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European Migrant Crisis: Financial Burden or Economic Opportunity?

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Abstract

The refugee crisis presents the most significant challenge that the European Union is facing since its foundation in 1993. As a result of wars, limited economic opportunities and political instability in the Middle East, millions of people are migrating to Europe in order to seek asylum. While the increasing financial expenditure on refugees is testing the fiscal strength of EU nations, the crisis presents a long-term economic opportunity for European nations to overcome their problems related to the aging workforce. Though the economies are set to benefit from higher aggregate demand due to increased public spending and higher tax revenue due to employment growth, there are several political problems associated with the migrant crisis resulting in rise of xenophobia and anti-EU sentiments. This research paper explores the economic challenges as well as opportunities associated with the European refugee crisis and examines the potential to convert this humanitarian disaster into a favorable situation for EU member states.

Keywords

European refugee crisis, economic opportunity, aging workforce

Disciplines

Business

European Migrant Crisis: Financial Burden or Economic Opportunity?

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ABSTRACT

The refugee crisis presents the most significant challenge that the European Union is facing since its foundation in 1993. As a result of wars, limited economic opportunities and political instability in the Middle East, millions of people are migrating to Europe in order to seek asylum. While the increasing financial expenditure on refugees is testing the fiscal strength of EU nations, the crisis presents a long-term economic opportunity for European nations to overcome their problems related to the aging workforce. Though the economies are set to benefit from higher aggregate demand due to increased public spending and higher tax revenue due to employment growth, there are several political problems associated with the migrant crisis resulting in rise of xenophobia and anti-EU sentiments. This research paper explores the economic challenges as well as opportunities associated with the European refugee crisis and examines the potential to convert this humanitarian disaster into a favorable situation for EU member states.

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INTRODUCTION

The European Migrant Crisis refers to the growing influx of migrants and refugees in the European Union since the beginning of 2015. According to the International Organization for Migration (IOM) and United Nations Human Rights Council (UNHRC), more than one million migrants entered Europe in the year 2015 and the number is much greater for the year 2016 (Clayton and Hereward 2015). As a result of this crisis situation, Europe is witnessing the largest movement of people in the continent since World War II. This crisis is occurring as a result of factors such as wars, lack of economic opportunities and political instability in the Global South, particularly the Middle East. As most nations in EU constitute the Global North and are characterized by economic and political stability, the displaced populations from distressed nations are heading towards EU in order to seek asylum. The vast influx of refugees to Europe is one of the most significant challenges faced by the European Union since its foundation in 1993. This sheer scale of displacement is testing the solidarity of EU as a supranational organization and is proving to be unsustainable for the international protection regime enforced by the 1951 Refugee Convention.

The short-term macroeconomic impact of the refugee crisis comes in form of additional public expenditure on asylum seekers with regard to their initial reception, housing, food, education, and health. As per the estimates of the International Monetary Fund (IMF), these expenses would be equal 0.1 percent of the GDP of EU countries (Aiyar et al. 2016). As the crisis worsens with thousands of refugees still stranded in Turkey and throughout the Balkan route to Northern Europe and Germany, European citizens are becoming skeptical of accepting such large number of migrants into their countries due to the required public spending, growing islamophobia and increasing terror activities. Approval-ratings of governments of countries such as Germany which have been globally acknowledged for their role in the migrant crisis

are falling rapidly due to the emergence of far-right and populist political parties who project migration as a danger to the European society (Buergin 2016). At this critical juncture, governments, businesses, non-profit organizations and citizens need to unite to address this global catastrophe.

While the increasing financial pressure is testing the social sector spending of the host countries in the short-run, the refugee crisis presents a long-term economic opportunity for European nations to solve their issues related to an aging workforce and declining birth-rate. This research paper seeks to explore the economic challenges as well as opportunities associated with the European refugee crisis and the potential to convert this humanitarian disaster into a favorable situation for Europe. The economic focus of the paper does not intend to neglect the humanitarian aspect of the current crisis. However, it is important to assess the economic sustainability of EU's approach to ensure that it can continue to support the migrants in the future and is able to include the incoming refugees in the development of its economy.

The paper begins with a background of the European refugee crisis and describes the different approaches followed by the governments of EU member states in dealing with the situation. It outlines the growing concerns among European citizens about the challenges that the refugee crisis poses in form of additional fiscal spending and increased competition in the labor markets. It then debunks these concerns by highlighting the opportunities that the migrant crisis brings to the European economies, particularly in replenishing the nations' workforce which is diminishing due to the aging population. The following section analyses statistics related to the short-term expenditure as well as long-term economic benefits of integrating refugees in the society. The paper recognizes that the real challenge faced by European nations is political as far-right, xenophobic and anti-EU parties have risen to popularity due to the inability of the general population to understand the potential economic benefits that the crisis brings to their

nations. The paper concludes with a summary of the analysis and deduces that it is in EU's interest to welcome the refugees and include them in the society.

BACKGROUND OF EUROPEAN REFUGEE CRISIS

European Refugee Crisis started in 2015 when large number of refugees from the Middle East, North Africa and Southwest Asia started entering the European Union in order to seek asylum. The three most distressed nations are Syria, Afghanistan and Iraq, and account for the largest proportion of asylum seekers in Europe. After the failure of the Arab Spring, Syria is experiencing a bloody civil war in the country and a growing presence of the Islamic State. In case of Afghanistan, despite the newly elected government, the war against Taliban has prevented economic and political stability in the country and is the reason for thousands of Afghans escaping the nation. In the aftermath of American intervention and occupation of Iraq, the Iraqi government has still not been able to attain solidity and hence the Iraqi citizens are fleeing the country in order to avoid persecution and search for economic opportunities. In addition to these three nations, other refugees are originating from varied countries including Eritrea, Pakistan, Nigeria, Somalia and Sudan (BBC "Migrant Crisis" 2016).

In this situation of crisis, it is important to distinguish between refugees and economic migrants as the refugees who were forced to leave their countries due to inhospitable conditions must be provided asylum before migrants who came to Europe in search of better economic opportunities. Hence, the asylum systems are more lenient towards refugees from Syria, Eritrea, Afghanistan and Iraq. On the other hand, the success rate for asylum applications of citizens from countries such as Pakistan, Nigeria and Bangladesh is relatively low as the focus of asylum systems in EU are on nations which are war-torn and cannot provide normal living conditions to its nationals (Kingsley 2015).

There are three different approaches being adopted by EU member states based on their past experiences with migration, political ideologies of their governments and cultural acceptability in their societies. The first type of approach is followed by nations such as Germany and Sweden that are economically and politically capable of accepting large number of refugees and have been generously accepting substantial proportions of refugees (Dullien 2016). Even though the Dublin Regulation requires refugees to apply for asylum in the first European country they arrive in, German Chancellor Angela Merkel eliminated the rule so that Germany could welcome the migrants entering EU and reduce the burden on EU member states that are on the border. The second type of approach is followed by countries such as the United Kingdom, Czech Republic, Slovakia, Hungary and Poland that have the economic capacity to accept more refugees but their governments are discouraged to do so due to political reasons. Hungary received harsh criticism from the international community after it closed its borders with Croatia and Serbia, thereby stranding thousands of refugees who wanted to reach Northern and Western Europe. The third type of approach is followed by nations such as Greece and Italy who have welcomed disproportionate number of refugees despite struggling themselves with the debt crisis (Dullien 2016). While their actions have been supported by the European Commission, the asylum systems of these nations are finding it difficult to cope up with the pressure of increasing flow of refugees.

This crisis has called into question the strength of the Schengen Agreement which allows free movement of people between 26 European countries without border controls. As a result of the crisis, border controls were temporarily reintroduced in 2016 in multiple Schengen countries including Austria, Denmark, France, Germany, Norway, Poland, and Sweden (Escritt 2015). While the Dutch government suggested the idea of a ‘mini-Schengen’ consisting of countries such as Austria, Benelux nations, Finland, Germany, Greece and Sweden which are willing to maintain their solidarity on migration issues, the Visegrad Group comprising of Czech

Republic, Hungary, Poland and Slovakia continue to maintain an anti-immigration stance and oppose the common quota system of reallocating refugees across EU member states (Lehne 2016).

ECONOMIC CHALLENGES OF REFUGEE CRISIS

The general economic concerns among European nations are that the addition of large number of refugees will weaken the economies by increasing unemployment, overloading the public budgets and straining the infrastructural capacity. Even though the discussion on debt crisis has shifted to the background due to the increasing emphasis on the refugee crisis, nations have neither escaped nor recovered completely from the debt crisis and fear that the refugee crisis will add to their preexisting economic problems.

Economic sustainability is an important issue for European nations whose economies are struggling with the debt crisis (Dullien 2016). For example, Greece plays an important role in the refugee crisis as it is one of the primary gateways to Europe from the Middle East. At the same time, Greece is struggling to adhere to the demands of its bailout package as the government's focus is on coping with the refugee crisis and hence reforms are not being implemented. In order to assist Greece in managing the situation and providing it with partial relief from its debt burden, loan packages have been extended by other European nations as well as the International Monetary Fund (IMF). Such financial assistance only seems to further delay Greece's debt problems rather than solving them as its economy continues to be stagnant and reform implementation remains slow.

In the process of accepting and integrating the refugees, the fiscal costs come before the fiscal benefits for the host countries. Governments have to pay a significant amount of expenses related to receiving the refugees, processing their application, providing them housing and meals, teaching them the national language, identifying their skills and finally integrating them

in the labor market. There are additional costs related to processing asylum claims and then enforcing migrants who do not qualify for asylum to return. The first-year cost of processing and including a refugee in the society can range from €8000 to €12000 per application (Kern 2015). Based on 2015 figures, the IMF estimated that the cost of refugee influx in EU will be approximately 0.1 percent to 0.2 percent of the European GDP (OECD Migration Policy Debates 2015). However, this is a lower end estimate as it does not account for large number of refugees that entered EU in 2016 and excludes the future expected expenses related to training programs and integration initiatives. Given a total of 3.5 million refugees, the estimate for actual expenses amount to nearly 0.5 percent of the European GDP (Dullien 2016). In view of the economic instability due to Brexit and global financial downturn, rising number of Europeans feel that this additional expenditure of tax payers' money on migrants will put further stress on the already strained economies (Kent 2015).

One other major claim by a section of the European population is that refugees would take away employment opportunities from European people and hence create a wave of poverty. In a survey conducted of 11,000 people across EU, 82 percent of the people from Hungary, 72 percent from Greece, 46 percent from United Kingdom and 31 percent from Germany claimed that the refugees would be a burden on their economies as they would take away their jobs and social security benefits (Wike, Stokes and Simmons 2016). Some Europeans have also raised concerns about the potential drop in wages due to the increased labor supply in the market when the refugees get the right to work. If Europeans focus on such notions of labor insecurity and prejudice, it would result in unhealthy competition between the native population and refugees, making their integration in society even more difficult.

The response of the EU members to the refugee crisis has also been uncoordinated. While some nations are being overburdened by the costs of the crisis, others are contributing relatively less

due to the ad hoc nature of the approach. Studies have suggested that the most practical way of combating the crisis situation is by distributing the burden among all EU member states based on their economic capacities (Lehne 2016). However, the European Commission has been unable to achieve this due to lack of consensus among nations as a result of domestic political reasons. The two primary organizations that should be managing the refugee crisis are Frontex, which is responsible for border control, and the European Asylum Support Office. Both do not have considerable authority or funds to play a significant role in this crisis situation (Nardelli 2015). There is also no substantial legal framework for dealing with such large-scale migration and hence each member state prefers to maintain their autonomy in this issue.

ECONOMIC OPPORTUNITIES OF REFUGEE CRISIS

In the short-run, the influx of refugees and migrants leads to an increase in public expenditure. This increase in public spending circulates additional money in the economy and increases the aggregate demand. This is because the refugees represent a new market to which European goods and services could be sold. This has an expansionary impact on the economy and increases the real income and GDP of the host countries (Yoon and Chandran 2016). In order to fund the additional expenses that accepting refugees require, there have been several short-term solutions that have been proposed. For example, the German Finance Minister Wolfgang Schäuble suggested that there could be a European surcharge on tax for diesel and gasoline in order to meet the economic expenses of the refugee situation in EU (Minns 2016). These could bridge the gap in public financing needs of the governments and contribute towards boosting their economies by creating an increase in the money supply.

In the long-run, the government starts receiving fiscal benefits only after the refugees enter the labor market. A large percentage of the refugees entering the EU are young and skilled in different professions. An important investment is to identify the skills that the refugee

possesses, providing the necessary training for usage of that skill in the country and then integrating into the labor market. Providing a cleaning job to a doctor from Syria will simply lead to underutilization of human capital which will adversely affect his ability to pay taxes and contribute to the fiscal system. Hence, it is important to have special training programs for refugees to integrate them in the society based on their previous qualifications. Investment in such programs is expected to have positive returns when the migrants are employed based on their skill sets and start contributing to the welfare system of the nation to their full potential.

The collaboration of the private sector with non-governmental organizations and government could address the short-term and long-term challenges of the refugee crisis in a profitable manner. There is high potential to transform refugee integration related challenges into lucrative opportunities for business corporations. In Germany, the Federation of German Industries (BDI) has voiced the advantages that refugees bring to the business world and has suggested changes in the German labor regulations to accelerate the process that will allow incoming migrants to enter the labor force (Marcus 2015). At a time when governments are preoccupied with managing the flow of asylum seekers, private sector could play an active role in skill assessment and job allocation for refugees. Most Syrians are young and well-educated, and enthusiastic to utilize employment opportunities provided by the private sector. Hence, it is important to provide them with the required training to qualify for such jobs.

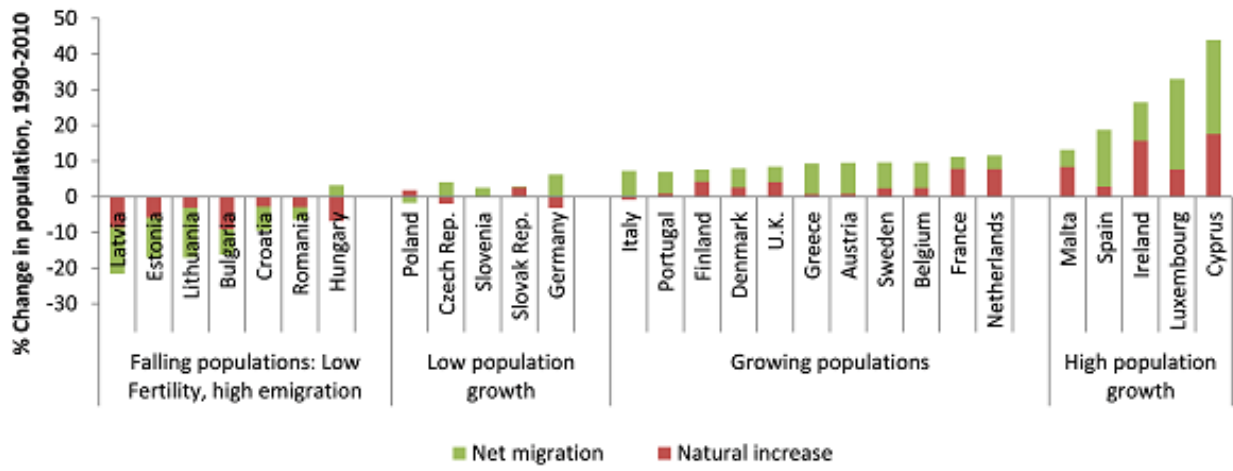
The fear among European citizens of migrants taking away the jobs from native population is not completely justified. In the short-term, unskilled labor sector is most vulnerable by the inflow of migrants in the labor market as migrant population usually competes for low-skilled jobs and has some impact on the lower end wages. In the medium term, economic analysis suggests that migrant influx does not increase the unemployment or decrease the wages of the already working population (The Economist 2016). According to IMF, introduction of refugees

in the labor market displaces the native workers with low educational backgrounds or in the agricultural sector. Consequently, more native workers occupy formal jobs that are better paid. This claim is supported by a study by Mette Foged and Giovanni Peri on the introduction of refugees in the Danish labor market between 1991 and 2008 (2015). It suggests that refugees only have an impact on the low-educated natives performing lowly jobs and these natives avail opportunities to switch to jobs involving less manual labor but higher salaries. In the short-run, refugees earn lower wages due to skill downgrading – a term used to describe a situation where a qualified and skilled person has to perform unskilled and menial tasks (Aiyar et al. 2016). However, in the 20 year period, the gap between the employment opportunities, living standards and happiness of natives and immigrants tend to converge.

The integration of refugees in the labor market is particularly advantageous in an aging society as the migrants become net payers into the fiscal system and contribute towards the increasing welfare expenditure on the pensioners. The governments of Central European and Baltic nations rejected European Commission's proposal to distribute refugees through a quota system across all EU members. However, these nations have much to benefit from migration in their aging societies with diminishing population. Since 1990, the population in Bulgaria and the Baltic nations has reduced by 15 percent, in Croatia by 10 percent, and in Hungary and Romania by 5 percent (Bodewig 2015). The share of senior citizens aged 65 and above has increased by more than 30 percent between 1990 and 2010 in Central European and Baltic nations. The fertility rates in countries such as Hungary, Poland and Slovakia are as low as 1.3 compared to the replacement fertility rate of 2.1 (Bodewig 2015). Such aging demographics are set to slow the economic growth of these countries and put pressure on the fiscal system due to increased expenditure on health services and pensions in the near future. In addition to the aging population, there has been large scale emigration from Central Europe to Western Europe due to higher life expectancy, better health care and improved standards of living.

Welcoming the refugees, many of whom are young and skilled, may prove to be a lifeline for such economies as it would increase the number of people actively employed and contributing to the welfare system in the medium term.

1. Cumulative Population Change from 1990 to 2010 in European Union



Source: United Nations' Population Division 2013; Definitions: Net migration equals the total number of immigrants minus total number of emigrants; Natural increase equals the births minus deaths (Bodewig 2015)

On the other hand, there are nations who have recognized the benefits that the incoming migrants bring to their diminishing population and have been proactive in accepting refugees. Table 1 suggests that nations such as Spain, Sweden, Austria and Greece have utilized migration in order to boost their declining populations whereas nations such as Croatia, Romania and Hungary still have failing populations with low fertility and high emigration. According to Hamburg's World Economy Institute, the birth rate in Germany is the lowest in the world and is further reducing at a fast pace. In order to support the German pension system, there would be a need for two workers per pensioner by 2060. This means that approximately 1.5 million skilled immigrants are needed to be added to the German economy to support the welfare system (Matsangou 2015). For improved and faster integration of refugees, Germany is considering abolishing laws such as the 'priority test' which requires German companies to hire refugees only in a situation when German nationals are not available for that job position. Even in case of Portugal which faces severe fiscal challenges, the Prime Minister recently announced that the nation is inclined to accept more refugees in a step to revive its diminishing population (AFP 2016).

Since the beginning of 2012, EU has received 1.9 million asylum seekers which is equivalent to 0.37 percent of the EU population. In comparison, Lebanon has registered 1.1 million refugees from Syria over the same period which is approximately 25 percent of the Lebanese population (Cali and Sekkarie 2015). Despite severe domestic political challenges faced by Lebanon, the Lebanese economy grew at nearly 2.5 percent in 2013 and 2014 in real terms, the fastest pace of growth in the nation since 2010. Civil war in neighboring Syria has resulted in armed conflict in Lebanon, declining tourism due to safety concerns and diminishing investment as a result of the overall instability in the Middle East. Despite these factors, the economy has benefited from welcoming refugees as it has significantly increased the demand for local goods and services by the migrants who pay using their savings and labor income,

international aid and transfers from relatives living abroad. World Bank data estimates that increase in refugees by 1 percent increases the sale of Lebanese goods and services by 1.5 percent. There have been similar cases in the past where the host countries have benefited from accepting refugees. For example, in 1990s, Tanzania benefited from welcoming refugees from Burundi and Rwanda who were escaping war in their countries (Cali and Sekkarie 2015). European nations should take lessons from such historical instances as well as Turkey and Lebanon's current role in the refugee crisis and welcome the refugees for their own economic gains.

STATISTICS

The estimate for additional public expenditure on elementary needs of the refugees and their integration in the labor market is an average of 0.5 percent of the GDP of European nations. While the projected costs for Austria and Sweden are 0.3 and 0.9 percent of their respective GDPs, the costs for Germany amount to 0.5 percent of its GDP (OECD Migration Policy Debates 2015). While these are substantial costs for the European nations, the increase in public spending is likely to act as a demand stimulus and raise the aggregate demand by 0.1 percent to 0.2 percent of the European GDP. In nations such as Germany, the annual output is expected to rise by 0.3 percent. RWI Essen estimates that German government spent €10 billion on refugees in 2015 with each refugee costing nearly €12000 (Schmidt et al. 2015). Despite this additional expenditure, the German budget surplus rose to an historic €12.1 billion in 2015 as the extra spending stimulated domestic demand in the country (Thomas 2016).

While the increase in aggregate demand boosts the economy in the short-term, migration increases the GDP in the long-term as it adds more people to the workforce. Past data of OECD countries suggest that immigrants made net fiscal contribution of approximately 0.35% of the GDP to their respective nations (The Economist 2016). However, this data from the past is not

completely relevant in assessing the impact of the refugees that are currently arriving in Europe. While a large section of immigrants who arrived in the past were old and soon became pensioners living on public finances, the new arriving refugees are much younger, more skilled and have the potential to work for a long period in the future. According to a report by the European Commission, the incoming refugees are likely to increase the GDP between 0.2 percent and 0.3 percent above the baseline by 2020 (Chadwick and von der Burchard 2015).

The integration of additional people in the workforce is particularly beneficial for the European economies where the workforce is shrinking due to the ageing population and declining birth rate. Without including refugees and migrants in the society, the working population of EU is expected to reduce by 8.1 million by 2020 and pensioners are expected to increase by 8.4 million. By 2030, the working population is expected to be 28.9 million less and pensioners 27.9 million more (Legrain 2015). Hence, as the baby boomers retire, the welfare system of many European nations will come under high pressure. Introduction of the relatively young migrants would result in a reversal of steadily increasing cost of pensions in most European nations due to the aging population. While some European nations allow labor market access to the refugees immediately, others could have them wait for even a year to enter the market. The participation rate of the refugees that received asylum on humanitarian grounds in the past has been steadily increasing. Hence, the refugee crisis will likely not be bank-breaking and is expected to result in faster growth of European economies in the long run.

POLITICAL CHALLENGES OF REFUGEE CRISIS

The real challenge in facing the refugee crisis in Europe is political in nature. As a consequence of the crisis, a huge split has developed between the older EU members such as Germany and the newer Central and Eastern European members. They remain divided on issues such as a quota system for refugee allocation to different EU countries and hence are testing the

solidarity of the supranational European organization. In addition to diverging viewpoints between different nations in EU, the people within many nations are split over the issue of migration. In a poll conducted in 2015, 60 percent to 80 percent people in France, Italy, Spain and United Kingdom claimed to be discontent by their government's immigration policies (Barysch 2016). 94 percent respondents in Greece, 88 percent in Sweden and 70 percent in Britain and France disapprove of EU's handling of the refugee crisis (Kern 2016). Another poll in 2016 indicated that increasing number of citizens in Europe have started to view EU unfavorably. 61 percent in France, 71 percent in Greece, 48 percent in Britain considered their country's EU membership unfavorable in current times (Arnett 2016). These high numbers indicate the discontentment of the European citizens with the European Union and particularly its approach in the migrant crisis. As a result, there has been a rise of right-wing, anti-EU and xenophobic political parties in many EU countries.

Austria

In the Austrian Presidential elections in May 2016, the far-right Freedom Party, founded by former Nazis in 1956, rose to prominence with its candidate, Norbert Hofer, receiving 49.7 percent of the votes and lost to Green Party's Alexander Van der Bellen only by a 0.6 percent margin (Connolly, Oltermann and Henley 2016). His candidature rose to popularity due to the wave of support for anti-refugee and anti-immigration policies. In a fierce gesture to oppose Austria's current approach of welcoming refugees, Hofer kept a 9mm Glock pistol with him throughout the campaign, arguing that personal guns would become a must in Austria so that the nationals can protect them from the migrants. His anti-immigrant rhetoric was embraced by large sections of Austrian population, particularly the manual labor, 90% of whom voted for the far-right party (Jones 2016).

Belgium

The terror bombings at the airport and metro station in Brussels in March 2016 quickly redirected citizen's attention to the growing security vulnerabilities in the nation due to the increasing influx of migrants. There have been growing concerns that the Islamic State is sending its radicalized recruits among the large number of migrants and hence the safety of the European society is being compromised. Such instances deepen the anti-immigration and xenophobic sentiments of the people of Belgium. There have been significant protests that the government's compassionate approach towards the refugee crisis cannot come at the cost of the security of Belgian citizens. In fact, Belgium had to reintroduce border controls on its boundaries with France in order to prevent refugees who are trying to escape the terrible conditions in the French Calais Jungle camps to enter Belgium (Chazan 2016).

France

The far-right National Front (FN) has suddenly risen in popularity in France at the possibility of more refugees entering the country. Under the leadership of Marine Le Pen, it received the highest number of votes in the December 2015 regional elections and forced the other parties to form a coalition in order to keep FN out of power. A staunch opponent of the EU-wide migrant quota system, Pen has raised her voice to send the migrants back to their countries, regardless if they are escaping war or coming for better economic opportunities. In addition to having record number of jobless young people unable to find employment despite their educational backgrounds, France has seen a drastic rise in fear of terrorism following the November 2015 Paris attacks and July 2016 Nice attacks. Her anti-immigration discourse has positioned her well for the French Presidential elections in 2017 and polls suggest that she is being favored by 28 percent of the respondents compared to current President Hollande being supported by only 14 percent (Tomlinson 2016).

Germany

The German Chancellor Angela Merkel is a strong advocate of accepting refugees to the country and played a significant role in welcoming the large number of refugees that arrived in Germany in 2015. However, everyone in the German parliament did not think similarly. This is evident from the cross letter that was sent by 44 members of parliament of the coalition government on January 19 who claim that the country is being overwhelmed by the inflow of refugees and the government needs to restrict this influx in order to focus on the German people (Economist 2016).

The populist parties such as Alternative for Germany (AfD) party have drastically risen in popularity in a short period of time. It was founded as an anti-euro party in 2013 and has modified itself into an anti-migration platform. Germans attach high significance to their personal savings. The general sentiment among Germans is that the country's proactive role in the refugee crisis will have a severe impact on their long term personal savings. The Germans feel that they have already spent excess of taxpayers' money in providing bailout packages to European nations that were ridden with debt and hence do not want to contribute more towards external issues such as the migrant crisis. The AfD has captured these sentiments carefully and gained even more prominence than the established Social Democrats in many regions. In fact, in the March 2016, the AfD managed to successfully enter the parliaments of each of the three regions where the elections were held (Oltermann 2016).

Greece

As the European nations debate the EU-wide quota system and the process of reallocation of refugees, Greece has become a scapegoat of European inefficiency in decision making on migrant related issues due to its location as the primary point of entry for people from the Middle East. With pre-existing domestic political problems and delays in implementation of

austerity reforms of the bailout package, Greece is in a fragile political and economic situation. While the opposition is pressing the Greek government to use its leverage in the migrant crisis to get a part of the Greek debt excused, the Tsipras government is wary of taking a hostile position as the economy slips into another recession. The debt crisis followed by the current migrant crisis has radically increased Euroscepticism among the Greek population and has resulted in the rise of neo-fascist parties such as the Golden Dawn in the nation (Zafiropoulos 2016).

United Kingdom

In United Kingdom, far-right xenophobia played a key role in voting Britain out of the EU in the Brexit referendum on June 23, 2016. The argument voiced by the Leave campaign was focused on EU's approach to the refugee crisis as well as the need for UK to regain the control over its economy. Under the leadership of Nigel Farage, the far-right United Kingdom Independence Party led a divisive anti-immigration campaign that received the third highest number of votes in the 2015 elections and successfully voted UK out of the EU by its Eurosceptic rhetoric. The British were already discontent by the increasing number of immigrants from post-communist Central and Eastern European EU nations as well as nations such as Italy, Portugal and Spain that are struggling with the Eurozone crisis (Beauchamp 2016). With the increasing influx of refugees from the Middle East into European nations, the British fear that they would eventually migrate to Britain due to its uncontrolled immigration policy with the EU nations. The Leave campaign captured these sentiments and portrayed immigration as the key factor in the Brexit decision, more significant than sovereignty, economy or public finances. As the formalities for Brexit are undertaken, EU citizens will no longer have the automatic right to live and work in Britain and hence British authorities would be able to control the migration between UK and EU.

Hence, the negative development in the political landscapes of the above-discussed six nations in EU can be characterized as the ‘real problem’ associated with the European refugee crisis. Due to current governments’ failure to convey the economic benefits of the refugees in the European society to the general population, political parties with far-right and xenophobic ideologies have risen in popularity due to their populist approaches. Instead of helping unite the European people in dealing with this crisis, these organizations are shifting the public perception of migrants in the negative direction, thereby increasing the divide in the society and preventing a unified EU-wide response to the situation.

CONCLUSION

This research paper explores the background of the European refugee crisis and its associated economic challenges and opportunities. While welcoming refugees increases the public expenditure of European nations in the short-run, it also increases the aggregate demand in the economies which boosts the GDP of nations due to higher demand for domestic goods and services. In the long-term, as the migrants are integrated into the labor markets, the fiscal system starts receiving financial benefits as these migrants start contributing to the welfare system of the state. Accepting refugees is particularly important for the European nations that are struggling with diminishing workforce due to an aging population and declining birth-rate. While the skilled refugees can contribute to healthcare, engineering and business areas, unskilled workers could be employed for taking care of the elderly population as well as manual labor purposes. Hence, the refugee crisis serves as a lifeline for many European nations as it provides them the opportunity to welcome new members to their workforce and ensure continuous economic growth in the future.

The real challenge is political as the people of European nations need to be convinced that the refugee crisis is not simply a financial burden but an economic opportunity from which their

nations could benefit in the long-run. The inability to do so has led to the rise of populist and right-wing political parties that have led their campaigns based on the spreading wave of xenophobia and skepticism. The Freedom Party in Austria, the Vlaams Belang in Belgium, the National Front in France, the Alternative for Germany in Germany, the Golden Dawn in Greece and the United Kingdom Independence Party in Britain have risen to popularity in recent times based on their anti-immigrant rhetoric.

As an alternative to willingly welcoming refugees, European nations could try closing their borders and making it tougher for refugees to enter the EU. However, while this may discourage a few refugees, it would simply increase the profits of the smugglers who are illegally transporting people into EU from other countries. Middle-class Syrians would be willing to pay extra amounts to escape the dreadful and inhospitable conditions in the Middle East and enter Europe. Estimates suggest that smugglers have already earned approximately \$6 billion in 2015 from providing transportation services to the refugees (Moore 2016). Hence, restricting the flow of refugees into Europe is not a viable solution. Instead, there is a need for a common EU platform focused on the refugees which is responsible for the management, funding and control of the refugee influx in a centralized and efficient manner.

Due to the continuing war in Syria and instability in North Africa, it is unlikely that the flow of displaced people to Europe will stop in the near future. It is probable that the refugees who are seeking asylum in EU nations stay and work in Europe for an extended period of time. The difference between the government's perspective and refugees' perspective is that of integration versus inclusion. While governments are focused on integration of refugees into the European society, the newly arrived refugees simply want to be included in the society, avail livelihood and educational opportunities for their families and return to their home countries once the situation has been resolved. Hence, it is dependent on whether the Europeans accept

and involve the refugees well enough in their societies that they decide to stay in Europe for their entire life and become a part of the solution to EU's aging population and slowing growth. Even in the case when some of these refugees decide to go back to their respective countries once the situation is better, working in the European business environment would provide them with the skills needed to rebuild economies and societies and hence form the foundation of stronger future relations between the European Union and the nations from which these refugees originate. Hence, the refugee crisis poses to be an economic opportunity for the EU nations that may require some short-term investment but has optimistic prospects for a prosperous future.

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