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## **EU Migrant Crisis: Focus on Hungary**

There is no doubt that the EU migrant crisis is a catastrophe in terms of human costs. It is fairly evident that the EU was not prepared to deal with the magnitude of migrant movement into the region. This crisis also presents a political dilemma for Europe and may lead to the re-establishment of border controls, intensify internal schisms over the extent of sovereign/EU authority and possibly sow the seeds of the dissolution of the EU.

Migrant flows from the Middle East and Africa have affected European countries unevenly. The border countries have received heavy inflows of migrants, some of whom wish to stay in those countries, but most continue on to Germany and Sweden, which have indicated openness to accepting immigrants. However, many countries are not open to taking immigrants, either due to a lack of ability or willingness. Each of these countries is dealing with the flow of asylum-seekers differently as their approach is determined by relative economic wealth, number of immigrants and societal structure.

Hungary has received an overwhelming number of immigrants due to its location on the main migrant routes to Germany and Sweden. The large number of immigrants, both in absolute terms and relative to Hungary's population, has overwhelmed the country's refugee facilities. Hungary has indicated that it cannot accept all refugees without a clear plan from Brussels and has tried various tactics to control the

immigration flow, from erecting a 108-mile barbed wire fence to simply facilitating refugee transportation to the Austrian border.

This week, we will look at how Hungary is handling the immigrant crisis and what its actions may signal for other European countries. We will start by looking at Hungary's history and its position at the crossroads of empires which have shaped Hungary into a country that often directs a changing tide for Europe. As always, we will conclude with geopolitical and market ramifications.

### **Brief History**

Hungary is a land-locked country in the southern part of Eastern Europe. The nation has historically been at the crossroads of various European and Asian powers. As a country without strategic significance or rich natural resources, Hungary has had to make deals with the current power or hegemon in the region. Throughout its history, the nation has been attacked by a multitude of powers from the East and the West. As a result, Hungary has mostly attempted to placate its more powerful neighbors by not aligning strongly with any nation and being quick to adjust policies according to changing geopolitics.

Presently complicating the matter for Hungary is that it has seven neighboring countries; six of them are relatively new and are still trying to figure out their own foreign policies.



(Source: freeworldmaps.net)

The Kingdom of Hungary was established in the year 1,000 AD. During the 11<sup>th</sup> century, the kingdom was attacked by the Mongolian empire twice, with the first attack resulting in half of the Hungarian population being killed or sold as slaves. The Turkish invasion during the 16<sup>th</sup> century divided the country into three parts—the Hungarian Kingdom, the Turkish Empire and the Habsburg Empire. The country remained divided for 150 years, after which it was controlled by the Habsburg Empire in its entirety. In 1848, Hungary attempted to regain its independence, but the Habsburg Empire suppressed the movement. However, in 1867, the Austro-Hungarian Empire was established via peace treaty, which granted more autonomy to the Hungarian segment of the empire (seen in the map below).



(Source: Diercke.com)

Hungary was highly involved in both world wars. As is well known, WWI began when the Austro-Hungarian Empire declared war on Serbia after the assassination of Archduke Franz Ferdinand of Austria. The Treaty of Trianon, signed in 1920, formally ended WWI and the Austro-Hungarian Empire. The peace treaty established Hungary as an independent country, but reduced its size, cutting it down to one-third of its original land mass and reducing its population by half. As a result, many Hungarians still believe that the land taken from the country in 1920 should be returned.

Hungary was allied with Germany and Austria in WWII, declaring war on the Soviet Union. As the war wore on and it became clear that Germany was losing and the Soviets were likely to take the Hungarian region, the country’s leaders secretly met with the Soviets, attempting to create friendly relations ahead of the anticipated Soviet takeover. Through an interesting turn of events, Hitler found out Hungary’s plans and, since the country was essential in the defense of Austria, moved to occupy Hungary, installing local Hungarian Nazis in the new government.

This history of foreign invasion has instilled in the Hungarian people a distrust of foreign powers. Its history of fighting with the Muslim Ottoman Empire is also affecting its perspective on the current refugee situation, which involves many Muslim immigrants.

After the Soviet Union fell in 1989, Hungary re-oriented itself toward the West. The country joined NATO in 1999 and the EU in 2004. Hungary is not part of the Eurozone, meaning it maintains its own currency, the forint, and conducts its own monetary policy. Hungary thrived economically and enjoyed a balanced political system in the post-Cold War period, with both the center-

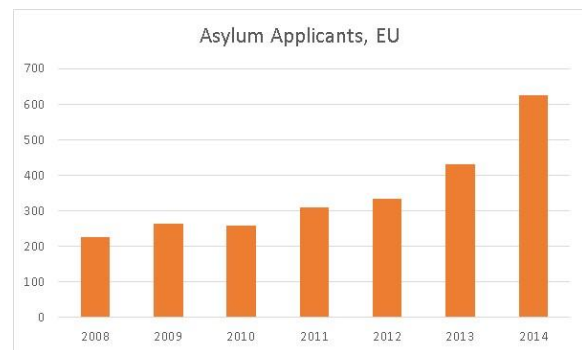
left and center-right parties enjoying equal representation in the parliament. However, in recent years, popular support has shifted toward nationalistic movements as the Eurosceptic trend gains popularity among the younger constituency. Leading up to the migrant crisis, Hungary has been a vocal opponent of the EU-imposed austerity measures, the sanctions on Russia and, most significantly, the advancement of EU-centered governance of what Hungary views as its own sovereign matters.

Additionally, it seems that Hungary has decided that its best foreign policy is to align with the stronger regional players given its position as an aforementioned land-locked country with no significant natural resources that lies between greater geopolitical forces. Thus, throughout its history, the country has hitched its wagon, sometimes willingly and at other times unwillingly, behind the greater political forces that are perceived ascendant.

Since Hungary is often the first country to change its foreign policies with the changing of the tides, it makes the country's policies a useful litmus test in revealing the greater trend for Europe overall, especially Eastern Europe.

### Current Migrant Crisis

The EU has seen a steady increase in the number of asylum applicants in recent years. The number of people seeking asylum remained relatively steady from 2001 to 2010, but the rate of inflows has risen considerably in recent years due to unrest in the Middle East. In 2013, the number of applicants rose to 431k and topped 626k in 2014. Flows of migrants thus far in 2015 are estimated to be 700k, the highest level since 1992. By comparison, the total population of the EU is 503 mm and Europe has a total population of 743 mm.



(Source: Eurostat)

The composition of those seeking asylum has also changed in recent years, with more applicants coming from Syria, Eritrea, Kosovo, Afghanistan and Ukraine. Refugees from the Middle East are likely outright political refugees, whereas refugees from other Balkan countries are more likely to be economic refugees in search of better opportunities. Additionally, most asylum-seekers are male, representing over 75% of the asylum applicants in the 18-34 age range and over 65% of the 35-64 age range.<sup>1</sup> This suggests that many migrants are entering the EU for economic reasons. The EU has promised to make economic immigration harder, making it easier for war refugees to apply for asylum.

Most of these refugees have entered Europe via Greece, making their way through Serbia into Hungary. Entry into Hungary is important as it represents the first Schengen country for most of the migrants, making further border crossing easier. The Schengen Agreement terminated borders within the EU, allowing the free movement of goods and people across European borders. It is possible for a traveler to avoid going through border controls within the EU after one's initial entry (at least until recently it was), very much like driving across U.S. state borders. In a desperate move to hinder the flow of migrants, earlier

<sup>1</sup> Source: Eurostat

this year Hungary built a barbed-wire fence on its border with Serbia, a frequent route for most migrants.



(Source: freeworldmaps.com, Eurostat, WSJ.com, CIM)

The chart above indicates the flow of non-EU migration. There are three main routes that the refugees use. The Central Mediterranean Route leads refugees to Italy. Both the Eastern Mediterranean Route and the Western Balkan Route lead refugees to Greece, through various Balkan countries and into Hungary. From there, most refugees desire to move on to Germany and Sweden.

The surge of refugees has deepened disagreements within the EU. Some of the larger countries, such as Germany and France, have announced that they will take in additional immigrants. However, some European countries are worried that without a clear and unified immigration policy, accepting refugees will simply encourage ever-increasing numbers of refugees. Furthermore, the border countries, which are the most affected, are unlikely to accept any Brussels-dictated plans.

The internal schism is especially clear with the widening split between EU members in Eastern and Western Europe. Hungary, as a country that usually signals the change of sentiment, has seen both popular support

and political backing turn away from accepting immigrants. Viktor Orban, Hungary’s PM, summarized what many other smaller European countries believe by saying, “the migrant crisis is not a European problem, it’s a German problem.” Many smaller and poorer European countries sympathize with this sentiment, fearing that the wave of migrants would overrun their countries, both in terms of funds required and cultural changes.

Other European countries have also not taken well to Germany dictating a quota of migrants that each country must take in. The reasons behind the reluctance are three-fold. First, European countries do not like one single country having disproportional influence on what these countries deem to be their internal politics. If Germany, via the EU and the ECB, can dictate their monetary policy, make requests of their fiscal policies and now also determine migration policies, the German sphere of control has become almost all-encompassing. Anecdotally, this has led some Europeans to compare Merkel to Hitler. The EU has never resolved the issue of national sovereignty and the migrant crisis is making this division more clear.

Second, migration in Europe is wrought with difficulties due to differences in culture, language and religion. Initially, Slovenia indicated that it would only accept Christian asylum-seekers, but has since retracted this policy. For Hungary, the inflow of Muslim refugees has reminded the country of its long history of warring with the Ottoman Empire.

Third, many countries fear that if they agree to accept a certain number of refugees, the actual end number will be much higher. This fear has been strengthened by reports that Denmark had agreed to accept 100



asylum-seekers, but that 800 arrived this summer. For some smaller countries, taking in a couple hundred migrants would overwhelm their aid systems.

Even within Germany itself, the anti-immigration movement has intensified. Sweden has historically taken in large numbers of immigrants, but anti-immigration sentiment has been rising in the opinion polls.

### **Ramifications**

Due to the inter-relatedness of EU countries, a single country has the potential to disproportionately influence other countries' policies. Hungary has been the first to take a tougher stance on immigration. Its location at the axis of two out of the three main migrant routes has forced it to make swift decisions, oftentimes having to retract from its unsuccessful actions. By cutting off migrant flows through Hungary, other countries in the region will have to adjust their own immigration policies and procedures. The countries that will be most affected are Slovenia, Slovakia and Italy. If Hungary shuts its borders, these countries will see an increase in migrant flows. Slovenia and Slovakia are themselves new and relatively poor states with thin social aid structures that are likely to become overwhelmed. This could lead to further strengthening of the anti-immigrant sentiment.

Without a clear and comprehensive plan from Brussels, the countries are likely to devolve into a "wall-building" race of sorts, whereby the border countries affected will rush to intensify border controls so as not to become the weakest link along the migrant route.

However, even if a clear EU-wide plan is put in place, countries are not likely to

simply accept the migrant quotas, which would be viewed as further strengthening of German control over the continent. The most likely path is that we will see the re-emergence of borders within the Schengen countries in an attempt to control the flow of migrants.

As a whole, it would be in the best interests of the region to welcome migrants into Europe. European population is rapidly aging, with most countries seeing negative population replacement rates. So, the bottom line is that Europe needs more people. However, from a game-theory perspective, it serves each country best to turn a blind eye to the flow of migrants as long as they do not stay in their country. The countries that accept refugees will have to carry a short-term financial burden as they support these refugees. Thus, any one country should support immigration into Europe, in general, but not into its own individual country, specifically, due to the direct costs involved. The situation is similar to the behavior of a group of farmers and possible weather events. Each individual farmer would benefit the most if an adverse weather event were to hit all their neighbors' fields, but leave their field untouched. In this case, the supply of agricultural products would be constrained and the one farmer would benefit from price increases. Similarly, a country that does not accept refugees or accepts proportionally fewer refugees could benefit from the improvement in aggregate demand due to the settlement of the refugees in other countries, while not having to financially support the additional population.

If the EU takes in refugees, they will need to be housed, trained, educated, etc., thus forcing fiscal stimulus spending in the short term. This spending would most likely come from the wealthier EU nations, which

would boost the region's growth rate. Longer term, these migrant inflows would also improve the demographic conditions of Europe. Although the acceptance of refugees lacks popular support due to cultural reasons, both the short-term spending and the long-term demographic

effects will likely be positive for European markets. However, it also increases the risks of political instability and could put the EU project at risk.

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