The Impact of the Economic Crisis on Migration and Remittances

The global economic crisis will have a significant impact on migration and remittances flows as the economic slowdown has reduced the need for immigrant labor across receiving countries. Assessing the full magnitude of this impact will take a while as migration flows may be slow to adjust and high-frequency data on migration and remittances are hard to come by. However, some warning signs are already emerging:

- Migration outflows from the developing world are declining and return migration is on the increase;
- Evidence of massive urban-rural return migration is also emerging;
- For the migrants that decide to stay in destination countries unemployment is raising fast and working conditions are deteriorating;
- These trends are beginning to exert downward pressures on international remittances flows;
- They are also raising concerns for growth and poverty reduction prospects as (i) migration has traditionally been an important coping mechanism for vulnerable households at times of crises and (ii) rural to urban migration is associated with a structural shift in employment away from agriculture into higher productivity sectors that is critical for long-term growth and reduction in poverty.

THE EVIDENCE SO FAR

Migration flows into major receiving countries are decreasing. The stock of immigrants in the USA has stalled since the beginning of the crisis and the number of work visa applications by workers from the new EU members (EU-8) approved by the UK has more than halved since 2006 to 29,000 per quarter, as shown in Fig.1.2

Migration outflows from the developing world are also declining. The rate of emigration from Mexico has decreased from 14.6 per 1000 residents in 2006 to 8.4 in 2008.3 Outflows from Sri Lanka have dropped by 33% in the last quarter of 2008 (to 16,811) and in Bangladesh registered out-migration was 40% lower in January (yty) than in the first three quarters of 2008.4

Return migration is also on the increase. The Mexican authorities have noted that the numbers of migrants returning from the USA are slightly higher than usual.5 Around 30,000 immigrants, mostly from Eastern Europe have left Ireland in 2008, with a further 35,000 set to exit in 2009.6 The authorities in Moldova estimate that around half a million overseas workers may return to the country during 2009.7

These trends are not surprising as governments around the world are closing their borders and encouraging return migration. The Malaysian authorities have recently banned the recruitment of foreign workers in manufacturing and services, while the Russian government is in the process of reducing the quota for foreign labor.8 The UK has also tightened visa requirements for skilled workers and the United Arab Emirates has announced that the number of foreign workers will be cut by 45%.9 The Czech government will offer laid-off foreign workers who volunteer to return to their home countries a free plane ticket and 500 Euros, while the Spanish Government guarantees unemployment compensation to out-of-work migrants that return to their origin countries.10

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2 Papademetriou, 2009, Immigrants and the Current Economic Crisis, Migration Policy Institute; and UK Home Office, Border Agency
3 Comparable data for February to May (the usual period of high emigration); Papademetriou, 2009; op. cit.
5 Papademetriou, 2009, op. cit.
6 Independent, Mach 2009
7 MSNBC, January 2009
10 Theglobeandmail, February 2009; and Euractiv, February 2009
For those migrants that stay, unemployment is raising fast and working conditions are deteriorating. Migrants tend to be employed in the sectors worst affected by the crisis—i.e., construction, export-led manufacturing and services. Hispanic unemployment in the United States reached 8% in August 2008, almost 2% above the national rate, while unemployment among immigrants in Spain is rising three times faster than the average. Reports from Singapore also indicate that the number of foreign workers complaining about worsening working conditions and pay cuts has increased since the beginning of the crisis.11

These trends are beginning to exert downward pressures on international remittances flows. Despite some initial optimism, the current forecast is for a global decline in remittances of 6% in 2009 with the possibility of further downward revisions.12 Already in 2008, the growth rates of remittances declined considerably across the developing world, getting close to zero in the Philippines and becoming negative in some Latin America countries (Fig. 2). Officially recorded remittances have declined by around 8% in Mexico.13 Remittances through commercial banks have declined steadily in the second half of 2008 in Moldova while they have fallen by 5% (yty) in the first half of 2008 in Albania.14 Looking ahead, the Central Bank of the Philippines forecasts a potential drop of up to 9% in the coming months but the steepest decline is expected in South Asia.15

In addition, at least for some countries, declines in remittance inflows have been compounded by unfavorable exchange rate movements. Particularly problematic is the situation of countries like Tajikistan, Moldova, Kyrgyz Republic, and Armenia for which remittances are large relative to GDP and Russia is the main source of remittances. Many of these workers are employed in the oil and gas industry sectors, which are suffering from a precipitous decline in prices. The sharp depreciation in Russia’s currency in the second half of 2008 and into early 2009 (falling about 35 percent against the USD) has significantly reduced the local currency value of ruble-denominated remittances.

DIFFERENCES AND SIMILARITIES WITH PREVIOUS CRISSES ARE EMERGING

During past crises migration away from urban centers towards less affected regions (urban-rural migration) or countries (international migration) represented an important safety net for households. Reversals of rural-urban migration patterns are documented for Indonesia and Thailand during the East Asian crisis and for the countries of the former Soviet Union after its collapse.16 During the East Asian crisis the number of Indonesian workers deployed abroad increased by 35%.17

Return migration flows into rural areas are emerging, in line with the experience from past crises. In China return migration to rural area has more than doubled over the last two months of 2008 to over 10 million, a much larger volume than it is usual at this time of the year.18 This process will be reinforced by the measures that the Chinese government is introducing to encourage return migration to rural areas in an effort to deal with increasing...

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11 IOM, 2009, op. cit.
12 The low-case scenario in: Mohapatra, Ratha and Xu, 2008, Outlook for Remittance Flows 2008 - 2010: Growth expected to moderate significantly, but flows to remain resilient, World Bank Migration and Development Brief 8
13 IDB, 2008, IDB estimates of 2008 remittance flows to Latin America and the Caribbean; mimeo, IDB
14 Moldova’s Business Portal, February 2009; and SeeNews, November 2008
15 ABS CBK News; and Mohapatra et. al., 2008, op. cit.
18 The New York Times, February 2009
unemployment in cities, including offers of training to start ventures in rural areas for those who decide to stay in the
countryside after returning for the New Year celebrations.

At the same time, the global nature of the crisis is limiting the mitigating role of international migration,
although return flows may prove to be smaller than feared. The decline in international migration flows described
above considerably reduces the capacity for household to cushion the impact of the crisis via remittances, migration.
This is in line with evidence from the Philippines where emigration decreased by 3.6% in the first five months of 1998,
compared to the same period a year earlier, due to difficult economic conditions in main destination countries. On a
positive note, however, the 12-month return rate also declined by 1.4% points driven by the costs of return, the dim
economic prospects at home and by a 10% improvement in the exchange rate.19

CONCERNS FOR GROWTH AND POVERTY REDUCTION

Current return migration into rural areas may jeopardize current progress in growth and poverty reduction.
Empirical evidence suggests that recent progress in growth and poverty reduction has been associated with sectoral
shifts away from agriculture and towards sectors with higher output per worker, which are usually located in urban
areas. For example, over 48% of the increase in GDP per capita experienced in Rwanda between 2000 and 2008 is
explained by movement of labor away from agriculture into the secondary and tertiary sectors.20 Significant return
migration into rural areas would risk undermining these gains.

A drop in remittances will also have serious impacts on poverty in some developing countries. At the aggregate
level, with an overall volume of around $300 billion in 2008, recorded remittances to developing countries were larger
than revenues from the most important commodity export in 28 countries, and in 36 countries they were larger than
private and public capital inflows. A 6-10% decline in remittances would thus amount to a shortfall of $20-30 billion,
equivalent to more than a quarter of the total aid budget.

Unsurprisingly, remittances are also a powerful poverty reduction mechanism. For example, in Nicaragua remittances
reduce poverty incidence by 4 percentage points on average and by 5 percentage points in urban areas,21 while in Nepal,
higher migration and remittances account for one-fifth of the poverty reduction occurring between 1995 and 2004.22

According to recent simulations in Bulgaria and Armenia, a decline of 25% in remittances – not an unlikely scenario –
would increase poverty rates among recipients from 7% to 14% and from 18% to over 21%, respectively.23 Simulations
for Tajikistan suggest that a 20% decline in remittances – already a reality – could have raised the poverty headcount
from 53% to 57% and have deepened poverty and inequality.24

International return flows could also reinforce the shortage of employment opportunities in sending countries
and add further strain to the already tight labor markets in the developing world. Returning migrants will
compete for jobs with existing workers in a climate of declining labor demand. This could further increase the pool of
the unemployed and of that of displaced workers who will be looking for jobs in lower productivity, informal sectors. It
also adds to the pressure to reduce the average wage in the economy with important implications for poverty and
vulnerability. For instance, the mass return of migrants during the 1997 financial crisis substantially heightened the
downturn in the Indonesian labor market.25

19 Yang, 2006, Why do migrants return to poor countries? Evidence from Philippine Migrants’ Responses to Exchange Rate Shocks; Review of
Economics and Statistics, 88/4
21 Herrera and Murrugarra, 2007, Migration, Opportunities and Poverty in Nicaragua: Recent Migration Flows and Poverty Reduction, paper for
the Nicaragua Poverty Assessment 2007, World Bank
Research Working Paper 4231
Crisis for Poverty, mimeo, World Bank
25 Ananta, Kartowibowo, Nur Hadi Wiyono and Chotib, 1998, The Impact of the Economic Crisis on Internal Migration: The Case of
Indonesia, Asian And Pacific Migration Journal 7/2-3, Scalabrini Migration Center, Quezon City, Philippines