are ready to do it.” (Ministry of Economics, 2013).*

Conversely, as can be observed from the data presented by Koroļeva & Mieriņa (forthcoming) 54.8 % of the surveyed migrants in the diaspora left Latvia after the onset of the economic crisis in 2009 and the subsequent recession. As we found in the previous chapter, the factors exacerbated by the crisis (higher unemployment, lower wages, poor social policies) contributed to the emigration as a mean to overcome these challenges. We have already observed the economic development and the possible effects and established that prospects are a long process towards convergence. In the next section we therefore examine the prospects for development of reactive policies to further return emigration in the form of social policies.

All in all, viewed in the context of the policy proposals and their lack of implementation and funding, it is doubtful how salient a political issue the challenges of return emigration remain in Latvia, and therefore equally doubtful how substantial an impact on return migration these policies will have. As expressed by an expert interviewed in Kārklīņa & Kļave (forthcoming;5):

*“It has quite small funding. We were told that there will be no more than 70 lats (100 Euro) per family and, of course, it is. ... [...] one ministry wrote a plan, but there is no support in the government. There are other priorities. [...] It is the political elite’s problem – they have not realised the depth of the problem. [...] So there is this fight for resources and different methods are being used in this fight - political agreements and interest groups, etc. What can we do...?”*

### **4.3 Social policies**

Judged by the employment rate and the level of skill and education Latvia is close to the OECD average, but when it comes to social and economic measures, the quality of life in Latvia is far behind regional peers (OECD, 2015, 6). Life expectancy and life satisfaction levels are low even compared with the countries at similar income levels, while the income inequality is among the highest in the OECD (Ibid). Similarly, when asked to evaluate *education, health care, tax systems as well as employers’ attitude towards employees in Latvia and the host country*, 28 % of migrants surveyed respond that *‘everything is good in the host country and bad in Latvia’* while 28.7 % respond that *‘everything is fairly good in Latvia, but still functions better in the host country’*. Thus a clear majority of migrants are aware of the disparities between Latvia and the host country, and favor the government social programmes in the host country. This is non-too-surprising when viewing social protection in Latvia. In 2008 - even after years of rapid growth - Latvia ranked last in spending on social protection as a percentage of GDP (Eurostat, 2011). This trend is reflected in Figure 4.4 (Ibid):



**Figure 4.4 – Spending on Social Protection as % of GDP**

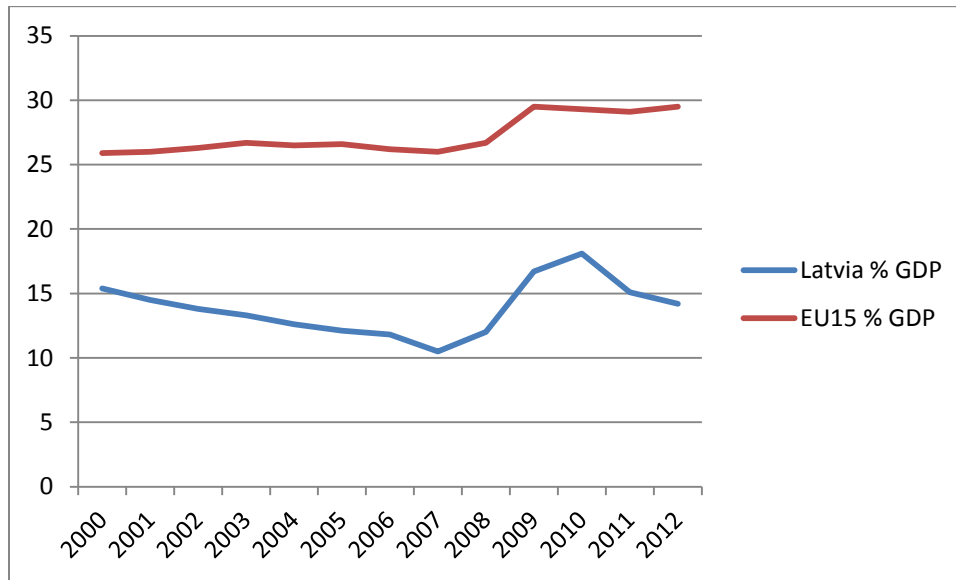


Figure 4.4 display two factors 1) the spending on social policies, and 2) the amount of people utilizing these policies. Therefore, we also see a correspondence between the curve of social protection spending in Latvia and the curve depicting the unemployment rate in Figure 4.3. However, we can also observe the major spending gap between Latvia and the EU15 (receiving countries) average. According to Kamerāde (forthcoming) one area where this is reflected was spending on families with children – one of the major groups targeted through the Plan of Return migration. Despite having comparatively low spending on social protection directed towards families with children and a poverty risk for children at 36 % before the crisis, childbirth allowance (35 %), childcare and paternal benefits (40 %) and childcare allowance for children under one (38 %) all saw substantial cuts during the implementation of austerity measures following the crisis (Ibid;6). The financial situation of families with children was significantly worsened by the direct effect of benefits cuts and the indirect effect of wage cuts and high unemployment. The widespread austerity measures (some of the harshest in Europe) introduced as part of the rescue package (Latvian received 7.5 billion Euros or 75 % of its annual GDP) thus contributed to the accelerating emigration rates (Kamerāde, forthcoming, 19). Recent government budgets have increased some social protection funding relative to recent years e.g. funds for families with children (OECD, 2016b, 33). However, an OECD report of labour market and social policies found that it will be difficult to bring spending closer to the OECD average. This is partly because 61 % of all social

protection spending in Latvia is financed through wages. Conversely, a contracting labour force, a high share of low wages earners and underreporting on wages makes it considerably difficult to retrieve adequate revenues, while keeping burdens on labour at acceptable levels (Ibid). Thus it's unreasonable to assume that any major reforms on social protection and social policies will be concluded immediately, as otherwise recommended by OECD as a mean to affect emigration and return migration challenges – along with active diaspora policies similar to those sought implemented through the Plan of Return Migration. (Ibid;37).

It's clear that recent changes in social policies and government programmes have been to the negative effect when viewed in the perspective of Latvian emigration and return migration, but uncertain that there will be any imminent policy change seeking to divert this trend. This suggests that the migrants affected by the push factors in the form of poor government programmes on social protection, will not see any forthcoming change. Further to this point, when asked about changes in satisfaction after emigrating, 61.9 % responded that they *'have become more satisfied with everything'*, 18.4 % responded that they *'have become more satisfied with work, less satisfied with family'* (Koroļeva & Mieriņa, forthcoming). This makes it exceedingly difficult to imagine a large flow of return migration. We thus conclude that social policies will not play any significant positive role in affecting the development of future emigration or return migration. Therefore, we now examine one last factor – a factor of possible major structural change affecting the development of future migration flow – the case of the Brexit.

#### **4.4 Brexit and Latvian Migration**

Thursday June 23<sup>rd</sup> the UK will vote in an election on whether the UK should remain in the EU or leave the EU. What will happen to EU immigration if voters decide to leave the EU however is impossible to say. This is because it is not yet known which policies would replace the current policies or whether the current policy protecting the freedom of workers will remain intact. In the case of a Brexit, the UK could choose to opt for an alternative agreement with the EU where the country remain an integral part of the internal market and keep the provision on the free movement of workers. Several non-EU members are part of the EU free movement of workers. Iceland, Liechtenstein and Norway, though not part of the EU, are members of the European Economic Area (EEA) and their citizens can therefore work in the EU member states on the same footing as EU nationals – and vice versa (EC, 2016c). Similarly, Switzerland, though not a part of the EU or the EEA, have an agreement with the EU on the free movement of workers whereby all EU nationals can work without a permit – with some restriction applying to nationals from Bulgaria, Croatia and Romania (Ibid). Should the UK leave the EU, this is not an unthinkable option.

Alternatively, the UK upon leaving could of course choose to end the free movement of workers and make EU citizen meet the same criteria as non-EU citizens are currently facing. In this case the immigration to the UK could be limited significantly. Hereby, immigrants would have to apply for a work permit (UK GOV, 2016) and given the fact that a great deal of A8 migrants are employed in low skilled low payed positions, they would not meet the skill criteria applying to non-EU citizens. Data from Koroļeva & Mieriņa (forthcoming) found that 29.9 % of Latvian migrants surveyed live and work in the UK. In this scenario, the question arises whether they would be subject to the same criteria as migrants outside the UK seeking work permits. According to the think tank Migration Watch UK (Migration watch, 2016) citizens already living and working in the EU would retain their rights. This is due to the Vienna Convention of the Law of Treaties 1969, generally stating that withdrawing from a treaty does not affect any rights given obtained under the treaty.

Thereby, it is suggested that a possible Brexit and a subsequent worst case scenario development (in the perspective of free movement of workers) would limit the immigration of Latvian nationals to the UK substantially. However, it is uncertain whether this development would affect return migration rates. The question thus arises whether this would limit the overall emigration from Latvia. Here it is as likely to assume that many potential migrants would find work in other EU member states with established bilateral migration flows with Latvia, as it is unlikely to assume that this scenario would occur. Throughout the research we have observed that the UK has a segmented labour market reflecting the need for cheap labour in the secondary sector. This demand would arguably persist even in the case of a Brexit thus foster the need for immigration – most likely of EU migrants. This in term would probably be reflected in the immigration policies thus securing labour market for continued economic development.

## **5.0 Conclusion**

The research found that migration flows cannot be explained by one theoretical perspective. Instead the multiple factors dominant in initiating and perpetuating migration flows operate on many aggregated levels. These causal mechanisms – though contradictory on the theoretical basis - are not necessarily contradictory viewed through empirical findings of the Latvian migration flows post EU-accession. Individual agency, kinship and economic push factors are all instrumental in creating a supply of migrant labour, while structural forces in foreign labor market developments, regional integration, disparities and processes of economic convergence are instrumental in creating a demand for foreign labour. In-between the micro- and macro-level forces of decision-making, meso-structures facilitate the transition from the sending country to the receiving through

networks, institutions and information thus completing the migration system. The structural forces and economic push-pull factors, conversely, are all inherent to capitalist economic development. Thereby parallels can be drawn between processes of economic development and migration flows. Individual actors, family entities, social networks, recruitment agencies and states all operate within these forces of economic development. Migration will thus increase between the less developed sending country and the highly developed receiving country, as the sending country becomes integrated into the economic entity encompassing the two. The migration flow will reach a peak and subsequently decrease as the sending country develops along the process of convergence. This migratory movement resembles a curve which must be crossed in the process of economic integration and convergence.

Greater fluctuations in the economic development are therefore consequential on the development of migration flows as were the case of the economic crisis and the third wave of Latvian migration. The vulnerabilities of the open Latvian economy meant that the effects of the economic crisis were deep felt thus affecting all the above mentioned factors instrumental in stimulating emigration. The integration into the EU and the firm establishment of the migration system further accelerated the effects of the crisis on migration flows. The post-crisis emigration added a bump to the curve and a consequential set-back in terms of the negative effects of the large scale emigration reflecting back on the economic development. These effects are primarily challenges of depopulation and shortages of skilled labour thus restraining economic growth. In order to remove the restraints to growth and economic development certain factors can be addressed through governmental action in the form of active and reactive policies.

The research found that the active policies targeting the diaspora with the aim of facilitating the return of migrants contains positive initiatives but with a limited outreach. Furthermore, problems of funding and implementation further limit the outreach and the potential effects. The research also examined the potential effects of reactive policies in the form of better social policies and found that harsh austerity measures implemented during the crisis and the consequential cuts to social spending are in some areas being addressed. However, the research found no evidence of imminent or sufficient change in this area. Lastly, the research examined the possible Brexit and the consequences on migration of potential scenarios and found a possible great effect on UK-Latvian bilateral migration in an unlikely but plausible scenario. However, no evident great effect on return migrations was found.

Recent figures on the Latvian migration indicate that the curve peaked through the EU-accession and the recession and that the migration is returning to a pre-accession state in terms of amounts. Further, the Latvian economy is still on a path of convergence albeit one with long prospects. This suggests that migration might be returning to more sustainable levels. Continued demographic changes and increasing skilled labour shortages however, poses some challenges to the prospects of continued growth and convergence. This research thus concludes that more active and reactive policy initiatives are essential to meet migratory and thus demographic and economic challenges.

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## 7.0 Appendix

### Appendix 1 - Population change

Last update: 08.03.16

Source of data: Eurostat

TIME	2003	2004	2005	2006	2007	2008	2009
GEO							
Ireland	3,996,521	4,070,262	4,159,914	4,273,591	4,398,942	4,489,544	4,535,375
Latvia	2,287,955	2,263,122	2,238,799	2,218,357	2,200,325	2,177,322	2,141,669
Netherlands	16,225,302	16,281,779	16,319,868	16,346,101	16,381,696	16,445,593	16,530,388
United Kingdom	59,647,577	59,987,905	60,401,206	60,846,820	61,322,463	61,806,995	62,276,270

TIME	2010	2011	2012	2013	2014	2015
GEO						
Ireland	4,560,155	4,576,794	4,586,897	4,598,294 <sup>(p)</sup>	4,617,225 <sup>(p)</sup>	:
Latvia	2,097,555	2,059,709	2,034,319	2,012,647	1,993,782	:
Netherlands	16,615,394	16,693,074	16,754,962	16,804,432	16,865,008	:
United Kingdom	62,766,365	63,258,918	63,700,300	64,128,226	64,613,160 <sup>(e)</sup>	:

### Appendix 2 – GDP per capita in PPPs (Purchasing power parities)

Last update: 26.04.16

Extracted on: 29.05.16

Source of data: Eurostat

GEO/TIME	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
European Union (28 countries)	100	100	100	100	100	100	100	100	100	100
Germany	116	115	116	116	115	119	122	122	122	124
Ireland	146	146	147	132	129	130	132	132	132	134
Latvia	51	55	60	60	53	52	56	60	62	64
Netherlands	134	136	137	139	137	135	134	133	133	131
United Kingdom	125	123	118	114	112	108	106	107	108	109

### Appendix 3 - Unemployment rate - annual average %

Last update: 01.03.16

Source of data: Eurostat

TIME	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
GEO													
Ireland	4.6	4.5	4.4	4.5	4.7	6.4	12.0	13.9	14.7	14.7	13.1	11.3	9.4
Latvia	11.6	11.7	10.0	7.0	6.1	7.7	17.5	19.5	16.2	15.0	11.9	10.8	9.9
United Kingdom	5.0	4.7	4.8	5.4	5.3	5.6	7.6	7.8	8.1	7.9	7.6	6.1	:

### Appendix 4 - Polish migrants

Data extracted on 21 Mar 2016 09:47 UTC (GMT) from OECD.Stat

Country of birth/nationality	Poland Inflows of foreign population by nationality					
Variable	Total					
Gender	Total					
Year	2002	2003	2004	2005	2006	2007
<b>Country</b>						
Germany	81551	88241	125042	147716	151743	139967
Ireland	..	..	..	..	..	..
Netherlands	1593	1530	4484	5651	6772	9236
Sweden	1065	1017	2458	3420	6347	7525
United Kingdom	..	..	16000	49000	60000	88000

## Appendix 5 – Stock of Latvian Immigrants by Country

Data extracted on 17 Mar 2016 11:45 UTC (GMT) from OECD.Stat

Country of Variable	Year	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
<b>Country</b>														
Austria		173	228	272	342	359	370	398	453	555	651	838	1045	1161
Belgium		..	..	..	..	..	..	..	..	..	1159	1443	1643	1719
Denmark		..	..	..	..	..	..	1531	1885	2521	3270	3853	4204	4516
Estonia		..	..	..	..	..	..	..	..	..	..	2582	2885	3255
Finland		276	300	338	392	473	515	593	677	802	969	1173	1312	1472
France		..	..	..	..	..	..	884	1008	1183	1352	..	..	..
Germany		8543	8866	9341	8844	9477	9775	9806	9980	11650	14257	18263	21790	25489
Ireland		..	1769	..	..	..	13183	..	..	..	..	20406	..	..
Netherlands		..	..	..	..	..	..	..	..	1143	1909	2560	3073	3287
Norway		397	485	534	577	647	852	1192	1734	2771	4910	6937	8480	9435
Sweden		780	858	934	1072	1217	1470	1677	1943	2781	3381	4032	4506	4790
Switzerland		396	504	550	611	654	712	854	958	1066	1216	1446	1638	1772
United Kingdom		..	..	..	..	..	14000	13000	29000	19000	44000	62000	81000	78000

## Appendix 6 - Median hourly earnings

Last update: 31.10.13

Source of data: Eurostat

<i>TIME</i>	<i>2006</i>	<i>2010</i>
<i>GEO</i>		
<i>United Kingdom</i>	<i>14.95</i>	<i>12.62</i>
<i>Sweden</i>	<i>14.28</i>	<i>14.91</i>
<i>Portugal</i>	<i>4.71</i>	<i>5.06</i>
<i>Netherlands</i>	<i>12.76</i>	<i>15.32</i>
<i>Latvia</i>	<i>1.95</i>	<i>2.85</i>
<i>Luxembourg</i>	<i>15.70</i>	<i>17.83</i>
<i>Italy</i>	<i>10.91</i>	<i>11.87</i>
<i>Ireland</i>	<i>16.81</i>	<i>18.25</i>
<i>France</i>	<i>13.23</i>	<i>13.74</i>
<i>Finland</i>	<i>13.72</i>	<i>15.96</i>
<i>European Union</i>	<i>11.35</i>	<i>11.95</i>
<i>Spain</i>	<i>8.07</i>	<i>9.41</i>
<i>Greece</i>	<i>7.67</i>	<i>9.06</i>
<i>Denmark</i>	<i>21.30</i>	<i>24.97</i>
<i>Belgium</i>	<i>14.88</i>	<i>16.42</i>
<i>Austria</i>	<i>11.65</i>	<i>12.96</i>

## Appendix 7 – FDI Stock by Country

