

Turkey and Europe: The role of migration and trade in economic development

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Abstract

The economic linkage of Turkey with Europe is marked by substantial labour flows and comparatively small investment and trade flows. In the late 1990s, a new stage of economic development has been reached. The rapidly growing Turkish economy is in need of skilled personnel, attracting largely second generation migrants of Turkish descent. At the same time the growth rate of commodity trade lost momentum, as skill shortages put a break on the economic growth potential of Turkey. The onset of reciprocal migration flows may be linked to the relocation of low tech production from Europe to Turkey, leading to rising intra-country trade. The direct linkage between migration and trade is, however, muted by the endogenous migration dynamics resulting from family reunion.

Keywords: reciprocal migration, trade flows, trade theories, endogenous migration dynamics, investment in human capital, sustainable growth.

Introduction

Some 32 million foreign citizens live in the EU27, making foreigners more than 6% of the total population of 500 million by 2010. 29 million (or 92% of all foreigners in the EU), namely 7% of EU15 residents are foreigners. The number of migrants (foreign-born residents) is even higher, 40 million, or 10% of the EU15 population, about the same as the number of international migrants in the US. The US has a smaller population, so the share of migrants (14%) is higher than the share of immigrants in the EU15.¹

Migrants from Turkey represent a fairly small proportion of all migrants in the EU. In 2008, there were 2.3 million EU15 residents who were born in Turkey, i.e. 6% of all foreign born in the EU15 and 0.6% of the total EU15 population.² These Turks live mostly in Germany (1.5 million), France (230,000), the Netherlands (200,000) and Austria (158,000). If one adds the number of second-generation migrants, i.e. those born in Europe to parents born in Turkey, the total rises to close to 4 million.

The share of foreign born from Turkey differs markedly across EU member states. Austria has the largest proportion of foreign born from Turkey, 1.9% of the total population, closely followed by Germany with 1.8%. If one

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¹ The population data is taken from EUROSTAT and US Census Bureau, the data on migrants from OECD (International Migration Outlook, various SOPEMI reports).

² Turkish nationals constitute by far the largest single third country national group in the EU15, namely some 25%.



includes the second generation of Turkish origin, the proportion of Turks rises to more than 3% of the total population.³ The Netherlands (1.2%), Denmark (0.6%) and France (0.4%) have significant proportions of Turks in their populations (Table 1).

While Turkey continues to be a country of outmigration, it is also becoming a country of immigration. In the year 2000 (latest data available for foreign born by country of origin) some 1.3 million or 1.9% of the 67 million Turkish residents were foreign born. The share of Germans in the foreign-born population of Turkey was 21.4% (273,500) and of Austrians 1.1% (14,300).⁴ The numbers and the share of Germans and Austrians in the Turkish population are growing as often skilled second-generation migrants return to their parents' home country to take advantage of employment opportunities as Turkey.⁵

The two EU member states most closely connected to Turkey via migration are Germany and Austria. There are also significant trade linkages. In 2009, German commodity trade with Turkey amounted to 0.5% of GDP; the Austrian proportion is somewhat lower and corresponds to the EU15 average of 0.35% of GDP. The share of exports and imports to and from Turkey amounts to about 1% of exports and imports of goods in Austria and 1.5% in Germany, higher than the EU15 average.

Turkey is a large country in population terms but a small country in economic terms. With a population of 71.5 million in 2009, the value of its GDP at market prices was €440.3 thousand million compared to €274.3 thousand million for Austria, a country of 8.4 million. Turkish GDP per capita in purchasing power terms is only 36% of the Austrian and less than half the EU27 level.

Germany, Austria and Turkey

After WWII, Germany and Austria embarked upon the reconstruction of their economies. It took some 10 years for Germany and 15 years for Austria to recover, as Austrian economic development was hampered by large refugee inflows from Central and Eastern European countries⁶ and the substantial emigration of Austrians to overseas countries (Horvath-Neyer, 1996). In the

³ This proportion is somewhat lower than the one of Mexican born in the USA (11.8 million or 3.8% of total population).

⁴ The largest group of foreign born in Turkey are Bulgarians with Turkish origins, dating back to the Ottoman Empire. In the year 2000 (census) 480,800 Bulgarian born migrants were living in Turkey, i.e. 38% of all foreign born (OECD, 2010).

⁵ Dustmann-Kirchkamp (2001) investigates the activities of Turkish-German immigrants who return to Turkey.

⁶ In 1947 the numbers of refugees made up 10% of the population (Nemschak, 1955). Some 100,000 German speaking refugees and more than 100,000 Hungarians were integrated in Austria between 1945 and 1960 (Biffl, 2011).

Table 1: Population, migration, GDP and trade, 2009

Country	Total population		Foreigners		Foreign born		GDP at market prices	GDP/capita at PPS	Exports	Imports
	Persons	as % of total	Persons	as % of total	Persons	as % of total				
							In millions of Euro			as % of GDP
Austria	8,355,260	10.3	864,397	10.3	1,277,000	15.3	274,321	29,300	50.5	46.0
Germany	82,002,356	8.8	7,185,921	8.8	10,620,800	13.0	2,397,100	27,400	40.8	35.9
EU 15	396,359,255	7.4	29,189,928	7.4	39,351,200	9.9	10,914,364	26,000	35.4	34.3
EU 27	499,705,500	6.4	31,789,000	6.4	41,632,000	8.3	11,787,481	23,600	36.6	35.6
Turkey	71,517,100	0.1	103,753	0.1	1,333,883	1.9	440,367	10,700	23.2	24.4

Source: Eurostat, World Bank.

early 1960s, labour became increasingly scarce, as many skilled Austrians migrated to Germany, Switzerland and other European countries in search of higher wages; this migration was facilitated by social security agreements. As unemployment dropped, Austria chose the temporary foreign worker model already established by Germany.

Germany had signed bilateral labour recruitment treaties: with Italy (1955), Spain and Greece (1960), Turkey (1961), Morocco (1963), Portugal (1964), Tunisia (1965) and Yugoslavia (1968). Austria signed agreements with Spain and Italy in 1962, Turkey in 1964 and Yugoslavia in 1966. Austrian wage levels were lower than in Germany, Switzerland and France, making it hard to attract sufficient numbers of foreign workers from Spain or Italy and prompting Austria to establish recruitment centres in Yugoslavia (Belgrade) and to participate in German recruitment centres in Turkey.

The institutionalisation of migration allowed rapid recruitment of migrant workers as the cost of migration was low.⁷ Labour migrants to Austria came primarily from Yugoslavia and Turkey while Germany's migrants were from Italy, Spain and Turkey. The share of foreign workers in total employment rose until 1973 (with a peak of 8.7% foreign workers in Austria and 10.8% in Germany), when foreign worker recruitment was stopped in Germany, although Austria continued to operate foreign recruitment centres until the late 1980s (Biffi, 1984).

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Germany had a higher proportion of migrant workers than Austria until 1990, when the massive inflow of refugees in the wake of the break-up of Yugoslavia pushed Austria's share higher. Austria had 13.2% migrants in total employment in 2010, compared to 10% in Germany (Biffi, 2010).

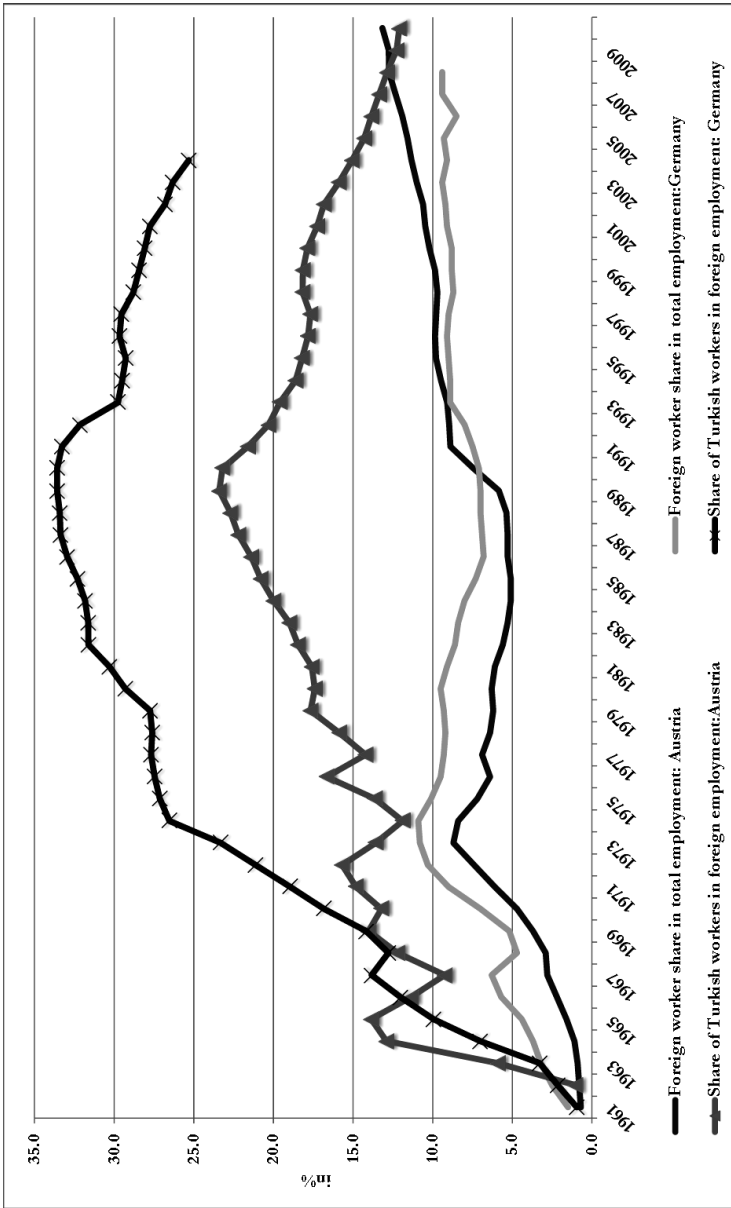
While Turkish migrants have become the single largest group in Germany, followed by Italians, Turkish migrants have never been the dominant ethnic group in Austria. In 1973, Turks were 14% of all migrant workers in Austria, compared to 23% in Germany. In the course of the 1970s and 1980s the share of Turkish migrant workers increased due to family formation and refugee inflows. Germany received particularly large numbers of asylum seekers, often Kurds, before and after the military coup in 1980, and the share of Turks in total foreign employment increased to 34% in Germany in 1989. Despite continued recruitment from Turkey, the share of Turks among migrant workers rose less rapidly in Austria, peaking at 23% in 1989.

After 1989 a wave of migrants entered Austria and Germany and the share of Turkish migrants declined, but not the number of Turks. The apparent drop cloaked rising naturalization, especially after bilateral agreements allowed former Turkish citizens to retain property rights in Turkey. The introduction of *jus soli* for children born to migrants with permanent residence status in Germany in 2000 was another reason for the declining number of Turks.

⁷ Workers were recruited in the country of origin, received a 1 year contract, travel costs were borne by the employer as well as accommodation costs, which had to correspond to the local housing standards. For Germany see Mehrländer (1980), for Austria see Biffi (1985).

The migratory process can be categorised into four stages. In the first stage, foreign workers from Turkey were largely unskilled and semiskilled labourers employed in the construction sector and export-oriented manufactur-

Figure 1: Foreign and Turkish labour in Austria and Germany



Source: OECD and national sources

ing. In the second stage, Turkish workers were concentrated in particular occupations and industries such as consumer goods, including textiles, leather,

clothing, food processing, and in metal industries. Most were complementary to native workers, while in the first stage they had been largely substitutable.

In the third stage, the demand for migrant labour dropped as the domestic labour supply increased due to the baby boom generation joining the labour force and the rising labour force participation of women. In addition, the demand for the specific skills of Turkish migrants declined after economic restructuring and the internationalisation of manufacturing, and the unemployment rate of Turkish migrants soared. Germany initiated a repatriation scheme, aimed mainly at migrants from Turkey, offering financial incentives to return (Hönekopp, 1987). Few Turks returned, but many became self-employed, starting up ethnic businesses and bridging Europe and Turkey through trade (Biffi, 2007). The creation of ethnic business gained momentum in the 1990s, and Turkish business start-ups have become important drivers of trade between Europe and Turkey, importing Turkish products to satisfy consumer demand and exporting European manufacturing goods to Turkey. Settlement went hand in hand with family formation, which explains the constant inflow of family members.

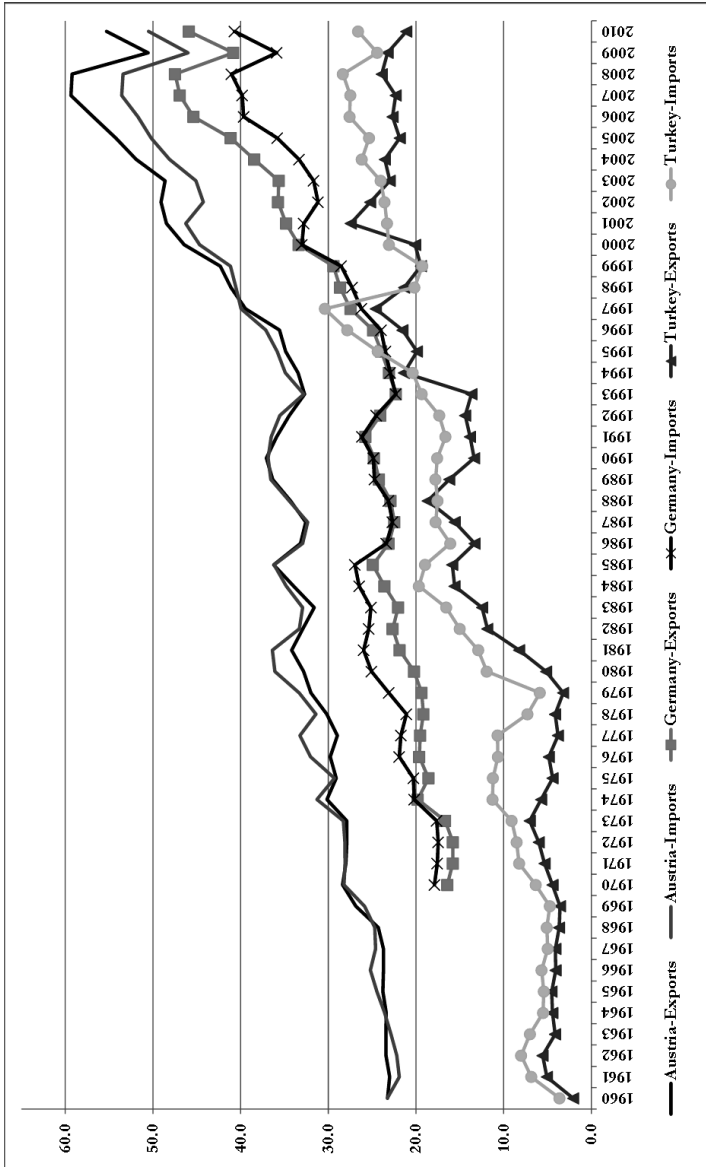
Since the late 1990s, there is a fourth stage involving a two-way flow of migrants that is closely linked to the growing Turkish economy and its need for skilled personnel. Some second-generation Turks born in Europe are returning to Turkey.

Growing trade links

Figure 2 shows that Austria, Germany and Turkey see international trade as a driver of economic growth. The share of exported and imported goods and services in GDP is highest in Austria, where exports represented 55% of GDP in 2010 and imports 50%. Austria has had a long tradition of balanced trade, with tourism filling in the gap between commodity exports and imports, although in 2000 there was a trade surplus when the traditional deficit in commodity trade vanished and tourism expanded. Germany, in contrast, has had a trade surplus in the goods market but deficits in services trade. Accordingly, the balance of goods and services trade, which equalized in the 1990s, became a surplus in 2000. In 2010, the share of exports was 46% of German GDP and imports 41%.

Turkey had a remarkable export growth performance between the early 1980s and 2000, after which there was stagnation and an eventual decline of exports relative to GDP. The boost to international trade in the 1980s had its source in the shift from import substitution to an export orientation, increasing industrial exports and maintaining the value of agricultural exports. The major export goods were textiles, apparel, leather goods, electrical equipment, chemicals and later iron and steel products. Turkey sustained a real export growth rate of 20% over the period 1980-1987 as a result of macro-economic policy and trade reform linked to a steady depreciation of the Turkish curren-

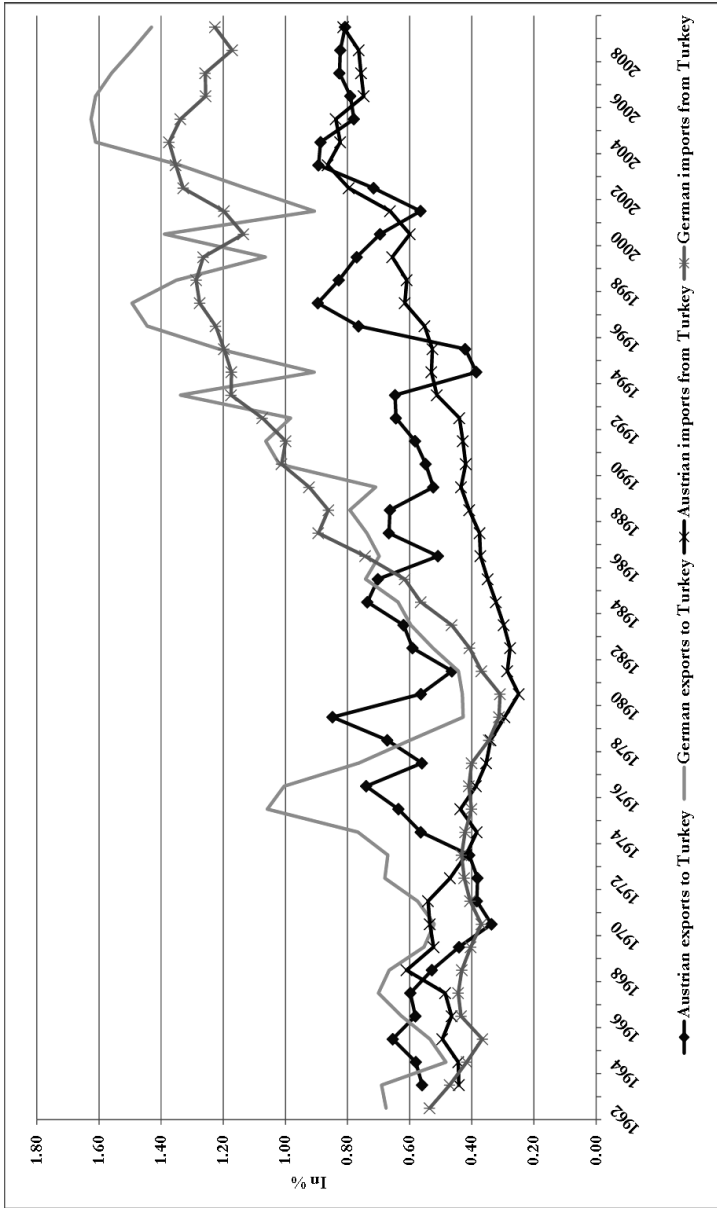
Figure 2: Total exports and imports (goods and services) as share of GDP (1960-2010)



Source: World Bank, Eurostat

cy (Arslan and van Wijnbergen, 1990). The stagnation in the years of 2000 led to a recession in 2001 and a financial crisis (Rodrik, 2009). The share of exports in Turkish GDP was 21% in 2010, while the import share was 27%, signalling a significant and persisting trade deficit. Trade between Europe, in particular Germany and Austria, and Turkey is mainly goods, so we focus on commodity trade. Austrian and German exports to Turkey were fairly low in

Figure 3: Exports to and imports of commodities from Turkey: (1962-2009)



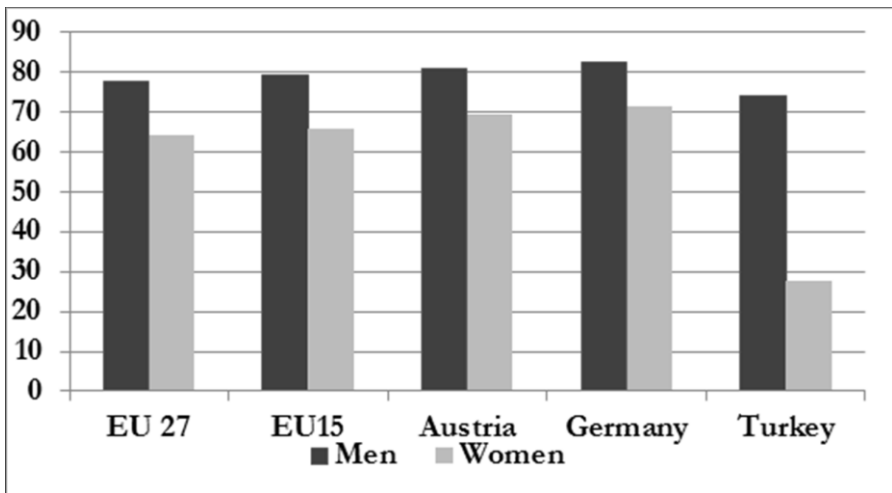
Source: UNO, WIFO

the 1960s and 1970s relative to total exports, and began to rise in the 1980s. Imports from Turkey kept pace with exports in Germany until 2003, when the economic recession hit Turkey more than any other region in Europe. In contrast, imports from Turkey to Austria were slow to increase but began to converge to exports to Turkey after 2000.

The decline in Germany's imports from Turkey since 2003 signals increasing macro-economic instability of Turkey, due to financial globalisation on the one hand and insufficient investment on the other, in particular in human capital (Betcherman *et al.*, 2008).

A major impediment to stable and sustainable economic growth in Turkey is low investment in the "productive potential" of Turkish workers. The labour force participation rate is low, in particular of women (2009: 27.8% in Turkey versus 65.8% in EU15), and the labour force participation of women has been declining in Turkey since the late 1980s (1989: 36.3%). This decline has been more pronounced than warranted by the decreasing share of agriculture in total employment and the rural-urban population shift. In Europe, migrant women from Turkey tend to have a lower labour force participation rate than native women; the difference is about 10 percentage points in Austria and Germany (Figure 4).

Figure 4: Labour force participation in the EU, Austria, Germany and Turkey: 2009



Source: Eurostat.

Furthermore, the educational attainment level of the Turkish work force is very low, particularly of women. In 2009, 78% of all 25-64 year old women had lower secondary education as their highest educational attainment level (men 66%) compared to 32% in the EU15, 24% in Austria and 17% in Germany. The skill composition is highly polarised in Turkey, where 13% of the 25-64 year old workers have medium level skills. The share of university graduates is comparatively high in Turkey, with 14% of men and 9% of women between 25 and 64 years of age (Figure 5).

There is also slow progress in raising the educational attainment of youth.⁸ The school-to-work-transition is not smooth; as both unemployment rates of those 15-24 year olds are high but their inactivity rates (out of the labour force) are also high. If the Turkish economy does not generate more and better jobs for youth, the large youth cohorts can be a source of social unrest and raise the pressure to migrate.

Trade and migration: Substitutes or complements?

Globalisation is associated with the increased international mobility of capital and, to a lesser extent, of labour (Solimano, 2001). In the case of Europe and Turkey, the contrary holds: labour flows are more important than investment and trade flows, which represents an obstacle for Turkey's EU membership. Despite an association agreement which dates back to 1963 and a customs union with the EU since 1995 and the beginning of accession negotiations in 2005, Turkey does not have a firm EU accession date, and one reason is the fear that large numbers of Turks might migrate with free mobility of labour.

Why is there a fear of more Turkish migrants? One reason is that commodity trade is a win-win situation, but migration can result in increased inequalities and winners and losers, prompting some countries to impose restrictions on labour mobility while removing barriers to the free flow of goods and services across borders (GATS). This may contribute to rising illegal migration (Ghosh, 1999).

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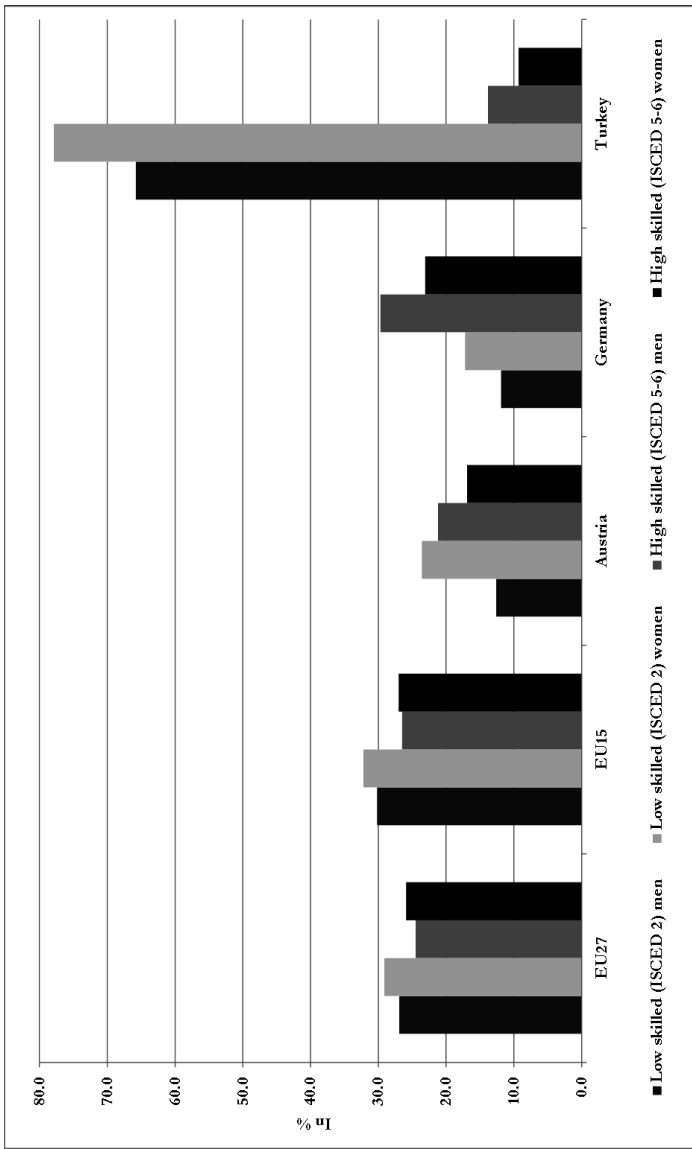
This raises the question. Which perspective is correct: the policy assumption that trade and migration have different impacts on economic growth, the labour market, prices and income distribution; or the theoretical proposition that they are mostly substitutes and can be expected to have similar impacts? If trade and migration are substitutes, freer movement of people may be justified on economic as well as humanitarian and social grounds. If migration and trade are substitutes under certain conditions, priority may be given to trade rather than migration.

Traditional trade theory rests on the assumption that the unique characteristics of countries give rise to different relative production costs, i.e. comparative cost advantages that reflect differing labour productivities (Ricardo, 1817) or factor endowments (Heckscher, 1949; Ohlin, 1933; Wood, 1994) that make each country better off after trade.

This theory provides a rationale for inter-industry trade between regions with different relative supplies of factors and relative prices of factors of production. The original models of Ricardo and Heckscher-Ohlin have been modified by "new trade theories" that introduce innovation and changes in

⁸ In all EU countries with significant numbers of Turkish immigrants learning outcomes of first and second generation Turkish youth tend to be below average and transition from school to work is difficult (OECD, 2006).

Figure 5: Share of persons with low and high educational attainment, age 25-64: 2009



Source: Eurostat

technology as factors that give rise to different national competitive advantages and thus to trade specialisation (Posner, 1961; Krugman, 1980). These theories suggest that less developed countries will specialise in the production of mature goods such as textiles and apparel that use standardised production processes and large inputs of low-skilled labour, while more developed countries specialise in human capital intensive and high technology intensive production. The new trade models also provided a rationale for intra-industry trade by noting that, even without differences in factor endowments and technology, product differentiation, increasing returns to scale, imperfect

competition and demand preferences provide a rationale for such trade (Helpman-Krugman, 1985). In that vein, Ben-David (1996) argues that trade between countries like the EU15 with roughly equal economic development levels, causes incomes to converge due to a rapid transfer of modern technology.

Mundell (1957) was the first to clarify that factor mobility and international trade are substitutes only if factor proportions and international factor prices differ between countries, i.e., the Heckscher-Ohlin case. However, relative factor endowments can, in practice, be modified by migration and/or FDI. If exports are seen as the vehicle for economic growth and there is an inadequate local labour supply, migrants may be employed to produce export goods to preserve competitiveness. In this case, migration ensures that the export industry is sufficiently endowed with those factors of production that are used intensively in the production of export goods, explaining why migrants flow disproportionately to export-oriented industries using labour-intensive technology in the production of goods.⁹ Markusen (1983) points out that international differences in wages generate labour movements that can result in an increase of exports.¹⁰

If less developed countries expand their production capacity in mature industries like textiles and clothing, a transfer of production sites from high-wage countries to low-wage countries will ensue if transport costs are low enough to warrant such a transfer, and commodity trade will be the major vehicle for meeting the demand for mature goods. One result is a decline in mature industry employment in the high-wage country and an increase in such employment in the low-wage country.

Another theoretical approach is provided by the “new economic geography” (Krugmann, 1991; Puga, 1999; Ottaviano-Thisse, 2003) that allows trade and migration, under certain circumstances, to widen rather than narrow factor prices across regions and countries. An initial shock, such as a reduction in trade costs below a certain critical value or the prospect of increasing returns to scale, may generate flows of workers and firms into core locations (increasing-returns industry) while other regions preserve traditional production and immobile work forces, allowing a core-periphery industrial structure to develop endogenously. In such a case, factor movements may promote a divergence in factor prices between the core and periphery.

For example, in the case of Silicon Valley, highly skilled scientists moved in anticipation of increasing returns, and their concentration in Silicon Valley

⁹ Thus migration changes the relative factor endowments, a point Rybczynski (1955) made in his seminal paper, in which he points out that resource changes affect relative commodity prices.

¹⁰ This is the counterpart to the point first made by Kaldor (1981) that trade between unequal partners may cause divergence in incomes if trade shifts the structure of production in the developed country towards industries with high growth potential (knowledge intensive production) and in the less developed countries to industries with low growth potential.

contributed to a widening of factor prices between Silicon Valley and other regions. Another case is the movement of highly skilled labour (management) and capital (FDI) from the Western developed countries to Asia and Mexico to promote export-led growth, since FDI and management are complements and are imported in order to tap the locally abundant resources of less skilled labour employed intensively in the production of export goods.

To sum up, international trade in commodities may take place because of: (1) an unequal relative factor endowment, (2) unequal technological development levels, (3) increasing returns to scale, and (4) imperfect competition on goods and/or factor markets. Migration may generally act as a substitute for trade but not in all circumstances.

While migration can play a role in the promotion of commodity trade and thus in the production of tradables, the issue is why migrant labour may be employed in the production of non-tradables. Non-tradables such as housing and many personal services do not face competition from abroad, only from within the country. In the case of public goods, there may be migration because of pressure to keep costs down¹¹; in the private sector, migration may help hold down prices due to limited consumer demand when there is limited scope for productivity growth, so that the costs of labour intensive services relative to manufactured goods tend to increase over time. If wages in cleaning and similar services do not rise with wages in the rest of the economy, labour may become scarce, and employers may request migrants to keep the cost of non-tradables low.

Trade, migration and labour markets in Turkey

According to theory and empirical evidence, trade and migration affect labour market outcomes. Migration changes the number of workers as well as their age, skills and occupation,¹² while trade affects labour demand, the industrial structure and skill requirements.

Both trade and migration may change labour market indicators. Unemployment may rise and wage differentials by skills and occupations may widen if migrants are concentrated in skills and occupations that experience a decline in relative demand, that is, if labour supply growth outpaces labour demand growth, which in turn is affected by trade patterns and technical progress. Borjas *et al.* (1992) point out that the large influx of migrants with less than a high school education in the USA in the 1980s (often Mexicans), and their concentration in industries that intensively employ unskilled labour (import substitution)¹³ contributed to declining earnings and employment opportuni-

¹¹ Governments face budgetary pressure from expenditure in competing programmes while being constrained politically from increasing taxes or incurring budget deficits.

¹² The effect of migrants on demand is more indirect, i.e. through consumption patterns which may differ from those of native consumers.

¹³ Imported goods may be substituted for domestically produced goods thus driving the least efficient producers of that good in the domestic market out of business. Thus, as the share of

ties of unskilled workers in the US. They estimate that 30 to 50 per cent of the decline in the weekly earnings of unskilled workers in the 1980s can be attributed to trade and immigration, a result consistent with research on the effects of trade on earnings and employment at the industry level (MacPherson and Stewart, 1990). Labour economists who do not find such wage depression due to immigration focus on segments of the labour market rather than the changes in economy-wide factor endowments.¹⁴

The gains from trade may turn out to be lower than the adjustment costs imposed on labour, such as retraining and migration. The same holds for the integration costs of migrants, which can involve bi-lingual education, rising house prices, and increased demand for welfare services and public infrastructure. Furthermore, since migration is motivated by labour market demand as well as autonomous forces (chain migration), labour market mismatches may increase, particularly if education and labour market policy do not adjust worker skills as economies evolve.

The movement of Turkish workers to Europe helped to fuel the “Wirtschaftswunder” of the 1960s. At the same time, the outflow of unused or inefficiently used Turkish workers reduced pressure on Turkey to restructure its economy. Reduced Turkish migration to Europe is a reaction to changing labour market needs in Europe versus the persistence of low-skilled out-migration from Turkey, a result of path dependence (family migration) and the slow improvement of the educational attainment of the Turkish work force.

Since 2000, there has been a two-way flow between the EU15 and Turkey. In 2008 some 9,900 Germans, often of Turkish background, migrated to Turkey while 26,700 Turks moved to Germany, for net immigration of 16,800. Some 5,000 Turks migrated to Austria while less than 1,000 Austrians moved to Turkey (OECD 2010).

Traditional trade theory suggests that the slowing down in net migration and the onset of two-way migration flows is linked to increasing trade flows, often involving relocation of low-tech production from Germany to Turkey and rising intra-country trade (Akkoyunlu-Silverstovs, 2006), while Insel-Cakmak (2010) argue that Turkish immigrants to Austria, Germany and other major European countries are promoting trade with Turkey via preference and network channels, since Turkey’s exports to Europe are strongly influenced by the preferences of Turkish immigrants for home country products, especially after 1996 in the wake of the Customs Union Agreement.

Turkish migrants also affect EU15-Turkey exports, especially of intermediary and capital goods, through the network channels. By sending an average €2,000 million in remittances annually to Turkey, Turkish migrants in Europe contribute to investment and consumption in Turkey, promoting Turkish

imports in a particular goods market rises, productivity of production increases with a detrimental effect on employment and earning opportunities in the production of that traded good.

¹⁴ For a literature survey see Pollan (2000).

economic growth (Akkoyunlu and Kholodilin, 2006) and buffer economic volatility for poor households, stabilising consumer demand in Turkey. These direct linkages between migration and trade, however, are somewhat muted by the increasingly endogenous migration dynamics due to family reunion (Bruder, 2004).

Conclusions

Socio-economic and political forces in Europe favour trade rather than low-skilled migration as drivers of economic development, perhaps because the benefits of trade can be measured, while it is hard to measure the adjustment costs of changing trade patterns. In contrast, the adjustment and integration costs of migrants are in the forefront of public debate, while the net benefits of immigration are not so easily established. Accordingly, Turkish migration to Europe finds limited political support. If Turkey and Europe want to reap a higher economic benefit from migration, both will have to invest more in continued education and training to promote economic growth, individual wellbeing and social cohesion.

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