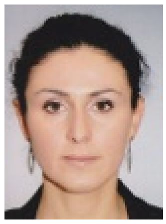
The eurozone's struggling economies are increasingly selling citizenship to raise much needed capital.

by Blog Admin



How far should countries go to encourage foreign investment? **Jelena Dzankic** *writes that in a time of economic crisis, some countries in Europe are now seeking investment in exchange for citizenship. Assessing recent developments in Bulgaria, Hungary, Portugal and Ireland, she argues that despite the obvious financial benefits to such policies, they are not without risks. They may raise the potential for tax evasion and security issues, and could also reduce the relationship between the individual and the state to that of a business contract.*

While the epidemic of the economic crisis is still troubling Europe, many of the Old Continent's countries seek out creative ways to secure a much needed injection of capital into their struggling economies. Investor programmes, which enable wealthy individuals to gain residence in one of the European countries and eventually access their citizenship, are on the increase. Over the past few months Bulgaria, Hungary, Portugal, and Ireland have opened their borders to investors. Moreover, several other countries are considering this option including the countries aspiring to EU membership, such as Albania and Macedonia. Yet, unlike the Caribbean islands that implement citizenship-by-investment (St. Christopher and Nevis and the Commonwealth of Dominica), European countries require the investors to reside on their soil, which makes the European programmes a bit less controversial. These issues have been examined in detail in an earlier blog. On the one hand, the investor programmes seek to attract foreign investment and curtail public debt, thus helping the ailing economies recover. On the other hand, they may lead to the commodification of citizenship, which has as its most obvious consequence the disruption of equality of membership in a polity. This raises the question of whether access to citizenship should be facilitated on grounds of wealth (which is unevenly distributed among individuals) if economic circumstances so require? The most recent European examples offer an insight into this complex issue.

Turkey/Bulgaria Border Station, Kapikulke (Credit: Christian Koehn, CC BY 2.0)

Most recently, the poorest country of the EU 27, Bulgaria, had introduced a shortcut to an EU passport by opening a citizenship-by-investment programme based on a one year residency and an investment of at least one million Bulgarian Lev (just over half a million euro). The investment was supposed to target Bulgarian companies which have high-priority projects in the fields of industry, infrastructure, transport or tourism. The changes to the Law on Bulgarian Citizenship had been adopted as a consequence of the amendments to the Law on the Promotion of Investment, the latter aiming to reverse the multibillion euro drop in foreign direct investment in the country since the onset of the financial crisis in 2008. However, the amendments to the Law on Bulgarian citizenship were vetoed by the country's President who argued that citizenship should not be 'sold'. The underlying amendments are currently being reconsidered by the Bulgarian Parliament. If adopted, the President will not have the right to veto them for the second time.

The Bulgarian move towards facilitating access to citizenship to investors is not an isolated case among the struggling EU economies. However, other EU Member States that have established such programmes opted for slightly stricter 'premier residence' programmes, which already exist in the United Kingdom, Belgium, Austria, and Latvia. This means that investors will receive residence permits on grounds of their investment, but will still be required to comply with other criteria for naturalisation including multiple years of residence, knowledge of the language, etc. While Spain is currently considering legal changes required to open a premier residence programme for investors, several other EU members have already approved the schemes that – through facilitated residence – link citizenship and wealth.

Earlier in November 2012, Hungary amended its regulation of Entry and Stay of Third-Country Nationals to allow individuals who invest at least 0.25 million euros in government bonds to receive temporary residence of a maximum of five years in Hungary. The underlying investment also facilitates the acquisition of permanent residence in the country, as investors are allowed to apply for permanent residence after six months of continuous residence, unlike other applicants who are eligible for permanent residence after three years.

In October 2012, Portugal adopted a new law enabling applicants to receive a Portuguese visa who either make a capital investment of one million euros, purchase property in the country of at least half a million euros, or establish a business venture that creates at least 30 jobs. Provided that the investment is sustained for at least five years, the investor residence programme will allow the investors to eventually obtain a permanent residence permit in Portugal and apply for Portuguese citizenship in line with the legislation in force.

After having terminated its investor citizenship scheme due to domestic and international criticism in 2001, Ireland, faced with severe public debt, opened an investor programme in mid-2012, allowing wealthy individuals to receive a residence permit for up to five years. In exchange for a residence permit, Ireland requires either a one-off investment of at least half a million euros in a public project in the area of education, health, sports or arts, a one million euro venture capital investment maintained for at least three years benefitting an Irish business, a one million euro combined investment in real estate and government bonds, or a two million euros investment in special immigrant investor bonds maintained for five years. The rationale of the programme is to attract the investors to relocate to Ireland, which would eventually (and subject to other conditions), make them eligible for Irish citizenship.

While on the one hand the investor programmes may boost these countries' economies, they are far from being completely risk free. Issues such as tax evasion have often been cited as a potential result of these programmes, as well as the risks for the recipient countries in being potential hosts to individuals seeking to sidestep criminal charges in their countries of origin. More recently, the security dimension of investor programmes has become an increasingly debated issue. Media reports reveal a growing fear that the political and economic instability in the Middle East after the Arab Spring could result in a large number of wealthy individuals from these regions benefiting from investor programmes in Europe. Given the shift of global capital eastwards over the last few years, it is to be expected that many wealthy individuals who face travel or other restrictions due to their current nationality (e.g. Russian, Chinese, Syrian, Iranian, Pakistani, etc.) will take advantage of the investor programmes. The investors (and portions of their wealth) will thus relocate to Europe since residence is mandatory to qualify for citizenship under the existing schemes.

While the return of capital may prove beneficial to Europe, the proliferation of investor programmes raises the question of what citizenship means. It is not only the matter of having a passport, but a far more complex notion. First, investor programmes change the nature of the legal link between the individual and the state. They create a de facto business contract between the state and the investor, which entitles the state to waive some or all of the conditions for naturalisation of investors. Regular applicants still need to meet these conditions for naturalisation as they are unable to be a party to the underlying business contract. Second, citizenship grants the individuals the 'right to have rights' in the state while also laying out the duties that they have towards that state. Hence by reducing the link between the individual and the state to a business contract, states effectively commodify not only citizenship but also individual rights, as these will be accessible to the 'investor' citizens on grounds of wealth.

So, even in the context of citizenship, it appears that 'money makes the world go round'…

This article was first posted on the Citsee blog.

Note: This article gives the views of the author, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

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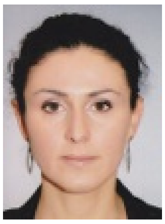

Jelena Dzankic holds a PhD from the Faculty of Politics, Psychology and Social Sciences (PPSIS) at the University of Cambridge (New Hall College). Her academic interests fall within the fields of transition of SEE countries, Europeanisation, politics of identity and citizenship. Prior to joining the European University Institute, Jelena was part of the CITSEE team at the University of Edinburgh. She has published several articles on the politics of the Balkan region, and since 2009 she has been the country expert on Montenegro at the European Union Democracy Observatory (EUDO) on Citizenship at the Robert Schuman Centre for Advanced Studies.

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