

# **Uncertainty and Challenges in Contemporary Economic Behaviour**

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EMERALD STUDIES IN FINANCE, INSURANCE,  
AND RISK MANAGEMENT

# **Uncertainty and Challenges in Contemporary Economic Behaviour**

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## Series Editors' Introduction

The Emerald book series: Emerald Studies in Finance Insurance and Risk Management Volume 1 includes studies on *Uncertainty and Challenges in Contemporary Economic Behaviour* contributed mainly by authors invited from participants in the 3rd International Applied Social Science Congress (C-IASOS2019) held in Çeşme, İzmir, Turkey, between April 4–6, 2019, and the University of Malta's Department of Insurance.

A study of the challenges and perspectives of international migration in Europe within the Brexit framework is carried out in Chapter 1. The study shows that during 2000–2019, among EU-10, the main destination country for immigrants and asylum seekers in terms of welfare and living standards is Germany (both for economic and humanitarian migration), along with the United Kingdom (in the case of economic migration). This situation tends to remain unchanged for the following years even in the Brexit context, as reflected by the 2020–2025 forecast scenarios.

The authors of Chapter 2 evaluated the impact of US economic policy uncertainty on developing countries under different economic cycles: a nonlinear approach. According to the results of the study, the macroeconomic variables in Turkey's economy significantly and strongly respond to the changes in the EPU index during the periods in which global risk perception is low; nonetheless, so-called responses weaken due to be adopted policy of “wait and watch” by investors during the periods in which global risk perception is high.

In Chapter 3, the authors aim to find out the existence of zombie firms in the Borsa Istanbul manufacturing industry. The authors stated that 62 of 109 firms which traded on Borsa Istanbul Manufacturing Industry between 2008 and 2018 were classified as zombie firms because they had interest coverage ratios below 1, for three or more consecutive years.

The author of Chapter 4 clarifies the forensic accounting theory and explains why and how the choice of methods or techniques is used to detect creative accounting or manipulations in financial and non-financial reporting, and shows that the outcome of using such methods or techniques depends on the accounting and non-accounting decisions taken into consideration by the forensic accountant or investigator.

In Chapter 5, the authors aim to determine the effects of monetary policy practitioners in Turkey, CBT (Central Bank of Turkey), on macroeconomic variables via the interest channel of monetary transmission mechanism. The results of the study manifest that the interest channel directly affects fixed capital investment and real gross domestic product.

The authors of Chapter 6 analyze the theoretical bases and extent of behavioral accounting, which focuses on the human behavior factors being observed while creating or using financial reports.

In Chapter 7, the author presents theories that can be used in financial inclusion research and policy debates. The study shows that financial inclusion theories are explanations for observed financial inclusion practices. It also shows that the ideas and perspectives on financial inclusion can be grouped into theories to facilitate meaningful discussions in the literature.

The author of Chapter 8 aims to investigate the concept of shareholder activism by carrying out a literature review. The study shows that shareholder activism has a significant influence on corporate governance policy that a firm adopted in recent years. Shareholder activism increases levels of shareholder engagement in firm decisions and fosters a long-term corporate governance culture.

In Chapter 9, the author analyzes the relationship between interest rates, the exchange rate and investor sentiment in Turkey. The results of the study show that foreign exchange and commercial credit interest rate variables are carefully monitored by market players and are effective and influential in the formation of future expectations.

The author of Chapter 10 focused on a discussion of the fact that (a) climate change is emerging as an important issue, increasing uncertainty in the business circle, and (b) financial institutions through their inaction seem to be unmoved by climate change risk despite the potential for climate change events to affect the financial institutions and the financial system.

In Chapter 11, the author tests the asymmetric causality between developed and emerging markets. Results of the tests show that there is a weak correlation between developed and emerging markets. Moreover, results show that there is a long-term relationship between the MSCI Emerging market index and the DJIA index.

In Chapter 12, the authors measure the financial performance of commercial banks listed on Borsa Istanbul by the Multiple Criteria Decision-Making and investigate the relationship between financial performance and market return. Findings show that there is no generally significant correlation detected between financial ratios and market returns.

The author of Chapter 13, with the use of 100 quotes, presents some thoughts, in the form of quotes, on what caused the financial crisis, why it was severe and what can be done to prevent another crisis in the future.

In Chapter 14, the authors seek to explore the grounded realities of live-in care workers in Malta. They conclude with brief policy suggestions to trigger improvements in the wellbeing and dignity of migrant carers.

In Chapter 15, the authors delve into the determinants and praxis of the derivative hedging instrument usage (DHIs) of Malta, a small island state. Empirical evidence is also provided in relation to the impact of DHI usage and the adoption of a hedge accounting model in entities' financial statements.

Chapter 16 highlights the effect of micro entrepreneur arrangements to city culture in terms of urban aesthetics and street peace in the urbanization process.

Finally, in Chapter 17, the authors address the key issues of the fiscal policies and tax system in Kosovo, in order to align with the contemporary tax principles and requirements of the European Standards. Results of the study confirm the need for tax reforms in order to have an adequate tax system oriented to indirect tax; changing the structure of tax collection for border tax into domestic tax, simplification of the legal procedures, improvement of management and audit systems, reducing the informal grey economy and to have a gradual growth-friendly fiscal policy.

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## Chapter 1

# Challenges and Perspectives of International Migration in Europe within the Brexit Framework

*Grațîela Georgiana Noja, Mirela Cristea, Petru Ștefea and Ciprian Panzaru*

### Abstract

*Introduction:* International migration, a complex, dynamic and multifaceted process, grasps important challenges for the European economies, through its advantages and pitfalls.

*Aim:* This research is conducted to examine the fundamental credentials of immigration in Europe and its perspectives within the Brexit framework, an ongoing process that induced profound implications.

*Method:* The authors have applied the cluster analysis and structural equations as the main research methods on a balanced panel comprising 10 receiving countries (most targeted by migrants), members of the European Union (EU-10), for the 2000–2019 timespan (2019 being a Brexit milestone year). The authors have separately extrapolated a sample for 2020–2025 that was further used to identify some perspectives after the Brexit timeline in terms of migration determinants and effects on EU-10 host economies. Cluster analysis is based on a key scenario related to wellbeing, living standards (income level) and poverty risk at destination. These credentials are essential for the migration decision and important elements of migrant labour market integration strategies with keen economic consequences, further assessed through the structural equation models.

*Findings:* Results show that during 2000–2019, among EU-10, the main destination country for immigrants and asylum seekers in terms of welfare and living standards is Germany (both for economic and humanitarian migration), along with the United Kingdom (in the case of economic migration). This situation tends to remain unchanged for the following years even in the Brexit context, as reflected by the 2020–2025 forecast scenarios.

Immigration effects on labour market outcomes and economic welfare are extremely significant, being largely discussed within the chapter.

*Keywords:* Immigration; Brexit; economic welfare; forecasting; clusters; structural equation

*JEL classification:* F22; F15; C53

## 1. Introduction

International migration is a sheer phenomenon with strapping economic, social and demographic effects on both developed and developing countries, regardless of the geographical area examined. Worldwide ampleness of migration flows makes this issue extremely relevant for rigorous cross-national scientific research.

Even though an overview of the migration phenomenon can serve to grasp a complex image on it at a synchronic level, we can attest that the migration process represents a keen issue that can't and shouldn't be studied different from a diachronic perspective.

Hence, we entail that despite its current status of novelty, the migration phenomenon has an important historical background. Its origin is evocated even from the fifteenth to seventeenth centuries, marked by important discoveries of new territories that have subsequently represented destinations of significant migration flows. The American society itself, well known as the 'melting pot', has built its groundings on a major number of migrants that have helped to transform this once new territory into one of the world's greatest powers.

Even though until a certain point the migration process was considered a study issue only from an historical perspective, to the extent that it was in the past and also for what it represents nowadays, we highlight that the international migration involves a greater horizon of economic and social implications that transform this phenomenon into a study object for economics, sociology or law.

Several aspects speak to the relevance of the research study and questions dealt with in this chapter.

International migration represents a major research theme, firstly because of its magnitude, since over 250 million migrants all over the world and, particularly, in Europe, have configured this research issue into one that is globally significant, as long as ignoring it can cause important economic and demographic unbalances (Thalassinos, Cristea, & Noja, 2019).

Second, migration is a major research topic through its two-fold interdependence with the development concept. It relates to the developed countries that attract not only the labour force needed in production, but also the know-how from other countries, the skills/capabilities migration being a long-term loss for the origin country, but a tremendous gain for migrant receiving economies.

A further argument in favour of studying this research thematic is the current migration situation in Europe, framed by the challenges faced by the European countries in front of the refugees' crisis and increased labour migration flows,



while EU countries are also under the sheer implications of the ongoing Brexit process (Rupeika-Apoga, Romanova, Bule, & Thalassinou, 2019).

On that discursive note, the importance of a migration integrative study is even greater since we account for a phenomenon that during the years has gained completely different valences. In other words, migration during the nineteenth and twentieth centuries had different amplitude than today, particularly in terms of intentionality. In that vein, the twenty-first-century migration is one extremely intense deployed based on full awareness decisions, widely shaped by the information and communication technology. Even more, current international migration is one in which migrants maintain their roots in the migrant sending country. Thus, compared to previous centuries when this phenomenon was targeting new colonial territories, a present migration study is compelled to observe the specific ways in which the process is initiated, takes amplitude and impacts the origin and destination countries.

Compared to previous studies, the general objective of this chapter focusses on analysing both economic (immigrants) and humanitarian (asylum applicants) migration indicators, along with other economic and labour market specific credentials, based on data for 10 EU migrant receiving countries (EU-10), namely Belgium, Denmark, Finland, France, the United Kingdom (UK), Germany, Austria, Sweden, Italy and Spain. The analysed period is 2000–2019, with a sub-sample extrapolated for 2020–2025. We have applied two econometric procedures, namely: (1) *cluster analysis*, in order to check for dissimilarities among the EU-10 countries, considering welfare, earnings and poverty risk at destination both for the economic and the humanitarian migration flows; and (2) *structural equation modelling (SEM)*, for overall (direct indirect, total) assessment of economic and humanitarian migration flows in terms of labour market insertion of the foreign population, and economic welfare.

The rest of the chapter is structured as follows: after developing a literature review grounded on core definitions and concepts of international migration, by induction it further identifies the diverse strands of thought that have amended different authors' views on international migration over the last decade. Then, the data and econometric methods are detailed, completed with own empirical findings. Final section discusses the findings along with their policy implications and outlines important concluding remarks.

## **2. Theoretical Framework and Brief Literature Review**

### ***2.1. Definitions and Concept of International Migration***

Framing a general setting that encompasses the analysis of both demographic changes and connective socio-economic factors, migration becomes a primordial concept in the research endeavour set to examine and explain the migratory phenomenon in Europe within the Brexit context.

Defined in a minimal manner through the geographical movement of persons across a certain border with the purpose to get permanent or temporary residence

at destination (Haupt & Kane, 2004), migration has a series of implications that are viewed as determination contexts for the migratory process.

Another definition of migration is given by the International Organization for Migration (IOM, 2004) that views migration as the process of population movement across borders or within a country. The same organisation states that migration is a phenomenon that doesn't depend on structure, size or causes.

According to the United Nations (UN, 2016), international migration represents the cross-border movement of individuals with the aim to establish in a different country than the origin one. Moreover, the UN organisation links migration to the 2030 Agenda for Sustainable Development as it recognises for the first time the contribution of migration to sustainable economic development ('11 out of the 17 Sustainable Development Goals contain targets and indicators that are relevant to migration or mobility').

A further definition describes the migration concept as the population movement concomitant with a change in residence (Petit, 2000). Going deeper into the concept, the same author considers international migration not only through the change of residence in another state, but also through a change in the legal status.

Rossi (2008), another author which has extensively studied the migration issue, describes this phenomenon as the movement of persons in different countries, in the case of international migration or as a movement inside the borders of a country, for the general migration concept, while a relatively older perspective of Shaw (1975) attests that migration is the permanent movement of persons on a significant distance and lapse of time.

Concluding, the international migration concept denotes the movement of individuals across borders from various economic or humanitarian reasons.

## ***2.2. Theoretical Approaches of International Migration***

Beyond the numerous definitions set to explain the migration concept (endeavour that in certain situations can result in epistemic approaches rather than concrete measurements of the migration phenomenon that could allow for tailored policy interventions) migration was further studied by several authors whose findings enrich the scientific literature.

Valtonen (2008) describes the migration process in a dual perspective. By referring to migration in the same already familiar terms of population movements, Valtonen (2008) sets a clear line between internal and international migration. Nevertheless, a more important statement made by the author entails that the expression of 'moving persons' refers not only to individuals that are voluntarily moving inside or outside the origin country, but also to those constrained by different factors to adopt the migration decision.

The study performed by Barrell, Gerald, and Riley (2007) focussed on the macroeconomic effects of EU enlargement and, implicitly, of migration. Their findings reveal that as a result of the 2004 integration wave, most of the Old EU Member States have enforced new restrictions placed on the immigrants coming from the New EU Member States. Unlike the existing migration trend at that time, there were, however, certain countries that opted out of these restrictions

and implemented flexible immigration policies. These countries were Denmark, Ireland, Sweden and even the UK. The consequences were soon to come. Thus, according to [Barrell et al. \(2007\)](#), if up until the 2004 adhesion year, these four countries registered relatively low migration inflows, from the moment they adopted stable and flexible migration policies, these countries became primordial destinations for both economic and humanitarian migrants. On the opposite side, the neighbouring countries of the New EU Member States that until the 2004 adhesion were most targeted by migrants have registered a significant decrease in the number of immigrants afterwards.

[Hooper, Desiderio, and Salant \(2017, p. 27\)](#) have shown that ‘while integration and employment policies remain a broadly national competence’, the EU represents the support ‘on the frontlines of efforts to improve newcomer labour market integration outcomes’.

Current migration flows in Europe are widely shaped by the UK’s decision to leave the European Union and the ongoing Brexit process. Headline estimates grasp a patterned link between international migration and economic growth when relate to the long-term impact of Brexit. [Tetlow and Stojanovic \(2018\)](#) entail that ‘one important way in which Brexit may have an impact on economic growth is by precipitating changes to immigration policy’. Hence, new immigration policies tend to centre on attracting certain types of migrants according to their educational background, while enforcing restrictive regulations for EU nationals.

Within the Brexit challenges, [Suciu, Cristea, and Noja \(2018, pp. 124–125\)](#) revealed:

a strong positive immigration impact upon host countries’ labour markets reflected through important increases in employment rates (both overall and mainly for the foreign population) ... and the overall impacts of immigration flows, both labour (economic) and humanitarian, tend to have positive expected effects reflected on the host countries’ economies.

Referring to the UK, [Dennison and Geddes \(2018, p. 1137\)](#) appreciated that the Brexit referendum ‘seems likely to lead to a decline in “Europeanised” migration policy in the UK’, on the medium term. Also, [Portes and Forte \(2017, p. S31\)](#) empirically attested that the Brexit process will induce a downturn in immigration flows to the UK, and:

Brexit-induced reductions in migration are likely to have a significant negative impact on UK GDP per capita (and total GDP), with marginal positive impacts on wages in the low-skill service sector.

[Kierzenkowski, Pain, Rusticelli, and Zwart \(2016, p. 26\)](#) state that ‘immigrants have contributed on average 0.7 percentage points to GDP per year since 2005’, hence the Brexit will induce unfavourable effects upon GDP. Even more, on the Brexit outcome, the same authors ([Kierzenkowski et al., 2016, p. 28](#)) also drawn

into attention that ‘lower immigration and weaker FDI could reduce the pool of skills’, with adverse impact on economic welfare.

On this line, Booth, Howarth, Persson, Ruparel, and Swidlicki (2015) attested that policies and strategies designed to support the migration phenomenon will significantly redound to the increase of the total GDP by 2030.

After reviewing the literature, we can attest that there are different strands of thoughts regarding the determinants and economic consequences of international migration in Europe, particularly in the Brexit frame of reference, that need to be strengthened with comprehensive studies to further support accurate policy interventions.

### 3. Data Analysis and Research Methodology

#### 3.1. Data – Selected Indicators

According to our general objective, firstly, we have compiled a balanced panel (2000–2017 sample) and considered the total immigration flows and asylum seekers, along with a complex set of indicators that we’ve further used in the empirical analysis.

The data were afterwards extrapolated until 2019 to better capture the Brexit impact upon labour mobility within the European Union (since 2019 is the timeline advanced for a possible outcome of this ongoing process). Extrapolation is used even though it may be subject to more uncertainty, yet the data are sampled periodically and therefore the linear extrapolation approximates next data points on short periods of time, by expanding the given data to make predictions about what can happen in the Brexit framework.

We rely on short-range forecasting so we’ve separately extrapolated a sample for 2020–2025 (EU-10) that was used in both cluster analysis and SEM to identify some perspectives after the Brexit timeline (2019) in terms of migration determinants and effects on EU-10 host economies.

These essentials were further configured in designing the migrant labour market integration general models. We’ve further applied the standardisation procedure (based on the mean and standard deviation of each time series) on indicators, to cover for data benchmarking between countries (OECD, 2005, 2015).

Numerous indicators were used as proxies for *the variables of developed models*, both for the cluster analysis and in SEM, respectively:

- (i) *International migration indicators*: economic migration as inflows of foreign population (*IMIG*); humanitarian migration as inflows of asylum applicants (*ASYL*).
- (ii) *Economic activity and labour market specific indicators*: Gross Domestic Product per capita in Euro (*GDP\_cap*); unemployment rate for the foreign-born population (*UR\_FBP*) (%); annual net earnings of a two-earner married couple with two children (*NE*) (Euro); educational level reflected through the tertiary education (levels 5–8) (*EDU\_TL*); at-risk-of-poverty rate (*POV\_RK*) (%).

The main databases used for collecting the data were European Commission – Eurostat, OECD – International Migration Database, World Bank – World Development Indicators, United Nations High Commissioner for Refugees (UNHCR).

As shown in Fig. 1, immigration inflows are particularly keen in Germany and the UK among the EU-10 receiving countries considered in our analysis, as well as in France, Austria and Spain (Fig. 1(a)). Asylum seekers, on the other hand, are mostly found in Italy (through the main Libyan humanitarian migration corridor), but also in Germany, Sweden and Finland (Fig. 1(b)).

As regards the labour market insertion of migrants in EU-10 countries, official data and own extrapolation for 2019 highlight that Germany and the UK have the lowest unemployment rates of the foreign population, while France, Finland and Spain still struggle with high pressures of increased unemployment among the foreign population residing in these countries (Fig. 1(c)).

Fig. 2 entails important differences among the EU-10 receiving economies in terms of economic welfare, earnings levels and poverty rate. Hence, France, Italy and Spain have relatively low annual net earnings of a two-earner married couple with two children (below the 59,000 Euro threshold), while in Germany, Austria and Sweden these earnings are significantly higher, even more in Denmark and the UK, where they exceed 100,000 Euro (Fig. 2(b)).

GDP per capita is extremely high in Sweden and Austria (Fig. 1(a)), these two countries also having the lowest poverty rates (Fig. 2(c)) and the highest levels of tertiary educational attainment (Fig. 3(b)).

### 3.2. Research Methods

Grounded on these data and after reviewing the literature, we've applied the *cluster analysis and SEM* techniques as main research methods pursued in our analysis.

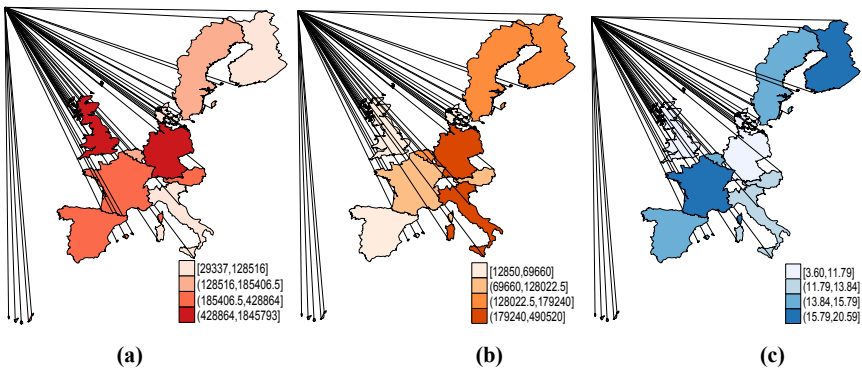


Fig. 1. (a) Flows of Immigrants; (b) Asylum Seekers; and (c) Unemployment Rate of Foreign-Born Population, EU-10, 2019. *Source:* Own process of Eurostat and OECD data.

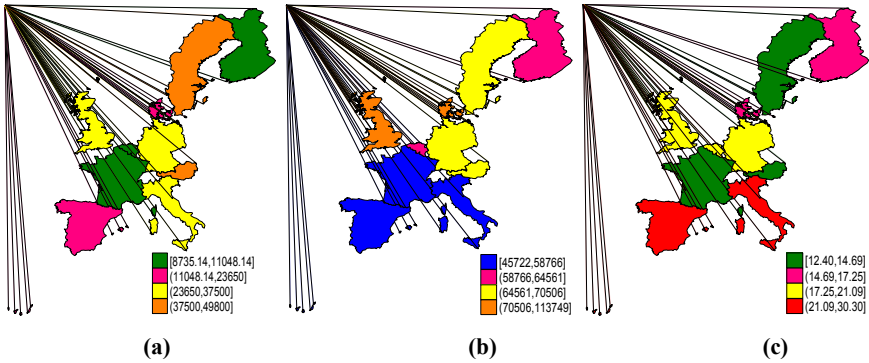


Fig. 2. (a) GDP per Capita; (b) Annual Net Earnings; and (c) At-Risk-of-Poverty Rate, EU-10, 2019. *Source:* Own process of Eurostat and OECD data.

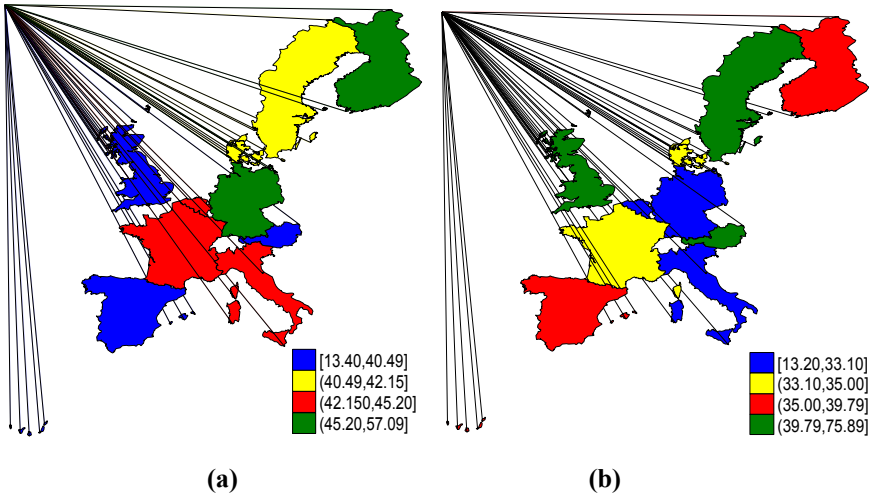


Fig. 3. Educational Attainment: (a) Secondary and (b) Tertiary, EU-10, 2019. *Source:* Own process of Eurostat and OECD data.

Cluster analysis is built on the Ward method specific for hierarchical clustering, being processed through the standardised values of the indicators. The Ward method relies on squared Euclidian distance and a minimum variance criterion by finding the pairs of clusters and minimising the total within-cluster variance (Cornish, 2007).

Cluster sampling is performed separately on both timespans 2000–2019 and 2020–2025 and for both dimensions of the migration process, economic and humanitarian. It is a beneficial method that takes advantages of random and stratified samples, thus allowing us to sort the countries into groupings based on similarity and hence ‘reveal the outliers and dimensionality of previously unnoticed interesting relationships’ (Ferreira & Hitchcock, 2009, p. 1926).