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**DIEGO CABALLERO VÉLEZ\***

# **European Union Political Theories in Times of Crisis. The Cases of Economic and Monetary Union and of the European Union Migration and Asylum Policy**

## **Abstract**

*In the last decades, the EU has been analysed by many scholars through different theoretical perspectives. In this context, the 2008 financial crisis has provoked different EU policy crises which have in turn led to a reassessment of the theoretical frameworks needed to analyse them. This paper seeks to contribute to this reassessment, taking the EMU and the European migration and asylum policy as case studies to investigate to what extent these regimes have suffered internal policy crises via the application of two theoretical perspectives: neo-functionalism and neo-institutionalism. On the one hand, under the neo-institutionalism approach, institutions constrain political actors in a norm-based way. According to this perspective, migration and asylum policy change during the crisis may be explained by European institutional constraints on the Member States. On the other hand, neo-functionalism may be used to investigate the EMU Europeanization policy process in which EU Member States' cooperation has reinforced the process of integration in this policy domain. In addition, due to the recent developments in European asylum cooperation, many important questions arise about the nature of the legal measures within the criteria of internal security. This paper tries to shed light on the problématique of asylum and migration policy-making process by looking at an innovative theoretical framework based on the cost/benefit and public goods theories.*

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**Key words:** EMU, EU Crisis, Public Goods, Neo-institutionalism, Neo-functionalism, Migration, Asylum.

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## Introduction

This research focuses on the multifaceted nature of the EU and the differential impact of the financial crisis on its policy areas. It examines how the financial crisis has led to different European policy-making crises and, consequently, different European integration/disintegration processes. The financial crisis has not had the same impact on every EU policy domain. Within the framework of this criteria, the main aim of this research is to analyse the weaknesses of two of the main EU political theories, neo-functionalism and neo-institutionalism, in order to explain the different applications of both theories in the EMU (Economic and Monetary Union) and the European asylum and migration policy-making processes.

Since the EU integration project is not going well, some scholars have tried to develop theories of disintegration (Schimmelfenning 2018; Jachtenfuchs, Kasack 2017; Jones 2012; Vollaard 2014). According to them, theories of integration including transactionalist, neo-functionalism, intergovernmentalist, and neo-institutionalist theories do not go far enough to interpret EU integration in a reverse way (Jones 2018). These scholars have been focused on a useful and interesting operationalization of new theoretical models such as the post-functionalist perspective (see Hooghe, Marks 2009), but others criticize them claiming that these approaches are incomplete (Jones 2018).

In this research, in order to explain how the financial crisis has led to different integration processes in different EU policy areas, the EMU and EU's migration and asylum policy have been selected as case studies. On the one hand, the EMU is a clear example of integration in recent years; on the other hand, and due to the refugee crisis, the EU's migration and asylum policy area has not been developed, and instead, it is rather far away from a fully developed integrative policy at EU level. In this regard, neo-functionalism and neo-institutionalism have been chosen for the analysis of both policy areas. The selection of these EU political theories is based on the criteria of Tosun et al.'s (2014) classification of EU political theories. They classify European political theories into: 1) integration theories; 2) theories of policy and institutional change; and 3) theories of public opinion change. In this regard,

neo-functionalism is considered a European integration theory by which “crises can either strengthen or weaken the scope or level of the supranational institutions’ authority vis-a`-vis national institutions” (Tosun et al. 2014: 199) and, “from this perspective, the crisis could both represent an opportunity for and obstacle to further integration” (Tosun et al. 2014: 199). In this case, the EMU integration process may be analysed under a neo-functionalist framework. On the other hand, according to Tosun et al.’s (2014) criteria, neo-institutionalism is classified as a theory of policy and institutional change. In this case, scholars analyse how shocks may lead to institutional and policy changes; in the case of the European migration and asylum policy, to what extent the refugee crisis has led to changes in that policy area with implications for institutional reform.

This article argues that EU political theories are not equally valid to explain crises across all European policy areas and, specifically, in the case of asylum and migration policy crisis, conceptual and theoretical frameworks from other social science disciplines may shed light on its explanation, in the case of this research, it is analysed using public goods and collective action theories. By doing so, this research is based on the following assumptions:

- 1) The EU has different policy domains so the crisis might not be seen as a “whole” but as different policy regimes’ crises (see Trauner 2016; Falkner 2016).
- 2) Depending on the policy domain itself, different EU policy crises must be analysed through different EU integration/disintegration theories.
- 3) Neo-functionalism may explain EMU integration processes during the crisis, nevertheless, it cannot explain the migration and asylum policy crisis (see Niemann, Ioannou 2015; Börzel, Risse 2017).
- 4) Neo-institutionalism shows shortcomings in explaining EMU integration process and European asylum and migration policy crisis (see Schimmelfennig 2018).
- 5) Public goods and collective action theoretical approaches can be useful in understanding the *problématique* of some aspects of EU asylum and migration policy-making (in our case, refugee protection).

The research framework is based on a comparative analysis of the main EU measures in both policy areas in recent years. In terms of structure, the article: 1) analyses the different impact of neo-functionalism and neo-institutionalism on explaining policy-making crises in the EMU and European asylum and migration policy areas; 2) provides insights related to the EU asylum and migration policy crisis from a public goods and collective action perspective.

The following sections bring three key contributions: 1) how economic crises influence the EU integration process in the different policy domains; 2) how this

impact on policies cannot be analysed through the same theoretical perspective; 3) and how the public goods perspective can shed light on the analysis of migration and asylum policy change.

## 1. The Integration Process: Neo-functionalism and the EMU

The EMU may be considered one of the most ambitious integration policies, representing the needed economic and monetary cooperation for completing the EU Single Market (Thalassinos, Dafnos 2015). The importance of the EMU and the Eurozone has been outlined during the financial crisis. This crisis and the “political attempts to overcome it have far-reaching consequences for the future of the EMU, European integration and Europe in the world” (Thalassinos, Dafnos 2015, 22). In comparison to other EU policy areas, the EMU has represented the perfect example of an EU integration process, before and during the crisis. In this regard, EU scholars have sought to explain the EMU project within the neo-functionalist paradigm.

According to Moravcsik (1993), when it comes to neo-functionalism and the European integration process, this political theory seeks to examine the EU integration dynamics by looking at the spillovers and path-dependencies produced. In this regard, he claims that at the beginning, the integration process is normally scarce and weak as it strongly reflects the national preferences of Member States rather than functional characteristics. In order to properly analyse how neo-functionalism may explain the EMU integration process, it is important to summarize the theory’s main assumptions (Niemann et al. 2016):

- 1) Integration is seen as a process, accordingly, integration processes evolve over time through their own dynamic (Niemann, Ioannou 2015).
- 2) Regional integration is characterized by changing and multiple actors that build coalitions with each other (Haas 1964: 68).
- 3) Decisions are taken by rational actors, who nevertheless have the capacity to learn from their experiences in co-operative decision-making (Haas 1958: 291).
- 4) Incremental decision-making is given primacy over grand designs, where seemingly marginal adjustments are often driven by the unintended consequences of previous decisions, as most political actors tend to be incapable of long-range purposive behaviour, since decisions on integration are normally taken with very imperfect

knowledge of their consequences and frequently under the pressure of deadlines (Haas 2004: 24).

- 5) Neo-functionalists pointed out that interaction in the Community setting is often characterized by positive-sum games and a supranational style of decision-making where participants seek to attain agreement by means of compromises upgrading common interests (Haas 1964: 66)

There have been several studies about neo-functionalism and different EU policy areas during the time of the financial crisis. With regard to European economic integration, several scholars, using a neo-functionalist approach, have sought to reinforce the idea that the Economic and Monetary Union is far from suffering a disintegration process but, despite the crisis, the integration process is reinforced (see Niemann, Ioannou 2015; Verdun 2002).

Having specified the main assumptions of neo-functionalism, in the following table, under a neo-functionalist vision, this article will analyse the main EMU legal measures of the last years that have led to a more integrated policy area (Table 1 and Table 2).

**Table 1: European Stability Mechanism (ESM) evolution**

Year	Measure	Neo-Functionalist Analysis
May 2010	The EFSM <sup>a</sup> and the EFSF <sup>b</sup> are established	<ul style="list-style-type: none"> <li>- Decisions are taken by rational actors, in this case, the European Commission.</li> <li>- In order to make the EFSM and EFSF possible, the EU cooperates with Member States in the decision-making process.</li> <li>- Agreements by means of compromises upgrading common interests.</li> </ul>
March 2012	The EFSF evolves into the ESM <sup>c</sup> adding the Article 136 to the TFUE	<ul style="list-style-type: none"> <li>- Integration is seen as a process, in this regard, by agreements between the different actors, the EFSF evolves towards the ESM, leading to a more reinforced and integrative EMU.</li> <li>- Functional, political and cultivated spillovers (see Niemann, Ioannou 2015)</li> </ul>

Note:

<sup>a</sup> European Financial Stability Mechanism: funding programme created for the European Commission to provide financial assistance to any EU country experiencing or threatened by severe financial difficulties using bonds issued on behalf of the European Union. The EFSM was used to provide financial assistance conditional on the implementation of reforms to Ireland and Portugal between 2011 and 2014, and to provide short-term bridge loans to Greece in July 2015. Source: [https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/loan-programmes/european-financial-stabilisation-mechanism-efsm\\_en](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/loan-programmes/european-financial-stabilisation-mechanism-efsm_en).

<sup>b</sup> European Financial Stability Facility: Temporary crisis resolution measure created in 2010 by euro area countries. It has provided financial assistance to Ireland, Portugal and Greece. The assistance was financed via bonds and other debt instruments on capital markets. Source: [https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/loan-programmes/european-financial-stability-facility-efsf\\_es](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-financial-assistance/loan-programmes/european-financial-stability-facility-efsf_es).

<sup>c</sup> European Stability Mechanism: was set up as an international financial institution by the euro area Member States

to help euro area countries in severe financial distress. It provides emergency loans but in return, countries must undertake reform programmes. Together with its predecessor, the European Financial Stability Facility (EFSF), it can lend a total of €700 billion. The ESM replaces the EFSF, a temporary vehicle set up in 2010. The EFSF cannot enter new assistance programmes but continues to be active in the bond market to manage its debt. was also linked to the Treaty through an addition to Article 136.

Source: Niemann, Ioannou (2015) and own elaboration.

**Table 2: Stability and Growth Pact (SGP) reinforcement**

Year	Measure	Neo-Functionalist Analysis
December 2011	The SGP is reinforced by the “Six-Pack” <sup>a</sup>	<ul style="list-style-type: none"> <li>– Decisions are taken by rational actors (the EU).</li> <li>– Coalitions and cooperation between different actors. European Commission, European Council, European Parliament.</li> <li>– Common interests.</li> </ul>
May 2013	The “Six-Pack” is supplemented by the “Two Pack” <sup>b</sup>	<ul style="list-style-type: none"> <li>– Increasing decision-making on decisions regarding a more integrative project.</li> <li>– Consequences in other policy areas (spillovers).</li> <li>– Integration process, own dynamics.</li> </ul>

Note:

<sup>a</sup> Six Pack: set of European legislative measures to reform the Stability and Growth Pact and introducing greater macroeconomic surveillance. Source: [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ%3AJOC\\_2013\\_372\\_E\\_0001\\_01](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ%3AJOC_2013_372_E_0001_01).

<sup>b</sup> Two Pack: For Member States in Excessive Deficit Procedure, the Two-Pack introduces a system of monitoring that will co-exist with, and complement, the requirements set out under the SGP. Source: [http://europa.eu/rapid/press-release\\_MEMO-13-457\\_en.htm](http://europa.eu/rapid/press-release_MEMO-13-457_en.htm).

Source: Niemann, Ioannou (2015) and own elaboration.

Apart from this, all these measures were complemented by the European Systemic Risk Board (ESRB), the creation of the Banking Union and its resolution counterpart, the Single Resolution Mechanism (SRM) with the Single Resolution Fund (SRF). Thus, all these steps have led to deeper European economic and monetary integration (Ioannou et al. 2015).

On the one hand, this analysis supports the assumption of previous research about the contribution of neo-functionalism in explaining EU economic integration during the period of the financial crisis. On the other hand, it is crucial to point out that since the financial crisis started, not every EU policy area has suffered from a weakening process of integration and that the integration degree in different policy domains differs. In the case of the EMU architecture, neo-functionalism “identifies crucial driving forces and mechanisms of change (...), and salient policy objectives” (Niemann and Ioannou 2015: 212).

Having specified this, it is important to outline that neo-institutionalism is considered a *policy change* theory (Tosun et al. 2014). According to this affirmation,

the EMU has not experienced any radical policy change, on the contrary, as there has been several policy changes in asylum and migration area, this theoretical framework is not appropriate.

## 2. Policy Change: Neo-institutionalism and the Migration and Asylum Policy

The Syrian war has provoked a major displacement of people, “the United Nations High Commissioner for Refugees (UNCHR)<sup>1</sup> informs that the number of sea arrivals across the Mediterranean to Europe amounted to: 216.1 thousand in 2014, 1 million in 2015, 362.8 thousand in 2016 and 172.3 thousand in 2017” (Pachocka, Vizvizi 2018: 456, 457), causing one of the largest influxes of forced migrants in Europe since World War II. As a consequence, in May 2015, the “European Agenda on Migration” was presented by the European Commission. This Agenda’s main goal was to define the immediate measures to be taken in order to address the refugee crisis. In addition, “the EU decided to assist those Member States that had been facing the highest numbers of refugees at its external borders, namely Greece and Italy” (Niemann, Zaun 2018: 5). Furthermore, in September 2015 the “temporary emergency relocation scheme” was implemented. In this regard, relocation refers to the “transfer of persons in need of international protection from one EU Member State to another” (Niemann, Zaun 2018: 5). This new scheme’s main goal was to share responsibility of relocating refugees but as some experts have claimed (Niemann, Zaun 2018), the scheme negotiations were confrontational and some Eastern Member States such as Hungary, Romania and Poland showed their opposition to such relocation measures because of their compulsory nature.

The opposition of these Member States caused an implementation problem. In this regard, according to the European Commission (2017a), in July 2017, about 27% of persons were relocated. As the “compulsory” nature of the scheme was producing reluctance of Eastern Member States in accepting it, in September 2016, Visegrad countries proposed the idea of “flexible solidarity” at the European Council at Bratislava, consequently, its financial support or expertise meant that “while some

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<sup>1</sup> United Nations High Commissioner for Refugees (UNHCR), Refugees Operational Data Portal: Mediterranean Situation. Source: <https://data2.unhcr.org/en/situations/mediterranean>.

Member States could take in refugees, others could instead contribute” (Niemann, Zaun 2018: 7).

During the last decades, scholars have attempted to apply different theoretical approaches in order to explain the fields of policy on migration and refugees. There have been several political theories such as Marxism, political economy, neo-institutionalism, used by the academic community to explain why migration policies fail. These theoretical approaches have their pros and cons, nevertheless, when it comes to explaining migration policies and their relation with institutions, several studies have demonstrated that “supranational organizations and international regimes have had little impact on the immigration policies of individual countries with the partial exception of the EU and the refugee regime” (Meyers 2000: 1274).

Insights from the neo-institutional literature (March, Olsen 1984; Hall, Taylor 1996; Caporaso, Jupille 1999) have underlined the influence of institutions on the policy-making process, both constraining and constitutive. Thus, EU policy change has been analysed by looking at the EU constraints on Member States in order to shape national policies by transferring competences to the EU level.

In particular, EU Member States’ increased cooperation in recent years on issues of internal security, border security, asylum, and irregular immigration, in particular, has raised several questions regarding the nature of such cooperation (Thielemann, Amstrong 2013). The Syrian refugee crisis has led to the securitization of the EU asylum regime and scepticism by Member States towards the EU as a problem-solving institution. Nevertheless, this has occurred in parallel with the emergence and stability of agreements, such as the Dublin Convention, in light of what appears to be a securitization of the EU asylum and migration policy areas (Thielemann, Amstrong 2013).

The European asylum/migration decision-making process has enabled national governments to strengthen their own domestic position at EU level in a strategic way, and to initiate processes of vertical and horizontal policy transfer (Thielemann 2002). So far, under a European integration perspective, one could argue that European integration has helped national governments to overcome established institutional constraints and facilitated asylum and migration policy change at the national level (Thielemann 2002). This calls into question to what extent new securitized European asylum developments and policy change may be explained under a European integration approach, because some Member States are reluctant to empower EU institutions in the asylum policy area because they have come to see migration as a problem of internal security.

In this regard, the main assumptions of neo-institutionalism may be summarized as follows (March, Olsen 1989):

1. Political systems have to be seen not only as a community of individual actors in which individual preferences lead to outcomes within a maximize gains model, but also it must be seen as systems in which institutions, rules and norms of appropriateness play a crucial role.
2. Political institutions provide action alternatives.
3. Political institutions create structure for interpreting history and anticipating the future.
4. Political institutions shape individuals' preferences by means of rules of appropriateness.
5. Political institutions create environments and meaning, providing new interpretations of life.
6. Institutional decision-making processes are based on a garbage can model, in which decisions, actions, solutions and problems interact each other.
7. Institutions are stable and not likely to change.
8. Aggregative forms are characteristic of good times (self-interested action and exchange increasing), spite of integrative forms that are characteristic of concern times (attempts to unity and increasing attention to rules).
9. Institutions provide order and equality of power that may lead to democratic political systems.

Despite the fact that neo-institutionalism may provide insights related to the EU migration and asylum policy crisis, it suffers from some weaknesses. In order to analyse them, the most important EU responses to the refugee crisis since 2015 are studied under a neo-institutionalist framework (Table 3):

**Table 3: Main EU's legal responses to the refugee crisis (2015–2017)**

Year	Measure	Neo-Institutionalist Analysis
May 2015	European Agenda for Migration is published by the European Commission to outline immediate and longer-term measures to better manage migration. Hotspots concept set out of the first time.	– The EU as political institution provides action alternatives to address the crisis.

Year	Measure	Neo-Institutionalist Analysis
September 2015	Package of proposals to address the refugee crisis is published by the European Commission, including second emergency relocation proposal (12 thousand people from frontline countries), EU emergency Trust Fund for Africa, and proposed permanent relocation mechanism.	<ul style="list-style-type: none"> <li>– Proposal of action alternatives</li> <li>– With these measures the EU is creating a new political environment in which political actors perceive the political event (refugee crisis) in a different way.</li> <li>– In this regard, words used by the EU referring to the crisis such as emergency, crisis, security etc., led to the different political actors, and in particular Member States to conceive the crisis with a different vision</li> </ul>
November 2015	EU-Turkey Joint Action Plan is announced, which aims to support both Syrians under temporary protection and host communities in Turkey, and to strengthen cooperation to prevent irregular migration.	<ul style="list-style-type: none"> <li>– The EU plays a crucial role in the political system in which, in this case, with its rules and norms of appropriateness tries to make a bilateral agreement with Turkey within the framework of a maximizing gains model</li> <li>– The EU-Turkey Joint Action Plan is the result of a decision-making process in which actions, solutions and problems have been interacting each other.</li> </ul>
May 2016	Common European Asylum System (CEAS) reform proposal are published by the European Commission, including proposed reforms of the Dublin Regulation.	<ul style="list-style-type: none"> <li>– The EU seeks to provide order and equality of power.</li> <li>– The EU seeks to create a structure based on the previous experience on the refugee crisis in order to face up with the migration and asylum future challenges.</li> <li>– With Dublin Regulation reforms, the EU may shape Member States' preferences by means of rules of appropriateness.</li> </ul>
October 2016	European Border and Coast Guard Agency is launched.	<ul style="list-style-type: none"> <li>– Integrative forms that are characteristic of concern times, in this case, the European Border and Coast Guard Agency is an attempt of unity and increasing attention to rules.</li> </ul>

Source: Collett, Le Coz (2018) and own elaboration.

As we can see in Table 3, neo-institutionalist theory may explain some dynamics in European asylum and migration domain, nevertheless, there are some weaknesses that would be interesting to address. Broadly speaking, scholars have claimed that the institutional model has little impact on migration policies (Zolberg 1991; Miller 1992), with the exception of the EU. Due to the individual costs and benefits for states, supranational institutions do not act as main actors in shaping states' preferences.

In the case of the EU, neo-institutionalism has been applied for the study of asylum and migration policies, however, since the refugee crisis started, this political theory suffers from shortcomings. Before the crisis, neo-institutionalism might explain the “removal of obstacles to the free movement of people within the EU, and the increased cooperation among its Member States” (Meyers 2000: 1266), on the contrary, one may argue that despite the EU efforts to constrain Member States’ choices in cooperating in asylum and migration issues, the final outcomes tell us that the EU has had little influence over Member States on this policy domain, so neo-institutionalism may explain the different asylum/migration policy-making process during the refugee crisis but not its outcomes.

Finally, one may argue that the European migration and asylum regime is suffering from a disintegration process rather than an integration one. Thus, neo-functionalism is not applicable to this policy domain as it regards “incremental European integration as both prone to crisis and capable of progressing through crisis” (Schimmelfennig 2017: 15). Accordingly, neo-functionalism may explain those policy areas in which during the crisis, the integration process has been strengthened as in the case of the EMU.

### **3. Theoretical Alternatives to the Refugee Crisis: the Case of Public Goods Framework**

While the literature on public goods has been dominated by rational choice underpinnings, some authors have sought to complement such approaches (see Thielemann 2003). This literature has showed that the assessment of actors’ cost/benefit calculations can go beyond quantifiable elements and can include ideological and normative considerations that will vary among Member States (Thielemann, Amstrong 2013).

One of the main problems in research of asylum and migration in the EU is to understand the different positions of Member States in cooperating at EU level. In order to develop solid policies in this area, national and EU policy-makers have to face up to the reluctance and opposition of some Member States to support EU legislation. In the case of refugee protection, some academic scholars have tried to understand the dynamics beyond Member States’ cooperation in this area through a public goods framework (see Surhke 1998; Thielemann 2013, 2018; Betts 2003). Accordingly, in order to explain the refugee protection dynamics in the EU and

understand why some Member States voluntarily increase their burden-sharing initiatives while others are reluctant to do so, literature on public goods may be very useful (Thielemann 2018). Thus, Member States' preferences in embracing cooperation at EU level may be explained by analysing refugee protection as a global public good.

On the other hand, Olson's collective action theory (1965) has been used in combination with a public goods approach. In addition, in the EU context, collective action dynamics have been often used to explain policy-making changes and cooperation among Member States. The most common measure used in cooperation in the EU are ad-hoc measures, as Greenwood and Aspinwall (1998: 12) explain, "EU collective action is often highly informal and ad-hoc: cooperation in one type of structure can lead to collaboration elsewhere". According to Betts (2003: 286) "(...) this is because EU countries have many areas of shared interest and mutual negotiation; concession in one area can generate leeway in another".

Within the framework of this criteria, one may argue that public goods and collective action vision may shed light on the EU migration and asylum policy-making dynamics during the refugee crisis.

## Conclusions

This comparative analysis has underlined how the financial crisis has provoked distinct crises within different EU policy areas and, consequently has led to, on the one hand, internal integration processes and, on the other hand, disintegration processes. Accordingly, EMU and migration and asylum regimes have been taken as case studies in order to explain how EU political theories are not always valid in explaining every EU policy area, as each policy domain has been affected by the financial crisis in a different way.

Firstly, when it comes to analysing the EMU case, this research has drawn attention to: 1) how neo-functionalism may be useful in order to explain integration process dynamics within this policy regime during the financial crisis and; 2) how the neo-institutionalism approach, as it can be considered more a policy change theory (Tosun, Wetzel, Zapryanova 2014), cannot explain this integration process as the EMU has not experienced any radical policy change but an integration process that has led to policy cohesion.

Secondly, 1) the EU migration and asylum regime crisis might be analysed through an institutionalist approach because the EU influences to some extent Member States' preferences, so in this regard, the policy-making process can be viewed as a process in which EU norms, rules and Member States' interests constitute a *garbage can model*<sup>2</sup>; but 2) it has some shortcomings in its results as there is a lack of a common position among Member States about this policy area and, the EU does not influence states' rationale and interests enough. In this case, Neo-functionalism may not explain the asylum and migration regime crisis as it is suffering from a disintegration process rather than an integration one.

Finally, public goods and collective action theoretical approaches can be useful in understanding the *problématique* of some aspects (i.e., refugee protection) of the European asylum and migration policy-making, but further empirical research on this topic is needed.

To sum up, EU policy areas crises are different from each other and they should therefore be analysed by applying different EU theoretical frameworks, depending on if the crisis has led to an integration or disintegration process within the given policy domain. Furthermore, in the case of asylum and migration area, recent concerns about refugees' migration flows as the issue of internal security call into question the extent to which asylum and migration policy change may be understood only from just a European-based theoretical perspective as, for instance in this case, neo-institutionalism is not enough to explain why some Member States do not enhance cooperation at EU level in the asylum and migration policy area.

In the last decades, neo-institutionalism and European integration theories have been the mainstream theoretical models in explaining policy change in the EU. Very often, scholars have tended to analyse EU policy change both at national and supranational levels from these theoretical perspectives. Nevertheless, crises in multiple EU policy areas because of the 2008 economic crisis have led the European integration project to slow down the empowering process of transferring competences from the Member States to the EU institutions.

Having specified these points for future research, one could argue that until the Syrian refugee crisis, neo-institutionalism and European integration models have

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<sup>2</sup> According to Liberman (2013: 307): "The garbage can model (GCM) is a model within the area of organizational behavior that describes the decision-making process in so-called organized anarchies (organizations facing extreme levels of ambiguity in their decisional environments). The GCM attempts to explain how organizations make choices without having consistent, shared goals and how the organizations' members are involved in these decision-making processes".

been reasonably used in analysing European asylum regime changes. Nevertheless, political integration in the EU might be altered with the emergence of existential threats, in Huysmans' words (2000): "some areas of the European cooperation can be transformed when a 'critical juncture' occurs". In this regard, this "critical juncture" has led to some scholars to take into consideration other theoretical perspectives as complementary or alternative explanatory policy change models.

Future research should be focused on a theoretical development of the public goods model from a political perspective in order to assess empirical cases. Rather than considering public goods and cost/benefit models as substitutive theoretical frameworks of the neo-institutionalism and European integration theories, these new theoretical approaches should be seen as a complement to the "mainstream" theoretical ones. In this regard, recent European asylum and migration policy changes should be interpreted using a theoretical synthesis of neo-institutionalism and European integration theoretical trends and the new approaches from other social sciences' disciplines that are being taken into consideration in political science. The comparative perspective of this paper has revealed a clear division line among different impacts of the crisis among EU policy areas and, consequently, the use of different theoretical frameworks. On the one hand, in the case of the neo-institutionalism and European integration models the literature is primary institution-centred and in it political actors' actions are institutionalized. On the other hand, public goods and cost/benefits theories are state-centred/rational choice based, that is to say, Member States act depending on their own cost/benefit criteria and particular interests.

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**Ayo Eso\***

**ANNA MASŁOŃ-ORACZ\*\***

# **The Impact of Payment Services Directive 2 (PSD2) on Financial Services in the European Union Single Market**

## **Abstract**

*The paper looks into the impact of PSD2 on payments system as it relates to the disruption of banks and the expansion of non-bank institutions, the financial technology companies (fintechs) in the process of expanding the payments systems in the European single market. The paper explains why there is a view that PSD2 will contribute the expansion of payment systems beyond the involvement of banks in Europe and portrays the impact and disruption that will be caused by fintechs to the traditional payment systems. The paper considers the rationale behind the PSD2 directive establishing a framework to respond to the significant innovation within the sector, removing regulatory gaps and legal uncertainties. PSD2 is the basis for innovative processes that allow payment service providers to launch digital payment services. It reviews current discussion and the activities of fintechs and banking disruption across the single market as well as examines specific cases where digital payment services have forced banks to change service delivery and its impact. Analyses focus on the fact that PSD2 amends the existing regulatory framework for payments within the European Economic Area. Fintechs are responding to changes to the scope of regulated activities, a trend towards customers with multiple relationships with service providers and increased need for interaction. The technical and legal landscape has started to change, and third-party service providers are now regulated entities. In conclusion, PSD2 will strengthen consumer rights in several ways, as Consumers have control over how they carry out payments.*

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**Key words:** payment systems, PSD2, fintechs, digital payment services, European Economic Area, financial data.

**JEL Classification:** O31.

## Introduction

The Payment services directive 2 (PSD2) has been actioned into the laws of the different nations in the European Union (EU) in January 2018 and there have been activities over the past two years since the EU commission published the new directive on 23rd December 2015.

The EU's vision of a Single Euro Payment Area is an act towards cashless society and PSD2 drives us another step closer to achieving this goal. This is all part of an even bigger digital transformation shift that is being created in the whole society. According to Honkapohja (2016: 3), it challenges old and established payment practices so they will most certainly change over time.

The EU single market (also referred to as the internal market) allows for the free movement of people, goods, services and money within the union, and hence the removal of barriers to trade. There are various aspects to ensuring the existence of a single market, but with regard to financial services and payment systems, the impact will be to:

- (a) Expand the e-commerce and services trade within the EU.
- (b) Reduce fragmentation, diversify sources, improve access (especially for small and medium-sized businesses), and strengthen capital flows in the finance sector.

From a general position, the PSD2 allows customers (retail and commercial) to use third-party providers (apart from banks) to manage finances.

Specifically, with respect to this topic and the impact of PSD2 on payment services, the value chain will change especially for business models, profitability of business and the choices made available to customers regarding e-commerce and trade across the single market.

Therefore, the objectives to be covered include:

1. The General framework of PSD2 and its impact on payments systems in the single market.
2. The history of payment systems and the role of banks.
3. The New Combination of players in the payments space as driven by PSD2.
4. The payment services industry in the EU and how PSD2 has changed it.

5. The future of payment services in the EU, including current issues of country control (the case of Brexit).

## 1. General PSD2 Framework.

### Impact on European Union Payment Systems

PSD2 is a part of EU's increasingly integrated single market. One of EU's greatest achievements is the European single market. EU has a vision of one territory with the same regulations and free movement of goods and services. The target is to stimulate competition and trade, improve efficiency, raise quality and reduce prices. When it functions well, every member country can benefit towards worldwide competition with greater economic growth and more convenient operation in the EU (European Commission 2017). Part of the strategy is a digital single market for business and consumers which fosters e-commerce by harmonizing EU-wide rules: "In a recent survey 57% of companies said that they would increase their sales to other EU countries if the same rules applied throughout the EU" (European Commission 2017). Strategy mentions standardization to achieve its goals; technical specifications can reduce costs, improve safety, enhance competition and aid in adapting innovations.

PSD2 covers the following:

- (a) It updates current rules for e-payments by widening the previous scope to take internet and mobile payments into account.
- (b) It increases transparency for payment services through improved requirements of conditions and information. Directive is a statement for further and better integration in EU payments market.
- (c) It releases a comprehensive set of rules for existing and new payment service providers aiming to equal competition, greater efficiency, choice and transparency of payment services (European Parliament and the Council 2015). PSD2 opens EU market to new services and providers, especially of two kinds, Account information services and Payment initiation services.
- (d) It opens the payment market in EU for companies that offer payment services based on access to information about the payment account through open application programming interfaces (APIs).

These services can be divided into two areas: account information services (AIS) and payment initiation services (PIS).

AIS allows the user to have an overview of his or her financial situation to better manage their personal wealth and finances. Article 67 (Rules on access to and use of payment account information in the case of account information services) states that AIS providers shall not request sensitive payment data linked to the payment accounts. The term ‘sensitive payment data’ is explained in the directive as data which can be used for fraud, and relates to such data as for example personalized security credentials.

PIS allows users to pay with a simple credit transfer for an online purchase providing merchant an assurance of the payment that it has been started and goods or services can be provided without delay (European Parliament and the Council 2015). According to directives article 66 (Rules on access to payment account in the case of payment initiation services) PIS providers are permitted to store sensitive payment data of the payment service user.

There is no doubt that competition in the area of payment services will increase due to third parties’ involvement in payment chain and emerging innovation they bring. Banks may not feature in the process flow in some aspects anymore, as compared to their previous role where they were responsible for handling a payment transaction all the way through so their role may be reduced to only for providing maintenance of accounts and providing strong customer authentication. In addition, looking at the future income streams from how banks can increase revenue, *vis-à-vis* PSD2, they are not allowed to charge third parties (other banks or financial services providers) for using their technology infrastructure more than they would directly from a payer (the bank’s customer). This should lead to a scenario where there are tradeoff situations in a bank between growth in the potential number of customers and the increase in the intensity of their payment habits *vis-à-vis* lost revenues to third parties and costs that are incurred through this cooperation.

While payments are a major revenue stream for banks, they are also very important for interaction because they are of informative nature, forming strategic importance. Payments provide information for the use of a right product (credit card, loan, mortgage, savings account, insurance or wealth management) for customers’ situation or lifestyle; payments are important for client relationship and cross-selling banks portfolio of financial services. The amount and value of data collected from payments is increasing, which also increases the justification to invest and secure these data. It is even more strategic as we enter the Data Science space, where “big data” and owning data is the prime winner and not just the financial transactions. In fact, the owner of data will potentially earn more income from data than the payments.

## 2. History of Payment Systems in the European Union and Role of Banks

One of the main factors that led to the expansion in transfer payments in Europe, was the early setup of the giro system. The giro system is a payment system that was primarily driven by the postal savings structure in Europe.

In looking at the development of how the giro system influenced banking, we must take a look at the early years of banking. In the 1800's, banks in Europe were family businesses. Families were the hubs of "banking" and at the time, public deposits were not accepted.

The start of what we know today as banks, that acted as collection agents for the savings of people, in Europe, was in the mid 1800's with the opening up of commercial banks. Naturally, the increase in the responsibility of these banks to take money, led to the need to make and enable transfer payments by the banks on behalf of their customers, as opposed to carrying large amounts of cash.

With respect to the banks and the postal structure, because the post office was the initial "savings" institution, they drove payments through the use of postal payment orders, when they offered postal savings accounts to people. This was the early giro system. As a result of its success, commercial and savings banks, as well as other credit institutions started their own giro systems. This naturally led to competition between the postal companies and the banks. In turn, this led to agreements being established between the two groups, and to the growth in banking, specifically within payments, including the advent of "wages to banks" systems in the late 1960's and early 1970's, that saw employers paying the salaries of employees directly into bank accounts. This was a strong driver for payments, and the establishment of electronic payments. Employees did not need to collect cash to make payments as they could pay directly from their bank accounts.

Hence the start of the electronic payments, as the clearing system for credit transfer using the giro scheme in the early 1970s. Electronic payments has taken a significant position in payments in more recent years as the standard mode of payment in Europe, easy and safe, to effect bills and payments for regular standard activities (e.g. gas, electricity, insurance, etc.) which are due to be settled on specified dates.

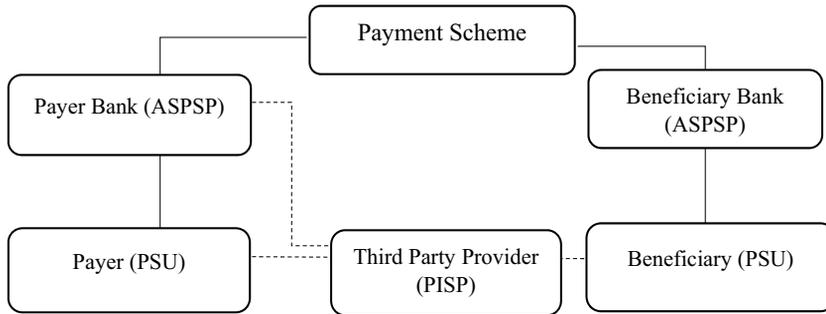
Beyond standard payment systems, card-based transactions with real-time delivery have become the next phase in payments in Europe, as cards have overtaken the use of cash as legal tender. The “nearness” (cards being able to do almost everything cash does) of card payments to cash, has been driven by the trust in cards and the safety, with reduced risk. The use of cards and the associated on-line payments, has reduced transaction costs as well as the time it takes for transactions and payments to be effected. This also reduces the use of paper as well as currency notes (Padoa-Schioppa 1986).

The ability of electronic payments systems to spread across Europe, has been further aided by the cooperation between banks and other providers of payment services, since the advent of the giro system. The inclusion of ATM and card-based POS terminal systems has been important, as it has taken advantage of the network infrastructure already in place. This widespread use of electronic payment was largely a result of two factors (Vesala 1993):

1. The large scale of economies that was pushed by the use of common technology rather than individual organisations setting up different infrastructure. The more players, the lower the average and marginal unit costs of processing payments. As a result of the cooperation between institutions, one “network” was created and that makes it cheaper to move transactions between accounts on one network than to have established differing networks, with the associated technology infrastructure costs.
2. As people get used to the ability to make payments over a wider area, the requirements for payments and sophistication have expanded within and across borders in Europe. People use payments systems not only for paying bills, but also daily retail and consumption experiences. The wide use and compatibility across large scopes means that users are able to expand their reach, yet minimize transaction costs at the same time. (Neven 1993). With this approach, banks are also able to expand their reach and offer multiple payments services, using the same network. Therefore, technology is no longer a basis for competition. Banks are compelled to compete based on other factors such as customer service, payments pricing and service quality (Commission of the EC 1992; Yamaguchi 1993).

### 3. General PSD2 Framework. Impact on European Union Payment Systems

Figure 1: PSD2 Framework



Source: Accenture. Welcoming a new phase of Everyday Payments in Europe.

Within the PSD2 scheme, the two types of access mentioned above – to payment processing services and customer account information held by banks – pave the way for two new types of third-party providers: Payment Initiation Service Providers (PISPs) and Account Information Service Providers (AISPs) (Figure 1 and Table 1).

Table 1: Service Providers in PSD2

Service provider	Description
Account Servicing Payment Service Provider (ASPSP)	These are the banks that hold customer accounts, and are required by PSD2 to allow access to those accounts to TPPs through an open application program interface (API).
Payment Initiation Service Provider (PISP)	With approval from the customer (often referred to as the Payment Service User, or PSU), PISPs have the ability to initiate payments on the customer’s behalf by accessing the customer’s accounts through an ASPSP’s open API. Typically, PISPs focus on e-commerce transactions, linking the merchant to a customer’s account.
Account Information Service Provider (AISP)	AISPs act as aggregators of a consenting customer’s financial information across all accounts and financial services institutions, enabling the display of that aggregated information on some kind of customer-facing dashboard.

Source: European Central Bank, *The revised Payment Services Directive (PSD2) and the transition to stronger payments security*, 2018.

Although the above services are mutually exclusive, nothing stops the same entity from providing more than one service. For example, a bank (an ASPSP) can set up a subsidiary that acts as a PISP.

PSD2 looks at updating and bringing together regulations, usage and data protection in payment services across the EU to give access to, and level the competitive playing field for, the third-party payments service providers (TPPs) – increasingly fintechs – that have emerged since the introduction of the original PSD in 2007.

Technological change in financial services has been pretty revolutionary in the last decade, and the challenges faced by TPPs, looking to offer services across Europe, were problems that the original PSD could not solve.

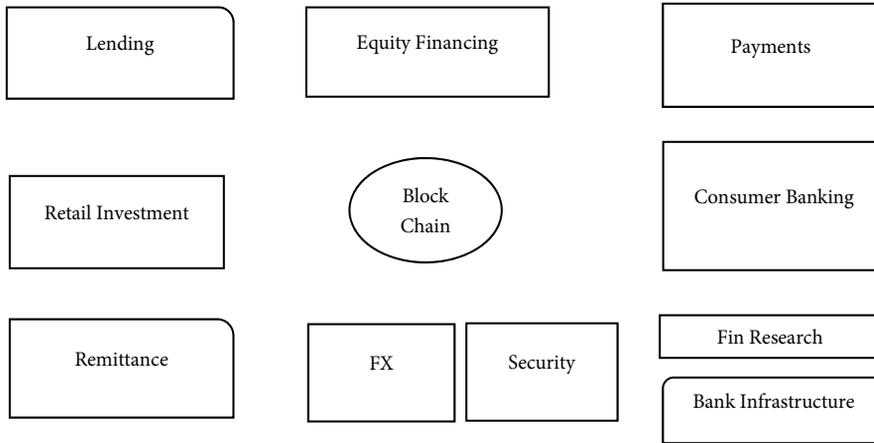
To solve these challenges, seeking to address these challenges by encouraging competition, PSD2 effectively has two main objectives:

1. Increase transparency.
2. Increase access.

PSD2 gives TPPs access to customer accounts for payment initiation and account information services. This ‘Access to Accounts’ (XS2A) means customer accounts managed by banks must be opened to third party service providers that can use such information to provide services, as long as the customer has given consent. PSD2/XS2A splits up the payments value chain into several distinct service providers.

The breakdown of the value chain and increased access to accounts and customer data, driven by technology, is the bedrock of a new digital financial ecosystem that is driving a change that financial services companies must adapt or they run the risk of becoming marginalized.

The ability for third party providers to initiate payments directly from a bank’s customer account must be worrying for banks. At a point, fees will be impacted. For example, whilst the payment system used to be largely between the customer and the bank, and who the customer wanted to pay, the new system and structure will see the play of third-party service providers earning fees with or, in some cases, without the bank.

**Figure 2: The new digital financial ecosystem**

Source: European Central Bank, *Digital transformation of the retail payments ecosystem 2017*.

The new payment scheme presents a challenge for the existing financial institutions (Figure 2). A challenge is that as non-bank PISPs grab market share, the banks lose payments operations as well as fees from payments and associated products and services. Another problem is the increasing amount of data that is now available to the new players to analyze, apply big data techniques, and create new products which reduces the importance of banks in the payment space.

According to Gartner, existing retail banks will ultimately fall into two groups in the new digital ecosystem:

- Banks that have the capacity to act as PISP or AISP to add value to current offerings.
- Banks that do not change and therefore do basic retail business and will be competing only on the basis of the price of these basic commodity-like services.

Therefore, banks that do not want to lose out, must embrace the digitalization of banking, and get involved in the changing of the face of the financial ecosystem, building a business to incorporate PISP or AISP functionality into their service offerings.

In times past, the banks have led the business of acting as the middlemen (intermediaries). This role of banks continues to be diminished as a result of the expansion of the payment space, driven by the adoption of technology, and the ability to be mobile using technology. There is competition from non-Bank companies and this has posed a large threat and disruption in payments. This kind of development also transforms the nature of legislation from a previous restrictive role to more

of an enabler type of body (Riikkinen 2016: 12). Such major changes in legislation of transaction banking will shift the business area and will reorganize the roles of previous players, pushing banks to consider their strategic approaches to survive through this compulsory change to stay ahead.

The banking industry is in the middle of a large digitalization phase that, first of all, affects customers with different kinds of more convenient services, being delivered through multiple and alternate banking channels and touchpoints. This indicates how banking industry is moving to electronic and mobile services and how the nature of commercial banking has changed, also because of cashless payment services.

As a conclusion, PSD2 will further accelerate the ongoing digital transformation and will bring more transactions within transparent actions (driven by the use of technology that has a strong audit function), more convenient payment methods (beyond the use of cards, innovations that explore other payments services e.g. mobile telephones), and the decrease in the use of cash. It is important to state that the driver for this push is the size of the payment market. According to European Central Bank's (2017) payment statistics, the total number of payment transactions in EU in 2016 was 122 billion. The growth in the number of transactions in the EU for the past five years has made the payments market larger. By extension associated services that ensure and enhance the industry also grew, e.g. security and risk management services.

## 4. The Payment Market in Europe

The payment system used in the Euro area, TARGET2, in 2016 settled the average of 342.008 payments daily with their daily average value of EUR 1.7 trillion. In 2015, European banks generated an estimated revenue from retail payments (from interest, transaction and product fees) worth EUR 128 billion, forming around a quarter of total retail banking revenues (Deloitte 2015). On top of payment amounts, business-to-customer ecommerce has risen 15% in 2016 and was forecast to grow 14% in 2017 in Europe according to the 2017 European Ecommerce Report. Also, when considering how different fintech product types are affecting financial industry, money transfers and payments is the most influenced area in the digitalization process. This is because money transfers and payments have the highest adoption rate (17.6%) of all the fintech product types (Gulamhuseinwala 2015: 19–20). The number of payment transactions

in EU 3 FinTech Survey 2016 indicates that consumer banking and fund transfer and payments will be the most disrupted sectors over the next five years. Payments, ecommerce and fintech statistics indicate how timely it is to update regulations to tackle significant growth going on in this area.

The EU, the European Payments Council (EPC) and the European Banking Authority (EBA) had different parts to play in the putting together of the directive. Payment services and transaction banking industry are the industries which were the most affected and therefore are the main focus area of this paper. The EU is trying to provide a platform for efficient payment services market through payment services directives, using them as building blocks. This means that same rules apply EU-wide, there is clear information on payments, they are quick and safe, and consumers also have a more open and varied selection of payment services to choose from. Through these targets and by using directives to reach them, EU is aiming to a single payment area (SEPA) with a vision of having as easy cross-border payments as they are now in domestic transactions, and this also applies to costs (EU 2017a).

One of the main goals of the EU is to achieve a single market for people, goods, services and money, within the Single Euro Payment Area (SEPA) (European Union 2017) and this aim was initially driven through a directive in 2001. SEPA was kicked off as a result of a challenge between the EU and banks. Euros as cash were launched but cross-border non-cash payments were still expensive and complicated. This posed no problem at the time because the banks were happy to charge customers, fees at significantly high rates. High costs from handling cross-border payments came from processing, clearing and settling the payment (European Central Bank 2009a). The EU drove for change in this issue by adopting regulation no 2560/2001 which demanded banks to charge the same fees for cross-border and national payments. This factor restricted banks to charge high fees from customers while processing costs remained high – creating an imbalance between bank fees and costs for cross-border payments. This led banks to form the European Payments Council (EPC) in 2002 which is in charge of the SEPA project to reduce these costs (European Central Bank 2009b).

PSD2 is a part of EU's increasingly integrated single market. One of EU's greatest achievements is the European single market. EU has a vision of one territory with same regulation and free movement of goods and services. The aim is to encourage competition and trade, drive efficiency, create a different standard of quality and lower the costs of services provision.. If this is achieved, the target is that all member countries will gain not only from better operations within the EU, but also compete better, globally (European Commission 2017). "In a recent survey 57% of companies

said that they would increase their sales to other EU countries if the same rules applied throughout the EU” (European Commission 2017). Strategy mentions standardization to achieve its goals; technical specifications can reduce costs, improve safety, enhance competition and aid in adapting innovations

PSD2 covers the following:

- (a) It changes and improves the rules for e-payments by expanding the previous scope to take internet and mobile payments into consideration.
- (b) It increases transparency for payment services through improved requirements of conditions and information. Directive is a statement for further and better integration in EU payments market.
- (c) It releases a comprehensive set of rules for existing and new payment service providers aiming to equal competition, greater efficiency, choice and transparency of payment services (European Parliament and the Council 2015). PSD2 opens EU market to new services and providers, especially in two kinds.
- (d) It opens the payment market in EU for companies that offer payment services based on access to information about the payment account through open application programming interface (API).

The payment services can be divided into two main areas:

- (a) Account information services (AIS).
- (b) Payment initiation services (PIS).

AIS allows the user to have an overview of his or her financial situation to better manage their personal wealth and finances. AIS providers shall not request sensitive payment data linked to the payment accounts. Term PIS allows user to pay with a simple credit transfer for an online purchase providing merchant an assurance of the payment that it has been started and goods or 12 services can be provided without delay. PIS providers are permitted to store sensitive payment data of the payment service user.

## 5. Analysis

According to Accenture Research Analysis of United Kingdom Merchant Service Charge 2016, in which the evolution of retail payments revenue in the UK has been evaluated during years 2015–2020, changes in industry may lead to as high as a 43% decrease in UK banks’ revenues although the prediction has taken 20% organic growth into consideration.

The changes in industry include evolved customer demands, emerging competition, advanced technologies and regulatory initiatives. Cap on interchange fees will lead to a 27% decrease in revenues, which is the largest individual factor to have an influence, the rest is following contributions of revised payment service directive, totaling a 16% drop. A 7% estimated decrease is made by digital disruptors (e.g. Apple Pay, PayPal, MPOS (Mobile Point of Sale applications)) and a 9% decrease will be caused by payment initiation services. These numbers are only from direct losses compared to cards payments revenues (excluding interest incomes and cross border retail payments) but indirect losses could also occur, in form of losing customer ownership that will result in decreased bank-customer interactions (Accenture Payment Services 2016: 3–4). This may have a negative impact on the cross-selling of financial products and services of a large bank. PSD2 is set to accelerate industry's development which includes revenue losses for banks, but it will also create potential revenue stream opportunities which will depend on what kind of strategy does a given bank choose to implement.

The more Third-Party Processors (TPPs), primarily driven by the activities of fintechs, take control of the market the less will be the interface or exchange with the banks. This should impact the opportunities available to banks for cross-selling. The possibility for providing third parties with access to account will move the presence of a bank to the side and raise huge competition of customers' front office and their time spent in service providers' user interface or experience. This divide could be detected between front and back office services: new third-party service providers are managing user interface, user experience and direct customer contact; the front office services. Banks would take care of the back-office services, such as strong customer authentication; know your customer (KYC), anti-money laundering (AML) processes and maintaining accounts, which would be less visible to customers. Evolution can eventually proceed to breaking banking services to individual stand-alone products for a customer to use and choose from a single aggregated multiple digital service channel. Channel could be imagined as an app store, where all services are integrated with banks through open APIs to provide the apps with existing account and transactional data. This kind of banking as a platform could end up eroding their key competitive advantage, which is currently the wealth of customer data and insight (Accenture Payment Services 2016: 9).

Table2: Analysis of various Payments statistics (2013–2017)

	Cheques					E-Money					Card Payments				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
Number of payments per type of payment (mln)	3,902.8	3,616.2	3,322.6	3,026.7	2,692.9	-	2,097.0	2,388.2	2,843.4	3,417.6	46,248.5	50,355.3	55,806.5	62,215.8	69,198.4
Relative importance of payment services as a % age of total payments	3.8	3.4	2.9	2.4	2.0	-	2.0	2.1	2.3	2.6	45.1	47.5	48.3	50.1	51.6
Increase/decrease in number of importance of payments (annual a % age change)	-	-7.3	-8.1	-8.9	-11	-	16.9	13.9	19.1	20.2	-	8.9	10.8	11.5	11.2
Value of payments (eur billions)	4,072.7	3,555.5	-	-	-	-	73.6	95.7	119.4	142.1	2,375.6	2,558.8	2,854.3	2,919.8	3,052.3
Number of payments per type of payment (mln)	3,902.8	3,616.2	3,322.6	3,026.7	2,692.9	-	2,097.0	2,388.2	2,843.4	3,417.6	46,248.5	50,355.3	55,806.5	62,215.8	69,198.4

Source: ECB Payments Statistics, September 2018.

Across the figures displayed in the table above, considering the EU and not just the single market as a trend, there is no doubt that the drive toward payments is on the increase. Whilst the historical data does not prove that this is as a result of PSD2, it points to the fact, especially because of the value of payments, that there is an increase in payments. An increase in payments can only be good for e-commerce and particularly so, the third-party companies that are making inroads into the hitherto space of the traditional banks. The value of payments, using cards, as well as the increase in the relative importance of payments as a percentage of total payments supports this trend. The increase in the use of technology to drive payments also supports this trend and hence the potential for PSD2 to act as a catalyst to even further deepen the payments trend.

## Conclusions

### PSD2 and open banking

One result of PSD2, is the concept of “open banking”. Open banking is a system that allows a user with data to be spread across a network of various financial institutions. Access to this data is through the use of Application Programming Interfaces (APIs). Simply put, an API basically allows, through the use of a programming language, for disparate information or data silos to communicate and share information. The benefits are huge and lead to the ability of providing multiple products and services like the transfer of funds, ability to save in different ways, ability to make payments in an easier and flexible way, and changing the face and concept of banking, leveraging technology and the mobile phone as a device of choice and, as such, a different user experience (Banking where and how you want). The Open Banking Standard defines how financial data should be created, distributed and used. By relying on networks instead of centralization, open banking helps financial service customers to safely share their financial data with other financial institutions that may not be banks.

It improves customers’ banking experience. It allows large banks to be more competitive with smaller and newer banks and financial companies, leading to lower costs, better technology and customer service. Its regulations demand that banks publish, both online and within their branch offices, accurate and unbiased

information that lets consumers evaluate the quality of their service. This is designed to encourage banks to provide the best possible customer experience.

Open banking should change traditional banks by increasing competition, requiring older banks to do things in new ways that they are not currently doing and in line with what the fintechs are doing, requiring that these banks spend money to adopt new technology. However, banks should see this as an opportunity to strengthen customer relationships and customer retention as well as deepen the products and services they offer, by better helping customers to manage their finances instead of simply being transaction handlers.

## **PSD2 and consumers**

Consumers will enjoy economic benefits, improvement in consumer rights and in security. The directive will lead to increased competition in the e-payments market which, in turn, will lead to lower prices and increased amount of choices to customers (European Commission 2015b).

New services could mean better utilization for customers' own finance, for example through better budgeting or forecasting tools (Cortet, et al. 2016). Another impact for new services could be decreased use of credit cards and instead paying instantly from their accounts when shopping online. Although payments are somewhat shifting away from card-based transactions, the PSD2 does still ban surcharging for most card payments.

The new rules will also improve the card payment consumer experience around the EU. Among these economic benefits, consumers are better protected against fraud, and the maximum amount to be paid in case of a fraud is lowered (European Commission 2015b).

## **PSD2 and Providers**

Third party providers are companies that provide payment services and they can be divided roughly into two groups, which are fintechs and tech giants. Fintechs are agile companies that utilize technology with a small focus to achieve a niche market.

They have been disrupting every part of financial services and payments as well. Large tech giants, or big techs, have entered payments business area, and they include for example Apple (Apple Pay), Samsung (Samsung Pay), Facebook Messenger payments, Alibaba (Alipay) and Tencent (TenPay) to mention a few (Cortet et al. 2016).

These companies have customer surface, data, resources, capital and technology expertise to use for competing payment services market. They are already connected in consumers' daily life which basically provides a payment infrastructure directly to the user.

Fintechs are focusing to improve a specific part of banks' operations and conquering a niche market from them. They apply technology in a new way to create an innovative service that outplays banks' current offerings. Fintechs have an eye for designing, building and executing a very specific component of current value chain improving it to become better, cheaper and faster than banks. Open API opens space even more for this kind of business to cover convenience, user experience and functionality gaps that exist. By discovering these and implementing a 'narrow finance' strategy, which is focusing on a specific part of the prevalent business model, they might be able to create a superior alternative, which PSD2 encourages.

After creating a successful alternative, they are open to expanding their product offering to other services and raise risk from a niche market to the whole portfolio of banking services (Cortet, et al. 2016).

SEPA venture and PSD2 are making EU increasingly attractive in the eyes of fintech operators and payment service users. Although PSD2 opens up in terms of innovation, the situation may still not be as beneficial as it can be because of national situations.

The biggest obstacle, especially in fintechs, is the lack of capital and its allocation to financial services startups. Also, collaboration between banks and fintechs is in an early stage. PSD2 pushes incumbent players to form partnerships with fintechs.

It is very obvious and certain that services like payments need regulation. Some views might disagree, but generally customers are not able to decide.

Looking at the benefits of PSD2 further:

1. It contains specific pro-competition provisions which force the stronger players in this sector to open up to authorised new players. However, there are certain minimum standards that companies taking advantage of this opening up need to adhere to.
2. It provides a unified regulatory space across Europe. This is good for scaling, because it means that the additional cost of accessing another country can be kept at a minimum. This, of course, is particularly useful and beneficial for technology

companies because of their cost-structure that is usually very heavy on fixed costs—the ability to spread those costs over more customers is an immense strategic advantage.

The summary of this with respect to access is that is easier for companies that are based in one-member state, working on innovative payment services, to be able to quickly and efficiently deploy across the entire single European economy.

## PSD2 and the Impact of “Brexit”

So, what happens if the UK leaves the European Union?

**Table 3: Analysis of Card payments in the UK with Europe**

Country's share in the total EU value of payments (%)	Card payments				
	2013	2014	2015	2016	2017
UK	37.0	38.4	41.0	37.5	35.0
EURO AREA	53.3	52.0	50.2	52.6	54.4
EU	100.0	100.0	100.0	100.0	100.0

Source: ECB Payments Statistics, September 2018.

The table 3 above shows the size of the payment space in the UK alone, in comparison to the euro area as well as the European Union as a whole. Clearly the UK payments space is quite important in Europe and will continue to be important post-Brexit. This is an important factor that must be considered within PSD2.

PSD2 relates to the European Economic Area (E.E.A) not just the E.U. The lack of certainty with respect to the type of relationship that the UK will have with Europe post-Brexit, means that a good number of financial institutions are planning for some form of E.E.A relationship with Europe rather than an isolationist role on the continent. Compliance with PSD2 will be necessary to interact and thrive with broader European payments and finance. It will not make any economic sense if the UK finance industry became at variance with the rest of Europe. Existing banks, as well as the new fintech players in the UK understand the need to keep innovating with technology and finance and will do well to keep engaging and adhering to European standards, as much as possible, irrespective of the decision of the UK government. Of particular note is home shopping, which has grown tremendously

with people doing more shopping on the Internet, and goods being delivered from across the world into Europe (Amazon is a case in point). There is absolutely no doubt that home shopping is a big business, has come to stay and will only get bigger. Whilst PSD2 talks about home shopping it is slightly ambiguous.

In conclusion PSD2 will no doubt push the EU in the right direction with respect to payment systems as technology increasingly becomes the driver of financial services. The future of the PSD2 largely depends on the success of non-bank service providers being able to use technology to drive the way payments are done in Europe. The ability of the traditional banking methods to be altered and the use of mobile technology in delivering services, reaching areas and people that were hitherto unreachable and not profitable to be banked (the unbanked). Therefore, the directive should revolutionise the use of financial data in bringing a wider set of services and also drive the growth of electronic business, and bring the euro area market, irrespective of the base market of traders, into play and hence increase revenues.

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**JAKUB PAVELEK\***

# Assessment of Factors Causing the Sovereign Default

## Abstract

*The aim of the study was to evaluate some of the factors, which are often thought about as causes of the sovereign default and to find out, if there are other factors influencing it. To this end, methods of analysis, comparison and deduction are used.. Analysed countries are such, with recent history of default. Using chosen methods, it was found out, that some of the factors, which are evaluated by rating agencies and international organizations, do not have influence on default likelihood. On the contrary, that probability is influenced by some other factors, which are not discussed so often.*

**Key words:** Sovereign default, sovereign debt, economic and financial crisis.

**JEL Classification:** E32, E66, H12, H63.

## Introduction

Few years back, for example, in the media, as well as in regular conversations, we could see the emerging economic crisis of the European countries and their higher or lower probability of failing to meet their obligations. Also, for politicians, this is a frequent topic by which they can set the course of the economic policy in one direction or the other. It may be worth remembering the crisis of the Greek sovereign

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debt. This was the first impulse to pursue this issue, because it was almost a dogma that Greek debts were disproportionately high, and if the Czech economic policy could not recognize any major changes, particularly in the area of debt reduction, they would meet the same fate.

The aim of this thesis is therefore to confirm or disprove the theory, if possible, based on the most accurate interpreted data and quality research done by world economists. The task is not to provide exhaustive answers to all the questions raised but rather to describe the possibility of another approach to looking at state bankruptcy.

The methods used are based on the description of given data and their comparison in time and space. Of course, theoretical principles will be used to understand the phenomena associated with these factors. The last of the methods used will be deduction and induction, which will aid the author to draw conclusions and above all to attempt to confirm or disprove the given hypothesis.

European Union has its own rules regarding economy of countries whose goal is to make sure these countries do not go through sovereign debt crisis which could lead to sovereign default. These rules are known as Convergence criteria and Stability and Growth pact.

## 1. Theory of Sovereign Default

Although the sovereign default is a relatively frequent issue from a historical point of view and perhaps more current than usual at present, it is quite overlooked in theory.

The definition given by the Universal Encyclopedia Universum for the word bankruptcy is *the insolvency of the debtor*. It also states that bankruptcy is a criminal offense if the debtor has caused it by being reckless, negligent or fraudulent. The origin of this word is generally recognized by the theory that it is a combination of two words from old Latin, namely *bancus* (bench or table) and *ruptus* (broken). Bankers at that time practiced trade on such benches and, in the event that they were unable to meet their obligations and continue their business, their benches were dismantled to mark their bankruptcy. Another possible explanation for the origin of the word is its origin in French from the words *banque route*, which could be freely translated as a sign on the table. This is derived from some of the French bankers'

experience when the only thing left after such banker was just the sign on the table where he ran his business (New Generation Research, Inc.).

In the case of sovereign default, Standard & Poor's defines it as inability to pay the principal or interest on the principal within the deadline agreed upon at the time of its creation. This occurs in one of two cases:

- in the case of government bonds or treasury bills issued in domestic or foreign currencies, provided that the debt service is not paid within the set deadline or a new agreement has been reached which has less favorable conditions for the lender than the original agreement,
- when the currency issued by the central bank changes and the debts are converted into a new currency, thus reducing their value (Borensztein, Panizza 2008).

The theory of the Austrian school is based primarily on the link between bankruptcy and the business cycle and assumes bad investment resulted from the bad policy of national central banks. According to this theory, the low interest rate (which is not created using market principles, but by the central bank intervention) and therefore very cheap money in times of economic growth leads to the development of inefficient investments and excessive consumption. It lasts until the opportunities for these investments and consumption are exhausted. This is followed by a period of economic downturn when these companies and states are paying for the misallocation of these investments, leading to default, as described by Mises (2006).

For endogenous money theory, there is an essential view of the so-called monetary multiplier in the economy. This theory perceives a big problem in the fact that most of the money in circulation is covered by a debt that arises when banks do not have 100% reserves of deposits placed in them. This then leads to the creation of uncovered money in circulation. Rothbard (2001) then argues that because money-making banks are out of the question, they are long gone bankrupt. But it will not be until the time when the lawful owners of the money are again interested in this money, the so-called run on the bank, and the banks almost overnight will appear in insolvency, which then spreads to the whole economy. With the decreasing amount of deposits, the monetary base is quickly sinking in the economy, so it is not only impossible to repay the debts, but later even the interest on these debts, and this leads to another wave of bankruptcies. The economy gets into a spiral which is very difficult to get out of.

However, we also know of the history of cases in which individual countries become insolvent for political reasons rather than for economic ones. This may occur, for example, because of warfare, or change of government, whether in a peaceful or violent manner. For example, this new government may not feel responsible for the commitments of its predecessors and therefore refuses to pay them. One of

the most famous of such cases is Russia where exactly this happened after Great October Revolution. Mexico after the revolution in 1914 is another example. Recently, this solution was once again up to date and noticeable in Greece, where the new government sought to negotiate with its debtor, by negotiating new conditions for repayment. A logical but not justifiable reason is then to expel government obligations to the countries which the country is in conflict with. For example, Bulgaria, Turkey and Austria-Hungary, at the beginning of the First World War, have used this move. Another reason for default can be the distrust of investors in the new government and the subsequent withdrawal of capital from the country, which results in such problems. Cesnak and Penev (2011) add that most defaults are internal or external to the country's economic problems, not political decisions. However, Reinhart and Rogoff (2013) oppose this view, pointing to the fact that more than half of sovereign defaults since 1970 occurred due to reluctance, rather than the inability of states to repay their commitments, and add that this situation in history is certainly not exceptional.

Equally serious and, in modern times, the more frequent reason for the default is badly implemented economic policy, whether fiscal or monetary. In fiscal terms, this is mainly a long overstatement of state expenditures over its revenues. In this case, the deficit of the state budget is covered by debt, in the best case domestic, in the worst foreign (Reinhart, Rogoff 2013). In the case of monetary policy, the reason for bankruptcy may be, for example, fixing the exchange rate for another currency at a rate that does not correspond to reality at all. Such solution then attracts speculators to the attacks on the currency, as demonstrated by, for example, Argentina, but also the Czech Republic (Krugman 2009) or the lack of control of inflation, which often leads to a depreciation of the currency value and in such way foreign debt becomes unmanageable (Cesnak, Penev 2011).

Interestingly, the question is whether, in terms of history, the worse implications of default are on domestic or foreign debt. Reinhart and Rogoff (2010) seek to find an answer to this question. However, they warn that it is not easy at all. The reason is that, unlike foreign defaults, domestic is relatively difficult to define. It can only be a default *de facto*. In the end, however, they have researched that default on foreign debt is relatively more damaging to the country. Probably the biggest problem is the fact that such default is far more visible, more thoroughly discussed by the media and cannot be hidden for home accounting and quietly dealt with by home creditors.

A country going through insolvency must inevitably face a slump of credibility. In short term, it certainly cannot avoid lower access to credit, and of course high interest rates if the loan is successful. In the long run, there is no noticeable reduction

in confidence if a country can meet the conditions under which debt restructuring and repayment of its debt have been processed.

Country affected by the defaults is in difficulty with the payment of pensions, various social support contributions or salaries of state employees. This often leads to a slump in consumption, followed by a rapid increase in unemployment and a consequent reduction in the standard of living. This whole process can lead to street riots, sometimes even violent and to the support of radical nationalist parties and the like.

If the debt was largely domestic and not foreign, then a large proportion of the population lost its savings, which again leads to a reduction in investment and domestic consumption, a reduction in GDP and living standards. In this situation, the state should pursue an expansive economic policy, but it is hands tied (Borenzstein, Panizza 2008) because of the very strict conditions of state debt restructuring.

Announcement of default will make it harder for the financial markets and for domestic entities. The default can trigger instability in the domestic banking system, which results in distrust of clients who start collecting their bank money in bulk. If the country was to be trusted, it could be a guaranty for banks, but in the event of default, the state would not be able to prevent this situation. This may result in a complete collapse of the banking system. In the event of default, confidence in the domestic currency will decrease and demand will decline, resulting in a weakening of the exchange rate. This process will increase the net debt of the country and the cost of its operation if denominated in a foreign currency (Cesnak, Penev 2011).

Bankruptcy may also lead to a loss of confidence in domestic financial institutions, especially under the assumption that most of the debt is made up of domestic loans. One of the biggest problems that may arise in this case is a bank run. This can happen because depositors will be afraid for their deposited money, which can result in large turbulence in the banking sector and in some cases even in a complete loss of bank ability to pay off their clients (Cesnak, Penev 2011). In addition, banks that hold many government bonds that are undergoing bankruptcy will find themselves in great trouble and in need to rethink their strategy. They can stop lending to the private sphere because of fears of debtors' insolvency, which would put them in even bigger problems (Borenzstein, Panizza 2008).

## 2. Analysis of Chosen Countries

In this part the macroeconomic data of individual countries that have recently gone through sovereign default will be analysed and compared. This analysis will be performed according to some of the factors used for rating created by Moody's rating agency, which are described in more detail above. Countries are selected from among those that have gone bankrupt since 1998, listed in Moody's (2008) and Moneybeat (2014).

Since 1998 more than dozen countries went through a certain phase of bankruptcy or restructuring, some of them even more than once. Table 1 lists these countries in the order in which their bankruptcy occurred. In addition, it shows the total amount of debt, which has been written-off.

An analysis of factors that may be involved in declaration of sovereign default will now be made. First, some factors which Moodys' agency uses for the evaluation of the ability to meet commitments, and then certain factors that the author thinks might have an impact on that fact.

First, as shown in Table 2 is average GDP growth. These data are averaged over the five years preceding the year of bankruptcy. The year itself is not included, mainly because the debt default event itself can significantly affect this indicator each year and could easily mislead the data and results.

As Table 2 shows, the values are very different and vary from a very significant fall in the case of the Russian Federation and Ukraine to the relatively high growth of Belize and Ecuador. It is to be remembered that Ukraine and Russia were going through the very wild transformation during the whole period of the 1990s, which was the main reason for such a sharp drop in gross domestic product and this cause had effect on the defaults of both countries. Excluding these values, observation can be made that in the clear majority of cases these are countries with GDP growth, and in some cases also quite high values, and even if we count these post-Soviet countries, then the count of monitored countries experiencing economic growth is higher than countries in economic decline.

For this reason, although it is a relatively small sample of data, it is obvious that this indicator itself is not of great value regarding the risk of bankruptcy in the country and its inclusion in the overall composition of the index must be subject to additional adjustments, just like those chosen by Moody's, such as adding of the rate of GDP growth volatility.

For GDP value as well as for GDP growth rate, data from years preceding the crisis are used for this indicator. However, the question arises as to whether it is appropriate to compare the individual countries with their GDP at nominal value if different time periods are concerned. Finally, the author decided to compare GDP at constant prices in 2005 and thus to use somewhat more authoritative data. The exception is data for the State of Jamaica, for which the GDP value at constant prices was not available and therefore a nominal GDP indicator is used.

After a brief look at the Table 2, it can be noticed that countries that are ranked by the raw GDP value as economically weaker are more vulnerable to defaults than large countries with big GDP. Large states can use their economic power to balance their debts, and they have the advantage of having a larger state budget than small and economically weak states. In such a large budget, money to repay debts is easier to find. Finally, it is still worth to mention the advantage of the big states in their negotiating position with creditors.

In Table 3 there is an index of government efficiency. This is a composite index, compiled yearly by the World Bank. Every component has values from  $-2.5$  to  $+2.5$ , with the lower number meaning a worse result. From these data the world ranking is composed. Its aim is to evaluate the legal environment in the country, the efficiency of government and the level of corruption. Especially in the case described in Greece, it was clear that the level of corruption in the country, the inability of the country's government to promote law and respond flexibly and effectively to the problems could be a great burden for the state. Traditionally, in this respect, the best values are for example in the Scandinavian states, with their results approaching the value of 2. The opposite side of this ranking lists exclusively African countries, the result of which is close to  $-2$  (WB, 2015b). Many economists agree that an appropriate and stable institutional environment in any given country is a key factor in economic growth and stability.

From this data it is possible to confirm this hypothesis, because most of the monitored states are below the average in the investigated areas, and in some cases even well below it. This is the main reason why the rescue loans granted by international institutions for the states in time of crisis are linked to the requirements for essential measures in the political and legal system of the state.

As far as this indicator is concerned, it is quite possible to say that there is a vast interdependence between government stability and the default risk in the country, and therefore it is recommended for this indicator to be included in the country's overall assessment.

The inflation rate, found in Table 2, is high in the countries under review. This could be an advantage for the state as a borrower, as the real value of its debt would be reduced. Of course, this relates to just the domestic debt. Inflation can be an accompanying phenomenon of a large depreciation of country's own currency against foreign currencies, and this would mean that debts in foreign currency would have greatly increased and could result in being unable to repay the debt, which has also often happened.

Moreover, if the inflation rate is high and unstable, it is a major problem for the country, as this discourages potential creditors who would be willing to lend to it. The country then does not find enough money to make it possible to repay its previous commitments.

In principle, however, it could be summarized from the previous data that excessively high inflation is often a precursor to major economic turmoil and sometimes the risk of default.

In case of raw debt size, as seen in Table 2, is to some extent confirmed by the results of Reinhart and Rogoff's work, and therefore the overall debt burden of the government is not the main reason that states would go through defaults. Out of the fourteen cases (data for Ecuador in 1999 were not available), a total of eight of them did not reach those imaginary magical limits that is 60% of the debt-to-GDP ratio set by the European Union for joining the currency union. There are even countries that have not had a 30% debt to GDP, which is a very good result that many mainly European countries are currently not achieving. It is possible that, in these cases, the decision to pay off debts was based on political rather than economic factors.

However, it is important to recall that this is only a static number and tells us nothing about the dynamics of public debt development or the size of the debt service of a given country. Smaller countries, like Dominican Republic, generally have a much weaker bargaining position and therefore are often unable to manage their debt as cheaply as other states, and then are unable to pay that high interest rate.

Here are some of the factors that Moody's does not consider, but which the author thinks might affect the ability of the country to meet its obligations. Factors were selected without knowing in advance whether they have an impact. These factors include unemployment, the size of the country's foreign currency and gold reserves, and the balance of the current account of the balance of payments, reflecting the external balance.

Unemployment (Table 4) is one of the biggest problems that every government must face. Because this is a very politically hot topic, governments are always trying to deal with it. One of the reasons why unemployment has been included in this

comparison is that governments are perhaps too busy with fighting unemployment and their focus is not on another task which may be worth their attention, and they are investing too much in addressing the issue of unemployment. The second reason is the bad effect of unemployment on the country's economic performance. On the one hand, a country with an unemployed population can never reach the peak of its potential and high unemployment creates social tensions and various criminal phenomena. Finally, it is a major problem for the state budget, both on the revenue side and on the expenditure side.

More than half of the countries surveyed had two-digit unemployment a year before bankruptcy. Then some, like Ukraine in 1997 and Peru, were very close to those two-digit values. Of course, one cannot claim that the only correct unemployment is the one with zero value, but the higher the unemployment rate, the worse the risk of default.

While unemployment may not be the direct cause of the state becoming insolvent, high unemployment is a concomitant phenomenon of various types of crises that can rapidly grow in the context of this problem.

Especially at a time when the country is experiencing financial turmoil it is worthwhile to have a large amount of government financial reserves (Table 4). The problem, however, is that countries rarely know when these problems arise and therefore they should keep their reserves stable. The risk that often occurs in such situations is usually citizens' attempt to purchase currencies of other states or as many material products as possible, fearing that the domestic currency's price on the world's currency markets will drop too much, and this will then be reflected in the prices of goods and services. Another problem that often occurs in this situation is the attack of speculative capital with the goal of depreciation of the currency and making the most of this depreciation. The risk is all the greater if the home country's currency is for any reason pegged to any foreign currency. For the state to be able to at least partially protect its currency from external influences, it should keep these reserves adequately high. Especially countries which have large external debt must have big reserves.

Other significance is the need to have reserves in times of economic problems in the country, due to the possibility of short-term balancing of the balance of payments.

It can be seen from Table 4 that states are not likely to have a larger amount of foreign exchange reserves, at a percentage of their gross domestic product. There are, of course, those with their debt to GDP size in tens of percent.

It cannot be specifically said that the amount of foreign exchange reserves would in some way affect the risk of bankruptcy of the country. It depends, above all, on

other factors, so it is not appropriate to include it in the country's assessment. One reason is also that it is difficult to determine a safe amount of foreign exchange reserves for individual countries. Though, they should be higher the bigger is foreign debt of that country.

The size of the current account of balance of payment may be a clear indicator of imbalances. From the data in Table 4, a large majority of countries have a negative value for their current account balance. This adds to the problem of the state budget deficit, which leads to a double deficit in many countries, which may prove to be a key risk. Indeed, it is clear from the table that passive current account balances can be one factor that, although not necessarily directly influencing the country's ability to meet its obligations, serves at least as a measure of this possibility. Countries with positive current account can use their export to get out of time of crisis and to import foreign currency necessary for payment of foreign debts.

## Conclusions

This topic has become more and more important a few years ago, as the words crisis, economic policy, or sovereign default were discussed very often in all parts of political and public life. That is why it is necessary not only to discuss the issue among the public, but above all to carry out more high-quality research to better understand how the crisis works, how it affects economic operators and, above all, how to effectively reduce its effects. These studies are more important now, when after the last economic crisis, economic theories seem to have stopped working and economists do not know how to deal with the situation.

The aim of this work was to find out whether there are some indicators, common to the states that have recently gone through default and whether they could be universal and used to predict default. This is, of course, done by dozens of institutions around the world, but some economists do not refrain from criticizing the said institutions and their way of calculating these indicators, so the question is whether these indicators are calculated correctly. Using empirical analysis, the factors that played a key role in these crises have been selected and were subjected to a more rigorous review. It has been found that, although credit rating agencies use a wide range of data for their analysis, some of them may not have the best and most representative values. On the other hand, there are other factors that may, according

to the information found, have a greater impact on the risk of default but which these agencies do not deal with.

One of the drawbacks that emerged when writing this work is the amount of data that needs to be collected and appropriately described. Another problem is the small number of countries that have recently gone through default. The last of the problems that occurred during writing was the fact that data comparison, which is limited to states at the time of bankruptcy, may not be the most obvious. Sometimes, for example, it cannot be clearly determined whether an individual factor has a large or small share in the risk of default, unless we can compare it with countries that were stable at that time. However, such a comparison would, unfortunately, greatly exceed the capacity and scope of this work and could not therefore be done.

Overall, it is a very interesting and relatively unexplored topic that is worth attention and further research. It would certainly be appropriate to deal with the subject more deeply and with more precise statistical methods, because recently, it seems that a new kind of crisis is entering the economic world and therefore it should be better understood, as easily as possible together with the possible ways of how to combat it in the most effective way.

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## Annexes

**Table 1: Countries with the history of default**

Country	Year of the Default	Size of Defaulted Debt (mil. USD)
Venezuela	1998	270
Russia	1998	72 709
Ukraine	1998	1 271
Pakistan	1999	1 627
Ecuador	1999	6 604
Ukraine	2000	1 064
Peru	2000	4 870
Argentina	2001	82 268
Moldova	2002	145
Uruguay	2003	5 744
Dominican Republic	2005	1 622
Belize	2006	242
Ecuador	2008	3 191
Jamaica	2010	7 900
Greece	2012	138 000

Source: World Bank (2018).

**Table 2: GDP, sovereign debt and inflation of selected countries**

Country	Year	Average GDP growth (%)	Real GDP (mil.USD)	Inflation rate (%)	Sovereign debt (% GDP)
Venezuela	1993–1997	1.61	131 186.9	38.42	34.588
Russia	1993–1997	-5.51	511 902.8	14.77	115.980
Ukraine	1993–1997	-12.47	57 423.3	15.94	46.537
Pakistan	1994–1998	3.42	79 409.1	6.23	75.212
Ecuador	1994–1998	3.17	34 011.5	36.1	–
Ukraine	1995–1999	-5.46	56 219.5	28.2	43.790
Peru	1995–1999	3.56	59 204.9	3.76	44.390
Argentina	1996–2000	2.66	201 959.8	1.04	44.886
Moldova	1997–2001	-0.02	2 252.3	12.09	69.160
Uruguay	1998–2002	-2.19	15 387.5	16.54	111.546

Country	Year	Average GDP growth (%)	Real GDP (mil.USD)	Inflation rate (%)	Sovereign debt (% GDP)
Dominican Republic	2000–2004	2.86	31 089.9	2.69	21.290
Belize	2001–2005	5.34	1 114.2	4.48	90.632
Ecuador	2003–2007	4.56	44 283.9	13.85	22.237
Jamaica	2005–2009	-1.3	*12 125.0	9.88	143.414
Greece	2007–2011	-3.12	222 545.1	0.77	156.494

Source: World Bank (2018).

**Table 3: Government Indicators**

Country	Year	Control of Corruption	Government Effectivity	Rule of Law
Venezuela	1997	-0.95	-0.83	-0.82
Russia	1997	-0.94	-0.77	-0.97
Ukraine	1997	-1.15	-0.92	-1.12
Pakistan	1998	-0.82	-0.58	-0.95
Ecuador	1998	-1.01	-0.80	-0.69
Ukraine	1999	-1.07	-0.75	-1.14
Peru	1999	-0.49	-0.09	-0.69
Argentina	2000	-0.34	0.06	-0.20
Moldova	2001	-0.95	-0.61	-0.64
Uruguay	2002	0.94	0.50	0.59
Dominican Republic	2004	-0.59	-0.55	-0.68
Belize	2005	-0.27	-0.15	-0.16
Ecuador	2007	-0.79	-0.85	-1.18
Jamaica	2009	-0.38	0.20	-0.50
Greece	2011	-0.25	0.31	0.39

Source: World Bank (2018).

**Table 4: Unemployment, Monetary Reserves and Current Balance**

Country	Year	Unemployment rate	Monetary Reserves (% GDP)	Current Balance (% GDP)
Venezuela	1997	-	19.38	4.356
Russia	1997	10.19	4.35	-0.02
Ukraine	1997	9.80	4.70	-2.574
Pakistan	1998	6.01	2.58	-2.081

Country	Year	Unemployment rate	Monetary Reserves (% GDP)	Current Balance (% GDP)
Ecuador	1998	11.50	6.21	-8.115
Ukraine	1999	11.90	3.46	5.076
Peru	1999	9.40	18.35	-2.789
Argentina	2000	17.13	8.85	-2.635
Moldova	2001	7.30	15.47	-1.809
Uruguay	2002	16.75	5.67	2.802
Dominican Republic	2004	6.15	3.73	4.426
Belize	2005	11.00	6.71	-13.572
Ecuador	2007	8.80	6.90	3.697
Jamaica	2009	11.35	17.12	-11.009
Greece	2011	17.86	2.33	-9.897

Source: World Bank (2018).



**ABDELHAK ZEGRARI\***

# **Euro – Méditerranée: Choc Migratoire, Etat des Lieux**

## **Abstract**

*Dans un contexte migratoire moins tendu, du moins en termes de flux, un bilan des dégâts de la violente tempête méditerranéenne n'est pas superflu; il nous aidera sûrement à mesurer le long chemin qui reste à accomplir dans la construction de l'union. Cette improvisation dans sa gestion a révélé les problèmes qui ont ébranlé le rêve européen, notamment après le Brexit. Sans une remise en cause fondamentale de son mode de fonctionnement, et un sursaut collectif et urgent, l'Union ne restera qu'un vaste marché de libre échange livré au diktat des places financières, loin des préoccupations de ses citoyens. Il est vital, pour son équilibre, de renouer avec le sous-ensemble méditerranéen, comme partenaire historique privilégié et non comme auxiliaire de la surveillance de ses frontières. A la croisée des deux visions, pays d'origine et pays d'accueil, il est opportun de contribuer au débat pour tenter de répondre aux défis posés par les flux humains au sein de l'Union Européenne.*

**Key words:** migration, gouvernance, Europe.

**JEL Classification:** J15.

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## Introduction

La mondialisation, les conflits armés, le réchauffement climatique et la mal-gouvernance ont jeté sur les routes 258 millions de personnes en 2017, dont 65 millions de déplacés de force (UN DESA), fuyant misère, persécution et violence. La crise des réfugiés derrière nous, on mesure à présent l'incapacité de l'Europe à gérer un afflux massif de réfugiés, creusant un fossé d'incompréhension entre l'Ouest et le pourtour méditerranéen. L'accueil des réfugiés a été une aubaine pour une Europe riche et prospère, mais vieillissante, et vécu comme un fardeau pour les pays surendettés et en première ligne face aux deux vagues migratoires successives. La crise a surtout donné une autre dimension à un mal qui rongait déjà en profondeur les sociétés, transformant des régions historiquement europhiles en eurosceptiques. Il s'agit ici, dans une approche méthodologique globale, et à partir de l'exemple français, de faire un bref survol de toutes les composantes de la problématique migratoire; loin des idées reçues, des tabous et des anathèmes. L'analyse de publications abondantes sur le sujet ainsi que de données d'organismes internationaux, rapprochant éléments empiriques et représentations de l'expérience migratoire, permet une réflexion raisonnée sur les défis non relevés jusqu'à présent. En décembre 2017, Dimitris Avramopoulos, Commissaire européen chargé de la migration, des affaires intérieures et de la citoyenneté, affirmait dans la presse: „Nous ne pouvons pas arrêter la migration. Mais nous pouvons mieux gérer ce phénomène, de façon plus intelligente et plus proactive. Cependant, nous ne pouvons y parvenir si nous n'acceptons pas un changement dans notre attitude et dans notre récit” (Politico, 21.12.2017).

## 1. Crise Migratoire: Gestion & Impacts

„Avant d'être une terre d'accueil, l'Europe a été une terre de départ, et elle a du mal à se considérer comme un continent d'immigration car celle-ci ne fait pas partie de l'identité collective des Etats européens” (Wenden 2009). Et le choc de l'arrivée massive de réfugiés en 2015 va soulever une crise „d'autochtonie”, après avoir couvé pendant des décennies de difficultés économiques et sociales. Les récents sondages Eurobaromètre réalisés par la Commission européenne ont indiqué que la migration était la principale préoccupation des citoyens à 48% en 2016 (contre 38% en 2015).

Dans un rapport de juin 2018, l'OCDE soulignait que la crise des réfugiés a accru les préoccupations de l'opinion publique quant aux avantages supposés des migrations, avec des inquiétudes sur les salaires ou l'emploi (Brandt 2018).

Concernant la crise des réfugiés syriens, la mal préparation de l'Europe à un tel événement a révélé de graves dysfonctionnements dans les mécanismes d'alerte. Pour Yves Pascouau, s'il y a eu réaction, c'est que les mécanismes de prévention n'ont pas fonctionné, malgré des rapports alarmants du HCR et de Frontex.

ARA 2015 „In 2014, detections of illegal border-crossings reached a new record, with more than 280 000 detections. The unprecedented number of migrants crossing illegally the external borders has roots in the fighting of Syria that has resulted in the worst refugee crisis since the second World War. Indeed, most of the detections at the borders concerned migrants from Syria, who later applied for asylum within the EU (...). As regards the wider geographical context, two issues clearly stand out: the conflict in Syria and the continued volatility in North Africa countries, notably Libya (...). The large number of displaced Syrians in the Middle East and North Africa suggests the Syria will likely remain the top country of origin for irregular migrants and asylum seekers in the EU for some time to come. Looking ahead, the likelihood of a large number of illegal border-crossings to the EU is high and so is the probability of a large number of migrants needing assistance in terms of SAR operations (but also the provision of international protection) in particular in the southern section of the external border, on the Eastern Med and the central Med routes. Many migrants who cross illegally and apply for asylum are not detained and thus continue making their journey within the EU” (Frontex 2015). Cela met en lumière la responsabilité collective des Etats membres qui ont refusé de prendre en considération tous les rapports, la question migratoire demeurant une question nationale et non communautaire, avec son agenda politique national. D'où une situation d'urgence, avec son lot d'improvisations et de recommandations qui ont peine à être appliquées (Pascouau 2018).

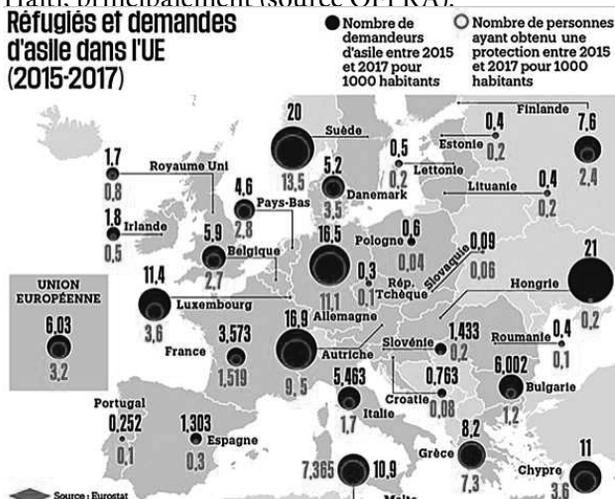
La crise des réfugiés, après la crise de l'euro, a eu le mérite de confirmer la prédominance de l'Allemagne au sein de l'UE, devenue une extension d'elle-même; et on peut dire que l'immigration a été européanisée et que l'Europe s'est germanisée, ce qui est bon pour l'Allemagne, est bon pour tous les autres, ou comment camoufler sa politique migratoire en politique de l'asile et des réfugiés en utilisant la machine de Bruxelles pour la mettre en œuvre et la légitimer. En 2016, PROGNOSE AG, un cabinet de conseil, avait estimé que l'Allemagne aurait besoin de 500 000 immigrants par an jusqu'en 2040, pour éviter un déclin de l'offre de travail. De plus, la coûteuse politique nataliste d'Angela Merkel semble avoir échoué; les deux tiers de la population auront

n'est plus suffisante pour combler le déficit démographique. Actuellement, 70 000 emplois de service à la personne ne sont pas pourvus.

Cette politique des réfugiés vendue comme une politique européenne aura des conséquences désastreuses sur l'électorat des autres pays de l'Union, qui craignent le moment d'adopter les mêmes mesures. C'est la montée en puissance des partis populistes et le Brexit... la Grande Bretagne étant déjà sous tension depuis 2004 et l'arrivée de centaines de milliers de travailleurs de l'Europe de l'Est, Tony Blair ayant renoncé à la période de transition et laissant la mobilité prendre effet immédiatement sur le marché du travail.

„Dans les années à venir, il appartiendra aux historiens de démêler les mobiles qui se cachent derrière l'ouverture des frontières allemandes à la fin de l'été 2015. Il semble y avoir eu un désir de détourner l'attention du massacre du gouvernement grec Syriza inspiré par l'Allemagne et de regagner une certaine hauteur morale en présentant un contraste favorable avec la jungle de Calais qui attirait l'attention inlassable de la presse, et surtout, des réseaux sociaux allemands” (Streck 2016).

Pour ce qui est de la France, sa part dans les demandes d'asile est relativement modeste, avec 86 000 demandes en 2016, pointant au onzième rang dans l'UE, un tiers des demandes recevant une réponse positive. Il est même difficile de parler de crise migratoire à la situation de l'Allemagne, la Suède ou l'Italie. Elle n'a reçu que 6.6% des demandes en Europe, soit 63 935 premières demandes, 14 436 mineurs non accompagnés. Des droits ont été accordés à 26 428 demandeurs (réfugiés + protection subsidiaire), dont 38% de femmes, provenant du Soudan, de la Syrie, de l'Irak et d'Haïti, principalement (source OFPRA).





Source: [https://www.liberation.fr/checknews/2018/06/14/tout-ce-que-vous-avez-voulu-savoir-sur-l-accueil-des-migrants-en-europe\\_1659229](https://www.liberation.fr/checknews/2018/06/14/tout-ce-que-vous-avez-voulu-savoir-sur-l-accueil-des-migrants-en-europe_1659229) [consulté le: 30 novembre 2018].

En fait cette crise des réfugiés va se traduire par une multitude de crises, une „polycrise”, pour paraphraser J-C Juncker, le président de la Commission européenne.

**1.1. Crise de l'accueil:** hormis l'Allemagne et la Suède, les Etats européens de l'Ouest comme ceux de Visegrad ont monté beaucoup de réticence quant à l'accueil des réfugiés, laissant la plus grosse part aux pays du sud, la Grèce, Malte ou Chypre, pays qui ont peu de moyens et qui sont déjà très touché par la crise économique. Ces pays sont eux même des pays d'émigration, devenus pays d'immigration par la force des choses et n'ont aucune tradition historique d'accueil. Plus sournoisement, certains pays comme la France font savoir qu'ils avaient épuisé tous les moyens d'accueil; et pendant que le Pape appelait à plus de fraternité et de générosité, l'archevêque de Budapest soutenait Orban! Dès septembre 2015, le président de la Commission dans son Discours sur l'état de l'UE déclarait: „Nous devons ouvrir des couloirs légaux de migration. Disons-le clairement: cela ne permettra pas de résoudre la crise actuelle des réfugiés. Mais avec davantage de routes sûres et contrôlées sur l'Europe, nous pourrons mieux gérer la migration et rendre moins attrayante l'activité illégale des trafiquants d'êtres humains. N'oublions pas que nous sommes un continent vieillissant qui connaît un déclin démographique. Nous allons avoir besoin de talents.

La migration doit peu à peu cesser d'être un problème à résoudre pour devenir une opportunité bien gérée" (Discours 9.9.2015). Or, on a assisté à un changement de mentalité de l'Allemagne, où la politique d'accueil a été vite étouffée par l'arrivée massive de syriens, alors que le pays n'y était pas préparé.

**1.2. Crise de la solidarité:** pendant que l'Allemagne ouvrait grand ses portes aux réfugiés syriens, les autres pays attendaient, médusés, pour voir ce qu'il allait en résulter. L'Italie, livrée à elle-même depuis les événements de Lybie, espérait toujours un sursaut européen, ainsi que la Grèce, Malte et l'Espagne. Un fossé s'est creusé entre ceux qui demandent plus de solidarité et ceux qui veulent plus de responsabilité, pour plus de solidarité, „une solidarité flexible” proposée par Angela Merkel, c'est-à-dire que les pays refusant d'accueillir des réfugiés, s'engageraient autrement, soit en apportant des moyens supplémentaires à Frontex, soit en augmentant leur aide au développement en direction de l'Afrique principalement.

**1.3. Crise politique & crise de l'Europe:** la crise des réfugiés a fracturé l'UE, les pays de Visegrad contestant même la communautarisation de la gestion migratoire. Faute d'accord, les Etats européens confrontés à une forte montée du populisme sont tentés par un repli sur soi, avec le rétablissement des contrôles à leurs frontières nationales, en violation des accords de Schengen. En Allemagne, la CSU bavaroise menace de fermer purement et simplement les frontières et de rompre la coalition à Berlin. Le choc du Brexit a accentué la défiance des citoyens envers leurs élites politiques et surtout envers l'Europe, jugée incapable de répondre à leurs aspirations, dans un contexte économique et social incertain.

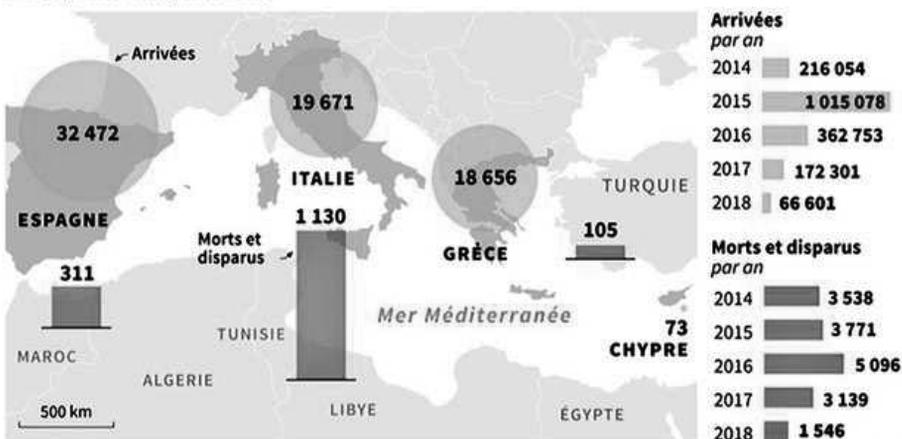
## 2. Euro-méditerranée: lendemain de crise

Et cette crise aura eu le mérite de recentrer le jeu politique vers la Méditerranée, où le groupe 5 + 5 semblait être ignoré, et l'Italie avec des populistes au gouvernement, longtemps abandonnée à son sort, reprend l'initiative et exige une politique sécuritaire drastique. Des négociations bilatérales avec les pays de transit, souvent au mépris du droit international, accouchent de trocs indignes où l'égoïsme l'emporte. Le déplacement des frontières de l'Europe au sud, se joue à coups de millions d'euros de subventions sous forme d'aide au développement englobant la gestion migratoire. Des pays comme la Lybie, la Mauritanie, l'Egypte, le Niger... et bientôt la Tunisie, acceptent d'installer sur leur territoire des «hotspots» (plateformes de débarquement) chargés de faire le tri entre réfugiés et migrants économiques. Critiqué ces derniers temps

pour sa politique d'accueil, le gouvernement français promet la création de 12 500 nouvelles places d'hébergement sur deux ans et une réduction des délais de traitement des demandes d'asile de quatorze à six mois, mesures jugées très insuffisantes par les ONG, comme La Cimade ou France Terre d'Asile, qui défendent les migrants. L'Italie, qui a décidé de fermer ses ports aux bateaux qui secourent les migrants, tente de réactiver le traité d'amitié signé en 2008 avec la Libye, qui permet le refoulement des migrants partis de ce pays; pour rappel, ce traité signé par Berlusconi et Kadhafi, prévoyait des investissements italiens de cinq milliards de dollars en compensation de la période coloniale. En contrepartie, la Libye, plaque tournante de la migration depuis le chaos de 2011, s'engageait à limiter l'immigration clandestine depuis ses côtes et à coopérer avec l'UE pour éviter des drames humains en Méditerranée. L'accord avec la Turquie semble avoir tari le flux de migrants en mer Egée, puisque «le nombre de franchissements de frontières détectés illégaux a été réduit de 95% par rapport au pic d'octobre 2015» selon les conclusions du conseil de l'Europe du 29 juin dernier. En contrepartie de ce tour de vis, Ankara a reçu un chèque de 3 milliards d'euros pour garder sur son sol 3.6 millions de réfugiés syriens. En échange, elle négocie l'exemption de visas pour ses citoyens et l'accélération du processus d'adhésion à l'UE. Ces demandes sont considérées comme «des contreparties logiques» par les partisans de l'arrêt de l'immigration, et comme „un chantage aberrant” par les adversaires de l'entrée de la Turquie dans l'Union. Et en dépit de relations très tendues, l'UE a promis une seconde enveloppe de 3 milliards pour les deux années à venir (Rocque 2018).

## Migrants arrivés par la mer en Europe

Arrivées, morts et disparus en 2018



Sources: UNHCR, OIM (au 27 août)

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Source: <https://www.la-croix.com/Monde/Trois-ans-Europe-destabilisee-crise-migrants-2018-09-02-1300965628> [consulté le: 30 novembre 2018].

De leur côté, le Maroc, l'Algérie et l'Albanie ont fait savoir qu'ils n'accepteraient pas ces plateformes régionales de débarquement, et certains pays européens manifestent aussi leurs réserves par rapport notamment à la légalité de ces lieux d'accueil externalisés avec le droit international.

Le tarissement des flux sur la route des Balkans semble avoir boosté la route espagnole. En effet, l'OIM a annoncé en date du 29 septembre 2018, que le nombre d'arrivées maritimes et terrestres pendant les neuf derniers mois de l'année ont dépassé celles de 2015, 2016 et 2017 cumulés, avec 36 654 arrivées via la Méditerranée et l'Océan Atlantique. Il y a malheureusement 1549 décès en mer. Un projet de mentorat et d'autonomisation des migrants en Espagne, financé par l'UE, est mis en œuvre par l'OIM, avec des programmes d'intégration, de lutte contre la traite, de relocalisation et de réinstallation (IOM).

Le règlement Dublin IV, au centre des litiges sur l'asile européen, se propose de mieux identifier les demandes „irrecevables et infondées”, pour rendre plus efficaces les procédures d'éloignement; ce serait le cas lorsque les personnes viennent d'un „premier pays d'asile” européen, d'un „pays tiers sûr” par où le demandeur a transité ou d'un „pays d'origine sûr” d'où vient le demandeur. Ce règlement met du temps à faire consensus, car la notion de „pays d'origine sûre” exige un accord sur une liste commune et beaucoup de pays rejettent la Turquie estimant que le régime d'Erdogan ne garantit pas un niveau de protection nécessaire. Le Conseil d'Etat Belge a également refusé d'inscrire l'Albanie sur cette liste, au prétexte qu'un nombre important de ressortissants de ce pays avaient obtenu l'asile politique en Belgique. Pologne, Hongrie et Autriche sont vent debout contre le système de répartition des demandes d'asile, alors que le couple franco-allemand rappelle qu'on ne peut bénéficier des fonds structurels européens et refuser le „partage du fardeau” migratoire.

## Conclusions

Le multilatéralisme suppose un contrat social entre les Etats qui se définissent comme égaux et des mécanismes de règlement des conflits. En Europe, la question migratoire doit être réglée au niveau communautaire, hors de son socle sécuritaire et dans une vision globale de long terme. Une relance économique, demandée par les pays du sud, doit être rapidement mise en œuvre, pour couper l'herbe sous les pieds des populistes; la promesse de prospérité de l'UE n'est pas tenue. Il est urgent d'inventer un nouveau mode de fonctionnement des institutions communautaires à

27 Etat-membres, le couple franco-allemand ne suffisant plus pour être le moteur de l'UE, mais garde toujours la volonté politique d'avancer malgré les traine-pieds, à l'instar de la création de Schengen à cinq (aujourd'hui à neuf) ou de la zone Euro à onze (aujourd'hui à dix-neuf, plus quatre micro-Etats, Andorre, Monaco, Saint Marin et le Vatican).

Tous les regards sont maintenant tournés vers Marrakech, où sera signé le Pacte mondial de la migration, les 10 et 11 décembre 2018. C'est la première fois que la communauté internationale trouve un accord couvrant toutes les dimensions de la migration de manière globale. Même si un pacte n'est jamais contraignant, ce sera le premier cadre global, pour tenter de régler les problèmes liés à la souveraineté des Etats et les droits de l'Homme d'une part, et au développement économique et la mobilité humaine, d'autre part. Les Etats devront respecter leurs obligations au regard du droit international et veiller à ce que leur procédures internes garantissent la sécurité et la dignité des migrants. L'Onu devra prévenir les déplacements forcés dans les conflits armés, veiller à la non-séparation des familles des enfants non accompagnés et encadrer la rétention administrative.

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**EWA ROLLNIK-SADOWSKA\*\***

# **Labour Immigration to Poland from Eastern European Countries – Podlaskie Voivodship Case Study**

## **Abstract**

*Nowadays Poland faces a problem of the shortage of domestic labour resources because of the population ageing and emigration of the Poles. It is essential to create a flexible flow of international labour to fulfil the needs of the economy. The principal aim of the paper is the identification of the specificity of labour immigrants from Eastern European countries. The paper is based on the hypothesis that belonging to the culturally and historically similar groups influences the similarity of the pattern of the migration behaviour. The undertaken research method was a critical analysis of literature and desk research of secondary sources. The primary research has covered the selected logistics companies from Bialystok. It was discovered that Ukraine and Belarus are the major suppliers of the international labour in Poland. Though those groups are quite similar, they differ in the selection of occupation and voivodships. To keep the most demanded groups of immigrants in Poland, it is crucial to create financial and non-economic conditions that are better than in their domestic countries and can be comparable to the countries with a higher standard of living, than in Poland. For the employers, the simplification and acceleration of procedures of hiring international employees are needed.*

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**Key words:** labour immigration, Eastern Europe, labour market, immigration policies, regional analysis, Poland.

**JEL Classification:** F22, F66, J61.

## Introduction

It is common sense that liberalization of the rules and regulations for cancellation of visa regimes between countries creates opportunities for the labour migration. As gradual economic growth has been noticed in Poland which is coupled with the shortage of domestic labour resources, the employment immigration has become common. Quality of the working force is one of the key competitive advantages for the sustainable development of the country. That is why Poland requires international labour force to sustain economic development. The liberalization of regulations on the employment of foreigners introduced since 2008 has influenced both the increase in the number of applications submitted by employers and the number of work permits (Duszczuk 2014).

In most cases, the main direction of migration is towards countries with more developed economies from the countries with a lower level of development (Cieślińska 2011). Due to its history and geographical location Poland is an attractive destination for labour immigration from Eastern European countries, specifically Ukraine and Belarus (Jarecki 2017). The principal aim of this paper is the identification of the specificity of labour immigrants from Eastern European countries by analysing how labour force representatives vary according to their occupation, distribution around Poland, and other factors. The paper is based on the hypothesis that belonging to culturally and historically similar groups influences the similarity of the pattern of the migration behaviour.

As for the research methods, critical analysis of literature was undertaken as well as desk research of secondary sources such as research reports and analysis of statistical data from the Ministry of Family, Labour and Social Policy, National Bank of Poland, and local job centres in Ukraine and Belarus. The primary research covered the selected logistics companies from Białystok which employ an almost equal number of Polish and international employees.

## 1. Theoretical Overview of the Literature of the Labour Market Migration

Over the years, labour migration has been a relevant topic for researchers. It is so because over the previous century countries and economies became more open to international cooperation. All the levels of the world's economy turn out to be involved in the globalization processes. Due to the legal changes (such as the Single European Act), and technological changes (such as lower costs of providing parts, maintenance and customer service from abroad) capital mobility, including the human capital, has increased across the world (International Labour Organisation 2017). Currently, around 232 million people live outside their country of origin and approximately 150 million of them are immigrant workers (Dotzel 2017, 678).

Labour migration can be defined as the movement of the labour force who left their country of origin for socio-economic reasons with an intention to work in another country, naturally including a change of residence (Pichelmann 2004, 35–56). According to Ferris, migration could happen due to changes in the economy or changes in personal status (Ferris 1965, 310–311). Among the factors, influencing the decision to migrate the following groups can be distinguished: favourable (encouraging), unfavourable (discouraging), and neutral – that is true both for a country of origin and a country of destination (Sinha 2005, 403–414). Ciarniene and Kumpikaite have suggested the following clustering of the factors:

- Pull factors: higher income level, better availability of employment, political stability, lower taxation, better education facilities, better medical facilities, national prestige, better climate, better behaviour among people, religious tolerance, and family reasons.
- Push factors: war or another armed conflict, famine or drought, poverty, political corruption, disagreement with politics, religious fundamentalism or religious intolerance, lack of employment opportunities, lack of various rights, natural disasters, a goal of spreading one's own culture and religion (Ciarniene 2011, 527–533).

Migration processes have effects both on the country of origin and on the receiving country (Sinha 2005, 403–414). For instance, the negative consequence of emigration can be an outflow of the labour force and an imbalance of the young and aged population. The positive consequence can be the reduction of pressure on the

population and decreasing unemployment. And for receiving country immigration, on the one hand, it can increase production level or overcome the shortage of the labour force, but on the other hand, it can reduce employment opportunities for the local inhabitants or decrease the quality of the labour force. Governments of developed economies have faced challenges because the longevity of residents of their countries has increased. As a result of the growth of population number over the usual retirement age there is a growing demand for pensions and health services that must be supported by the dropping share of the working age population (Addison 2014, 4–11). In this case, immigration can be a solution to maintain the needed level of economic production and thus produce enough financial resources.

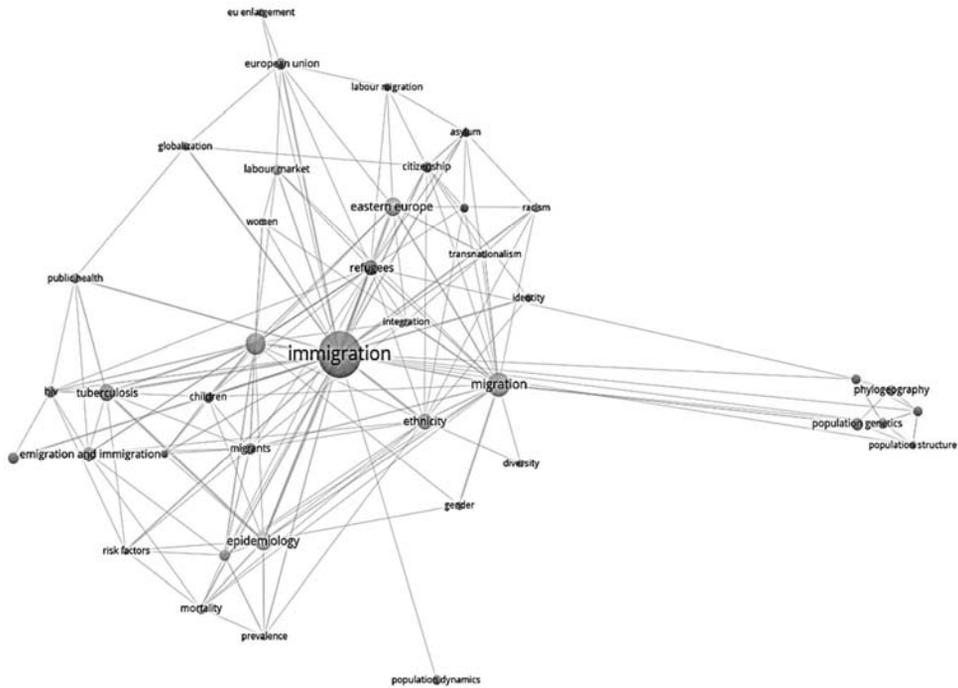
## 2. Methodology

The current article is based on the two-step analysis: secondary and primary research. Initially, desk research was conducted in order to analyse the key trends in the labour migration to Poland, specifically from Eastern European countries. The analysis is focused on the economic immigrants from Belarus and Ukraine because these groups are the most significant from the point of view of their size. The key objective of the research is the identification of reasons for immigration to Poland from Eastern European countries. The key sources of information for the desk-research analysis are the website of Polish Ministry of Family, Labour and Social Policy (MRPiPS 2018), internet-portal for immigrants in Poland – Migrant Info (Migrant Info 2017), job centres of Belarus (Mintrud 2018) and Ukraine (DCZ 2018), and others.

At the first stage of the identification of the key trends in terms of immigration from Eastern European countries, the authors used a basic technique of the bibliometric analysis of scientific literature from the Scopus database. The examined keywords were: immigration and Eastern Europe. Those phrases were identified in the articles' titles, abstracts and among keywords. As a result, the map visible in Figure 1 was generated by the VOSviewer software.

The identified research trends are connected with widely understood health issues of immigrants, population structure, diversity and ethnicity created by migration processes, geopolitical phenomena of refugees' flows as well as labour migration and identity problems. Another research trend is also the analysis of immigration from Eastern Europe as a result of globalisation and the EU enlargement.

**Figure 1: Map of research trends based on the co-occurrence of the authors' keywords in publications referring to immigration from Eastern Europe from the Scopus database**



Source: own elaboration based on the VOSviewer software.

Most of the reasons for migration are economic (Mihi-Ramirez 2014, 522–526), though as it is presented above other factors can be significant as well as health issues, integration, identity etc. That is why for the purpose of the current survey additionally were studied general life values and preferences in the welfare packages of Belarusians and Ukrainians. The key hypothesis of the current research is that for the selection of the region of immigration non-economic factors play an important role for the international employees.

One limitation of our desk research is the fact that statistics do not include international employees who:

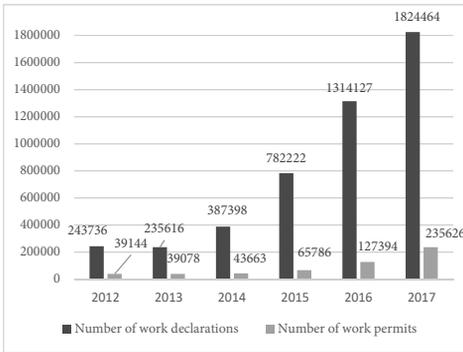
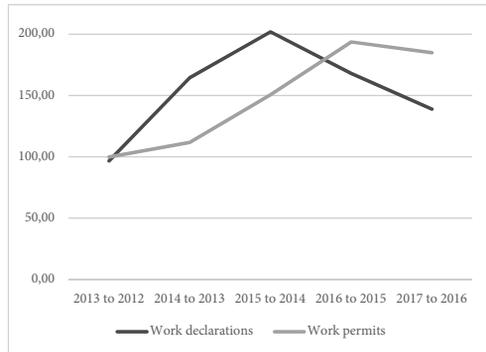
- have Polish citizenship,
- are holders of “Polish card”,
- have a permanent resident permit in Poland,
- have a long-term EU resident-permit,
- have a temporary resident permit, that was not issued by a particular employer,
- are full-time working students.

In other words, the statistical data that was analysed for the purpose of the current paper included those international workers who do not have a legal access to the Polish labour market. Such limitation arises from the fact that the representatives of the five above groups do not have to register separately in any kind of organisations that control and regulate the Polish labour market.

As the second step, a survey was conducted. It is based on three logistics companies from Białystok, which employ both Polish and international workers from Eastern European countries. The data gathering technique was a „paper and pencil interview” and it covered 59 respondents. The survey was conducted in March–May 2018 and consisted of two parts: a survey for employees and survey for managers and business owners because there was a need to assess the situation from different perspectives.

### **3. Desk-research Analysis of the Labour Immigration Trends in Poland on the Example of Eastern European Countries**

According to the regulations, the major legal forms of employment for international employees in Poland are work permits and work declarations. Most of the international workers work in Poland on the basis of work permits. A work permit is a document that authorizes a foreigner to work legally in Poland. It indicates the company that entrusts the execution of work to the foreigner and the position or the type of work which the foreigner is to perform (Migrant Info 2017). It means that the work is treated as legal only if the international worker does the job identified in the permit. Work permits are required for the international workers who are not from the nations of the EU Member States. The second form, that is available for the strictly limited group of countries, is called “Declaration on entrusting work to a foreigner”. Citizens of Belarus, Moldova, the Russian Federation, Ukraine and the Republic of Armenia may take up employment without obtaining a work permit for a period not exceeding 6 months within 12 consecutive months on the basis of a declaration of entrusting work to a foreigner (Migrant Info 2017).

**Figure 2A. Dynamics of the number of work declarations and work permits in 2012–2017****Figure 2B. Index of growth of the number of work declarations and work permits in 2012–2017, %**

Source: own elaboration on the basis of sources of Ministry of Family, Labour and Social Policy.

As the figure 2A shows, both the absolute number of work declarations and work permits is constantly growing within the analysed period of time, though the number of work declarations is much higher. For both of the indicators the highest number was registered in 2017 – 1,824,464 and 235,626 consequently. At the same time, the biggest difference was registered in 2015 – the number of the work declarations was almost 12 times higher than the number of work permits, the smallest – in 2013 – when the number of work declarations was almost 6 times higher than the number of work permits. Though both of the indicators are increasing, the index of growth of the work declarations has started to decrease after 2015 and the index of growth of the number of work permits has slowed down after 2016. From 2012 to 2015 the index of growth of the work declarations was higher, though in 2016 and 2017 the index of growth of the number of work permits has changed more significantly.

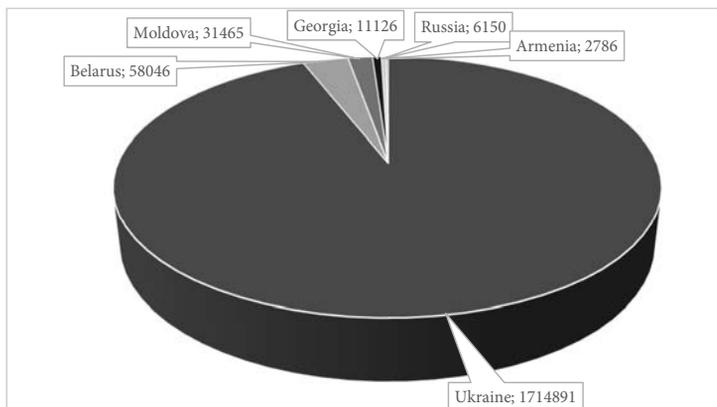
Out of total 235,626 work permits issued in 2017, 81.72% belonged to Ukrainians, 4.46% to Belarusians, 3.00% to Nepalese, 1.67% to Indians, 1.61 to Moldavians, 1.02% to Bengali (MRPiPS 2018). The most common countries of origin for labour immigration to Poland on the basis of work permits are Eastern European and former USSR countries (Ukraine, Belarus, Moldova, Russia, Uzbekistan, Azerbaijan, Georgia, Tajikistan) and the Asian countries (Nepal, India, Bangladesh, China, Vietnam). It is interesting to observe that in the top-20 there is the USA because the level of economic development and in total living standards in this country is higher.

**Table 1: Top 20 immigrant countries in 2017 according to the number of work permits**

No	Citizenship	Number of work permits issued	No	Citizenship	Number of work permits issued
1	Ukraine	192,547	11	China	1,179
2	Belarus	10,518	12	Serbia	878
3	Nepal	7,075	13	Phillipenes	733
4	India	3,938	14	Vietnam	658
5	Moldova	3,792	15	Kosovo	640
6	Bangladesh	2,412	16	Pakistan	427
7	Russia	1,433	17	USA	405
8	Uzbekistan	1,409	18	Georgia	398
9	Azerbaijan	1,336	19	Brazil	354
10	Turkey	1,228	20	Tajikistan	353

Source: own elaboration on the basis of sources of Ministry of Family, Labour and Social Policy.

According to Ministry of Family, Labour and Social Policy data, that is represented in Figure 3, the highest number of the work declarations in 2017 was issued for Ukraine (1,714,891 or 93.33% of total number) and for Belarus (58,046 or 3.18%) (MRPiPS 2018). Both of these countries are leading in the supply of the labour immigrants. It can be suggested that the domination of Ukraine and Belarus is due to the geographical and cultural similarity with Poland, though the crisis and military conflict in Ukraine contributed to the especially high immigration inflow.

**Figure 3: The structure of work declarations issued in 2017**

Source: own elaboration on the basis of sources of Ministry of Family, Labour and Social Policy.

**Table 2: Number of work declarations and work permits issued in 2017**

Country	Number of work declarations	Number of work permits	Total number of registered working immigrants
Ukraine	1,714,891	192,547	1,907,438
Belarus	58,046	10,518	68,564
Moldova	31,465	3,792	35,257
Georgia	11,126	398	11,524
Russia	6,150	1,433	7,583
Armenia	2,786	181	2,967
Total of this group	1,824,464	208,869	2,033,333

Source: own elaboration on the basis of sources of Ministry of Family, Labour and Social Policy.

Besides the separate information about work permits and work declarations, it worth to analyse the immigration flows in common, that is represented in Table 2. To sum up, the number of the work declarations and work permits issued in 2017 for countries that are eligible for getting the work declarations, it appears that in total for those countries there were 2,033,333 allowance documents issued, and 89.72% of them were for the work declarations. In all of the groups, Ukraine and Belarus are the leaders. Though the number of the work permits for Nepal (7,075) and India (3,938) lead them to the third and fourth positions, the total number of the allowance documents for Moldova (35,257), Georgia (11,524) and Russia (7,583) exceeds that amount. Only the total number of the allowance documents for Armenia (2,967) is lower.

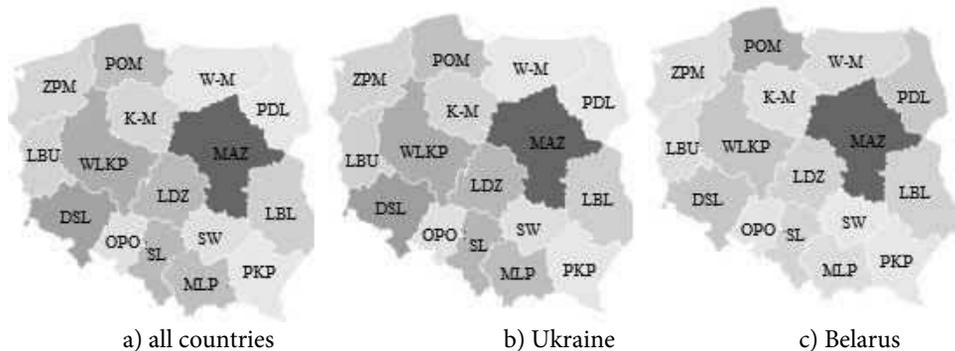
**Figure 4: Structure of distribution of selected groups of immigrants around Polish voivodeships in 2017 according to the number of work permits**

\* The darker is colour, the more work permits issued.

Source: own elaboration on the basis of sources of Ministry of Family, Labour and Social Policy.

As the figures above show, most of the work permits for international employees were issued for the Mazowieckie Voivodship (31.95% of all work permits issued), 72.42% of those permits were issued for Ukrainians and 6.22% for Belarusians (MRPiPS 2018). The smallest number of work permits issued was in Podkarpackie (1.58%), Swietokrzyskie (1.38%), Podlaskie (1.28%). Speaking about Ukrainians, the biggest number of the work permits was issued for Mazowieckie Voivodship (28.31%), Slaskie (10.82%) and Wielkopolskie (9.91%), the smallest number for Swietokrzyskie (1.50%) and Podlaskie (0.78%). For Belarusians, the biggest number of the work permits was issued for Mazowieckie Voivodship (44.52%), Lubelskie (17.20%) and Podlaskie (8.69%), the smallest number for Podkarpackie (0.57%) and Opolskie (0.56%). In general, the maps in Figure 4 show that foreigners from almost all countries (including Ukraine) are more likely to select the central and wealthier regions, while Belarusians work mostly closer Belarus border.

**Figure 5: Distribution of the Labour force around Polish regions on the basis of work declarations in 2017**



\* the darker the colour is, the more work declarations issued.

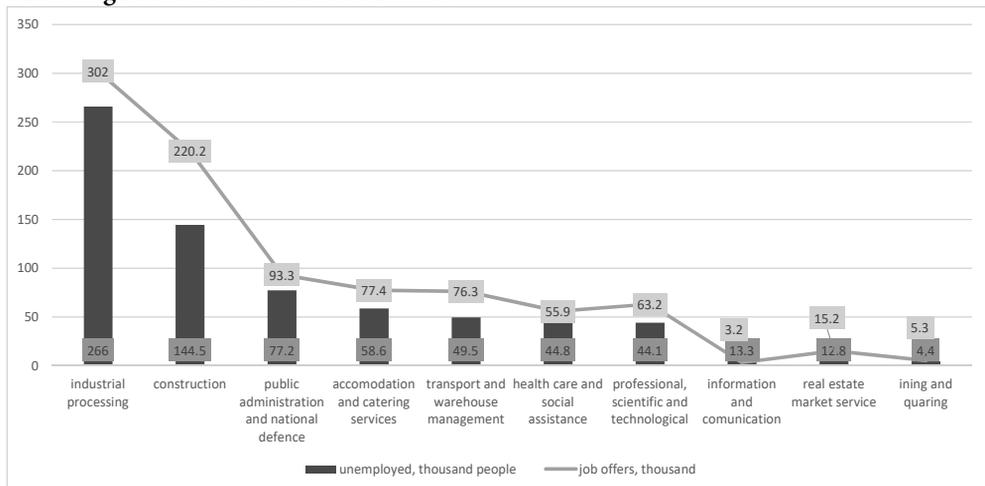
Source: own elaboration on the basis of sources of Ministry of Family, Labour and Social Policy.

As Figure 5 shows, Mazowieckie region is the main destination for the labour immigrants from the analysed groups – 22.73% of all the immigrants with the work declarations, 22.41% of Ukrainians and 30.73% of Belarusians are registered there. The second Voivodship differs: for most countries including Ukraine it is Dolnoslaskie (11.98% and 12.23% consequently), for Belarus, it is Pomorskie (12.43%). On the third position for all the analysed groups is Wielkopolskie (9.99% for all countries, 10.05% for Ukrainians and 7.96% for Belarus). The fourth position belongs for Ukrainians to Slaskie (8.51%) and for Belarusians to Podlaskie (7.37%). The least frequently selected region for immigration from most of the countries including

Ukraine is Podkarpackie (1% each), and for Belarus Swietokrzyskie (0.78%). On average, the share of the Ukrainians working on the basis of work declarations in each Voivodeship is 92.77% out of all countries of immigration. That is why the total statistics for all the countries look quite similar to the Ukrainian perspective.

The comparison of the geographical distribution of the same groups of countries shows that the most frequently selected voivodship is Mazowieckie and the least frequently selected are Podkarpackie and Swietokrzyskie. However, the second frequently selected regions differ both for the country of origin and the type of allowance document. After analysing the maps more closely it becomes evident that Ukrainians prefer to select the central and wealthier regions while Belarusians select the eastern border regions, closer to Belarus border, though those regions are poorer. Nevertheless, in the case of work declarations considerable share of Belarusian labour immigrants are registered in Pomorskie and Wielkopolskie Voivodships.

**Figure 6: The inflow of the number of job-offers and unemployed according to the fields of activities in 2017**

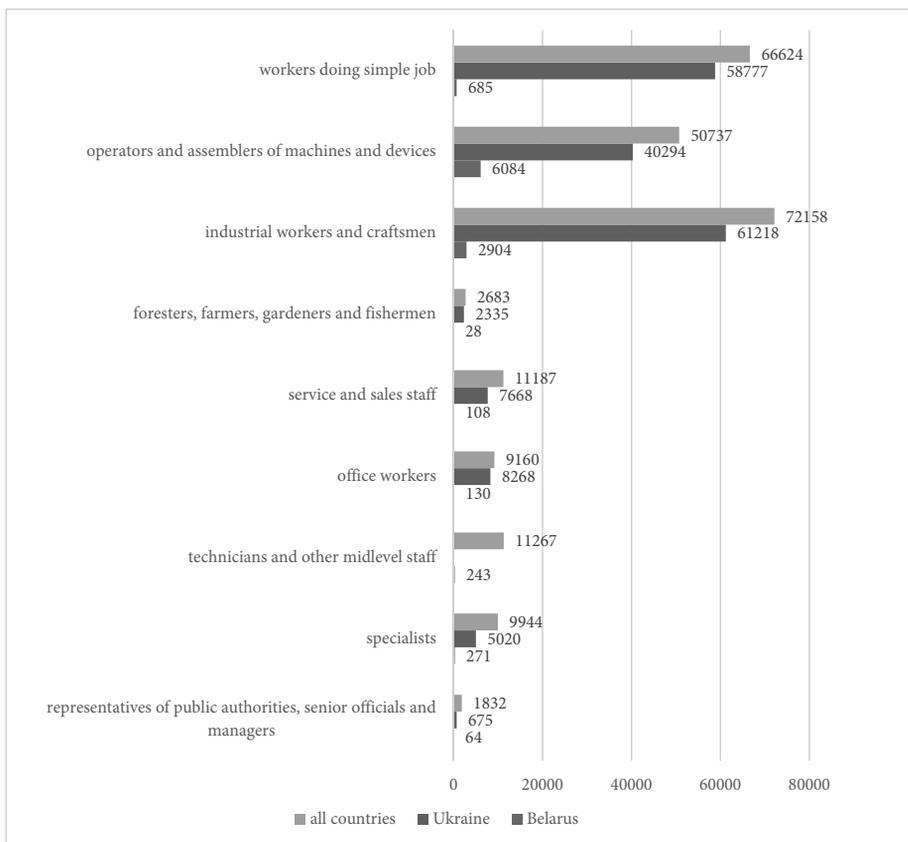


Source: Ministry of Family, Labour and Social Policy, 2018.

Speaking about the proportion between the number of job offers and the number of the unemployed, the data shows, that among operators and assemblers of machines and devices, employees in simple jobs, office workers, industrial workers and craftsmen the influx of job offers exceeded the inflow of the unemployed. In all the other groups, the situation was less favourable. At the same time, among people without a profession, for 300.9 thousand unemployed only 10 job offers were submitted. Concerning particular fields of activities, as Figure 6 shows, the

proportion between the job offers and the number of unemployed was the worst in information and communication (as the number of job offers was 1.74 times higher than the number of unemployed), the construction sector (number of job offers was 1.52 times higher than the number of unemployed) and in the transport and warehouse management (the number of the job offers was 1.54 times higher). The best situation was in the industrial processing (the difference 1.14 times) and in the real estate market service (the difference 1.19 times) (MRPiPS 2018).

**Figure 7: Number of work permits issued for the international employees in the selected groups of professions in 2017**

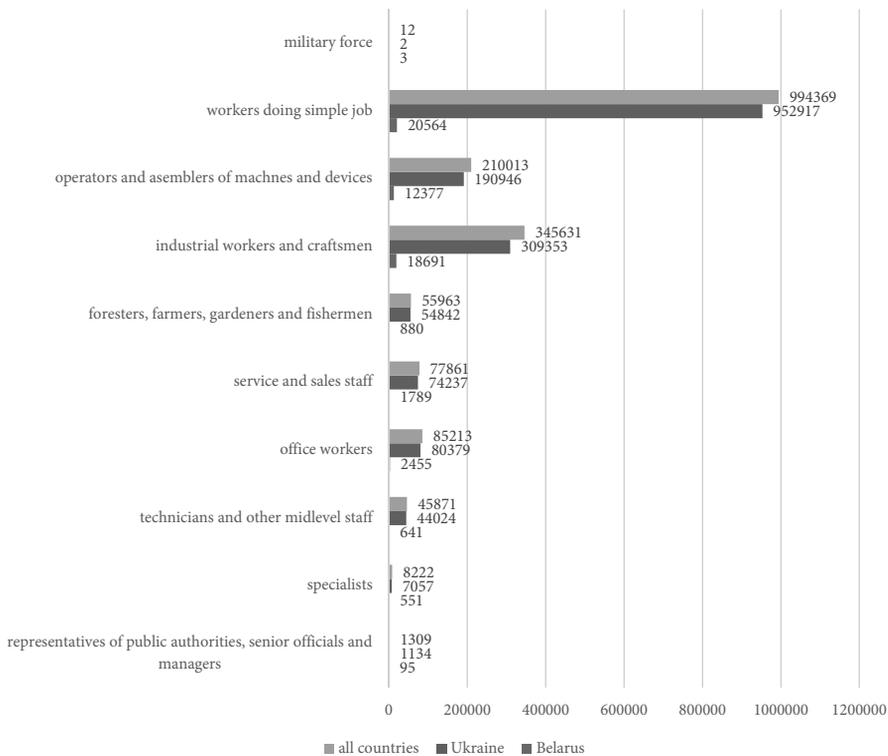


Source: own elaboration on the basis of sources of Ministry of Family, Labour and Social Policy.

The most frequent groups of professions for application for the work permits, as shown in Figure 7, are “workers doing simple jobs”, “industrial workers and craftsmen”, “operators and assemblers of machines and devices”. For all the countries and Ukraine, the most common profession is “industrial workers and craftsmen”

(30.63% and 31.8% consequently), while for Belarus it was on the second position (27.61%). For Belarus, the most essential group was “operators and assemblers of machines and devices” (57.85%), while for all countries and Ukraine it was on the third position (21.54% and 20.93% consequently). The share of the “workers doing simple jobs” was the following: 28.28% for all countries, 30.53% for Ukraine, and 6.51% for Belarus. The least frequent applications were connected with the specialists and representatives of public authorities, senior officials and managers, foresters, farmers, gardeners and fishermen.

**Figure 8. Number of work declarations issued for the international employees in the selected groups of professions in 2017**



Source: own elaboration on the basis of sources of Ministry of Family, Labour and Social Policy.

In 2017 work declarations were issued in 21 types of activities, according to the Polish Classification of Activities, and most of them were connected with “administrative and support services activities” (39.34%), “agriculture, forestry, hunting and fishing” (16.79%), “building construction” (13.01%), “manufacturing”

(12.87%) (MRPiPS 2018). Concerning the groups of professions, as it is shown in Figure 8, for all countries including Ukraine and Belarus the most frequent applications for the work declarations were connected with “workers doing simple jobs”, “industrial workers and craftsmen”, “operators and assemblers of machines and devices”, though their shares differ: for the workers doing simple jobs they are equal to 54.5% in all countries, with 55.7% in Ukraine, and 32.2% in Belarus. For the “industrial workers and craftsmen” it was 18.94% in all countries, to 18.04% in Ukraine, to 35.43% in Belarus. For the operators and assemblers of machines and devices it was 11.51% for all countries, 11.13% for Ukraine, 21.32% for Belarus. In all the countries, including Ukraine, it can be observed that there is a considerable domination of the “workers doing simple jobs”, while for Belarus the industrial workers and craftsmen make up a bigger group, though other two groups of professions have comparable shares. The least frequent applications were connected with the “specialists” and “representatives of public authorities, senior officials and managers”.

On the basis of Figures 7 and 8 it can be concluded that both for the work declarations and work permits the most frequently selected types of activities are “workers doing simple jobs”, “industrial workers and craftsmen”, “operators and assemblers of machines and devices”, while the least frequent is “representatives of public authorities, senior officials and managers”. It can be observed that all countries including Ukraine have identical structures of work job preferences. However, the same is true with the analysis of voivodship selection pattern, it can be explained by the domination of this immigrant group in the statistics (average contribution to each profession is 73.22% in the work permits and 92.48% in the work declarations).

One of the reasons why a receiving country could be interested in issuing work declarations and work permits for the international labour force can be the need to cover the lack of local employees. In this case, it turns out that immigrant workers from Belarus and Ukraine cover the lack only partially, most likely they are covering the shortage in the construction sector. Concerning the group of employees doing simple jobs, there was a lack of vacancies for the local Polish unemployed without a profession. This shows the phenomena of the openness of the Polish labour market: immigrant workers are not covering the local demand for labour.

One of the factors, that can influence the decision to migrate, is the values of an immigrant. On the basis of survey, conducted by Buhbe, for the Ukrainians, in particular those of them who are Euro-optimists, among the key values can be named “peace” (51.3%), “the value of human life” (40.1%), “personal freedom” (33.1%), “self-realization” (30.5%) (Buhbe 2017). For the Belarusians the values are “peace

and stability” (66.8%), “economic prosperity” (59.9%), “health and social protection” (54.3%), “security” (43.9%) and “human rights” (40.9%) (ODB 2013). As the data shows, for the immigrants from Eastern European countries the values that can be associated with the quality of life (the value of human life and human rights, peace and stability, and others) are important.

Speaking about the expectations from the employment place, for Ukrainians who took part in the survey organised by Machtakova the following factors are important: transport (81% of the respondents), corporate parties (75%), catering service (69%), payment for telephone connection (51%), and medical insurance (36%) (Machtakova 2012). For Belarusians, according to the job portal *rabota.tyt.by*, the most important elements of welfare package are voluntary health insurance (42.3%), lending for employees (29.9%), free catering (29.2%), education (28.2%), compensation of gym and sports activities (22.2%), and compensation for telephones (20.1%). Though in both cases the surveys’ respondents had to select from the different lists of welfare package options, there are some trends that can be identified: the welfare packages should include benefits from the different spheres, the most demanded benefits are insurance, catering and compensation for transport and phone calls.

## 4. A Case Study of Companies With International Employees

One of the branches where Poland exhibits a lack of national labour resources is transport and warehouse management (the number of the job offers is 1.54 times higher than the number of unemployed in this branch) (MRPiPS 2018). Though transport and storage industries are showing constant growth; gross value added in this industry in 2017 was up 10.9% compared with the previous year while in 2016 the increase was of 3.7% (Central Statistical Office of Poland 2018). Currently over 630 thousand people are employed in the logistics companies, and additionally, around 50–60 thousand people are self-employed in the sphere of road logistics (Czerniak 2018). As Podlaskie Voivodship Development Strategy 2020 shows, the strategic location on the eastern border of Poland is among the key strength of the region (Eurostat). The capital of Podlaskie Voivodship is Białystok, which is located close to the border with Belarus, on the crossroads for goods transfer from Eastern to Western Europe. As the main financial and economic centre of the region, Białystok

is an attractive destination for labour migration from poorer regions (Grabowiecki, Fiedorczuk 2013, 116). That is why for the case study analysis logistics companies from Bialystok were selected. The common features of the companies are the following: all of them are small enterprises with the number of employees under 49 people; they are young; the origin of the capital is absolutely or partly from the Eastern-European countries; the number of the employees is mixed with the domination of international labour force. In the survey took part 59 respondents from Poland (22 people), Ukraine and Belarus (17 people each) and Russia (3 people); 51 of them are employees and 8 are managers and owners of the business; 45 of them have completed higher education; 16 of them are below 25 years old.

**Figure 9: Key reasons for immigration**



Source: own elaboration on the basis of the survey's results.

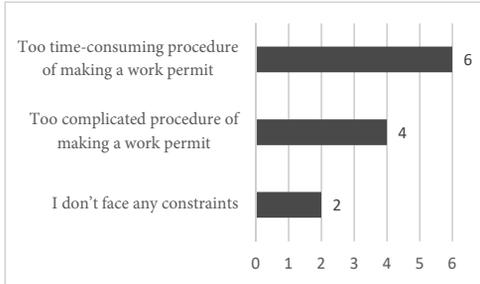
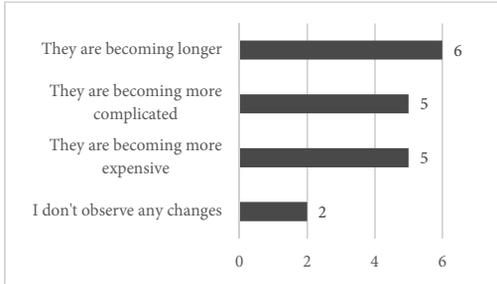
Among other, the international employees were asked about the key reasons for migration (multiple choice was possible). The options for answers included also some connected to non-economic factors: better quality of life, higher career opportunities, education. As it is visible in Figure 9, the most frequent answer was that they have moved because of the higher wages, the second most frequent one was higher quality of life, the third – to follow family and friends who have moved to Poland before. In total, out of 60 answers 25 (or 41.67%) were connected to non-economic motivation.

**Table 3: Cross-analysis of reasons for immigration to Poland and intention for further migration**

Reason for migration to Poland	Intention to move to another country	Number of answers	Intention to come back to home country	Number of answers
Higher wages	I didn't think about that	6	Yes	4
	Yes, if I get a good job-offer	7	Not sure	6
	No	1	No	5
	Yes, for sure	1		
Better career opportunities	I didn't think about that	2	Not sure	4
	Yes, if I get a good job-offer	4	No	3
	Yes, for sure	1		
I received a good job offer	Yes, if I get a good job-offer	2	Yes	2
	No	1	No	3
	Yes, for sure	2		
Higher quality of life	I didn't think about that	3	Yes	1
	Yes, if I get a good job-offer	8	Not sure	4
	Yes, for sure	2	No	8

Source: own elaboration on the basis of the survey's results.

For the cross-analysis represented in Table 3 the following answers about the reasons for migration were selected: higher wages, better career opportunities, good job offer, higher quality of life. They were selected because they represent the immigrants who have chosen Poland for access to vacancies or the quality of life. The majority of the responses show that the analysed group of immigrants is going to move to another country. Out of 40 answers analysed, 21 show that they would like to move to another country if they get a good job offer. Considering the intention to come back to the home country, out of 40 responses 19 has selected the option "No" and 14 the option "Not sure". This cross-analysis shows that the labour immigrants from the companies are more willing to migrate to other countries than to come back to their home countries, and better job offers play the most important role in this decision.

**Figure 10a: Constraints in employment****Figure 10b. The changes in rules, regulations and procedures of employing international workers observed by the managers**

Source: own elaboration on the basis of the survey's results.

To some extent, the number of international employees in a country depends on the owners of the business, or in particular on the ease and convenience of employment of an immigrant worker. The managers and business owners in the survey were asked about the constraints they face when employing international workers (multiple choice was possible). As Figure 10a shows, the most constraints were faced because of the duration and complexity of the procedure. Another important aspect for the employers and business owners is the evolution of the rules, regulations and procedures of employing international workers. Moreover, it was noticed that in the majority of the cases the procedures are becoming longer, more complicated and expensive. Though, for two of the respondents out of 8, there are no constraints and changes observed.

On the basis of the survey, it can be concluded that one of the key reasons for the labour immigration to Poland is the level of wages, though other factors like quality of life, career opportunities and being closer to family and friends are important as well. And those immigrants who come here for the labour and quality of life reasons are ready to move to other countries in the case of better job offers. At the same time employers who to some extent can motivate the international workers to stay in Poland can themselves become demotivated by the rules, regulations and procedures. That is why an appropriate environment for business is needed; one that predominantly includes more liberal principals for immigrants' employment and the creation of the favourable conditions for settlement of foreigners.

## Conclusions

The number of labour immigrants in Poland over the recent years has been constantly growing. The key types of documents that allow the international employees to work on the territory of Poland are work declarations and work permits (Migrant Info 2017). The key differences between them are the duration and countries for which they can be issued (work permits can be issued for all the countries, while the work declarations only for Belarus, Moldova, Russia, Ukraine, Armenia and Georgia). The number of international employees working on the basis of work permits and work declarations has grown from 282,880 people in 2012 to 2,033,333 people in 2017 (MRPiPS 2018). The major countries that provide Poland with the international labour force are Ukraine and Belarus. Moreover, because of the domination of the Ukrainians (93.81% of all labour immigrants who received work declarations and work permits) all the general statistics data follows the structure for this country.

The hypothesis of the paper, which is “belonging to the culturally and historically similar groups influences the similarity of the pattern of the migration behaviour” was partially verified. The behaviour of Belarus and Ukraine labour immigrants has both some differences and some similarities. From the point of view of geographical distribution around Poland, Ukrainians select central and wealthier regions for both types of allowance documents. Belarusian immigrant workers, however, prefer the regions that are closer to the Belarus border, though in the case with work declarations a considerable share of them is registered in the Pomorskie and Wielkopolskie Voivodships. For both groups of the immigrants, the most frequently selected voivodship is Mazowieckie and the least frequently selected are Podkarpackie and Swietokrzyskie. Besides the wages, the welfare package is crucial for the representatives from both countries.

In Poland there is an observed lack of the local labour force for particular groups of professions. Yet, it is not a guarantee that the international employees are applying for the permission documents in those fields. The biggest lack of employees is in the sector of “information and communication”, the “construction sector” and in the “transport and warehouse management”; the smallest gap was in the “industrial processing” and in the real estate market service. Both for Belarusians and Ukrainians the most frequently selected types of activities are “workers doing simple jobs”, “industrial workers and craftsmen”, “operators and assemblers of machines and

devices”, the least frequent is “representatives of public authorities, senior officials and managers”.

The survey showed that the level of wages is the most crucial factor in the selection of Poland for the immigration. However, such factors as the quality of life, career opportunities and following friends or family members are important as well. Concerning the intention for further migration, those immigrants who came because of job reasons or the higher quality of life are more likely to move to other countries in case of getting a good job offer or they would rather stay in Poland than return to the country of origin. On the basis of this it can be concluded that in order to keep the labour immigrants in Poland it is important to create conditions better than in their native countries and comparable with other developed countries. Another important factor that can make an impact on the number of international employees relates to employers/business owners. From the point of view of the respondents, the procedures to hire an immigrant in Poland are complicated and time-consuming, and they continue to become longer, more expensive and complicated. That is why in order to stimulate the employment of the international labour force, some simplification and acceleration of the procedure of employment should be considered. Moreover, according to desk research analysis, the welfare package is an important factor for employees in Ukraine and Belarus – that is why there is a need for additional support given to the companies offering good welfare package for the workers from the most demanded professions.

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**JOSÉ MELLA\***

# Stages of the European Union Integration and its “Vertical” Dimension Towards Africa

## Abstract

*The paper is focused on the future of the EU, the lessons learned from its own experience, and its role in the geographical area of Africa, Mediterranean, and Europe. The conceptual framework is based on the Theory of Economic Integration, the Theory of Optimum Currency Areas, the Theory of European Monetary Unification, and the Economic Integration in the developing countries. The paper illustrates EU’s rich experiences on issues such as legitimacy and security, monetary union, real convergence, social cohesion, and fiscal union. Additionally, the paper argues that one of the main strategies of the EU is the development of the so-called “vertical” dimension, to build a strong regional integration North-South to ensure greater security and economic development.*

**Key words: Economic integration, European Union, Africa, Economic Development.**

**JEL Classification: 019.**

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## Introduction

There are some lessons that can be learned from the integration process of the EU as a Common Market, as a Single Market and as an Economic and Monetary Union. They can be a source of inspiration for today's world, particularly in Africa. These integration processes are based on a model of society that a large majority of Europeans want to preserve and deepen, and that can be a source of inspiration for today's world.

Nevertheless, the EU has gone through a period of disorientation in the framework of the great recession of 2008 and of uncertainty, about the viability of the euro and the convenience and sense of the continuity of the same integration. This continuity depends on right answers to crucial questions related to the Monetary Union and the international dimension of the EU.

In this article, the main questions to be answered are related to the future of the United Europe (UE). In other words, it is important to ask about the need for a UE, and about the lessons that can be learned from its own experience to allow it to play a relevant leading role in the current global context (and more specifically, in the geographical area of the Africa, Mediterranean and Europe, AME).

The conceptual framework is based on the applied analysis of concepts of the Theory of Economic Integration (Balassa 1961), the Theory of Optimum Currency Areas (Mundell 1961), the Theory of European Monetary Unification (Eichengreen 1997), and the Economic Integration in the developing countries (Corea and Gosh 1984; Marinov 2014). That is to say, the main concepts used are price and wage flexibility, mobility of factors of production including labour, financial market integration, degree of economic openness, diversification in production and consumption, fiscal integration, and political integration.

Therefore, the structure of this paper is based on different, but deeply linked, issues. First, different scenarios of the future of Europe are briefly debated. Second, different stages of the EU are considered in order to extract lessons for the new EU international challenges; and third, arguments are proposed in order to show that the European project would not make sense in a global world today without regional integration in Africa, the Mediterranean and Europe (AME).

## **1. Different Scenarios of the Future of the European Union: what Can be Learnt from it?**

The European Union (EU) is facing various future scenarios. It has to choose one of them. The first scenario is to follow as usual; that is, with social unrest, economic weakness and political blindness. It is called “current” multi-speed Europe, the “Europe of variable geometry”, making some and others what they can or want to”. The second scenario is a Europe in which all States make all decisions jointly; but it does not seem sensible, for not having a background in the history of the EU. The third scenario is the disappearance of the EU from the map, which seems neither logical, because (despite Brexit, and even Italoexit) the costs of the no-Europe would be gigantic and the challenges enormous. Therefore, what to do?

The EU has played an outstanding role in recent historical events on the continent (Molinas and Ramirez 2017: 161–173). The implosion of the USSR without the existence of the EU can hardly be understood. The reunification of Germany without it would not be understandable at all. The current generation of Europeans is the first in history without a war. They are lessons that must be taken into account to realize its importance for building African integration processes. They can contribute to the development of Africa, in the context of the rule of law, in a process of constant progress towards welfare, peace and conflict resolution. These enormous results of the EU should convince them of its value.

The lessons that can be learnt from the EU experience are placed in different fields: legitimacy and security, monetary union, real convergence among member states, social cohesion, and fiscal union.

## **2. Stages of the European Union: Lessons**

### **2.1. Legitimacy and Security**

We must also learn from the recent European experience of loss of democratic legitimacy and of the rise of populism. We must take into account changes in the political right direction, since the 2014 European elections, bearing in mind that

according to the Treaty of Lisbon, the European Parliament (EP) appoints the President of the European Commission (EC), on a proposal from the Council. However, the current President of the EC, Jean-Claude Juncker, is the head of the list most voted and named to the post by the EP; so the democratic legitimacy of the EU is increasing significantly.

Yet, it must increase still more: in the field of foreign policy, immigration, defence and security policies. The great recession of 2008 has prompted greater financial integration, although there is still progress to achieve in other areas. Progress based on the existence and respect of multiple identities. This progress has to be accompanied by a feeling of belonging, which is failing due to a clear democratic legitimacy deficit. Ultimately, this lack of legitimacy damages the perception of Justice and erodes the willingness of citizens to comply with laws.

It seems that populism puts into question the legitimacy of Member States, since they are no longer perceived as problem-solvers. So the States should comply with two objectives: the satisfaction of the assumptions of the welfare State and the protection of citizens against terrorism, hostile neighbours and the massive immigration; i.e., they must ensure the welfare and security. In short, the EU must ensure freedom, human rights and the standard of living of its population.

## 2.2. More Integration

The euro needs to survive and thrive, to further political integration among its members. The Eurozone response to the financial crisis of the great recession of 2008 has been both extraordinary and surprising. Extraordinary, because:

- the Eurozone created a rescue Fund to help countries with funding problems,
- the Eurozone launched the Banking Union that has centralized supervision of large banks by the ECB,
- the Eurozone established mechanisms of bank resolution, common for the Eurozone, and a common deposit guarantee fund has been planned.

Surprising, because the pace of integration is frenetic and that is despite the “existential crisis” of the EU (Molinas, Ramirez 2017: 91–109). In fact, to move towards a political unity of the EU requires the creation of supranational bodies to strengthen its legitimacy and the sense of membership of European citizenship.

Nevertheless, the European heterogeneity needs a design of a multi-speed Europe, which is what it has actually been doing since the Treaty of Maastricht of 1992.

Heterogeneity of the EU is needed due to the existence of euro countries and non-euro countries; also because of countries with agreements such as the Euro Plus (to facilitate competitiveness, employment, financial stability and fiscal sustainability), the Fiscal Compact (Pact of Stability and Growth) and the Banking Union (Hungary just in the first two). Sweden entered only in the Fiscal Compact and the Czech Republic and Croatia only in the Banking Union. The United Kingdom is on its own way, called *Brexit*.

In any case, economists should not forget the theory of optimum currency areas (countries in which a monetary union would maximize economic efficiency of a customs union or a common market) (Mundell 1961: 116). As it is well known, an optimal monetary area is based on four conditions.

First condition, a monetary union (UM) must have a high degree of labour mobility to prevent very different rates of unemployment. Second condition, an UM should have freedom of movement of capital and flexibility of prices and wages, but it is difficult to meet them due to very different degrees of economic development among countries. Third condition, economic cycle synchronization between States, to enforce a single monetary policy, is needed. Fourth condition, solidarity between countries and regions, through monetary transfers of resources to areas affected by negative shocks, is required<sup>1</sup>.

As a response to the financial crisis of 2008, the Eurozone created a rescue Fund, launched the Banking Union, established mechanisms of bank resolution, and a common deposit guarantee fund has been planned.

### 3. Real Convergence

The origin of the troubles of the euro is this strong heterogeneity of member states and regions due to different levels of economic development, human and technological capital. In these circumstances, a single monetary policy – lax for some, restrictive for others – does not allow to regain competitiveness by currency devaluations. So changes have to be made – reducing costs and wages. As a result, the euro also acts against the least flexible countries.

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<sup>1</sup> But these transfers are banned by article 125 of the Lisbon Treaty, so that in the great recession of 2008 came to the rescue of countries (Greece, Ireland, Cyprus, Portugal and Spain) with credits very long term under favourable financial conditions.

The only solution is the real convergence of economies with greater flexibility, which is what is not happening in the EU – as seen in the divergence of GDP per capita. This lack of real convergence, in the absence of fiscal mechanisms of redistribution, only partially compensated by the ESM (European Stability Mechanism), causes crises to be most acute. Please note, also, that the European Structural Funds (FFEE) play an important corrective role of inter-territorial income imbalances.

These Funds are, in reality, the main instrument of the EU's cohesion, providing much more territorial balance, if a regional development policy is adequately implemented. The most obvious case is the investment of these Funds in Ireland, concentrated in human capital and vocational training, with better effects on the convergence than in the case of Spain, which focused particularly on transport infrastructure, but not on education and technology.

## 4. A New Social Contract

Analysts say that the inherited social pact of the twentieth century is in crisis. The main reasons for this crisis are the evolution of demography, the acceleration of globalization, the technological change resulting from the digitization and automation, and the immigration, especially by the exodus of refugees towards Europe.

Demography makes such aspects as the funding of pension systems due to the insufficient growth in the active duration regarding the passive duration of the population very difficult. Moreover, globalization redistributes in favour of the rich, relocates the production processes with little skilled labour to third countries and dooms less-skilled workers to unemployment in European countries. The digital revolution is a trend that replaces obsolete human labour, which reduces costs and increases production efficiency. All of this generates uncertainty, insecurity about employment and social inequality (Atkinson 2015: 215). The great flow of refugees from Africa and the Middle East are also economic migrants. They are a test for the social EU principles. Unfortunately, so far, the EU has not been able to manage those migratory flows.

Europe is undergoing a process of ageing of its population, with rates of active population falling. If Europe wants to maintain its standard of living and their economies to grow, it needs immigration flows. The closure of the borders leads to impoverishment.

The lesson on what has happened so far is clear. Much of the current refugee crisis has its roots in armed conflicts in the Middle East. Conflicts, incidentally, that are the result of decisions of non-European powers (United States, Russia, Turkey); but that is left to Europe to withstand the flood of refugees. This raises the need for integration of the EU’s defence to be able to contribute to the stabilization of its neighbouring areas and a policy of cooperation and development aid.

In fact, Europe needs a new social contract. This contract has to encompass the trilogy of “market economy, social progress and liberal democracy” and make them compatible (Costas 2017, 34). This compatibility could carry out through:

- the defence of the social value of competition as an effective instrument against the logic of monopoly and concentration,
- the incentive for inclusive growth by activating the factors of development of productivity,
- a better functional distribution of income between salaries and benefits as with a more powerful redistributive tax policy and public expenditure;
- and the improvement of the quality of democratic systems (Costas 2017, 339).

## 5. Complete the EMU: a Roadmap

The EU is the most relevant supranational institution in the world today. And, as Rodrik says, the trilemma of supra-nationality, sovereignty of Member States and democracy is incompatible, which means that the three parts of the trilemma cannot exist at the same time. Given one of them, supra-nationality, for instance, you have to choose the other two: the EU Member States should cede sovereignty to govern economic and social complexity of a global world.

The complexity of the economic and Monetary Union (EMU) calls for a roadmap. Road map, which can be based on important European Union documents (Juncker 2015; Mogherini 2016; EC 2017). Obviously, this roadmap rests on increased democracy and transfers of sovereignty by Member States.

The EU countries faced the great recession without central banks’ lenders of last resort and without the possibility of devaluation of their currencies. At the same time, the ECB is not designed to help Member States with financial difficulties. Therefore, many Governments of the Eurozone could not get finance in markets or through the purchase of bonds by banks of their countries. Risk premiums have soared and

the euro was threatened with immediate ruin. In that context, there was the famous phrase of the President of the ECB, Mario Draghi, “Whatever it takes”, that is say, the ECB will do everything to prevent the collapse of the Eurozone. Since then the ECB injected enough liquidity at low cost to the banks so that they continue buying debt issued by Governments. Thus the collapse of Governments and banks was averted. The ECB started buying public and private bonds. Why did it do all this?

The answer lies in a diagnosis that is based on excessive heterogeneity of the members of the Eurozone. Heterogeneity, of course, is referring to economic policies that led to excessive public deficits and unsustainable volumes of debt. Then, it is crucial to put the emphasis on the convergence of the budgetary and fiscal policies of different countries, and also to implement policies that affect the growth potential of the economies<sup>2</sup>.

However, the real causes of the lack of nominal convergence are due to the absence of real convergence among the countries of the Eurozone; that is, lack of convergence in growth capacity, competitiveness, human capital and employment.

The mutualisation of debt is difficult to adopt. It is recommended to go to other routes to finance projects of European interest and to obtain resources through borrowing, in order to invest in projects of education, vocational training and employability of the unemployed and technology with the aim of greater real convergence. The European Investment Bank (EIB) and the European Investment Fund (EIF) already operate in the same way.

The European Treasury could also issue for funding safe European bonds - European safe bonds (ESB) – so you would get two effects. One effect is on greater strength of the European banking system (the ESB would become the preferred collateral by the interbank market). Another effect is on States with excessive public debts (with increases in the interest rates for them and, on the other hand, greater demands regarding fiscal discipline).

Apart from that, the Economic and Monetary Union (EMU) does not work efficiently. The reason seems to be that the EU is incomplete (not integrated markets, neither mobility nor a common Government with a budget and a treasure). Additionally, the EMU does not have mechanisms of stabilization against asymmetric shocks. The national use of fiscal policy is particularly inefficient with the current

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<sup>2</sup> There are important initiatives to complement the Stability and Growth Pact with the Fiscal Compact of 2012 (definitions of excessive deficit and structural deficit, and reduction of public debt) and with the European Semester (Framework for the coordination of economic policies across the European Union).

prevailing restrictions. In the euro area, there is a monetary authority and 18 tax sovereigns. There is no State behind the currency or central bank behind the sovereign debt. There is not an integrated financial system, which facilitates credit and provides stability. It is unrealistic to think that the market and the internal devaluation can correct shocks, bearing in mind the productivity differences among Member states, and the implications in terms of unsustainable social and political costs. Therefore, fiscal institutions are as important as the monetary institutions.

The EMU needs a Fiscal Union (FU). This involves: A) A central Government with a significant budget, own fiscal resources and Treasury responsible for the debt; (B) Equalization transfer mechanisms; (C) Fiscal autonomy of sub-national Governments provided with their own resources; (D) Requirements of fiscal discipline. The advances of the European Stability Mechanism (ESM), progress to the European Banking Union (EBU), and the more imbalance monitoring are all insufficient. The principle of the balanced budget may not work, because the current crisis has little to do with the public deficit.

What matters is the private external debt, that is to say, the current account balance. So it is plausible to say: 1. There has been a great accent in the fiscal discipline of the Member States and a low accent in “central fiscal power”; 2. The EMU has become a crucial problem if it does not move towards the FU; 3. The FU is a problem if it does not move towards a Political Union (PU). Nevertheless, there is still some hope for the FU, if changes are carried out in the treaties to create a Fund for redemption of debt above the 60% of GDP and the issuance of euro-bonds; changes that have to be accepted by the Eurogroup, the Ecofin and the European Council.

One last question is essential. How to transform from a fundamentally disintegrating EU crisis to one prompting an integration project? It is obvious that, taking into account what was said above, to move towards the consolidation of the common currency implies firm and consistent steps towards political union. Those steps, in essence, are three.

First is to retrieve an idea of solidarity over borders and national sovereignty. Second is to closely link monetary policies with tax policies. And third is to link the single currency with a unified finance. It is absurd to think that it is possible to have a single currency with many national public debts denominated in the same currency.

At this point, it is worth paying attention to the American experience where the budget was increasing from 2% of GDP during the great depression to the current 25%. It is a journey accompanied by full freedom of movement of goods and factors in a process that should lead to political unity.

## 6. The “Vertical” Dimension of the EU Future

One the main strategies of the EU is the development of the “vertical” dimension. The European project would not make sense in a global world today without regional integration in Africa, the Mediterranean and Europe (AME).

The EU must decide where it wants to go and what is the best strategy to achieve this direction. One of them – postulated here – is the development of the “vertical” dimension (Guigou 2017: 20).

The European project would not make sense in a global world today without regional integration in Africa, the Mediterranean and Europe (AME). This region is currently representing 2000 million people and huge potential markets (Guigou 2017: 48). To the extent that the integration advances, global production value chains are not just East-West, but will be also North-South.

Economic, social, political and cultural relationships are complementary in order to meet the challenges of energy and food, to give solutions to uncontrolled migration problems and to look for new solutions to the European population ageing. Do not forget that in the year 2050 the great AME region will have three billion people, so that the role of the EU in the world relies on the interweaving of our relations with the South. They will, in fact, provide a way to deal with all kinds of radicalism, ensure greater security and greater economic development.

The benefit for the Europeans is that AME can help avoid the secular economic stagnation due to population ageing. That means having new growth factors, such as the large region of AME, which will have a huge demographic volume, most of which located in sub-Saharan Africa, where the middle class is growing and will expand even more in the future.

For Africans, the AME can transform its vast wealth to meet the challenge of employment and population explosion. It is crucial for them to not only enjoy security and access to markets, but above all to develop productive economies based on European technology and local innovation.

For the Mediterranean South, the AME puts in value in the abundance in the powerful sector of solar sources of energy. The AME has to be based on ports such as Tangier Med, to develop their ability to bridge between the North and Sub-Saharan Africa.

Therefore, it is not only to achieve an Association of free trade, but the integration of the whole productive and economic system, the laws and regulations and, finally, the integration of democratic values and the rule of law.

On integration of the productive system, it is important to take into account aspects such as social inclusion and environmental sustainability, according to the agreements of the Conference of United Nations on climate change (COP21).

For the regional integration of the AME, three instruments are required: a regional development Bank, a co-production and securitization of investment treaties, and a study of regional integration structure. The banks by sub-regions already exist (Europe, Arab world, Africa), but they are without coordination or a regional vision for the whole area.

There are also no economic integration agreements, which would encourage foreign direct investment, but there exist fragmented and limited treaties of free-exchange, which must be overcome with a treaty of co-production and the involvement of States, business and professional organizations.

There are no structures for joint studies of research, as this proposal of Jean Monnet network of universities, to foster a network of *think-tanks* on regional integration, according to the experience and the lessons learned from the EU integration process. These structures of research would have to exist to study the major sectoral issues (energy, water, power, finance, climate change and sustainability, governance...) and define development policies.

The return to the geopolitical and geographical proximity is needed (Guigou 2017, 64). It is necessary for innovation and the use of technology, the complementarity of the value chains of production and a greater economic and political cooperation. In this field, it is where the EU can deploy its full potential experience, given its formation as a single market and a monetary union process.

The EU has shown with clairvoyance that globalization cannot be understood without regionalization, i.e. without the constitution of sets of associating neighbouring territories. It is not only a matter of relocation for low costs, but above all for the quality of the products demanded by consumers, constant technical and organizational innovations and the development of bases for a collaborative economy (interaction between supply and demand). It is, in fact, essential to encourage cooperation between researchers, universities, institutions, training systems, employers, suppliers, markets and consumers.

The proposal of regionalization, on the basis of the experience of the EU, rests on economic proximity, knowledge and know-how bases, co-production to generate more added value, complementarity of climate calendars, taking advantage of the

benefits of a mature North, aged and technologically advanced and a South with young, increasing and labour-market expansion<sup>3</sup>.

Actually, today we can see how the failure of the Barcelona process (“Euromed”) has been the result of a merely commercial vision of regional integration, central part of the strategy of the EU towards the Mediterranean. Even though, it is necessary to go beyond this. A political and economic transformation in the South is needed within the framework of the African regional integration, and this with further integration with the EU. Otherwise, it is very difficult or impossible for the EU to play an important role in the global sphere.

Globalization and regionalization are evolving together. Regionalization is developed because the economic, social and political transformations require proximity. That is the basis of the development of the AME region.

International trade in goods is replaced by local production of goods and services in the importing countries, both in the South and in the North. The South is called to continue development, for economic reasons, but also for safety. Europe has the opportunity to collaborate with their South, Africa which has a great potential for growth. This opportunity had to be seen by Germany in the preparation of the G20 in the month of July 2017<sup>4</sup>.

Hence, there is a need for a large common AME region. Although hindering obstacles such as radical Islam and the aforementioned transition to greater integration, must be overcome by literacy and education, especially of women, together with the human rights of all populations.

North-South integration, in a common project, is the basis to avoid massive immigration processes, which allow capital flows in the direction of the South, an external openness of the EU and relations of co-production. This implies productive delocalization, the industrialization of the South, the promotion of safety (food, energy, and labour) and the construction of political systems based on law and good governance.

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<sup>3</sup> These North-South integration processes have happened and are happening in other parts of the world. The case of Japan during the fifties of the past century (with Singapore, Taiwan, Hong Kong, South Korea), without attracting immigrants but investing in capital y redistributing production in these countries, and in the eighties and nineties setting up the Asian Plus Three (Asia + Japan, South Korea and China) and the well-known cases of the American continent.

<sup>4</sup> Germany called this meeting “A new partnership for development, peace and a better future. Cornerstones of a Marshall Plan with Africa”. Federal Ministry for Economic Cooperation and Development, 2017.

## Conclusions

All process of economic integration creates a series of advantages in terms of greater specialization by utilization of comparative advantages, a better exploitation of economies of scale, greater competition and changes in the amount and quality of production factors through an increase in the mobility of labour, capital and technological progress.

All of those aforementioned factors contribute to economic and social development needed by European citizens and, mainly, for our neighbours of Southern countries, especially the Mediterranean and Africa.

Finally, it is evident that to face the European integration challenges and develop the “vertical” dimension of the EU toward the South, a strong political will is needed by the European and African leaders and authorities.

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THEONI TSINONIS\*

## Inditex Business Activity in Europe\*\*

### Abstract

*This research paper analyzes the internal dimensions of the EU in terms of the single market and the opportunities it offers to the business sector. Of the four freedoms, the free movement of goods – and its polices – are addressed and applied to the case of Inditex. The question at hand is: Has Inditex succeeded in Europe due to the single market, particularly the free movement of goods, or have other factors contributed to their success? To answer this question the first section is an analysis of the single market and its role in trade following the implications of the free movement of goods, particularly, the customs union. Then the case study of Inditex as a business in the EU is presented. It is followed by a discussion whether the free movement of goods has attributed to Inditex's business success. Articles 34 and 35 of the Treaty of the Functioning on The European Union are addressed in terms of Inditex's increased business activities in the EU. Following, the Purchasing Power Parity (PPP) of the EU is mentioned together with its role in the business sector. Lastly, a marketing plan aimed at increasing trade and business cooperation with the EU is presented.*

**Key words:** Four freedoms, free movement of goods, customs union, purchasing power parity, (PPP) and Treaty of the Functioning on The European Union (TFEU).

**JEL Classification:** M10, M14, M31, M38, N44.

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## Introduction

The European Union was created after WWII in order to ensure peace and justice among EU member states. The idea behind promoting a free trade area was to integrate economic cooperation, reducing the risk of another conflict. The EU today is one of the most attractive areas for business; with over 20 million small and medium enterprises and 500 million consumers, the EU is a major hub of business activity (European Commission 2017a). This research paper analyzes the EU's single market and discussed whether the free movement of goods and related policies have helped the business sector. The question throughout this research paper is: Has Inditex succeeded in Europe due to the single market, particularly the free movement of goods, or have other factors contributed to their success?

## Research Method

This study used both primary and secondary research. The primary research is an analysis of information from Europa<sup>1</sup> and other online sources in order to make new conclusions. Additional online sources such as social media were used in collecting primary research. The secondary sources used in this study came from online sources such as Eurostat, the European Commission, the European Parliament, OECD and others. The information provided by these secondary sources formed the grounds for the discussion and conducting primary research.

### 1. The Single Market

The European single market aims to stimulate trade, competition, improve efficiency of trade activities, raise quality and facilitate price cuts of goods in EU member states (Eurostat 2017). Four freedoms were established under the single market strategy to achieve the following goals: the free movement of goods, services, capital and labor. The free movement of goods eliminates customs duties and

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<sup>1</sup> [https://europa.eu/european-union/index\\_en](https://europa.eu/european-union/index_en).

quantitative restrictions in order to increase trade among member states (European Parliament 2017). The free movement of services allows a company to establish themselves in another country and grants them freedom to receive or provide services in another member state. The free movement of capital allows one to open a bank account abroad, buy shares in a non-domestic country and buy real estate, among many other business transactions (European Commission 2017). Lastly, the free movement of labor allows EU citizens to move to another member state without a visa. All four freedoms have helped integrate the economies of member states; this is evident in the high intra-EU trade statistics. In 2006 intra-EU trade was valued at 3110 billion euros, 78% higher than exports going to non-EU countries (European Parliament 2017). Furthermore, intra-EU trade continues to have stable growth – especially over the past seven years where 2015–2016 saw a 1.5% increase in trade. Two key aspects of the free movement of goods are addressed below, together with their importance in business activity.

## 1.1. Customs Union

The European Commission defined a customs union as, “[an area] that members apply the same tariffs to goods imported into their territory from the rest of the world, and apply no tariffs internally among members” (European Commission 2014: 1). This means that once a product has cleared customs at any point of entry in the EU it can circulate freely. There are customs officers located at ports, airports and labor crossings within the EU area monitoring goods entering the EU. As of 2013 the import duties collected by customs accounted for 11% of the EU budget (15.3 billion euros) (European Commission 2014). In 2016, 313 million customs declarations went through more than 2000 EU customs offices (European Commission 2017); these numbers show that the customs union is key in determining the number of imported and exported products in the EU and is integrated in the overall economic well-being of EU member states.

The key document related to the management of the customs union is the “Union Customs Code” which is agreed upon by both the council and the European Parliament (European Commission 2014). Although the primary role of the customs union is collecting custom duties and indirect taxes, it also monitors safety and security regulations. Safety regulations make sure goods comply with EU standards – drugs, food and product’s safety are all inspected and are expected to follow the same

standard. Intellectual property is also protected by the customs union. Counterfeit fashion items are commonly detained, as well as other counterfeit products such as fake appliances and drugs (European Commission, 2013a). Two thirds of products violating intellectual property come from China – many of which are shipped by postal services (European Commission 2014).

A great benefit of the customs union is its harmonious procedures for customs in transit. Custom formalities can take place at the destination, avoiding a lengthy step by step process. There is a “temporary suspension of duties, taxes and commercial policies” at importation, so these are instead applied at the final destination (European Commission 2014: 9). Nonetheless, the customs union encourages business activity because there is only one customs tariff; the importing company does not have to pay for different tariffs in each country it crosses. Also, imported products are protected by the safety and security regulations of the customs union.

## 1.2. Removal of Quantitative Restrictions

Articles 34, 35 and 36 of the Treaty of the Functioning of The European Union (TFEU) are the main treaty provisions regulating the free movement of goods. It is important to note that these articles do not apply to products already covered by EU legislation (European Commission 2013a). Although it may seem obvious, the definition of goods is necessary in order to fully understand the articles. Goods are defined as “products which can be valued in money and which are capable, as such, of forming the subject of commercial transactions” (European Commission 2013a: 8). Article 34, under chapter title, “Prohibition of Quantitative Restrictions Between Member States” says that “Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between Member States” (European Commission 2013a: 11). The purpose of article 34 is to encourage trade and the free flow of goods within the EU. An example of Article 34 is a band on quota systems among EU member states; this would mean there is no limit on the number of goods being imported between member states. However, it is important to note that article 34 refers to non-tariff quotas and that quantitative restrictions do apply to certain goods that have reached their import or export ceiling. Furthermore Article 34 has a “vertical direct effect” meaning that EU legislation can be used against a member state and therefore is binding to all members (European Commission 2017b: 4).

Article 35 is similar to article 34 except it deals with products coming from third world countries. It states that if imported products from the third world country have followed customs duties or charges of equivalent effect then they are allowed to circulate freely in states (Europa 2013a: 7). The main difference between article 34 and 35 is that article 34 handles goods moving from a EU state to another EU state while article 35 handles goods coming from third world countries. Both try to abolish discrimination towards trade of goods.

Article 34 and 35 had faced obstacles when certain national standards did not meet other members' national standards. The principle of mutual recognition was established in order to avoid such issues. This principle says that a country within the EU cannot forbid the sale of another EU product in their market, even if it does not meet the national requirements of that particular country; if the foreign product is lawfully marketed and sold then they are allowed to move freely to any country (European Commission 2013a, 15). The exceptions to this rule are in article 36.

The last article, article 36, lists the exceptions of article 34 and 35. Article 36 of the TFEU states that:

“The provisions of Articles 34 and 35 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States” (European Commission 2017b: 26).

Nonetheless, article 36 puts public health above the economic gains of the EU. It is a defense mechanism that any country can use to prohibit cross border trade (European Commission 2013a: 36). For instance, a member state could decline imports of clothing apparel that violated animal rights.

## 2. Inditex in the Single Market

Inditex is the leader of the fast fashion industry; their strategy is to create new clothing line collections every two weeks (Jarivs 2017). The clothing lines are imitations of other popular companies – which are seen at cat-walks in fashion shows. Forbes ranked Inditex third in Top World Apparel Companies, number one

being Dior, followed by Nike (Forbes 2017). Inditex was founded in 1963 by Amancio Ortega, currently the fourth richest man in the world (Forbes 2017). Most popularly known for their Zara brand, Inditex has seven other brands. These include Pull&Bear, Massimo Dutti, Bershka, Stradivarius, Oysho, Zara Home and Utersque (Inditex 2016). As of 2016 Inditex had 7,292 stores in 93 different markets, Europe being the region with most stores – 4,990 stores to be exact. Inditex has experienced a stable growth in sales on a yearly basis; in 2014 sales (in billions) were 18.117, 2015 sales were 20.900 and 2016 sales were 23.311 (Inditex 2016: 6). Of these sales Europe (excluding Spain) accounted for 43.9% of the total sales, following is Asia plus the rest of the world, Spain and America. Something important to notice is that Spain had its own category because this country alone contributed to 16.9% of the 2016 sales (Inditex 2016: 6). Also, Inditex is a supporter of humanitarian events and has had a major contribution to international employment levels, particularly in Spain – 30% of the company's staff is located there while the rest of Europe accounts for 46% of the workforce (Inditex 2016, 36) with 76% of their employees being women and 60% of them under the age of 30 (both men and women). Inditex has a total of 1805 suppliers and 6959 factories, with the European Union being number one in terms of both suppliers and factories (Inditex 2016).

Inditex uses supply clusters that provide sustainable and productive environments located in geographic areas that are of benefit to the Inditex business model; the supplier clusters include: Spain Portugal, Morocco Turkey, India, Bangladesh, Vietnam, China, Cambodia, Brazil, Argentina and Pakistan (Inditex 2016: 58). The main production sites are in Spain, Portugal, Morocco and Turkey – this may be confusing with the above statistics regarding the numbers of suppliers and factories but they do not represent percentage of production. Something important to note is that the EU has trade agreements with non-EU countries, particularly the ones that are part of the supplier clusters. The “EU – Bangladesh Cooperation Agreement” lists a broad scope for “cooperation, extending to trade and economic development, human rights, good governance and the environment” (Europa 2017a, par. 1). Another benefit the EU provides for Bangladesh is the “Least Developed Country” agreement. Under the EU's generalized “Scheme of Preferences”, Bangladesh – including other developing countries – is entitled to “Free quota, free access to the EU. for exports of all products except arms and ammunition” (Europa 2017a, par. 4). Nonetheless, the EU has strategic trade agreements with countries that play a vital role in Inditex's supply chain. These policies make it easier for Inditex to have a smoother and more profitable business. Morocco is critical to the trading industry of the EU, Morocco being their largest trading partner and accounting for 55.7% of their trade in 2015

(Europa 2017b, par. 2). The Association Agreement between the two parties created a free trade area, liberalizing two-way trade of goods. The Free Trade Area entails the tariff free zone, general right to establish businesses and services within the other area, current payments/capital movements and common rules on intellectual property and competition (Europa 2017b, par. 4). Additionally, Morocco is a partner of the Euro- Mediterranean partnership (Euromed); this partnership encourages economic integration in the Mediterranean region through privileged relationships and building a commitment to common values (Europa 2017a, par. 7).

## **2.1. EU Polices Supporting Business Activity**

The three articles of the TFEU have promoted business activity within the EU, also in the case of Inditex. All three articles support the free movement of goods. This freedom is key to economic integration within the EU because it allows cross-border trade among member states. Thus, businesses are likely to develop and survive within the EU due to these favorable policies.

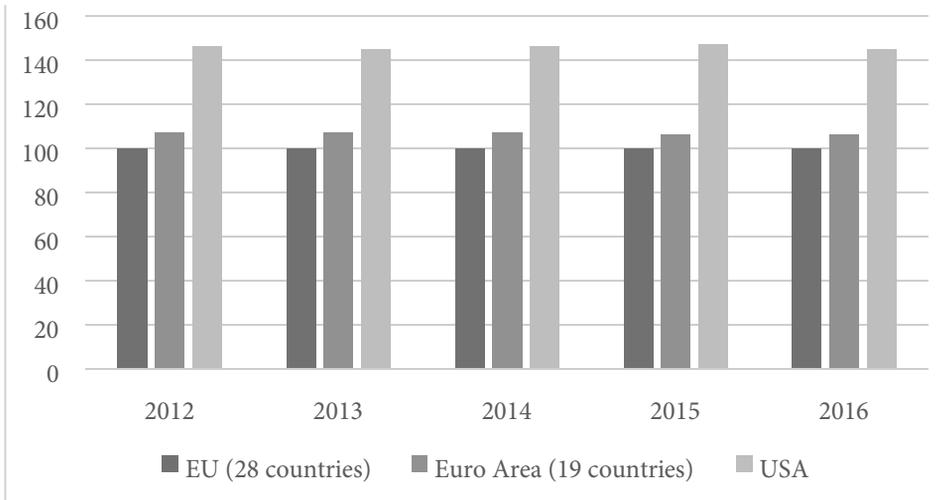
Article 34 benefits Inditex because their suppliers do not have quantitative restrictions on imported goods. Thus, they do not have a restriction, that is one that does not exceed the import limit, on the number of textiles they import – as mentioned earlier most of Inditex’s supplier are not part of the European union. Article 35 also works in favor of Inditex, as many of their suppliers are from third world countries. Therefore, the EU does not favor imports from certain countries, giving third world countries a chance to compete on the global scale. For instance, Morocco and Bangladesh are considered third world countries; however the EU has not discriminated against them, a reason why Morocco is the EU’s number one trading partner. Also, article 36 of the TFEU ensures member states and other countries that the EU has high safety standards. This builds trust of Inditex customers, as they know their products have followed strict EU regulations.

## **3. Purchasing Power Parity**

Although the free movement of goods in the single market has allowed Inditex to perform well in the EU, there are other factors that also need to be considered.

For instance, the Purchasing Power Parity (PPP) of the EU The OECD defined PPP as “the rates of currency conversion that equalize the purchasing power of different currencies by eliminating the difference in price levels in different countries” (OECD 2017, par. 1). In other words, currencies of country A and B are compared through a product of a same price in order to determine the price of the currency. The Purchasing Power Standard (PPS) is an artificial currency unit derived from the PPP of a nation; PPPs can be described as the exchange rate of the PPS against the euro (Europa 2017b). Below is a graph of GDP per capita in PPS. The EU average is set equal to one hundred, meaning that if the index of a country is higher than 100 then their GDP per capita is greater than the EU average (Europa 2017b).

**Figure 1: GDP per capita in PPS**



Source: (Europa, 2017a).

These findings show that the U.S. is doing better than the Euro Area in terms of GDP per capita in PPS (Europa 2017b). For example, in 2016 the Euro area had 106 while the U.S. had 145 GDP per capita in PPS. This means that both the Euro area and the U.S. GDP per capita is greater than the EU average, however the U.S. has more purchasing power per person (Europa 2017b). Therefore, the PPP of the Euro Area may have been a factor of Inditex’s success, as the PPS of the Euro Area is higher than the EU However, the main factor that contributed to their business’s success was the free movement of goods in the EU, and favorable agreements with third parties; the PPP while aiding in this success definitely did not drive it.

## 4. Marketing Plan for European Entrepreneurs

The EU's four freedoms are something many EU citizens do not realize they have; European companies, both small and large, could establish themselves in neighboring countries much easier than they think. The issue is, many European citizens are not informed of what the four freedoms are, what they entail. Neither do they know of other Acts the EU has created in order to encourage entrepreneurship. The Small Business Act for Europe (SBA) is a great example of a tool the EU provides for businesses. The act, "aims to improve the approach to entrepreneurship in Europe, simplify the regulatory and policy environment for SMEs and remove the remaining barriers to their development" (European Commission 2018, par. 1). The main priorities of SBA are to promote entrepreneurship, reduce regulatory burdens, increase access to finances as well as increase access to markets and internationalism. This act and the benefits of the four freedoms should be popularized with a marketing campaign to inform entrepreneurs of the available opportunities.

European citizens mostly use television as their source of news for political matters. Following is the radio (31%) and then the Internet (29%). Although the Internet is third in terms of media sources, it is important to note the current trends. Television has seen a 6 – point decline and radio has seen a 3 – point decline as a media source. In contrast, the Internet has seen a 3 – point rise as a media source (European Commission 2013a). These numbers are not surprising, as we are currently undergoing the Fourth Industrial Revolution and millennials are born into a society in which the Internet is ingrained and it is not something they need to learn. Therefore, in order to increase awareness of the four freedoms and the SBA, the marketing plan should mostly target Millennials' digital outlets, such as social media and e-news, which are the main source of news for most millennials (64%), whereas those aged 45–54 mostly use television as their news source of choice (45%) (Dunn 2017). Since we know where to promote SBA and the four freedoms, the strategy to the marketing campaign is key.

Lately, the World Economic Forum presented data from the social media strategist Vincenzo Cosenza regarding social media usage. Facebook is still Europe's number one source of social media, with 323 million users, second are Instagram and Twitter; Instagram being second for most of Eastern Europe and Twitter for Western Europe (Vincos 2018). The best days of the week to post on Facebook are Thursday and Friday, followed by Monday and Wednesday. The best times to post are from 1–3 pm and also

after 5 pm, as this is when most people get off work (Brennan 2017). According to my research, the best time to post on Instagram is on Monday and the second-best day is Sunday. In line with the information presented above, social media campaigns promoting the SBA and the four freedoms during the recommended dates and times would be extremely effective in informing European Millennials of the business opportunities available. As Facebook is more content driven, short articles with key facts could be posted on the EU's Facebook page. Below is a list of key facts about the SBA that would be very beneficial to include both on Facebook and Instagram.

- “Businesses with a turnover of less than EUR 2 million may benefit from an optional cash accounting scheme which makes it possible for them to delay accounting for VAT until they receive payment from their customers”.
- “On average, each SME that is granted a guaranteed loan in the EU creates 1.2 jobs”.
- “When it comes to public procurement a recent Commission survey suggests that SMEs now experience fewer administrative burdens when accessing public procurement and have better opportunities for joint bidding”.
- “The European SME Week continued to provide a pan-European platform with more than 1,500 events and 3 million participants”.
- “The average time and cost to start up a private limited company in 2010 was 7 days (12 days in 2007) at a cost of EUR 399” (European Commission 2011: 3–5).

All these facts are easy to understand, short and encouraging for young entrepreneurs. Through using them in posts on Facebook and Instagram, the interest of Europeans will be heightened and therefore more of them would be inclined to visit links in each post. Instagram is more picture orientated, therefore the European Union could post pictures of entrepreneurial success stories. The title of the Instagram page could be “Think Small First” the underlying theme of the SBA. Also, being that these pictures would be from everyday Europeans, viewers will respond more positively because they can relate to them on a personal level.

## Conclusions

To sum up, the free movement of goods has helped the business sector tremendously. Articles 34, 35 and 36 of the TFEU specifically describe various aspects of the free movement of goods and their limitations. By having no quantitative restrictions and no bias towards third world countries, Inditex benefited tremendously – as mentioned earlier numerous of their suppliers came from third world countries; however the EU did not treat them in a less favorable manner. In contrast, the EU has agreements with countries like Morocco, a major supplier of Inditex. Both Morocco and the EU have benefited from the free trade agreements implemented; Morocco has been able to increase production and sales of textiles to the EU, becoming the EU's number one trading partner, while the high demand for textiles from EU businesses is being met (i.e. Inditex). Another favorable aspect of the free movement of goods is that once imports pass customs, a company does not have to pay tariffs for each country the products passes through. However, there are other factors active within the EU that have led to the success of Inditex; namely the PPP of the EU. Although the GDP per capita in PPS in the Euro Area and U.S. was higher than the EU, the U.S. still had a much higher ranking (Figure 1). The PPP of the euro area did help the success of Inditex however it was not the driving factor. Nonetheless, various policies of the single market, particularly the free movement of goods, have facilitated business success of Inditex in the EU. Other factories also contributed, such as trade agreements with third parties and the PPP of the EU.

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## Appendix

**Table 1: Most Popular Days to Post on Instagram**

The data presented below displays which days of the week are most popular in terms of level of interaction between the photo posted and the viewer. This data has come from my personal Instagram account.



**Table 2: Most Popular Time to Post on Instagram**

The data presented below shows the best times to post on Instagram in term of interactions between the photo and followers. This data has come from research on my personal Instagram account.



Source: Tsinonis 2018b.