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Economic premises which attract foreign labour to new migrant destinations. The case of Portugal

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The direction of the labour migration vector in Europe is changing. Even though Germany is still a major migrant destination in the European migration system, the role of the new migrant-receiving countries, such as Italy, Spain, Portugal, Greece, and Ireland is important. These countries share a number of common characteristics. Their geographic proximity is the most ostensible one, except Ireland, the rest four countries are located in Southern Europe. Also, until recently, they have been traditional countries of emigration. However, now all of them fall into 'the countries of immigration' category. Next, Spain, Ireland, Portugal and Greece share a number of economic affinities and similarities. These countries constitute the four less developed members of the European Union (EU) or the 'Cohesion Group' but have experienced considerable economic growth since the 80s. In comparison with the traditional immigration in European countries, migration to these countries has a number of distinctive features, among them:

- Significant share of undocumented migrants in the total volume of migrants mainly by means of legal entrance and illegal employment;
- Emergence and a high role of the new untraditional linkages with migrant-sending countries, for example, with countries of Central and Eastern Europe (CEECs).
- For some of them, a strong relationship with the former colonies in Africa, South America and other parts of the world that also supply migrants;
- A movement of nationals from the former colonies;
- Educated and highly skilled migrants especially from CEECs, performing low-skill, manual work in these countries.

We believe that the processes of economic convergence are the main factor of transformation of these countries from countries of emigration to countries of

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immigration and becoming the new centers of attracting migrants in the European arena. This article explores the relationship between the instruments of economic convergence and the import of labour by using the case of Portugal.

Economic Convergence

Organization for Economic Co-operation and Development (OECD) defined economic convergence as: 1) when laggard or latecomer economies grow faster than the mature economies and 2) when the per capita incomes are distributed more evenly.

Growth of Gross Domestic Product (GDP) per capita is the key yardstick of economic performance.

During the period of 1960-95 Portugal was the fastest growing economy in the European Union in terms of GPD per capita at purchasing power parities (PPP). The research conducted by Bank of Portugal revealed that the annual average GDP per capita growth in Portugal over the period of 1954-93 was 1 per cent higher than the EU average (Corkill, 1999).

Trend growth in Portugal slightly slowed down in the second half of the 90s. The annual growth rate was 5.8 per cent on average (Table 1.) Still, it was 0.8 percentage point higher, than in EU-15. The Greek economy has demonstrated almost the same performance – 5.9 per cent accordingly, while the Irish economy has experienced a real economic boom – 10.3 per cent of average annual growth. In fact, Ireland is one of today's world growth leaders. After a currency crisis in Asia in 1997, Ireland and several other new countries of the rapid economic development have become known as 'the new tigers' or 'tigers of new millennium'. Ireland distinguished itself from the rest of the less developed Member States in 1997 when its GDP per capita exceeded the EU average and began to increase from then on (Table 2). On the other hand, Spain in the end of the 90s was lagging behind all the Cohesion Group with the average annual GDP per capita growth of 5.6 per cent.

Table 1. Convergence among the Cohesion group
Annual GDP per capita growth, percentage

	1996	1997	1998	1999	2000	Annual average
Portugal	4.7	9.9	2.9	5.9	5.4	5.8
Greece	6.0	3.6	5.7	5.8	8.2	5.9
Spain	6.3	5.7	3.6	6.2	6.2	5.6
Ireland	5.6	15.6	6.6	11.2	12.4	10.3
EU-15	4.8	5.0	4.5	4.8	6.0	5.0

Source: Annuaire Eurostat, 2002.

Table 2. Convergence among the Cohesion group
GDP growth per capita as percentage of EU average

	1995	1996	1997	1998	1999	2000
Portugal	70.5	70.7	74.7	73.6	74.6	74.4
Greece	65.9	66.7	65.8	66.6	70.2	68.6
Spain	78.2	79.3	79.9	79.2	80.2	80.4
Ireland	93.3	94.1	103.6	105.7	112.1	119.0

Source: Compilation of data from Annuaire Eurostat, 2002.

Instruments of economic convergence

The instruments of economic convergence may differ from country to country; however, in Portugal these are basically the Foreign Direct Investment (FDI) and the EU transfers.

Foreign Direct Investment

The stronger integration of Portugal into the system of the world economic relations began after 1960, when Portugal became a member of a number of international organizations. The degree of openness of the Portuguese economy increased substantially in the 1980s. Portugal became a member of the European Economic Community in January of 1986. Originally, Portuguese investment attractiveness was based on the lowest cost of production factors found in Southern Europe. Later, besides the low labour costs, foreign investors were attracted by access to the large European market, pro-FDI measures of the Portuguese government, including special incentives and programs of investment support (Corkill, 1999).

Portugal was the latest fashion from 1987 until 1991. "Certainly the investment growth rate was spectacular: in the early 1990s inward foreign investment has increased by 1,964 per cent over a decade earlier and was growing at a faster rate than in any Community country" (Corkill, 1999). The main recipients of investment were the financial sector, industry and property. The financial services sector attracted the largest share of foreign capital between 1986 and 1994, that is 30 per cent of the accumulated total for the period. Industry received 28 per cent of the total and property captured 22 per cent (Corkill, 1999).

According to OECD, for the period of 1992-2001, Spain attracted the highest volume of FDI within the group – 138.6 billion U.S. dollars, followed by Ireland – 64.3, Portugal – 23.4 and Greece – 9.4 billion dollars (OECD, 2002a).

In the middle of the 1990s, the distribution of the foreign investment has changed. The construction's industry was responsible for nearly one third of total investment.

The building and public works industry achieved strong growth during the 'recovery boom'. The growth rates by the sector during 1996 (5.9 per cent) and 1997 (7 per cent) were exceptional and owed much to the public works project associated with Expo-98, the Vasco da Gama's bridge, the rail line on the 25 April bridge, the metro extension. The economic contribution of the industry was provision employment for 7.5 per cent of the workforce (Corkill, 1999). The case of Expo project is illustrative, seven thousand people were hired for construction work and 11 thousand people were employed during the exhibition.

Regarding Portugal's manufacturing in the middle of the 1990s, the automobile industry attracted most foreign capital. Despite the problems in the highly competitive world car market, the Portuguese economy has derived a lot of economic benefits from the AutoEuropa project. In relation to employment, the locals have replaced gradually foreign management personnel of the plant.

FDI inflows into Portugal and other countries of the Cohesion group during 1998-2001 has been uneven. For Portugal, the inflow of foreign capital significantly decreased in 1999 and 2001 (Table 3). However, thanks to its upturn from a very low level in 1999 to a the high point in 2000 by more than 400 per cent, overall, the average annual growth rate of FDI inflow in Portugal was 108 per cent. This is the highest rate, compared to the rest three countries, Greece - 64.4 per cent, Spain - 43.1 and Ireland with just 27 per cent.

Table 3. Direct investment inflows, 1998-2001
Billion U.S. dollars

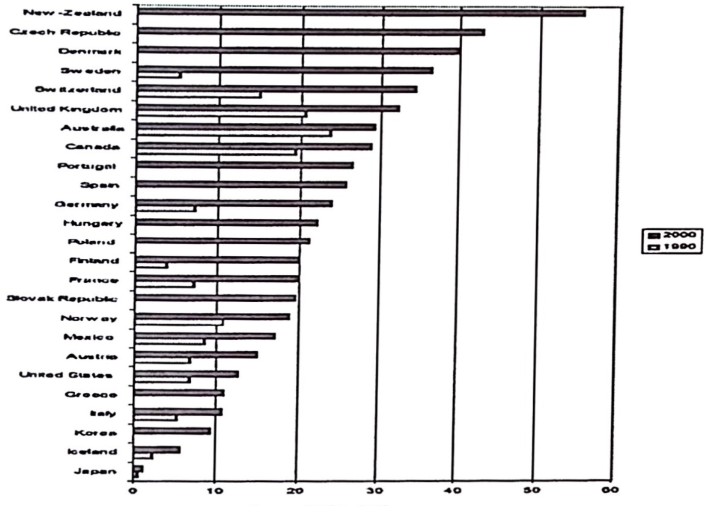
	1995	1996	1997	1998	1999	2000
Portugal	70.5	70.7	74.7	73.6	74.6	74.4
Greece	65.9	66.7	65.8	66.6	70.2	68.6
Spain	78.2	79.3	79.9	79.2	80.2	80.4
Ireland	93.3	94.1	103.6	105.7	112.1	119.0

Source: Compilation of data from OECD, 2002a.

However, the inward FDI stock is arguably believed not to be the best tool to assess the role of the foreign investment in a given economy. FDI as a share of the host countries' domestic GDP, on the other hand, provides a rough indication of the relative economic importance of the foreign corporate presence across countries.

Figure 1 shows that the economies where foreign-owned enterprises are thought to be of greater importance tend to be the smaller ones. Portugal is a good illustration of this tendency. It is located in the top 10 of the OECD list, followed by Spain.

Figure 1. Inward FDI position (as share of domestic GDP)



Source: OECD, 2002a.

EU Transfers

The composition of Portugal's funding in the 1990s was the following: more than 50 per cent of the total Community Funds came from the Regional Development Fund (FEDER), 18 per cent from the European Social Fund (ESF) and 12 per cent from the Agricultural Orientation and Guarantee Fund (FEOGA) (Corkill, 1999).

Regional aid, comprising structural and cohesion funds, has become a major instrument for achieving convergence. The Cohesion group has received a large share of total funding in 1994-1999.

Among the goals of the First Community Support Framework (CSF I) within the regional aid funding, were major projects of infrastructure provision, specific programmes focused on industry and others.

"One study into the effects on GDP growth calculated that Portugal benefited more than the other Cohesion Group countries from the first CSF. It contributed 1 percentage point to the growth rate as compared to Spain and Ireland's 0.7 per cent and Greece's 0.3 per cent " (Economou, 1997).

Programmes under the second CSF were aimed to improve industrial competitiveness, promote small-firm growth and create new jobs.

Regarding the Cohesion Fund, it was basically focused on road-building. In fact, more than half of the Cohesion Funds invested in Portugal during 1994-5 was directed towards transport infrastructure (Corkill, 1999). One estimate puts Portugal's relative infrastructural endowment, aggregating transport, telecommunications, energy, and education, at under 40 per cent of the European Community (EC) average in the middle 1980s (European Commission, 1997a). European aid improved this situation by providing funds for a major motorway and road-building programme.

New job creation

Foreign investment inflow and EU transfers had a positive impact on labour markets of the four countries, including a creation of the new jobs and an increase in labour demand. It is proved by the employment growth in these countries in the 1990s and in more recent years.

In the beginning of the analyzed period, in 1990, the employment ratio in Portugal was the highest in the Cohesion group and even higher than the EU-15 average (Table 4). A decade later, in 2001, Portugal didn't give up its position and remained a leader of the group and demonstrated a higher than EU-15 average performance again despite just a slight employment growth over this period by 1.2 per cent. In our perspective, this insignificant rise can be explained by the fact that the original employment rate was already on a high level and the reserve for further growth was low in Portugal. In fact, the female participation rate has been high throughout the period, above the EU average level (59.6 per cent in 1990, versus 64.6 per cent in 2002, OECD, 2002b). On the other hand, the growth of employment in Ireland and Spain has been spectacular (almost 13 per cent and 7.7 per cent accordingly). An increase of the female involvement in the labour force is the main factor behind the change in these countries).

Employment generation was the highest in the economic sectors that attracted more foreign investment and European aid, as shows the case of Portugal. In fact, employment in agriculture has dropped, employment in industry has remained almost

Table 4. Employment/population ratios, persons aged 15-64

	1990	1997	1998	1999	2000	2001
Portugal	67.5	64.7	66.4	67.3	68.1	68.7
Greece	54.8	54.8	55.6	55.4	55.9	55.6
Spain	51.1	50.7	52.4	55.0	57.4	58.8
Ireland	52.1	56.3	59.6	62.5	64.5	65.0
EU-15	61.4	60.9	61.7	62.6	63.8	64.1

Source: OECD, 2002b.

unchanged, while employment in services has risen sharply (Table 5) The absolute growth of employment in the service subsectors was on a 3.1-3.4 per cent level, except the transport component. The services sector has accumulated a significant share of employees released in other sectors, especially in agriculture.

Still, as Table 6 shows, an employment share of agriculture in total employment in 1998 was on a high level in all four economies. Regarding Portuguese industry, this economic sector had the highest employment share in comparison with the industries of other EU members. Most industrial workers of Portugal were involved in manufacturing and construction. Conversely, the employment share of the Portuguese service sector was the lowest among all the EU economies. Within services, the following subsectors have demonstrated the highest employment shares: trade and repair (in distribution services), hotels and restaurants (in personal services) and education (in social services). Low employment share was in finance and finance-related services (in producer services).

Table 5. Absolute change in employment rates by broad economic sector and service subsectors, 1985-97

	1990	1997	1998	1999	2000	2001
Portugal	67.5	64.7	66.4	67.3	68.1	68.7
Greece	54.8	54.8	55.6	55.4	55.9	55.6
Spain	51.1	50.7	52.4	55.0	57.4	58.8
Ireland	52.1	56.3	59.6	62.5	64.5	65.0
EU-15	61.4	60.9	61.7	62.6	63.8	64.1

Source: European Communities, 2001.

Presumably, low shares of employment in some subsectors can be explained by the labour shortages. Indeed, over the past years, "reports of skilled-worker shortages have increased in frequency in many countries. Such reports have suggested skilled-labour shortages in areas ranging from information and communication technology to more traditional sectors such as construction and agriculture. There are a number of countries where a combination of unemployment and vacancy seen in the current period ... appears to suggest tight labour markets and the possible approach of labour and skill shortages. These include the Netherlands, Portugal, Spain, and the United Kingdom, where unemployment rates are similar or lower to those at the end of the previous recovery but vacancy rates are higher" (OECD, 2001).

A high labour demand and labour shortages in the national economy stimulated the arrival of foreign workers in Portugal. Besides, the favorable economic situation and positive socio-political changes in Portugal have led to a return of nationals from the former Portuguese colonies. As a result of these two tendencies, the net migration

Table 6. Employment share by economic sector, 1998

	EU	P	E	EL	IRL
Agriculture	**4.77**	**13.74**	**7.91**	**17.75**	**10.91**
Industry	**29.88**	**36.43**	**30.75**	**23.41**	**28.73**
- Mining	0.38	0.34	0.43	0.46	0.47
- Manufacturing	20.59	24.27	19.50	14.57	19.13
- Construction	7.72	10.77	9.85	7.12	8.06
- Electricity, gas, water	1.19	1.05	0.97	1.27	1.07
Services	**65.35**	**49.83**	**61.34**	**58.84**	**60.36**
Distributive services	20.94	17.55	22.43	23.00	18.86
- Communication	1.71	0.93	1.21	1.18	1.31
- Transport	4.24	2.75	4.65	4.99	3.44
- Trade & Repair	14.99	13.86	16.57	16.83	14.11
Personal services	**8.40**	**10.61**	**11.75**	**10.30**	**10.27**
- Hotels & restaurants	4.05	5.29	6.05	6.28	5.56
- Recreation & culture	1.77	1.02	1.82	1.68	2.32
- Other personal	2.57	4.30	3.88	2.34	2.38
Producer services	**11.28**	**5.44**	**9.00**	**7.32**	**9.84**
- Finance	2.62	1.34	1.79	1.81	2.71
- Insurance	0.81	0.47	0.71	0.62	0.96
- Real estate	0.84	0.25	0.37	0.06	0.35
- Computer	0.92	0.30	0.53	0.19	0.82
- Other producer	6.09	3.09	5.61	4.64	4.99
Social services	**24.74**	**16.24**	**18.16**	**18.21**	**21.40**
- Public administration	7.46	5.81	6.25	7.02	5.25
- Education	6.81	5.84	6.02	6.07	6.65
- Health & Social	9.46	4.08	5.44	4.67	8.58
- Other Social	1.01	0.51	0.45	0.45	0.92

Source: European Communities, 2001.

in Portugal became positive again in 1993 after a period of stronger emigration in the second half of the 1980s. (European Commission, 1997b)

The arrival of foreign workers and the return of nationals had opposite effects on the Portuguese labour market. While the foreigners occupied the available vacancies, the nationals started up their own businesses and created new jobs (Diário da República, 2001). This job creation input added to the overall job creation potential of the foreign investment and the European funds described above.

The origin of foreigners coming to Portugal from outside EU is diverse. In the middle of the 1990s, the majority of them arrived from the former Portuguese colonies: PALOP (Países Africanos de Língua Oficial Portuguesa – Portuguese-speaking African countries) and Brazil. To illustrate, there were 67 per cent of migrants from PALOP, 13 per cent of migrants from Brazil and only around 2 per cent of migrants from CRRCs in the migrant inflow to Portugal in 1997.

However, in recent years, most migrants come to Portugal from CEECs. The origin of migrants who arrived in 1991 was as follows: 13 per cent of migrants from PALOP, 18 per cent from Brazil and 54 from CEECs (Diário da República, 2001).

The educational level and proficiency of the migrants differs. Central and eastern Europeans are more educated and skilled than other national migrant groups. According to the empirical research[2], 41 per cent of the studied migrants from CEECs possess university degrees, 28 per cent have college degrees, 22 per cent finished a high school and 1 per cent hold doctorate degrees.

However, regardless of the qualification of the migrants outside EU, most of them are occupied with the hard physical work in Portugal. At the moment of research, 21 per cent of the migrants from CEECs were employed as workers at construction sites and infrastructure projects, 11 per cent of them were workers at the factories, 9 per cent were kitchen assistants and waiters and 6 per cent were cleaners. In our opinion, this dismatch is a result of existing barriers that are both exogenous and endogenous. The example of the first category of barriers is a lack of cooperation and official agreements between the countries, importing foreign labour and exporting labour, resulting in the non-recognition of qualifications of the migrants. Among the endogenous factors are language barriers, a social barrier to the professional growth of migrants, their discrimination and others.

To resume, the financial inflows in the framework of the favorable economic and political situation in Portugal have created the conditions, under which the migrant labour was demanded: the employment rates were high and still more new jobs were generated. As a result of the inflow of labour migrants and a return of nationals from former colonies, Portugal and several other European countries in Europe have transformed from the countries of emigration to the countries of immigration. However, the foreign labour resource has not been wisely utilized to the full advantage of the Portuguese economy so far. By majority, educated and highly skilled migrants have occupied a niche on 'the low floors' of the labour market, performing hard and low skill work in construction, manufacturing, household services and in the restaurant sphere. At the same time, as OECD points out, there is a skilled labour shortage in areas ranging from information and communication technology to more traditional sectors such as construction and agriculture, especially in Portugal and Spain. A separate very important issue is the problem of illegal migration to Portugal and other new countries of migrant destinations. However, this is a global subject that goes outside the scope of this article.

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