

# Update 1 C: The Recession and Migration

## Alternative Scenarios

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### **Abstract**

The current recession, expected to be the worst in a generation, is likely to affect international migration and remittances differently than past recessions. In 1973-74 and 1981-82, a rise in oil prices was associated with recession in oil-buying countries and an economic boom in oil-exporting countries, enabling some migrants to shift destinations. The 1997-98 Asian financial crisis did not spread globally, and was followed by a relatively quick resumption of economic and job growth. The 2008-09 recession is most severe in sectors that hire relatively more migrant workers, including residential construction, light manufacturing, and financial and travel-related services. The major question is how severe this recession will be and whether migrants will remain abroad or return to their countries of origin.

### **Introduction**

The recession that began in the United States in December 2007, set off by the end of a credit-fueled economic boom linked to rising home prices, became the first global

recession in a quarter century.<sup>1</sup> Real global economic growth, which averaged almost four percent between 2003 and 2007, is expected to fall to less than one percent in 2009,<sup>2</sup> resulting in job losses and higher unemployment. The question is how this global recession will affect international labor migration and remittances.

Between 2000 and 2005, the volume of remittances to developing countries increased much faster than real global GDP or the stock of migrants—remittances to developing countries more than doubled between 2000 and 2005, while real GDP rose by 14 percent and the stock of migrants rose by eight percent. Between 2005 and 2010, remittances to developing countries are expected to continue increasing much faster than either real global GDP or the stock of migrants in spite of the recession.

Between 2000 and 2005, real global GDP expanded from \$39 trillion to \$45 trillion, about 14 percent in 2005 dollars. Remittances rose much faster and migration much slower—the stock of migrants rose by seven percent.<sup>3</sup> GDP growth is expected to slow sharply and may turn negative as economies shrink, while remittances and the stock of migrants are expected to continue increasing, perhaps at a slower pace if the recession deepens and persists.

**Table 1. Growth, Migrants, Remittances, 2000, 2005, 2010**

	<b>2000</b>	<b>2005</b>	<b>2010</b>
<b>Real GDP (tril \$-2005)</b>	39.2	44.8	50.5
<b>Annual growth (%)</b>	4.2	3.4	1.0
<b>Nominal Remittances to Idcs</b>			
<b>(\$ billions)</b>	84.2	194.2	297.0
<b>Annual growth (%)</b>		19%	6%
<b>Migrant Stock (millions)</b>	177	191	205

<sup>1</sup> There is no commonly accepted definition of “global recession;” Rogoff (2002) suggested that global per capita output growth of 1.2 percent in 2001 was almost a global recession. The usual US definition of a recession is at least two quarters of falling GDP.

<sup>2</sup> The IMF reported that global GDP growth fell from 5.2 percent in 2007 to 3.4 percent in 2008 and a projected 0.5 percent in 2009; growth is expected to resume to 3 percent in 2010 ([www.imf.org/external/pubs/ft/weo/2009/update/01/index.htm](http://www.imf.org/external/pubs/ft/weo/2009/update/01/index.htm))

<sup>3</sup> Growth data are from the USDA’s global database ([www.ers.usda.gov/data/macroeconomics/#BaselineMacroTables](http://www.ers.usda.gov/data/macroeconomics/#BaselineMacroTables)); migration data are from the UN ([www.unmigration.org](http://www.unmigration.org)).

**Annual growth (%)** 1.6% 1.5%  
*2010 data are projected and assume migrant stock rises by 2.8 million a year, as between 2000 and 2005*

Sources:

[www.ers.usda.gov/Data/Macroeconomics/](http://www.ers.usda.gov/Data/Macroeconomics/)  
 Ratha et al, 2008  
[www.un.org/esa/population/unpop.htm](http://www.un.org/esa/population/unpop.htm)

If real global growth falls to one percent as projected, the world’s GDP would be almost \$51 trillion in 2010, so that a stock of migrants of 205 million in 2010 would mean that real GDP rose by 13 percent between 2005 and 2010 while the stock of migrants rose by seven percent, suggesting a 2-1 ratio between growth in global GDP and growth in the stock of migrants.

World GDP is distributed similarly to stocks of international migrants. The US, the EU-15, and Japan had 66 percent of the world’s GDP and 63 percent of the world’s migrants. The four-fast growing countries known as BRICs—Brazil, China, India, and Russia--had 11 percent of the world’s GDP and 10 percent of the world’s migrants in 2005 concentrated in two of the four BRIC countries, Russia and India. A comparison of the major industrial countries and the BRICs suggests (1) an uneven relationship between economic growth and migrant stocks and (2) that internal migration may substitute for international migration in rapidly growing developing countries such as China.

**Table 2. World GDP and GDP Growth, by Region, 2000-05-08 (2005 dollars)**

	<b>2000</b>	<b>2005</b>	<b>2008</b>	<b>Change 2000- 05</b>	<b>Change 2005- 08</b>
<b>World</b>	39,208	44,772	49,511	14%	11%
<b>US</b>	11,093	12,433	13,220	12%	6%
<b>EU-15</b>	11,828	12,795	13,649	8%	7%
<b>Japan</b>	4,018	4,284	4,486	7%	5%
<b>Brazil</b>	856	980	1,126	14%	15%
<b>China</b>	1,456	2,300	3,126	58%	36%
<b>India</b>	550	758	974	38%	29%
<b>Russia</b>	590	794	950	35%	20%

<b>US, EU-15,</b>					
<b>Japan</b>	26,939	29,513	31,355	10%	6%
<b>Share</b>	69%	66%	63%		
<b>BRICs</b>	3,452	4,833	6,176	40%	28%
<b>Share</b>	9%	11%	12%		

Source: USDA, International Macro Data

[www.ers.usda.gov/Data/Macroeconomics/](http://www.ers.usda.gov/Data/Macroeconomics/)

The current recession is unusual in beginning in the US rather than a developing country, and spreading from the US to other industrial and developing countries with a lag. There is considerable uncertainty about whether the recovery from what is quickly becoming a global recession will have a V-shape, with a quick rebound due to government stimulus programs, a U-shape, with a longer period until recovery as bad debts are reworked, or an L-shape, with a deferred recovery.

The recession is likely to slow new deployments of foreign workers to higher wage countries, both because employers request fewer (US employer requests for H-1B visas are expected to drop for FY10) and because some governments halted the recruitment of new foreign workers (Korea and Malaysia announced recruitment stops in January 2009). The stock of migrant workers in many countries is likely to stop growing and may decline if settled migrants depart. Settled migrants are likely to advise potential newcomers not to migrate if there are no jobs, but it is not clear whether legal jobless migrants will return to their countries of origin or remain abroad. There is even more uncertainty about unauthorized migrants, who may have limited access to social safety nets abroad but face debts and joblessness at home.

Remittances are expected to be less sensitive to recession than migrant numbers. Remittances, which have been increasing at double-digit rates, are expected to rise less in 2008 and may decline in 2009. South Asia is expected to have the fastest growth in remittances in 2008, up 16 percent, reflecting an assumption that migrants in the Gulf oil exporting countries will not be as affected by the 2008-09 recession as elsewhere. By contrast, remittances to Latin America are expected to be flat or decrease, since most are from the US.

**Table 3. Remittances to Developing Countries, 2001-08 (\$ mils)**

	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>Total</b>	95,217	115,502	143,345	163,535	194,174	228,800	264,896	282,793
<i>Annual change</i>		21%	24%	14%	19%	18%	16%	7%
<b>East Asia and Pacific</b>	20,105	29,477	35,402	39,077	46,586	52,841	57,988	62,307
<i>Annual change</i>		47%	20%	10%	19%	13%	10%	7%
<b>Europe and Central Asia</b>	12,394	13,729	16,027	22,556	31,660	38,830	50,804	53,530
<i>Annual change</i>		11%	17%	41%	40%	23%	31%	5%
<b>Latin America and Caribbean</b>	24,229	27,918	35,219	41,728	48,716	57,384	61,000	61,095
<i>Annual change</i>		15%	26%	18%	17%	18%	6%	0%
<b>Middle-East and North Africa</b>	14,653	15,211	20,361	23,034	24,150	26,656	32,075	34,500
<i>Annual change</i>		4%	34%	13%	5%	10%	20%	8%
<b>South Asia</b>	19,173	24,137	30,366	28,694	33,092	39,615	43,824	50,942
<i>Annual change</i>		26%	26%	-6%	15%	20%	11%	16%
<b>Sub-Saharan Africa</b>	4,663	5,030	5,970	8,445	9,969	13,475	19,204	20,418
<i>Annual change</i>		8%	19%	41%	18%	35%	43%	6%

Source: Ratha et al, 2008

[www.worldbank.org/prospects/migrationandremittances](http://www.worldbank.org/prospects/migrationandremittances)

Job losses during the 2008-09 recession have been concentrated in four major sectors-- construction, financial services, manufacturing, and travel-related services. Migrants are employed in all these sectors, but their characteristics differ by sector. Migrants in construction and travel-related services are often employed in low-skill jobs, those in manufacturing tend to hold semi-skilled jobs, and migrants employed in financial services usually hold high-skill jobs. This means that migrants laid off in what had been boom areas such as Dubai are likely to include both financial specialists and construction laborers.

Globally, the ILO expects unemployment to increase from about 190 million in 2007 to 210 million by the end of 2009.<sup>4</sup> The jump in unemployment in the OECD countries may be even sharper, up from 34 million in 2008 to 42 million in 2010, with little or no net new job creation in 2008 and 2009 in the world's major industrial economies.<sup>5</sup>

An important motor of recent economic growth that attracted migrants was construction, which is shedding jobs rapidly as tighter credit slows building activities. The major effects of the 2008-09 recession vary by country and sector, but it appears that:

- unauthorized migration from Mexico to the US slowed in 2008 due to the sharp fall in residential construction and rising unemployment throughout the economy. The US Hispanic unemployment rate, which had fallen to near the rate for whites in 2005-06, returned to its more usual 1.5 times the white rate in 2009
- the unemployment rate in Spain, which fell below nine percent in 2005-06 for the first time in two decades, jumped over 13 percent in 2009, the highest in the EU. The unemployment rate for foreigners was over 20 percent, prompting the government to offer return bonuses to non-EU foreigners who agreed to leave for at least three years
- factory closures in China sent many rural-urban migrants back to their villages before the usual return for the Lunar New Year that began January 26, 2009. Many migrants may not return to urban factory jobs after the holiday, slowing the growth in the 150-million strong rural-urban migrant population.
- entries of new migrants to fill manufacturing jobs in Korea were halted in February 2009, and the governments of Thailand and Malaysia announced policies to remove migrants to open jobs for local workers. The same strategy was tried and abandoned during the 1998 financial crisis.
- GCC countries remain the great unknown. The government of Saudi Arabia announced that it would continue to build six economic cities, but many construction projects in Dubai are shedding workers.

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<sup>4</sup> Statement released October 20, 2008. ILO says global financial crisis to increase unemployment by 20 million  
[www.ilo.org/global/About\\_the\\_ILO/Media\\_and\\_public\\_information/Press\\_releases/lang--en/WCMS\\_099529/index.htm](http://www.ilo.org/global/About_the_ILO/Media_and_public_information/Press_releases/lang--en/WCMS_099529/index.htm)

<sup>5</sup> Statement released with the OECD Economic Outlook November 25, 2008. Economic Outlook forecasts sharp rise in unemployment as recession takes hold across OECD.  
[www.oecd.org/document/35/0,3343,en\\_2649\\_201185\\_41721827\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/35/0,3343,en_2649_201185_41721827_1_1_1_1,00.html)

## **Construction**

Globally, the construction industry accounts for about seven percent of global employment. Low interest rates in major industrial countries plus rapid economic growth and major infrastructure investments in developing nations such as China and oil-exporting nations in the Middle East attracted migrant workers, both internal and international. As construction slows and employment shrinks, many of these migrants are likely to lose their jobs.

In the US, the construction slowdown has resulted in especially large employment losses among foreign-born Hispanics. Housing prices in the US peaked in 2005-06 and began falling in 2007-08, slowing what had been a rapidly expanding residential construction sector. For example, employment in US construction reached 7.7 million in Fall 2006 before shrinking by almost a million to 6.8 million in December 2008 ([www.bls.gov](http://www.bls.gov)); the unemployment rate for persons in construction occupations rose from 9.4 percent in December 2007 to 15.3 percent in December 2008. About two-thirds of the three million Hispanic workers employed in US construction in 2007 were foreign-born, and almost all of the 300,000 Hispanic construction workers who lost jobs between 2007 and 2008 were foreign born.

Traditionally, the unemployment rate of Black workers has been twice the white rate, and the rate for Hispanic workers 1.5 times the white rate. The Hispanic-white unemployment rate difference narrowed as the overall unemployment rate fell toward four percent in 2006 (Kochbar, 2008). As unemployment climbed in Fall 2008, these ratios returned to their traditional levels.

The combination of the US recession and stepped up enforcement of laws against unauthorized workers was credited for the reduction in the number of unauthorized foreigners, which reached 11.9 million in March 2008, up from 8.4 million in 2000. However, the increase slowed from 800,000 a year between 2000 and 2004 to 500,000 a year between 2005 and 2007 (Passel and Cohn, 2008). Other estimates put the peak number of unauthorized foreigners at 12.5 million in summer 2007, and estimated that the stock dropped by over a million by summer 2008.<sup>6</sup>

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<sup>6</sup> The US debate focuses on the peak number of unauthorized foreigners, exactly how fast the number is dropping, and whether the slowing economy or stepped-up enforcement is more responsible for the apparent decline. See Migration News. 2008.

There was a similar downturn centered on construction in fast-growing European countries that attracted migrants, including Greece, Ireland, and Spain. Aging populations seeking warmer climates, airline deregulation, and cheap credit fueled a housing boom in southern Europe that attracted both local residents and EU nationals from northern Europe. Many of the construction workers were migrants.

In Spain, the unemployment rate rose from eight percent in 2007 to almost 14 percent early in 2009, and topped 20 percent among non-EU foreigners. In a bid to reduce unemployment, the Spanish government offered lump-sum payments to jobless migrants who had earned unemployment insurance benefits if they agreed to leave and not return to Spain for at least three years.<sup>7</sup> Eligible foreigners receive 40 percent of their UI benefits in Spain and 60 percent in their country of origin after surrendering Spanish work and residence cards at the Spanish consulate or embassy.

There were about 300,000 unemployed foreigners as the program got underway in November 2008, but only 200 a week applied for the return bonus. The largest group of foreign workers, 687,000 Romanians, are EU nationals and not eligible, but Moroccans, the number two group at 673,000, are eligible. Most migrant advocacy groups advised their clients to reject the return-bonus offer, pointing out that the migrants could be refused re-entry to Spain in three years even if their employers wanted to rehire them. Both employers and unions opposed return bonuses—employers because they want to continue to recruit abroad and unions because they believe that migrants who contributed to the Spanish economy should receive integration assistance rather than be encouraged to depart.

Newspapers reported that migrants from Ecuador and other Latin American countries in Spain were weighing the return bonus offer.<sup>8</sup> On the one hand, it is difficult to live in

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Unauthorized, Population, States and Cities. October. Volume 14 Number 4.  
[http://migration.ucdavis.edu/mn/more.php?id=3433\\_0\\_2\\_0](http://migration.ucdavis.edu/mn/more.php?id=3433_0_2_0)

<sup>7</sup> The program was announced September 19, 2008 and is open to jobless migrants who registered with UI authorities within 15 days of layoff from the 19 countries that have bilateral social security agreements with Spain and are not EU members. UI benefits in Spain are 70 percent of usual earnings for the first six months of joblessness, and 60 percent for the next 18 months.

<sup>8</sup> For more details see Migration News. 2009. Spain, Italy, Turkey. January. Volume 15 Number 1 [http://migration.ucdavis.edu/mn/more.php?id=3489\\_0\\_4\\_0](http://migration.ucdavis.edu/mn/more.php?id=3489_0_4_0)

high-cost Spain on UI benefits that are only half of normal earnings despite free health care. On the other, economic troubles at home, plus the fact that many migrants sold their land and other assets to move to Spain, discourage returns. Older jobless foreigners nearing retirement and planning to retire in their countries of origin are most likely to accept the return bonuses.

## **Manufacturing**

Global employment in manufacturing is estimated at 150 million to 200 million, including about 50 million in the G7 industrial countries. Among industrial countries, Germany has the highest share of workers employed in manufacturing, about a quarter, and the US the lowest share, an eighth. The US, Japan, and Germany have almost three-fourths of the manufacturing workers in the G7 industrial nations, and manufacturing employment is shrinking in all three countries.

However, the downturn in manufacturing employment may be most visible in China, which had an official 83 million and an estimated 109 million workers employed in manufacturing at the end of 2002.<sup>9</sup> About 20 percent of those employed in urban manufacturing are rural-urban migrants,<sup>10</sup> as are many of the 71 million employed in town and village enterprise manufacturing zones--some foreign investors prefer to set up factories in TVEs to take advantage of lower wages.

Most migrant manufacturing workers moved from rural areas in the center and western parts of China to cities and coastal provinces in the east.<sup>11</sup> In 2008-09, there were reports of coastal factories employing rural-urban migrants closing as export orders dried up, sometimes drawing protests from workers who did not receive back wages and severance pay. An estimated 10 million rural-urban migrants returned to their villages before the usual return date, Chinese New Year, which began January 26, 2009, and there was speculation that some would stay in their villages because of fewer factory and construction jobs available in cities and coastal provinces and higher grain prices.

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<sup>9</sup> The 109 million figure includes 38 million workers classified as employed in urban manufacturing by the Ministry of Labor and 71 million reported by the Ministry of Agriculture as employed in town and village enterprises (Banister, 2005, 13).

<sup>10</sup> Some rural-urban migrants may not be included in the 38 million estimate of urban manufacturing employees.

<sup>11</sup> About 20 percent of those classified as employed in urban manufacturing in 2003 were also "workers whose population registration is in rural areas" (Banister, 2005, 23).

Japan has two major types of migrants among its 12 million manufacturing workers—mostly Chinese trainees paid less than the minimum wage and Nikkeijin, descendants of Japanese who emigrated to Latin America a century ago, who are regular workers earning regular wages. There are about two million foreigners legally in Japan, including 600,000 Koreans,<sup>12</sup> 560,000 Chinese, 315,000 ethnic Japanese Brazilians and 195,000 Filipinos. Many Japanese businesses want doors opened wider to low-skilled migrant workers, but such a policy shift looks unlikely anytime soon. Instead, there are complaints from Japanese workers in temporary and part-time jobs being laid off with little notice and few benefits.

Migration is likely to slow in 2009 as Japanese workers with temporary jobs are laid off. In an effort to retain jobless Nikkeijin, government programs to teach Japanese and offer retraining were announced in January 2009.<sup>13</sup> However, the result may be resentment of the mostly Brazilian Nikkeijin by unemployed Japanese. Many Japanese businesses abandoned traditional lifetime employment during the early 1990s recession, and today 35 percent of jobs in Japan are filled by temporary and part-time workers who can be laid off with minimal notice, double the 18 percent of 1988.

Korea signed MOUs with a number of Asian countries to admit foreigners as workers under the Employment Permit System for up to three years; most migrants are employed in small and medium manufacturing firms ([www.eps.go.kr/wem/en/index.jsp](http://www.eps.go.kr/wem/en/index.jsp)). The government announced that admissions under the EPS would be halted in February 2009 because of the worsening economy, prompting many Asian labor-sending countries to request an exemption. Migrants preparing to work in Korean factories often incur significant costs to learn the Korean language and history in their country of origin.<sup>14</sup>

Thailand has an estimated two million migrant workers from neighboring Burma, Cambodia, and Laos, but fewer than 500,000 registered migrants. Since 1992, employers have registered the migrant workers they employ, paying fees for work permits (most

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<sup>12</sup> Koreans in Japan in 1965 were allowed to become Japanese citizens, live as foreigners in Japan, or return to Korea—600,000 are living as foreigners in Japan.

<sup>13</sup> Blaine Harden, “Japan Works Hard to Help Immigrants Find Jobs,” *Washington Post*, January 23, 2009.

<sup>14</sup> For example, almost 7,000 Nepalese had passed the Korean language test when EPS admissions were halted, prompting protests in front of the Korean embassy in Nepal.

employers deduct these fees, equivalent to about a month's wages, from migrant pay). Most of the migrants are employed in construction, agriculture and fisheries.

The Thai government in January 2009 announced that it would not re-register migrants in 2009 in the hope that some will leave when their work permits expire, opening jobs for Thais as unemployment rises. This reduce-migrant-employment-to-open-jobs-for-Thais did not work during the 1998 financial crisis, most famously when the government was forced to backtrack on a plan to substitute Thais for migrants in rice mills. Migrant advocates say that substituting Thais for migrants is unlikely to open jobs for Thais in 2009, citing fewer than 120 Thais responding to ads for 150,000 fishery-related workers in Samut Sakhon province in 2008.

Malaysian government officials have been discussing plans to reduce the number of migrants for several years. Deputy Home Minister Datuk Chor Chee Heung said there were 2.1 million legal foreign workers in Malaysia in December 2008, including 749,200 in manufacturing, 347,700 in plantations, 307,800 in construction, 296,300 domestic helpers, 211,100 in services, and 184,600 in other agriculture.<sup>15</sup>

On January 21, 2009, the government froze new entries of migrant workers to make more jobs available for Malaysians, and ordered employers to lay off foreign workers first.<sup>16</sup> Migrants typically pay agents to get factory jobs, and as multinationals such as Intel announced layoffs and plant closures, there was speculation about whether laid-off migrants would leave Malaysia or seek other jobs to repay debts.

### **Financial and Travel-Related Services**

Migrants employed at the top of the job ladder in financial services and in a variety of jobs in hotels and restaurants have also been affected by the 2008-09 recession. However, it is very difficult to establish patterns of labor displacement and migrant reactions to layoffs.

The Economist discussed the uncertainty facing well-educated Ugandan migrants employed in London financial services. Several reported that they planned to go home because of the difficulty finding and keeping jobs, especially as the value of the British

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<sup>15</sup> They included 1.2 million Indonesians, 200,000 Nepalese, 130,800 Indians, 96,900 Vietnamese, and 64,200 Bangladeshis.

<sup>16</sup> Julia Zappei, "Malaysia Bans Hiring of Foreign Workers," AP, January 22, 2009.

pound falls.<sup>17</sup> Others noted that their families at home are requesting more support to cope with higher food prices.

Employment in financial services is also falling in the US. Outplacement firm Challenger, Gray & Christmas, which reports job cuts announced by financial firms, reported 153,000 in 2007, up from 50,000 each in 2005 and 2006; the number of financial firm job cuts for 2008 is expected to be up from year-earlier levels.<sup>18</sup> There is little data on the fate of the often highly educated workers employed in financial services. Some are foreigners in the US with immigrant or temporary worker visas, and it is not clear whether they will take lower-paying jobs and wait for a rebound or leave.

The United Arab Emirates has been attracting migrant workers to fill almost all private sector jobs, including in financial services. There have been reports of layoffs, and discussion of giving expatriates more than the usual one-month to find a new job or leave the country. AFP reported that up to 45 percent of the construction-related work force in the UAE could be laid off in 2009, including managers and analysts.<sup>19</sup>

The fundamental reason for the 2008-09 recession was an unsustainable credit bubble, but one trigger of the downturn was high energy and commodity prices. Energy and commodity prices have since fallen from historic peaks, with uncertain impacts on economies dependent on energy and commodity exports. The Gulf Cooperation Council member-states include about 15 million foreigners among 40 million residents. Most of the foreigners are migrant workers with two-to-three year contracts, so that five to seven million migrants a year enter to replace those who leave. The foreigners are concentrated in construction, private households, and a wide range of services.

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<sup>17</sup> The Economist, "Global migration and the downturn," January 15, 2009. The article ranged widely, from the sharp decline in migration during the 1930s Depression to recent attacks on foreigners in Moscow, before concluding that the decline in new deployments of migrant workers is likely to be sharper than the fall in remittances. It speculated that there could be protests in labor-sending countries as returned and potential migrants become frustrated with the lack of jobs at home and abroad.

<sup>18</sup> Statement available at [www.challengergray.com/press/press.aspx](http://www.challengergray.com/press/press.aspx)

<sup>19</sup> "Massive layoffs expected in UAE," AFP, December 24, 2008.

[www.google.com/hostednews/afp/article/ALeqM5hzVD1lRBH4wCPPs2PIITe7agwe2Q](http://www.google.com/hostednews/afp/article/ALeqM5hzVD1lRBH4wCPPs2PIITe7agwe2Q)

Dubai may represent one end of the Gulf spectrum's response to the global recession and Saudi Arabia the other. The Saudi government is building six "economic cities" that aim to house about five million residents and employ 1.5 million workers by 2015; the government said it would continue their construction despite the falling price of oil and thus government revenue.

Many migrants are employed in travel-related services, especially hotels and restaurants. Employment in this sector, which had been increasing rapidly, slowed sharply in 2008, first because of high oil prices and later because of unemployment and falling incomes. However, unlike the idle building sites or the layoffs announced by manufacturing and financial services, hotels and restaurants often adjust by laying off some employees or reducing their hours, which makes the effects of the slowdown less visible.

### **2008-09 Versus Earlier Recessions**

In 1973, a war between Israelis and Arabs led to a sharp increase in oil prices and a global recession, as especially manufacturing economies adjusted to higher energy prices. Food prices rose sharply in the mid-1970s, and high inflation limited the ability of governments to borrow and stimulate their economies with job creating policies.

The major migration effects of the mid-1970s oil-linked recession were felt in Western Europe and the Middle East. Countries such as France and Germany halted guest worker recruitment as joblessness rose sharply, especially in sectors such as manufacturing and construction that employed large numbers of migrants. However, migrants who had been employed at least a year were not forced to depart, and most did not, largely because their countries of origin were also suffering from oil-price linked recessions and the social safety net was stronger where they were than at home (Miller and Martin, 1982). When it became clear in the late 1970s that the guest worker era was over, many migrants unified their families in Western Europe; return-bonus programs in the early 1980s failed to persuade significant numbers to depart. The years between 1975-85 are often considered the decade in which many European countries became reluctant countries of immigration (Martin, 2004).

The mid-1970s was the beginning of a new guest worker era in the Middle East, as governments used sharply higher oil revenue to build infrastructure, housing, and expand the economy (Seccombe, 1985). Most first-wave activities between 1975 and 1980 involved construction projects usually managed by multinationals that brought workers

from home (Korea) or recruited migrants from Arab and Asian countries. Over time, demand shifted from hundreds of men recruited for major construction projects to female migrants to fill jobs in private households, stores, and other services, and private agents in both oil exporting and migrant-sending countries charged fees to migrants and sometimes employers.

In the US and Canada, immigration was at historically low levels in the 1970s. As manufacturers adjusted to higher energy prices, there were widespread layoffs, job-creation programs, and internal migration, as from Michigan to Texas. However, farm wages in states such as California climbed at historically unprecedented rates as new legal rights to organize unions and the absence of newcomer migrants gave unions new bargaining power (Martin, 2003a). Mexico's discovery of significant oil reserves in 1978 led to a government spending boom that discouraged outmigration.

The second oil shock in 1979-80 associated with the Iranian revolution effectuated another recession in the industrial countries and a new windfall in the oil exporting states. However, this global recession quickly reduced the demand for oil, drove the US unemployment rate toward 10 percent, and produced economic crises in oil-exporters such as Mexico that anticipated had planned for continued high prices. Manufacturing firms restructured in ways that shed workers, often automating at home and investing in factories in lower-wage countries. US farm wages that had been pushed very high during the 1970s came under pressure as Mexicans who lost jobs realized they could earn far more in the US, especially as the value of the peso plummeted, setting in motion the era of mass Mexico-US migration that immigration reforms in 1986 unintentionally accelerated (Martin, 2003a).

Europe recovered from the 1981-82 recession, and in the late 1980s began to grow faster and create new jobs as the single European market increased flexibility and efficiency. Simultaneously, a loosening of restrictions on emigration from Eastern Europe allowed migrant workers to filter into European labor markets that governments believed were regulated tightly enough to prevent widespread unauthorized migration. The fall of the Berlin wall in 1989 prompted countries such as Germany to launch new guest worker programs in a bid to ensure that "inevitable migration" from Poland and elsewhere would be legal. Individual countries as well as the European Union dealt with an upsurge in asylum seekers as well as competition from lower wage workers under EU rules that

encouraged freedom of movement to provide services (Castles and Miller, 2003, Chapter 4).

By the mid-1990s, economic and job growth had resumed in the US and Europe, although Japan continued to wallow in the aftermath of the crash of its bubble economy in the early 1990s despite very low interest rates. Unemployment fell sharply in the US, as job growth accelerated to almost three million a year, equivalent to 10,000 net new jobs added each work day. The belief that the world had entered an era of a “new economy” no longer subject to business cycles became common in North America and Western Europe.<sup>20</sup>

Investors began to seek higher returns in emerging economies such as Russia and the Asian Tigers. This foreign investment led to bubbles that, when they burst in 1997-98, caused recessions that led to sharp increases in unemployment in Korea, Malaysia, and Thailand. In countries such as Thailand, internal rural-urban migrants returned to rural homes, and the Thai government announced plans to send migrants home in order to open up jobs for nationals. However, the effort to substitute jobless native workers for migrants largely failed Thailand, Malaysia, and other Asian tiger economies.<sup>21</sup>

The Asian financial crisis was relatively short lived and confined to a few countries. The fact that economic and job growth soon resumed made it unnecessary to deal with the question of what would have happened to migrant workers if the recession had persisted. Some analysts concluded that Asian tiger economies were structurally dependent on foreign workers before the crisis, but the fact that economic growth soon resumed meant that this hypothesis was not tested, as the number of migrant workers resumed its growth (Martin, 2003b).

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<sup>20</sup> Newsweek coined the term “new economy” in 1995 to refer to steady economic growth, low unemployment, and the end of macroeconomic cycles; economist Robert Gordon (1998) called the late 1990s the Goldilocks Economy.

<sup>21</sup> The Malaysian government announced in July 1998 that 100,000 foreigners employed “in jobs shunned by Malaysians” could stay, including those employed in restaurants, gas stations, cemeteries, golf courses, vegetable gardens, food manufacturing, orphanages and senior homes, laundry shops, janitorial jobs, male barber shops, tailor shops and cargo services. However, foreigners employed as golf caddies, supermarket helpers, in medical centers or private clinics, beauty salons, karaoke lounges or courier services did not have their work permits renewed.

## Conclusions

The world appears headed into the most severe recession in a quarter century, marked by shrinking economies and rising joblessness in most countries. With the number of migrants and remittances at all time highs, there is a great deal of interest in whether flows of labor from poorer to richer countries will continue to increase, stabilize, or reverse, and who among the migrants will be most severely affected.

Comparisons with past recessions suggest that the global nature of the 2008-09 recession could affect migrants differently than in the past for three major reasons. First, during this recession one region is not benefiting economically at the expense of another, so that migrants cannot shift to alternative destinations, as when high oil prices attracted migrants to the Gulf countries while doors to migrants closed to Western Europe. Second, the first effects of recession are being felt in cyclically sensitive industries such as construction and manufacturing, where last-hired and often male migrants may be among the first to be laid off. What is less certain is whether laid-off migrants will remain in destination countries or return to their countries of origin, as with jobless migrants in Spain, and whether female migrants in service jobs will be laid off or have their wages reduced.

Third, there is far more interest in remittances and their contribution to development in migrant-sending countries than during previous recessions. Remittances are far higher than in the past, and are expected to remain high even as foreign direct investment and other flows of funds to developing countries slow (Ratha et al, 2008). The governments of migrant-sending countries may develop financial instruments to attract more remittances, such as offering migrant bonds with attractive returns, or use the specter of more unauthorized migration in a bid to preserve jobs for migrant workers or to request financial aid from industrial countries (Chamie, 2009). Many international organizations have urged countries employing migrants not to quickly shut their doors.<sup>22</sup>

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<sup>22</sup>ILO DG Juan Somavia's December 18, 2008 International Migrants Day message asked migrant-receiving countries to "assess their labor market needs before resorting to general layoffs of migrant workers."

([www.ilo.org/public/english/bureau/dgo/speeches/somavia/2008/migrants.pdf](http://www.ilo.org/public/english/bureau/dgo/speeches/somavia/2008/migrants.pdf))

Employers rather than governments usually make hiring and layoff decisions; the message presumably argues against policies such as that adopted by the Malaysian government, which ordered migrants to be laid off before Malaysian workers.

Fourth, immigration is less likely to be affected significantly in the United States than in other traditional immigration countries because a higher share of US immigrants enter under family unification preferences (Papademetriou and Terrazas, 2009). Immigration to Australia, Canada, and New Zealand, on the other hand, may be more affected by the recession because half or more of the immigrants are admitted under economic criteria that give priority to those most likely to obtain jobs.

During the past decade, there has been a renewed commitment to accelerating development, as exemplified by the Millennium Development Goals ([www.un.org/millenniumgoals](http://www.un.org/millenniumgoals)) and debt forgiveness. The growth in remittances at a time of rapid job growth in industrial countries with aging populations heightened interest in labor migration as another instrument to accelerate development in migrant-sending countries while filling jobs and pension deficits in migrant-receiving countries. The current recession, if it deepens and persists, may shift the focus from ever-increasing migration and remittances to cooperation to ride out the downturn in ways that do not prompt a backlash against migrants abroad and set back development in migrant countries of origin.

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