

The great migration - refugees and investment implications

Marko Pasic | BCA Research | 07 October 2015

"We know what to expect when the Libyan national system falls – a wave of 200,000 to 300,000 immigrants... These are estimates, and on the low side. It is a Biblical exodus.

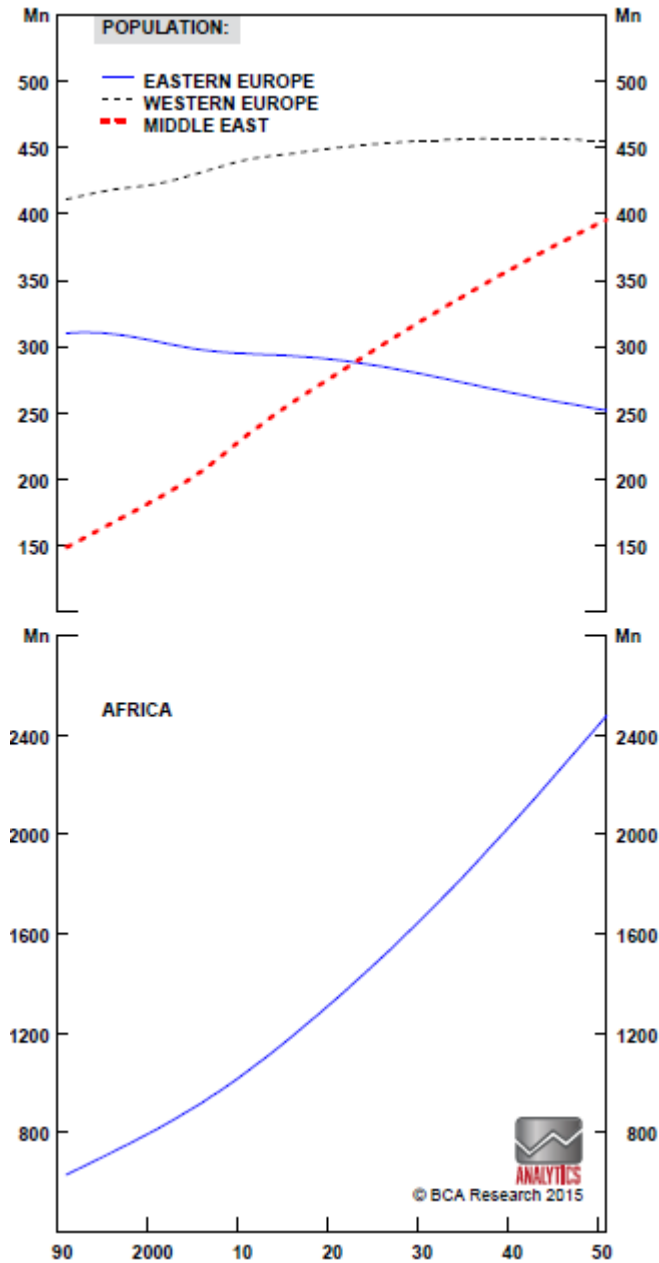
– Former Foreign Minister of Italy, Franco Frattini, speaking in February 2011.

The influx of refugees and economic migrants from Africa, Asia, and the Middle East appears as broad-based as the ancient migrations that defined Europe throughout history – and that pushed the original Europeans, Celts and Basques, to their island and mountain hideaways respectively.¹ Today's Europeans are a mix of ethnic groups that escaped climate change (from Mesopotamia), overpopulation (from Scandinavia), and war (from the Eurasian steppe). Similar pressures are today building in the continents contiguous to Europe and will likely only increase over the next half century as global warming, multipolarity, and demographic pressures intensify.

Could Europe then be experiencing another Great Migration? Could the fate of today's Europeans be that of the Celts and Basques? Certainly, the population pressures in Africa and the Middle East are set to grow, suggesting that the supply of potential migrants will not be exhausted for a long time (Figure 1). And, certainly, the rhetoric from the press and some European politicians suggests that a deluge of migrants is about to envelop the continent.

This Special Report examines the Great Migration thesis and find it lacking on several grounds. First, current migrations are directly related to the ongoing civil wars in Syria and Libya and the general lawlessness in both states. As the pressure increases on Europe, the probability that conflicts in Syria and Libya will be resolved increases as well. Second, Europeans have in the past closed themselves off from external migration and will likely do so again in the near future.

Figure 1: Demographic pressures are mounting on Europe's borders



Source: UN population division, includes projections

WHY NOW?

The flow of migrants to Europe in 2015 has reached 411,567, up from 216,054 in 2014. The UN High Commissioner for Refugees approximates that the Syrian Civil War has internally displaced just under 7 million, about a third of the entire population, which means that the pool of potential new migrants to Europe from that conflict is deep. To put this into regional

and historical context, the total number of refugees stemming from the Yugoslav Civil Wars (1990–1995) was four million people, of which most were internally displaced and sought sanctuary within the immediate region (Serbia, in particular). Only between 600,000 and 800,000 ultimately immigrated to Western Europe over the decade that the Balkan conflicts lasted.

What explains the sudden exodus of migrants to Europe? The Syrian war began in 2011, the same year that Muammar Gaddafi was overthrown in Libya; Afghanistan and Iraq have been in flux since 2001 and 2003 respectively; and, many African and Asian countries have been in various states of distress for decades. As such, the timing of this year's increase in migrants is puzzling and requires an explanation. Four factors play a major role.

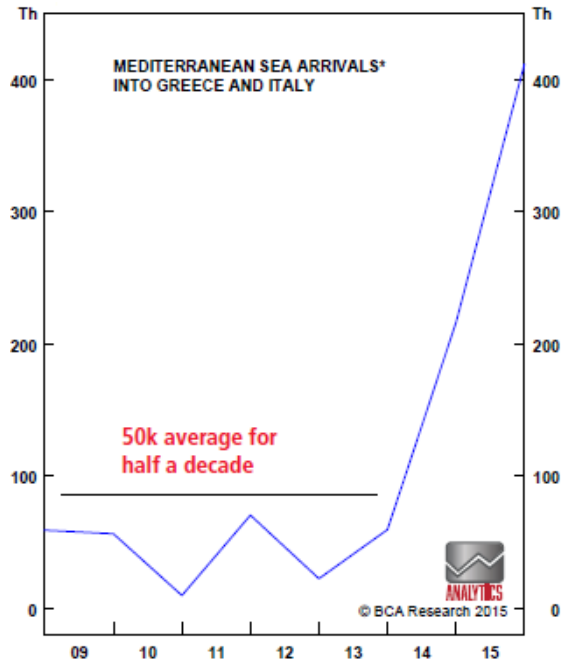
1. Collapse of the Mukhabarat states

Mukhabarat is the Arabic term for intelligence agency, usually the domestic-focused and often abusive secret police. Saddam Hussein's Iraq, Muammar Gadhafi's Libya, and Bashar al-Assad's Syria were considered to be Mukhabarat states. Military interventions by the US in Iraq and NATO in Libya, as well as the general foreign interference in Syria, have led to the collapse of these security-focused regimes.

This has subsequently opened up geographic routes for migrants to access Europe via the Mediterranean by using Libya and Syria as staging grounds, while general instability in both has produced its own supply of refugees (Figure 2). In the past, migrants dared not enter the territory of these states as they would have faced certain imprisonment, or very likely even worse. In fact, Italy had a formal agreement with Gadhafi that allowed the Italian navy to patrol Libyan waters, intercept migrant vessels, and turn the migrants over to Libyan authorities, in probable contravention of the nonrefoulement principle of international law.² Meanwhile, Libyan security services ensured that any migrants crossing the Sahara from wider Africa were immediately interned in migrant camps.

The opening of the Syrian route to Europe has today exacerbated the problem. The Mediterranean route via Libya is quite treacherous, and crossings to Italy have stabilised this year due to the combination of harsh Italian interment policies, the perils of the voyage, and the recent restart of the civil war in Libya. However, the Syrian route, via Greece and Turkey, has exploded as the conflict in Syria has accelerated over the past 12 months (Figure 3).

Figure 2: Spike in migrants via the Mediterranean...



Source: UNHCR

Figure 3: ...has kicked into high gear this European summer



Source: UNHCR

2. Civil wars restart

Both Libya and Syria have experienced increased violence in 2015 relative to the entire post-2011 period. The Libyan Civil War restarted in late 2014 after about two years of relative peace, right as oil prices fell and revenues (which keep various militant factions pacified) dried up. In Syria, all sides of the conflict have mostly given up on gaining new territory and are now trying to make life for civilians outside their control miserable. The arrival of the Islamic State on the scene in late 2013 has particularly intensified fighting. While the Islamic State mainly focused on Iraq in 2014, it has faced stiff resistance in the non-Sunni areas since then and been forced to retreat to Syria in 2015. Forces loyal to President Assad have also stepped up their operations this year, particularly the targeting of civilians in rebel-held areas.

3. Supply increases

Both the Syrian and Libyan civil wars offer a finite supply of potential immigrants to Europe. However, Libya could become a gateway to the hundreds of millions of potential migrants out of sub-Saharan Africa. There is some evidence that international organised crime groups have been using Libya as a staging ground for their human smuggling operations. This activity is less an issue in Syria since routes from Asia to Europe are blocked by Iran and Russia, two states with very strong security apparatuses. Instead, Syria's neighbors Jordan, Lebanon, and Turkey have exhausted their carrying capacity for refugees and thus the overflow has begun to reach Europe.

4. Multipolarity reigns

Finally, the overarching cause for the massive exodus is multipolarity and the lack of a clear global hegemon. Burned by nation-building in Iraq, the US has opted for limited and partial interventions in Syria and Libya that left both in disarray. In Iraq, the Obama administration decided to complete the withdrawal of US troops in December 2011, without leaving a limited contingency force, a strategy that allowed the Shia-Sunni tensions to get out of hand and mutate into the dominance of both the Islamic State and Iran-backed Shia militias. Today, the US remains focused on domestic politics, essentially ignoring the refugee crisis. American distance is forcing Europe to deal with the crises on its own, which is a problem since Russia also wants to be involved in the end-game scenario for both countries. Without global coordination, crises in Libya and Syria have been allowed to get out of hand.

Bottom Line

The influx of migrants into Europe is a function of the collapse of police states in the Middle East and North Africa, half-hearted or failed military interventions from outside forces, and

the lack of global coordination. The duration and intensity of these flows will depend on a number of factors, primarily on whether the collapse of the Mukhabarat states is ultimately reversed and whether major international powers can cooperate.

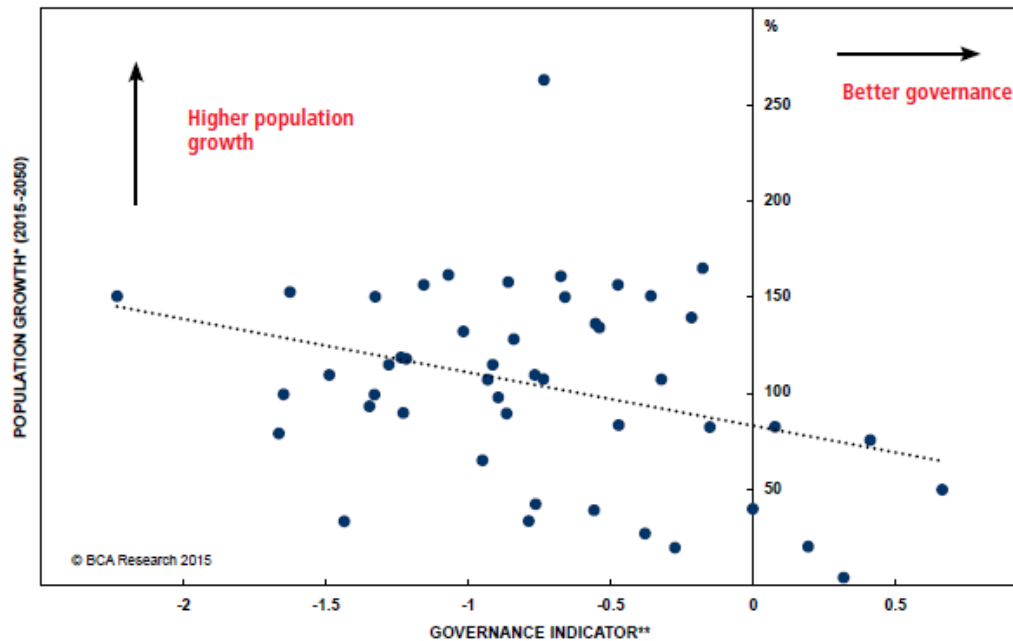
SO WHAT? LONG TERM CONSEQUENCES AND INVESTMENT IMPLICATIONS

Our view is that the migrant exodus is ultimately unsustainable. According to the data examined in this report, the Syria–Turkey–Greece–Balkans route appears to be taken mostly by genuine refugees out of Syria and Iraq. The Syrian Civil War is therefore finally relevant to the West, increasing the probability that pressure needed to end it will finally be exerted. This scenario is similar to the aforementioned Balkan conflicts in the mid-1990s, which only became a nuisance to Europe once the refugee flows and images of human rights violations became politically unacceptable.

The Libya–Italy route, on the other hand, has the potential to grow into a more lasting transit route for a vast migration out of Africa. The African population will double in the next thirty years from 1.2 billion today to 2.5 billion in 2050. Additionally, there is a positive correlation between population growth and poor governance, suggesting that most of Africa's population growth will occur in unstable countries (Figure 4). If Libya remains in a state of civil war – or worse, becomes a totally failed state – it could truly lead to a Biblical exodus of Sub-Saharan Africa to Europe.

Which is why Libya will not be allowed to remain a failed state for too long. Libya is a country of only six million people, with ample oil and natural gas reserves and production capacity and a GDP per capita of above \$10,000 prior to the uprising in 2011. Europe will likely abandon all hope of democracy in Libya soon, choosing to put its diplomatic, military, and economic support behind the most-likely strongman capable of reestablishing a Mukhabarat state, à la Abdel Fattah el-Sisi in Egypt.

Figure 4: Population growth is strong where governance is poor



Source: UN population division. Indicator is an equally-weighted average of the following measures; government effectiveness, voice and accountability, political stability and violence, rule of law, and control of corruption. Source: World Bank and BCA Research.

Going by these assumptions, we see the following long-term implications of the migration crisis in Europe.

1. European integration

As with all European crises over the past thirty years, the long term result is more, not less, integration. This is not a coincidence but rather a product of multipolarity.³

European states are no longer powerful enough to deal with geopolitical and economic crises as individual countries. In the case of the migration crisis, we expect the EU to form a proto-military force by bolstering the funding and capabilities of Frontex, the EU agency charged with monitoring the external Schengen borders.⁴ Nominally, the enforcement of Schengen external borders falls to the member states that share a border with non-Schengen states. However, as the migration crisis has shown, this process creates a major burden on countries like Italy and Greece to expend resources to protect the rest of the Schengen countries from the impact of the crisis.

Frontex is currently a tiny organisation, with a staff of around 500 and a budget of just \$100 million. We expect it will grow. As European policymakers and the public-at-large begin to

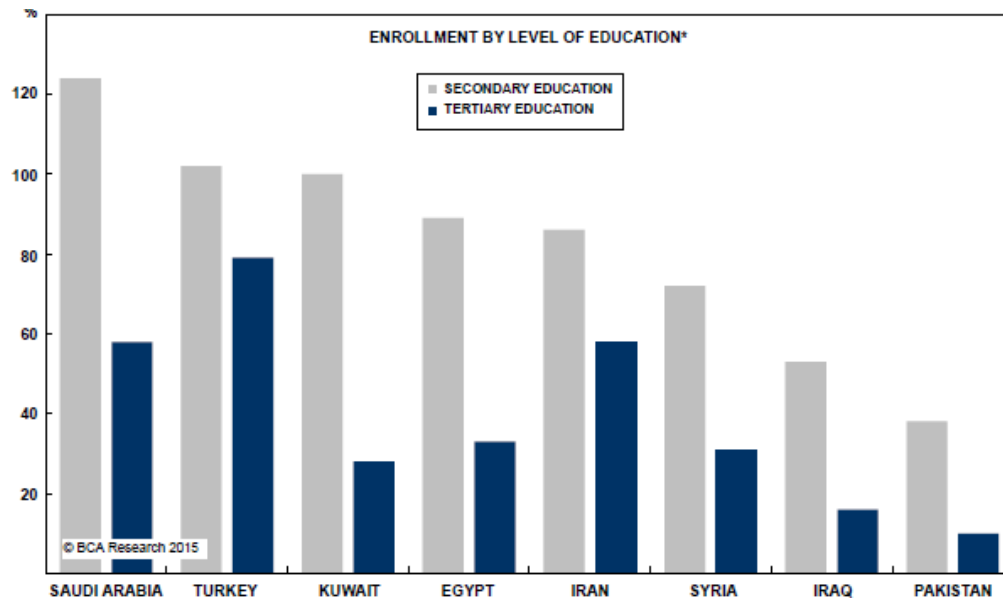
perceive the external Schengen borders as the borders of broader Europe, greater fiscal outlays will be justifiable. However, increased common fiscal outlays will demand a common source of revenues. How the EU and the euro area will handle this issue remains to be seen, but our view is that the excuses for not pursuing a fiscal union – at least within the euro area – are fast running out.

2. European migration turns inwards

Europe needs migrants from a purely economic perspective. Potential GDP growth rate is a function of productivity and labor force growth – and Europe suffers weaknesses in both, but especially the latter.

However, there is no guarantee that the migrants entering Europe via the Mediterranean will not become a burden on already strained fiscal budgets, especially if they are unable to integrate and find employment. For example, the median Syrian is poorly educated even by regional standards (Figure 5).

Figure 5: Syrians: not particularly well-educated group



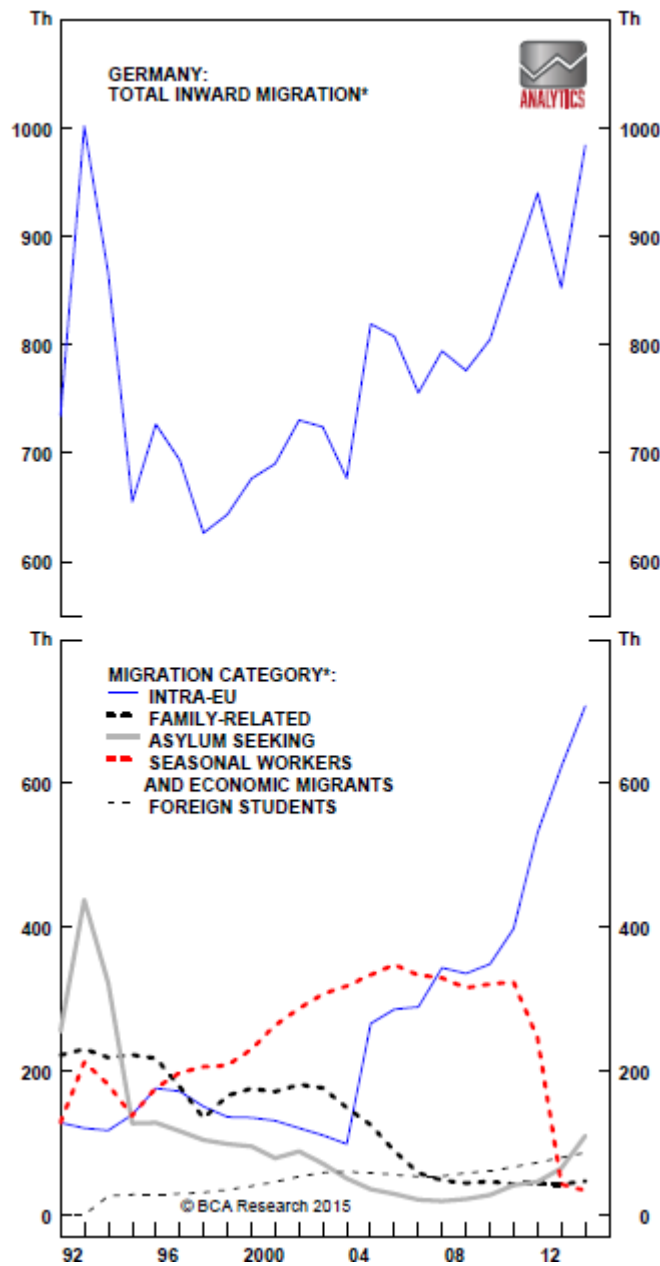
Source: Gross enrollment. Source: World Bank

Furthermore, if the short-term implication of the migration crisis is the political success of anti-immigrant politicians and rhetoric, Europe's centrist parties will begin to adopt it as well. Fortunately for the EU, Central and Eastern European member states have plenty of human capital willing to move to Western Europe – just under 100 million, in fact.

Germany, the world's largest destination of legal migrants, has already dramatically shifted the profile of its migrants from non-EU to intra-EU. Figure 6 illustrates how the entry of new

EU member states in 2004 affected Germany's migration profile.⁵ It also shows that Germany has clamped down on asylum seeking and family reunification as paths of immigration. In 2014, in fact, Germany experienced a net outflow of Turkish migrants as many repatriated back to their home country. We expect the rest of Europe to similarly pivot away from non-EU migrants towards EU migrants.

Figure 6: Germany: Clear evidence migration can be controlled



Source: Bundesministerium des innern and bundesamt für migration und lüchtlinge

3. Stabilisation of Libya matters

Europe's imperative to stabilise Libya in order to plug a potential transit route for African migrants will produce a crucial second-order effect – it will be bullish for oil supply.

Prior to the 2011 revolution, Libya produced nearly two million bpd of sweet crude, highly prized by European refiners. The production largely recovered in 2012–2013, but it subsequently collapsed as the civil war restarted. Libyan insecurity is to a large extent a product of the West's disillusionment with the country and a lack of attention by the great powers to its internal politics. Whatever happens, Libya will not be allowed to become a Somalia at the doors of Europe. On the margin, that should mean that oil production from Libya will return to the global markets over the next 12 to 36 months as a by-product of European and, potentially, Russian stabilisation of the country.

The bottom line

Contrary to the conventional wisdom, we do not see the current migration crisis as the beginning of a major exodus. The crisis is a direct product of instability in two former Mukhabarat states and will therefore end as the conflicts in these states are stabilized. A Somalian scenario where instability in Libya and Syria persists is possible but unlikely.

Finally, geography matters. Many people would like to move to the developed world, and many more will want to do so in the future, as conflicts, climate change, and overpopulation intensify in Africa and Asia. But getting to the developed world requires resources and risk-taking that dissuade most migrants or direct them toward easier destinations within the region. A path from Asia to Europe, for example, necessitates crossing the Eurasian steppe north or south of the Caspian Sea. Both routes are barred by security-conscious Russia and Iran, at least until one or both of these states should weaken dramatically. The path from sub-Saharan Africa to Europe requires crossing the Mukhabarat states of North Africa, as well as the Sahara desert. Those with means to attempt the trip will do so. Those that don't will suffer where they are.

ENDNOTES

1. Celts were once the dominant European ethnic group, ranging as far as the Danube River valley. Basques were also one of the original European ethnic groups. Today, Basques number just under three million and are confined to an area the size of Puerto Rico nestled between the Bay of Biscay and the western end of the Pyrenees. Recent genetic analysis confirms the theory that Basques are one of the proto-European groups. See Gunther, Torsten et al, "Ancient genomes link early farmers from Atapuerca in Spain to modern-day Basques," 29 July 2015, available at www.pnas.org.

2. Non-refoulement is a principle of international law, enshrined in Article 33 of the 1951 Convention Relating to the Status of Refugees, that prohibits the return of genuine refugees to the origin of their persecution. As such, each refugee has to be processed and their status determined before they can be returned (i.e. deported) to their country of origin.

3. See BCA Geopolitical Strategy Special Report, "Europe's Geopolitical Gambit: Relevance Through Integration," dated November 2, 2011 and "Europe: The Euro And (Geo)politics," February 11, 2015 at gps.bcaresearch.com.

4. The Schengen Area comprises 26 European states, 22 from the EU along with Iceland, Liechtenstein, Norway, and Switzerland. Countries that belong to the area have abolished border controls at their common borders. The Schengen Area is separate from the EU's freedom of movement for workers. The EU labor market is enshrined by Article 45 of the Treaty of the European Union, an article separate from how countries in Europe regulate their borders. Rules adopted by the EU in October 2013, in response to the Arab Spring, allow borders to be temporarily reestablished "due to the serious and ongoing deficiencies of external border controls." The Schengen Borders Code, the original Treaty, already provided for the closing of borders in "the event of a serious threat to public order and internal security." See EUR-Lex, "Strengthening the Schengen area," May 28, 2014, at <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:jl0065>.

5. The Treaties of Accession for most Central and Eastern European states gave old EU member states the ability to impose transition periods for new entrants before they became eligible for the freedom of movement rights. As such, Germany allowed most new EU members from Central Europe to access its labor market in 2004, but Polish, Romanian, and Bulgarian workers had to wait until 2007 and Hungarian workers until 2009.

[Read the full report "The Great Migration – Europe, Refugees, and Investment Implications"](#)



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