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Allianz Research

European labor markets: Migration matters

Executive Summary



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Until 2050, the working age population in the EU-27 will shrink by 20%. Italy, Spain and Germany will be hit even harder by demographic change. Against this background we took a closer look at what it could take to cushion the effect of demographic change on the labor markets in the four largest economies Germany, France, Italy and Spain, running scenarios with different combinations of labor force participation, productivity and migration.

Banking on migration only would require inflows of between 100 000 and 500 000 migrants per year in the four largest economies alone. How can labor input be maintained at today's level, despite shrinking workforces? Even if Germany increases its retirement age to 68 and makes efforts to increase the labor force participation rates of women, older workers and foreigners to the levels seen in Sweden, it will still need 200,000 migrants per year on average. But if it relied on immigration alone to mitigate the impacts of demographic change on the labor market, it would need 482,000 migrants per year. In such a scenario, the demand for labor migrants would be at similarly high levels in Italy and Spain, with a needed inflow of 414,000 and 338,000 migrants per year on average, respectively. However, Italy and Spain benefit from relatively higher internal reserves, given their lower labor force participation and employment rates compared to Germany. The same holds true for France, which additionally profits from a more favorable demographic development. With labor reforms to boost participation, Italy would need only 89,000 migrants per year, while in Spain this number would fall to 131,000. In France, increasing labor force participation rates would even be enough to keep the total number of hours worked stable in the long run, and an increase in productivity of +10% would have the same effect. Without these changes, relying on immigration alone would require 115,000 migrants per year.

...But the global competition for skilled migrants is set to intensify. The working-age population is declining in the most important Eastern European sender countries as well. Until 2050, the population aged between 20 and 64 is expected to shrink by a third in Bulgaria, by -26% in Poland and by -22% in Romania. Major Asian and Latin American economies will also have to cope with demographic change. With the pool of 20- to 39-year-olds set to decline in all world regions except for Africa, European economies will have to ramp up efforts to attract skilled migrants.

Integration should start before immigration. In Germany, but also in France, Italy and Spain, labor force participation rates of foreigners are still below the levels observed in Sweden or Switzerland. This holds especially true with respect to female migrants. Furthermore, there are marked differences with respect to educational levels. Hence, cooperation with potential sender countries in vocational training, measures at the company level as well as the introduction of language classes in schools could help to attract more skilled workers and improve their employability.





Migrants needed

Due to persistently low fertility rates, the population in most EU-27 countries is set to age and shrink in the coming years, albeit to different degrees. In countries such as Germany, Italy or, more recently, Spain, population growth was already mainly driven by immigration in the past. The record number of 84.7mn people¹ living in Germany at the end of 2023 is mainly owed to the influx of refugees and asylum seekers from the Middle East and Ukraine in recent years. Of the four largest EU-27 economies, only France still reports a birth surplus. In Germany, the number of deaths has been exceeding the number of births since 1972; in Italy this has been the case since 1993 and in Spain since 2015.²

These demographic developments are also increasingly felt on the labor market, with many countries already struggling with labor shortages today. In Germany, for example, employment growth until November 2023 was driven exclusively by foreigners: While the number of foreigners in employment subject to social security contributions rose by +6.1% or 315,000 to 5.49mn, that of Germans decreased by -0.3% or 99,000 to 29.62mn.³ At the same time, the number of open positions was still markedly above the ten-year average at 1.73mn.⁴ In fact, in sectors such as the food processing industry, catering and gastronomy or the construction industry, foreigners already account for more than half of all employees today.⁵ In total, most foreigners were employed in the processing industry, followed by trade.⁶

¹ Statistisches Bundesamt (2024): Bevölkerung wächst im Jahr 2023 um gut 0,3 Millionen Personen. Since 2011, the year of the last census, the number of foreigners living in Germany has more than doubled from 6.3mn to 12.8mn and a further 8.8mn have an immigration history. See Statistisches Bundesamt (2023): Current population, and Statistisches Bundesamt (2023): Mikrozensus. Bevölkerung nach Einwanderungsgeschichte, Tab. 12211-01.

² Unless otherwise stated, source for the population figures is UN Population Division (2022).

³ Here employment refers to employment subject to social security contributions, see Bundesagentur für Arbeit (2024): Blickpunkt Arbeitsmarkt, p. 9.

⁴ Bundesagentur für Arbeit (2024): Arbeitsmarkt kompakt, p. 12.

⁵ See Bundesagentur für Arbeit (2024): Beschäftigte nach Berufen, table SVB – Tabelle I.

⁶ See Bundesagentur für Arbeit (2023): Arbeitsmarkt kompakt, p. 13.

With baby boomers starting to reach retirement age and the succeeding younger cohorts being smaller due to low birth rates, demographic change threatens to exacerbate the lack of skilled labor. Against this background, immigration is often hailed as a straightforward remedy to dampen the impact of demographic change on the labor market, one that also helps to ease the financial burden on social systems since immigrants are generally younger than the national population. This, however, presupposes that they are integrated into the labor market. Other options such as the extension of weekly working hours, raising the retirement age, fostering the labor market participation of women and older workers or investing in training the labor force to increase productivity are either rather unpopular measures or require (sometimes costly) up-front investments to create the necessary preconditions for their implementation. For example,

a prerequisite for increasing the employment rate of women or encouraging their transition from part-time to full-time employment is the provision of sufficient childcare facilities (which often fails due to a lack of staff). Similarly, to keep older workers in the labor market for longer, companies and the labor market must adapt to the needs of older workers, not to mention the need to combat age discrimination, which is a long-term challenge. The same applies to productivity increases, which require investments in education and innovation and do not happen overnight.

However, record levels of immigration have not yet solved the shortage of skilled workers in Germany, which suggests that immigration alone may not be the hoped-for sole panacea. In this context, the question that arises is: how many immigrants are needed to address the effects of demographic change?

Five scenarios for how the impact of demographic change could be mitigated

To find out, we did some simple math: We took the total number of hours worked as an approximation of the contribution of the labor force population to economic growth and asked what it would take to keep this number relatively constant at today's level until 2050 by varying the retirement age, the labor force participation and employment rates, the shares of part-time work and the average number of actual weekly hours of work in all five-year age groups between 20 and the respective retirement age, for males and females in the total and (future) foreign population. Based on the population forecast in the zero migration variant of the UN and Eurostat labor market figures for the total as well as the respective foreign male and female populations in the single age groups, we calculated five scenarios:

In the **"immigration only"** scenario, we assumed that all labor market variables, i.e. labor force participation and employment rates as well as the shares of part-time work and the average number of actual weekly hours of work in all age groups between 20 and retirement age of nationals and foreigners, remained constant at today's levels; that there were no further increases in retirement age beyond already agreed upon reforms and that the evolving gap in total hours worked was filled by immigrants only.

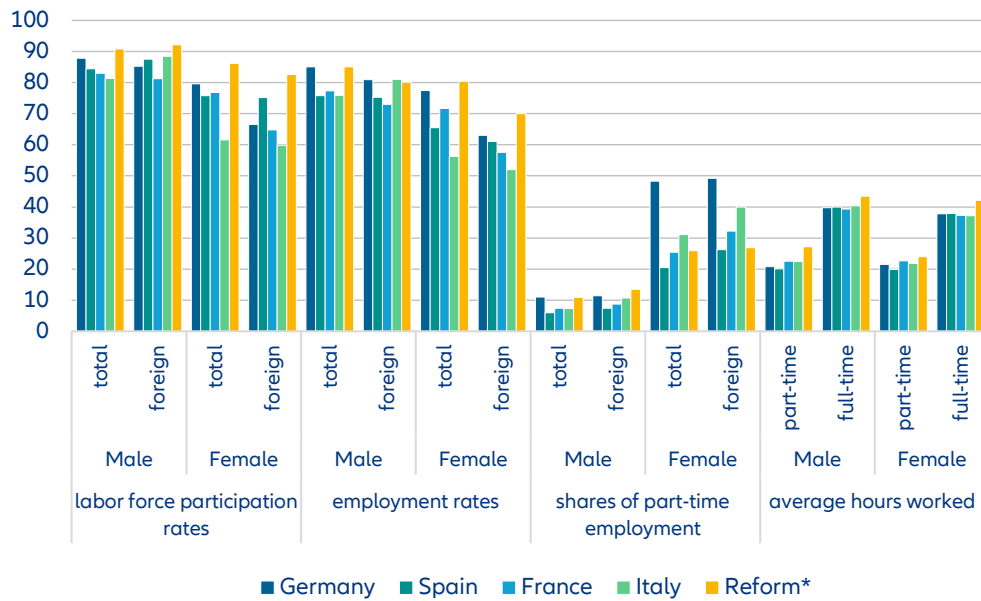
In the **"internal resources only"** scenario, we assumed that the net migration balance was zero from 2024 onwards and calculated how the labor market variables, i.e. labor force participation and employment rates as well as the shares of part-time work and the average number of actual weekly hours of work and the retirement age needed to change to maintain the total number of hours worked at today's level until 2050.

In the **“reform”** scenario, we chose a combination of possible changes of all variables. We used Sweden as a benchmark with respect to labor force participation and employment rates as well as the shares of part-time employment of the total and foreign populations. For the average number of actual weekly hours of work, Switzerland was used as the benchmark. Where the current levels in the respective country were more favorable than in Sweden or Switzerland, we took the national value (see Figure 1).

In the **“perfect match”** scenario, we chose the same combination of possible changes of all variables like in the “reform” scenario, with one exception: With respect to the integration of foreigners in the labor market, we assumed that the labor force participation rate of male migrants would be close to 100% and that of female migrants close to 93%.

In the **“productivity gains only”** scenario, we assumed that due to the increased automation and use of artificial intelligence, overall productivity was in the long run 10% higher than it is today and that there were no changes in the retirement age, the labor force participation and employment rates as well as the shares of part-time work and the average number of actual weekly hours of work.

Figure 1: Rates, shares and working hours** (age group 20-64)



*Benchmark for labor force participation and employment rates as well as the shares of employed working in part-time is Sweden and for average working hours Switzerland.

**Average values based on Q1 to Q3 2023 figures.

Source: Eurostat

If the net migration balance would be zero from now until 2050, and all labor market variables remained constant⁷, the total number of hours worked in Germany would decline by -23% from around 62bn today to 48bn in 2050, in line with the change in its working age population. In Italy and Spain, the decline would be even sharper, at -30% and -29%, respectively, while it would be a “mere” -7% in France.

In the “immigration only” scenario, i.e. if the effects of demographic change on the labor market were to be cushioned by immigration alone, in Germany an average of 482,000 foreigners per year would be necessary from 2024 onward to maintain the total number of hours worked at the 2023 level until 2050. Given that many of these workers would very likely be accompanied by family members, the resulting future net migration numbers could thus easily pass the average net migration of around 342,000 since the turn of the century⁸. Apart from the fact that this high average number was mainly driven by the record inflow of migrants from Middle Eastern countries in 2015 and Ukraine in 2022, with net migration peaking on new record levels of 1.1mn and 1.5mn respectively, the current heated debates on immigration and integration point to a restriction rather than an expansion of future immigration.

In this scenario, Italy would need an annual inflow of 414,000 immigrants per year to keep today’s number of total hours worked constant until 2050, and in Spain the respective number would be 338,000. In contrast, thanks to a much weaker population decline due to the comparatively high fertility rate, France would depend to a much lesser degree on an inflow of foreigners, needing an average of 115,000 migrants per year to cushion the impact of demographic change on its labor market.

However, to rely on “internal resources only” will probably not be a stand-alone solution, too. In Germany it would not only need a further increase in the retirement age to 68 but also an increase of the labor force participation rate of women from 78.1% today to 80.9% in 2050, alongside a more than halving of the part-time employment shares from 11.2% to 4.2% in the case of males and from 48.4% to 23.1% in the case of females in employment. Above all, a marked increase

in the average number of actual weekly hours of work would be necessary, namely by around five hours in the case of all part-time employees and women working full-time, and by more than six hours in the case of male employees working full-time from on average 39.7 hours to 46.2 hours. This would mean a reversal of most of the trends observed in Germany during the last few years. And despite the fact that the increase to an average of 1,843 hours worked per person active on the labor market in this scenario would merely bring the average number of hours worked per worker closer to the level observed in the US today (see Figure 2), it is rather unlikely that any politician or trade union representative would ever propose an increase of working hours or alternatively the reduction of vacation entitlements, from six to, say, four weeks a year.

The same holds true for Italy, Spain and France, albeit to varying degrees since they have markedly higher internal reserves than Germany. The labor force participation and employment rates in the total male and female populations are lower than in Germany or Sweden.

In Italy, in addition to the already announced further increase of the retirement age, the labor force participation rate would need to increase in the case of men from 78.8% to 87.2%, and in the case of women from 59.3% to 80.2%. The unemployment rate would need to decline to below 6% in the long run. Furthermore, the share of women employed in part-time work would need to fall from 31.3% to 25%. Above all, like in Germany, a marked increase in the average number of actual weekly hours of work would be necessary, namely from 22.4 hours to 25.9 hours in case of men and from 21.7 to 23.3 hours in case of women working part-time, and from 40.3 to 43.5 hours in case of men and from 37.2 hours to 42.2 hours in case of women working full-time.

In Spain, it would also need a further increase in the retirement age to 68, and the labor force participation rate would need to increase in the case of men from 82.2% to 89.3%, and in the case of women from 73.5% to 82.5%. The unemployment rate would need to decline below 6% in the long run. Furthermore, the share of men employed part-time would need to fall from 6% to 2.2% and that of women from 20.6% to 16.5%. Above all, like in Germany, a marked increase in the average number of

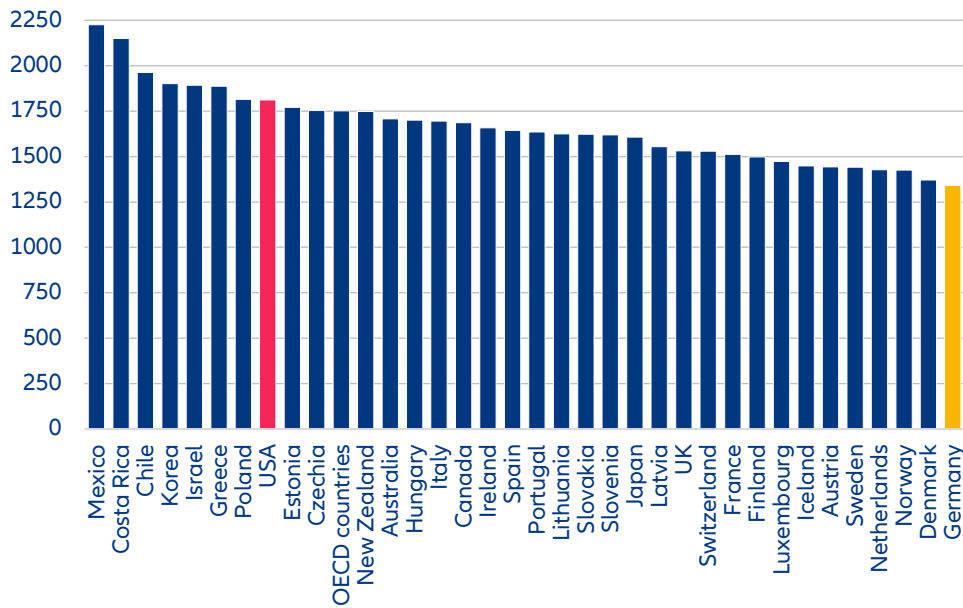
⁷ i.e. there were no changes in retirement age, the labor force participation and employment rates, the shares of those employed in working part-time as well as the average number of actual weekly hours of work in any population and age group.

⁸ For 2023, the German statistical office estimates net migration of between 680,000 and 710,000. See Statistisches Bundesamt (2024): Bevölkerung wächst im Jahr 2023[...].

actual weekly hours of work would be necessary, namely from 20 hours to 28 hours in case of men and from 20 to 26 hours for women working part-time, and from 40.0 to 43.3 hours in case of men and from 37.9 hours to 43.8 hours for women working full-time. This would imply that the total number of hours worked per worker would need to reach 1,820 hours, or a level closer to the one observed in the US today.

In contrast, in France, an increase of the labor force participation rate of men from 85.7% to 91.4%, and of women from 79.2% to 86.2%, would be sufficient to keep the number of hours worked at least stable until 2050.

Figure 2: Average annual hours actually worked per worker, 2022



Source: OECD

Hence, a combination of single measures and moving away from the categorical rejection of further increases in retirement age is necessary. In our “reform” scenario for Germany, we assumed a gradual increase of the retirement age to 68 and of the labor force participation rate of women from 78.1% to 80.9% combined with a marked decline in the share of women in part-time employment from 48.4% to 25.6%, an increase of the average number of actual weekly hours of work in part-time from 21.2 to 23.3 in the case of women and from 20.5 to 25.4 hours in the case of men. Furthermore, we assumed that the integration of foreigners in the labor market will improve and labor force participation rates will reach the levels seen in Sweden. The average number of actual weekly hours of full-time work we kept constant. Under these conditions, the average number of

foreigners per year needed to keep the total number of hours annually worked at least stable until 2050 would decline to an average of 200,000.

In this scenario⁹ in Italy, in addition to the already announced further increase of the retirement age, the labor force participation rate would need to increase in the case of men from 78.8% to 84.4%, and in the case of women from 59.3% to 78.6%. Like in the “internal resources only” scenarios, the unemployment rate would need to decline below 6% in the long run. Furthermore, the share of women working part-time would need to fall from 31.3% to 24.9%. And a slight increase in the average number of actual weekly hours of work would be necessary, namely from 22.4 hours to 25.9 hours in the case of men and from 21.7 to 23.4 hours for women

⁹ We assumed that labor force participation and employment rates as well as the shares of part-time employment in the total and foreign population would reach levels observed in Sweden today. We assumed further that the average number of weekly hours worked in part-time employment would rise to the current level in Switzerland, while the number weekly hours worked in full-time was kept constant.

working part-time. The average number of actual weekly hours of full-time work we kept constant. Under these conditions, the average number of foreigners per year needed to keep the total number of hours annually worked at least stable until 2050 would decline to an average of 89,000.

In the "reform" scenario in Spain, the retirement age would need to be gradually raised to 68 until 2050, and the labor force participation rate would need to increase in the case of men from 82.2% to 86.4%, and in the case of women from 73.5% to 80.8%. Like in the "internal resources only" scenarios, the unemployment rate would need to decline below 6% in the long run. The part-time shares in the single age groups would need to remain constant at the levels observed in the single age groups today. While the average number of actual weekly hours of work would need to increase from 19.8 hours to 25.0 hours in case of men and from 19.9 to 23.1 hours in case of women working part-time. The average number of actual weekly hours of full-time work we kept constant. Under these conditions, the average number of foreigners per year needed to keep the total number of hours annually worked at least stable until 2050 would decline to an average of 131,000.

In France, an increase of the labor force participation rates especially in higher ages to today's levels in Sweden would be sufficient to keep the total number of hours worked stable in the long run.

In the "perfect match scenario", i.e. if labor force participation rates of male migrants would be close to 100% and that of female migrants close to 93%, the needed average inflow of foreigners per year would decline even further, namely to 175,000 in the case of Germany, to 75,000 in Italy and to 106,000 in Spain.

In the "productivity gains only" scenario, the decline in the total hours worked would be reduced to -15% in Germany and the average number of immigrants needed per year would decline to 298,000. In Italy, the respective numbers were -23% and 297,000, and in the case of Spain -22% and 238,000. In France, an increase in productivity of this magnitude would be sufficient to keep the total number of hours worked stable until 2050.



Where will future migrants come from?

Even if the largest European countries can manage with fewer foreign workers, their needs may still be too high since the populations in today's main sender countries are declining and aging, too, and the competition for skilled labor migrants is set to increase. Moreover, migration flows are hardly predictable and have proven to be quite volatile in the past, as the development in Germany illustrates. The peaks in net migration in the last 30 years were each the result of the influx of refugees: in 1992 from the former Yugoslavia during the Balkan wars, in 2015 from Syria and Afghanistan and in 2022 from Ukraine after the Russian invasion. But in times of economic downturns the balance was even negative (see Figure 3).

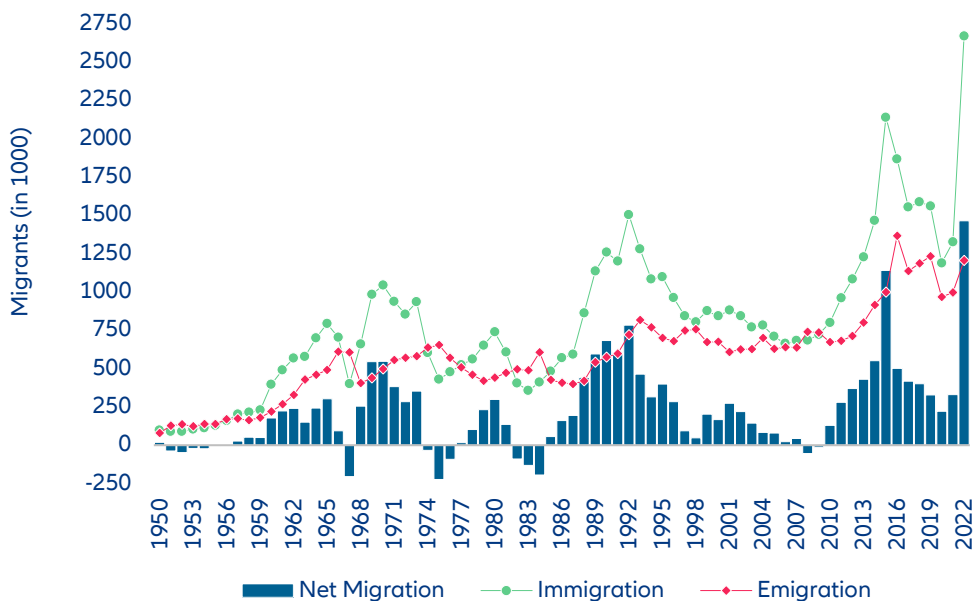
However, from a long-term perspective, other EU 27 member states were the most important sender and destination countries. Between 2000 and 2021, they accounted for more than 50% of total emigration and immigration from and to Germany. Three countries stand out in particular – Bulgaria, Poland and Romania – which in turn accounted for around 50% of the net immigration from other EU-27 member states in the past (see Figure 4). The development is similar in Italy, where Romanian citizens were the largest group of immigrants accounting for 21% of the resident foreigners in 2022¹⁰. While in Spain¹¹, they accounted to 12% of the foreign population; citizens from other EU-27 member countries accounted in total for 24%. Furthermore, Romania also ranks among the top five countries of origin or citizenship of foreigners in Austria, Belgium, Denmark, Ireland and Hungary.¹²

¹⁰ See ISTAT (2024) immigration database.

¹¹ See INE (2024)

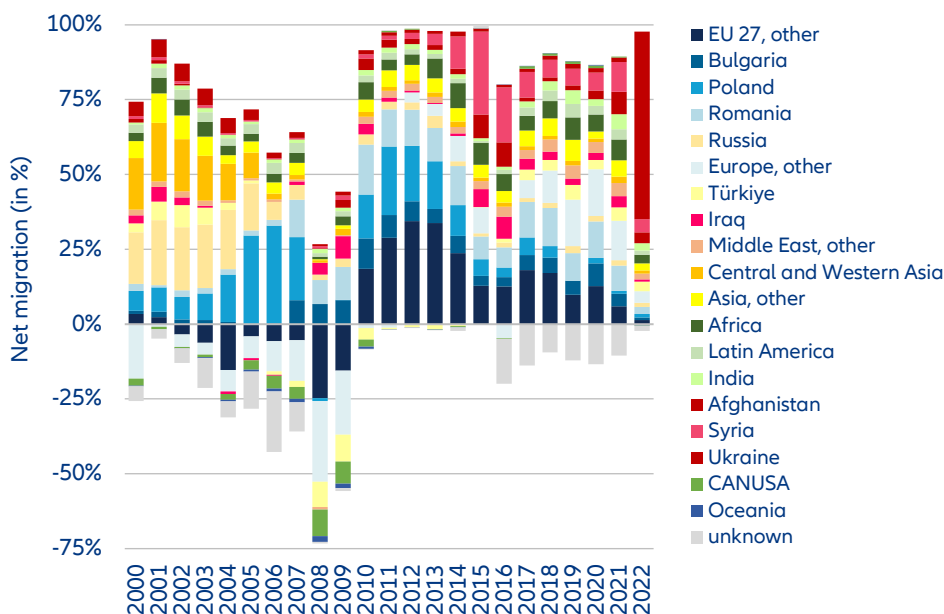
¹² See Eurostat (2023), p. 13. Poland remained in this top five in Germany, Netherlands, Slovakia, Iceland and Poland.

Figure 3: Immigration, emigration and net migration (in 1000)



Source: Statistisches Bundesamt

Figure 4: Net migration by country and region (shares in percent)



Source: Allianz Research

However, like most Eastern European EU 27 member countries, these countries will be hit even harder by the decline of the working-age population than Germany or France due to the sharp drop in fertility rates after the breakup of the Soviet Union in the 1990s. Until 2050, the population aged between 20 and 64 is expected to shrink by a third in Bulgaria, by -26% in Poland and by -22% in Romania. Therefore, preventing the emigration

of their working-age population could help to dampen the effects of demographic change in these countries. For this endeavor to succeed, it might not even take active government interventions; the future decline in labor supply could lead to a general increase in wage levels and more favorable labor market conditions, which would make moving abroad less attractive for skilled workers (see Figure 5, following page).

Figure 5: Change in working-age population until 2050, scenarios (in percent)



Source: UN Population Division (2022)

In fact, Germany has already witnessed a slowdown of the inflow of immigrants from Bulgaria, Romania and Poland in recent years. After peaking at 492,282 in 2015, their number remained at an elevated level before dropping below 400,000 for the first time since 2013 in 2019. Since then, immigration figures have still not reached pre-Covid 19 levels despite a slight increase in 2022. There has also been a change in the composition of this immigration flow: Romania has overtaken Poland, which was the most important sender country of the three until 2014, at least from the German point of view. Though the picture looks different from the Polish perspective. According to the statistical office of Poland, permanent emigration from Poland already peaked in 2006 at 46,936 and had declined to 8,780 in 2020. Furthermore, the data show a shift in destination countries: Between 1966 and 2005, more than 50% of Polish emigrants moved to Germany. Since then, this share has been declining; in 2020 it was only 29%. Temporary emigration, which is most common in the age group 25 to 49, has slowed down, too, and was in 2022 also still below the pre-Covid level of 1.6mn in 2019, amounting to 1.56mn.¹³

Like in Poland, the number of permanent emigrants in Romania has remained below pre-pandemic levels so far. And with the number of people in the age group 20 to 39, which makes up the most emigrants in Romania, expected to shrink by 1.2mn or -23% until 2050, it is questionable if these levels will be reached again. However, if the outflow of labor migrants from Romania declines due to demographic change permanently, not only Germany but also other EU 27 member countries would face the challenge of how to replace them.

Hence the question arises: Where will future migrants come from? Especially against the background that the competition for labor migrants is set to increase. Besides Germany, France, Italy and Spain, which are all among today's ten most popular destination countries worldwide¹⁴, most other EU-27 destination countries, with the exception of Ireland, Denmark, Luxembourg and Sweden will have to cope with an aging and shrinking working age population and be reliant on immigration, too. The expected decline in the age group 20-64 in these countries ranges from -25% in Greece to -3% in Ireland, given a positive migration balance in the long run. If net migration was zero, the development would be negative in all countries. In some cases, like in Finland and Czechia, the decline would be more than twice as strong (see Figure 6).

¹³ Referring to the population staying abroad for temporary residence for at least 12 months. See Statistics Poland (2024).

¹⁴ According to OECD statistics, in 2022, the inflow of foreign nationals amounted to 641,100 in Germany, to 271,600 in Italy, to 471,800 in Spain and to 301,100 in France. See OECD (2023): International Migration Outlook 2023, p. 19.

Figure 6: Change in working age population until 2050, scenarios (in percent)

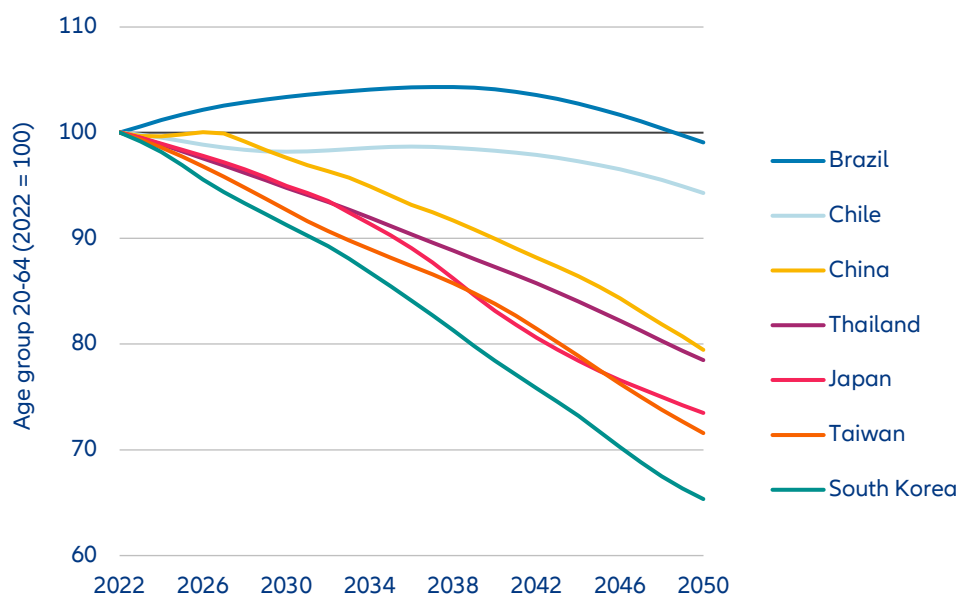


Source: UN Population Division (2022)

Furthermore, today’s major Asian and Latin American economies will also have to cope with a declining and aging workforce population. In South Korea, the number of people aged between 20 and 64 is expected to shrink by a third; in Hong Kong, Taiwan and Japan by more than -25%. In Thailand and China, it is expected to fall by around -20% and in Singapore by -18% until 2050. In Latin America’s biggest economy, Brazil, the number

of people in working age is set to peak within the next two decades, while Chile’s working age population already peaked in 2022 (see Figure 7). Moreover, the US economy depends on immigration, too: If net migration was zero, the number of people aged between 20 and 64 would decline by -7.0% or -0.3% per annum until 2050.

Figure 7: Development of population aged between 20 and 64, by country (index, 2022 = 100)

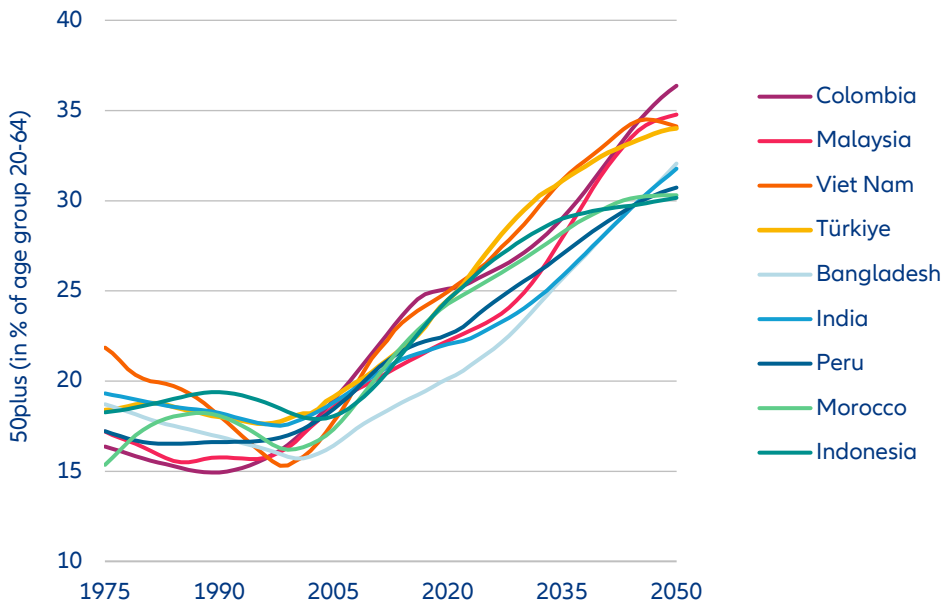


Source: UN Population Division, medium fertility variant

Furthermore, in many of today’s emerging markets, the working age population is set to age markedly due to declining fertility rates. This holds true for some of today’s most important Asian sender countries, such as Bangladesh, India, Indonesia and Vietnam, where more than 30% of the working age population is expected to be 50 and older by 2050. But it also holds true for Colombia, Peru, Türkiye and Morocco, i.e. countries which account for a marked share of foreigners in Spain, Italy and Germany today (see Figure 8).

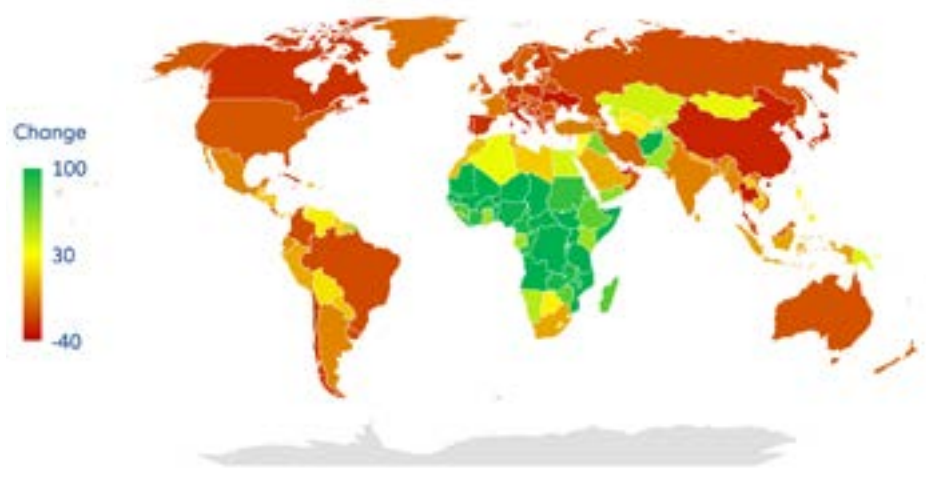
This mirrors the fact that the number of people in the age group 20 to 39 is set to decline in all world regions except Africa, where the number is expected to almost double from 429mn today to 790m in 2050, and Oceania, where it is set to increase by +2%. If net migration was zero, in Europe, this age group would shrink by -23% from 182mn to 143mn, by -7% in Latin America and by -16% in the US (see Figure 9).

Figure 8: Shares of workers aged 50+ (in % of age group 20-64)



Source: UN Population Division (2022)

Figure 9: Development of the age group 20 to 39, 2023-2050 (in %)



Source: UN Population Division (2022)

As a result of these demographic developments, intra-regional migration within Asia and Latin America might become even more attractive, and only a low share of labor migrants from these regions might consider choosing a European destination country, especially since already established migration flows will be even harder to change. In 2022, more than half of the 4.4mn Asian labor migrants moved to the Gulf Cooperation Council Countries¹⁵ and the ASEAN countries Singapore, Malaysia, Thailand and Brunei Darussalam,¹⁶ for example.

¹⁵ Saudi Arabia, UAE, Oman, Qatar, Kuwait and Bahrain. See ADBI et al. (2023): Labor Migration in Asia, p. 3.

¹⁶ See ADBI et al. (2023): Labor Migration in Asia, p. 4. Among the most important Asian sender countries in 2022 were Bangladesh, the Philippines, Pakistan, India, Sri Lanka, Nepal, China, Indonesia, Vietnam and Thailand, see *ibid.*, p. 2.



Integration matters

Since the competition for qualified and skilled migrants is set to increase, many countries are striving to ease immigration by implementing legal reforms to increase quotas or facilitate legal immigration. Canada, for example, plans to increase the Immigration Level Plan targets until 2025. Italy and Norway raised their quotas for third-country workers, and Slovenia amended the law on the employment of foreigners. Spain has reformed its General Immigration Law to ease the process of obtaining a work permit for non-EU foreigner and has introduced a regularization program to allow migrants who have lived there for at least two years to regularize their situation.¹⁷ France also adopted a new immigration law to control immigration and improve integration. To this end, France wants to grant temporary residence permits to migrants working in professions where there is a shortage of staff. South Korea doubled the number of permits issued to temporary foreign workers in 2023 and Japan introduced a Specified Skilled Worker Programme (SWW) in 2019, to address labor shortages in 12 industries.¹⁸

Germany adopted the new Skilled Immigration Act to ease labor immigration and to increase the country's attractiveness for skilled labor migrants. It includes reforms with respect to the EU Blue Card, including lower salary thresholds, a widening of the scope of people eligible to obtain a Blue Card and granting long-term residence in Germany without a visa to Blue Card holders who have stayed at least 12 months in another EU country. It also includes an entitlement to a residence permit for skilled workers and the removal of the restriction to work in a job that is related to their qualification (with the exception of regulated professions). Furthermore, a new job search opportunity card will be introduced to enable job seekers to stay in Germany and to look for employment in 2024. The Western Balkans regulation that gives nationals of Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia access to the German labor market for any type of employment in non-regulated occupations will be prolonged indefinitely. From June 2024 on, the quota will be 50,000 approvals per year.¹⁹ Germany has also signed a bilateral

¹⁷ See OECD (2023): International migration outlook 2023, p. 83 and 85.

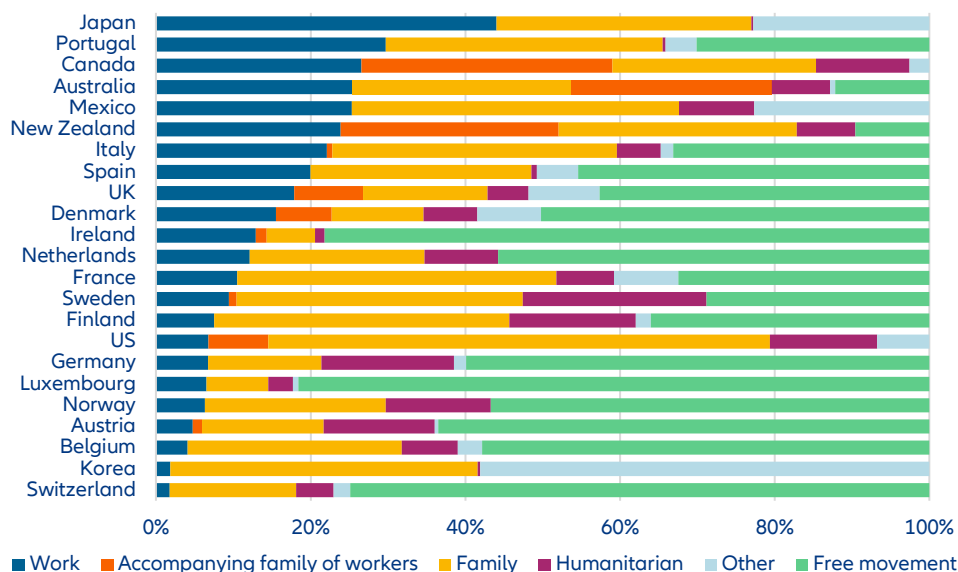
¹⁸ See OECD (2023): International migration outlook 2023, p. 29.

¹⁹ See Bundesregierung (2023): Make it in Germany.

agreement with India and placement agreements with Jordan and Brazil for care workers. An earlier placement agreement with Mexico was extended to include hotel and restaurant workers, too.²⁰

But labor market integration of immigrants matters, too. Especially against the background that labor migration per se has in many EU 27 countries played only a minor role so far. According to a study for the German Council of Economic Experts, labor migration accounted for merely 10% of total immigration from non-EU countries and for 5% of total immigration to Germany in the last ten years²¹, which is also a rather low figure by international standards. In France, this share was on average around 11% between 2005 and 2020, in Spain 20% and in Italy 22%. Family migration, either family reunification or starting a family, or humanitarian reasons, i.e. seeking asylum or international protection, were in many countries the main categories of entry (see Figure 10).

Figure 10: Reasons for immigration



Source: OECD

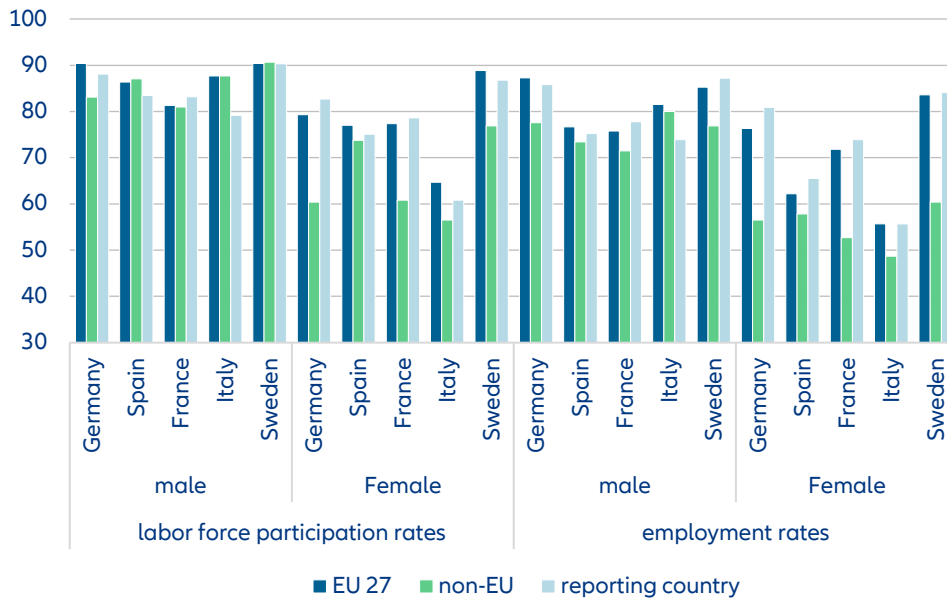
²⁰ See OECD (2023): International migration outlook 2023, p. 86f.

²¹ See Brücker, Herbert et al. (2022): Gesteuerte Erwerbsmigration nach Deutschland, p. iii.

The main reasons differ depending on the region of origin. In Germany, flight, asylum and international protection were important motives for immigrants from Africa, the Middle East and Asia, whereas a third of immigrants from other EU 27 countries came for working reasons. The highest share of migrants coming for education could be found among the immigrants from Latin America, of which 21% gave this as main reason for moving to Germany, compared to 6% of all immigrants.²²

The differences in motivation and country of origin are also reflected in the labor market integration of the single migrant groups. In the case of males, these differences are particularly evident in the employment rates, while in the case of female migrants from non-EU member states, labor force participation rates as well as employment rates are in all countries but Spain markedly below the rates observed in the respective other population groups. The widest gaps are reported in France and Germany (see Figure 11).

Figure 11: Labor force participation and employment rates, 2022 (in percent)



Source: Eurostat

In Germany, the labor force participation rate of males stemming from other EU-27 member states was on average around 10pps higher than that of migrants from non-EU countries, amounting to an average 91.1% compared to 82.6% in 2023. In fact, this gap has been slightly closing since 2017, while in the case of females, it has widened further to almost 20pps: 79.6% of the females from other EU-27 countries are active on the labor market, compared to merely 61.4% of those from non-EU countries. In the German population, the respective shares were 88.6% and 83.6%. Female labor force participation rates in France show a similar gap,

with merely 60% of the females from non-EU 27 states available on the labor market compared to 77.4% of those from EU-27 member countries and 78.6% of nationals. However, in contrast to Germany, there is hardly any difference in the labor force participation of males, with 81.0% of migrants from non-EU-27 member states being active on the labor market compared to 81.3% of those from other EU-27 countries and 83.2% of the nationals.

²² See Bundesamt für Statistik (2023): Mikrozensus – Bevölkerung nach Einwanderungsgeschichte.

However, the overall labor force participation rates disguise not only the differences between migrants from non-EU-27 and EU-27 member states as well as nationals but also marked differences between the sender countries with respect to actual employment rates: In Germany for example, only 43.0% of all immigrants from the eight asylum countries²³ were employed, with the employment rate among migrants from Eritrea being 62.2% compared to merely 37.8% among those from Afghanistan and 39.3% from Syria. In contrast, 79.0% of the migrants from Albania, who benefit from the Western Balkan agreement, and 72.2% of those from Romania were employed. For comparison, the employment rate in the German population was 71.1%. These shares are mirrored in the share of the respective population group being unemployed and drawing social benefits: This held true for 63.8% of the migrants from Ukraine, for 53.1% of those from Syria and 47.3% of those from Afghanistan, with the average share among the migrants from the eight asylum countries being 44.5%, while it was merely 8.8% among the migrants from EU countries and 5.2% in the German population.²⁴

One explanation might be the marked differences in the qualification levels of the employed: Of the migrants from the eight asylum countries in employment, for example, 42% did not have vocational training at all. Among the Eritreans, 15% had a vocational qualification and 15% an academic degree. The picture looks similar in Italy, where 48% of the foreigners in employment had either no degree or only a primary or lower secondary school certificate, 40% had completed upper or secondary school and only 12% had tertiary degree.²⁵ In contrast, in Germany, only 20.6% of the migrants from other EU-countries had no formal qualification, while 36.7% had a vocational qualification and 14.2% had an academic degree. This compares to 8.1%, 66.2% and 20.2%, respectively, in the German population.²⁶ There are consequently also marked differences in the activity levels. Almost half of the migrants from the asylum countries were employed as helpers, 41% as skilled workers, 4% as specialists and 8% as experts. For comparison, in the group of German employees,

only 13% were helpers, while 16% worked as specialists and 15% as experts.²⁷ Hence, given the comparatively low qualification levels of many immigrants from third countries, it might also help to widen the gap between social security benefits and (net) minimum wages to make taking up a job more attractive.

Therefore, legal hurdles and differences in the migration status might not be the only explanation for the differences in the labor market integration observed. Apart from legal reforms, further efforts to increase the qualification levels and language skills of immigrants are necessary to improve the integration of the migrant population into the labor market. However, given the differences in educational levels²⁸ there is no one-size-fits-all policy, since the group of immigrants is rather heterogenous, even when they come from the same country.²⁹

Furthermore, data for Germany illustrates the importance of promoting the language acquisitions. According to microcensus data in many migrant households the predominant language is not German. Especially in the age group younger than six, foreign languages dominate at home. Since success in school depends on language skills, fostering pre-school education could help to close this gap – and at the same time create the preconditions for an increase in the labor force participation rates of foreign women (see Figure 12).

²³ Afghanistan, Eritrea, Iraq, Iran, Nigeria, Pakistan, Somalia and Syria, see Bundesagentur für Arbeit (2024) Migrationsmonitor, Januar 2024, tab. 1.3. These shares refer to employees subject to social security contributions and those in jobs with wages below the minimum contribution limit (geringfügig Beschäftigte). See Bundesagentur für Arbeit (2024): Migrationsmonitor, Januar 2024, tab. 1.3.

²⁴ Subject to benefits according to SBG II, see Bundesagentur für Arbeit (2023): Migrationsmonitor, Januar 2024, tab. 1.3

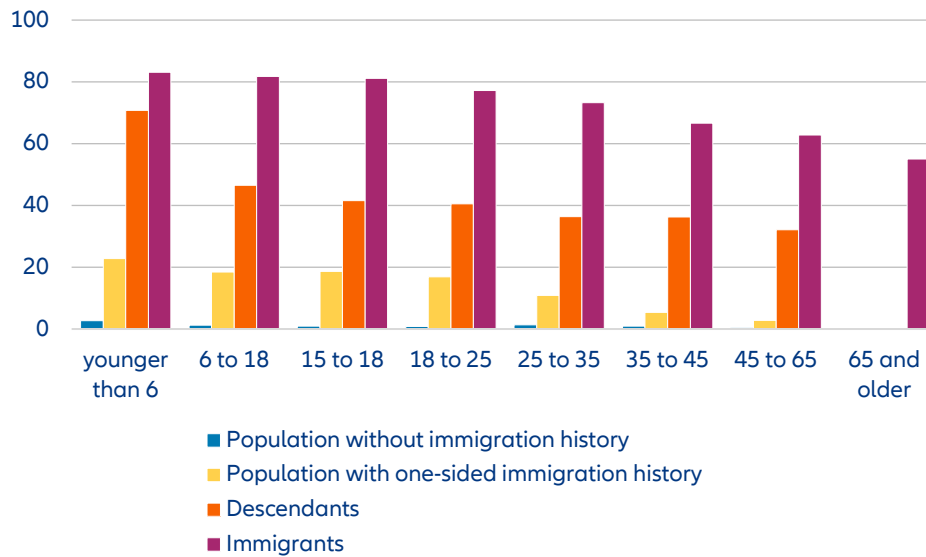
²⁵ See ISTAT (2024).

²⁶ See Bundesagentur für Arbeit (2023): Migrationsmonitor, Januar 2024, tab. 2.3.

²⁷ See Bundesagentur für Arbeit (2023): Migrationsmonitor, Januar 2024, tab. 2.5.

²⁸ According to the latest microcensus, almost 16% of immigrants have not finished school at all, and need basic education first, while on the other hand almost 30% have graduated from high school.

²⁹ Take for example refugees from Syria: 25% of them have not finished school at all, while 26% graduated from high school. See Statistisches Bundesamt (2023). Mikrozensus – Bevölkerung nach Einwanderungsgeschichte, tab.. 12211-15

Figure 12: Share of population not predominantly speaking German at home, by immigration history and age group (in %)

Sources: Statistisches Bundesamt, Mikrozensus

How to increase attractiveness as a destination country?

While education and language skills are the key factors for better integration into the labor market, other challenges remain. Attracting future immigrants, especially qualified professionals, will also depend on the affordability of housing, internal security, educational opportunities, childcare facilities, functioning infrastructure and moderate tax and contribution rates, as well as the overall cost of living. In many of these areas, Germany and other EU member countries have backlog demand, with tight housing markets, the lack of childcare facilities and relatively high tax and contribution rates. In fact, Germany, France and Italy are among the five countries where income taxes and social security contributions for the average earner are the highest of all OECD countries. Acceptance and the chance of social advancement also play an important role. In this respect, the successful integration of (legal) immigrants into society and the labor market – which is tightly linked with social acceptance – are of utmost importance. This not only requires more offers and improvements from the recipient countries – not least a reduction of red tape – but also efforts from the immigrants, with respect to language acquisition or the participation in integration classes and training and qualification measures.

With competition for skilled workers set to increase, and vocational training levels in many potential sender countries below the standards of most industrialized countries, cooperation could help to attract more skilled workers in the future, whether initiated on a state or company level, like for example the “Skilled Workers for Africa Initiative” of the VDMA, in which the association worked with local partners and member companies to set up training centers in Botswana, Kenya and Nigeria.³⁰ Artificial intelligence and augmented reality devices could help fill knowledge gaps, where vocational education and training facilities do not exist. A further measure would be promoting the exchange of skilled workers in international companies, which could also help to both export EU-27 qualification standards and make the EU-27 member countries a more attractive location for foreign skilled workers. On a broader basis, the promotion of the introduction of language classes in schools could help to lower at least the language barrier. Ideally, successful integration starts even before arrival.

²⁹ VDMA (2023): Fachkräfte für Afrika.

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