

Ukraine refugees could boost Europe's GDP

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New research suggests the influx of Ukrainian refugees across Europe will improve long-term gross domestic product (GDP) for European countries that invest in infrastructure and other capital improvements. However, countries receiving Ukrainian refugees will likely face

significant costs in the short term.

"The economic impact of the Ukrainian [refugee](#) crisis across Europe will vary significantly, depending on which part of the workforce you look at," says Luca David Opromolla, co-author of the study and the Owens Distinguished Professor of International Economics in North Carolina State University's Poole College of Management and College of Agriculture and Life Sciences.

"It's important for us to understand these potential impacts so that governments and industries can make informed decisions about policies and investments in the face of an ongoing humanitarian crisis. Ideally, studies like this one can help to minimize social disruption and ultimately improve long-term outcomes for both refugees and the countries providing them with refuge."

When the researchers began their study, there were more than 7 million refugees from Ukraine after the invasion of Ukraine by Russian forces. (The number is now more than 8 million.) More than 4 million of those refugees were of working age, and largely distributed throughout Europe.

To assess the economic impact of Ukrainian refugees, the researchers first collected data from several sources. Data on labor market skills and employment status was drawn from the 2018-19 European Labor Force Survey. Production and trade data was drawn from the most recent World Input-Output Database. Data on Ukrainian refugees' skill, age, employment status, and country of destination came from the United Nations High Commissioner for Refugees.

The researchers used that data to run an [empirical analysis](#), guided by a theoretical model, that allowed them to study the impact of the Ukrainian refugees on production, [international trade](#), and migration

flows across 23 European countries, all of which are members of the European Union.

The model also determined the impact on household consumption, which served as a proxy for the welfare of residents in those 23 countries. In addition, the researchers were able to use the model to assess the impact that various levels of capital investment would have on all of those outcomes.

The researchers found there will be different impacts on three different parts of the workforce: low-skill labor, high-skill labor and owners of capital.

"Low-skill workers largely benefit in the short term because most of the refugees from Ukraine are high-skill workers," Opromolla says. "The refugees are not competing with low-skill workers, they're effectively complimenting them and making them more productive."

For the same reasons, high-skill workers will not benefit in the short-term—Ukrainian refugees will compete with them for high-skill jobs. However, this isn't necessarily true in the long term.

"Owners of capital benefit in the short and long term," Opromolla says. "In the short term, this is because there is increased competition for high-skill labor, and increased access to high-skill labor means there is increased demand for capital. If you own the capital, you benefit from this. What's more, if you see increased production in the long term, you benefit from that too."

The extent to which the GDP of individual countries will benefit from the presence of Ukrainian refugees in the long term depends in large part on the extent to which those countries are able to invest in capital structures. Capital structures are factors other than labor that influence

production, such as infrastructure, manufacturing equipment and so on. The more a country's government and [private sector](#) are able to invest in capital structures, the better able that country will be to take advantage of its increased access to high-skill labor.

"If a country does see investment in capital structures, and there is a resulting increase in production, that will benefit the high-skill [labor](#) in that country," Opromolla says. "In which case, you will effectively see benefits across the workforce from the presence of Ukrainian refugees."

The research is published in the journal *AEA Papers and Proceedings*.

More information: Lorenzo Caliendo et al, Labor Supply Shocks and Capital Accumulation: The Short- and Long-Run Effects of the Refugee Crisis in Europe, *AEA Papers and Proceedings* (2023). [DOI: 10.1257/pandp.20231077](#)

Provided by North Carolina State University

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