

## **Trade, Migration and the Crisis of Globalization**

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### **Abstract**

The recent economic crisis accentuated a globalization backlash with low growth and high unemployment haunting the Organisation for Economic Co-operation and Development (OECD) countries. Tensions over trade, immigration, and foreign direct investment (FDI) have been building for years, partly due to the distributional consequences of globalization and how they are perceived. However, international regimes, especially for trade (General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) helped avoid a return of beggar-thy-neighbour policies where the national protectionist impulses prevail. In the area of migration, unlike trade, money, and finance, international coordination is weak and this partly explains the differing responses to trade and migration during the crisis. In some instances, policy has been myopic, doing little to protect jobs and native workers, while at the same time threatening the future competitiveness of economies by ceding ground in the contest for the best and the brightest. This chapter explores different

policy responses to economic crisis in the context of strong multilateral institutions for trade, and the relative absence of such institutions for migration.

## 1. INTRODUCTION

The economic crisis, which began in 2008, caused a global shock, the reverberations of which are still felt today.<sup>2</sup> Unemployment has increased, growth remains anaemic and deficits continue to deepen (ILO 2009a). Governments continue to face pressure to protect jobs and create new opportunities. A crisis of globalization has been building for years and the great recession has further undermined confidence in the benefits of maintaining an open economy. This can be seen not only in the stalled Doha Round of global trade talks, but also in the lack of support for much-needed immigration reform across the OECD world. If political support for trade is weak in most advanced industrial democracies, support for more open immigration policies has all but collapsed (Hollifield and Martin 2013).

Overall the shock has put pressure on governments to act. From emergency provisions, such as bailouts and stimulus packages, governments have scrambled to find solutions. One political response to the crisis has been calls for more restrictive immigration policies (Chaloff *et al.* 2012). The scale of the problem and the policy responses vary from country to country, and from region to region. We argue that, on the whole, there has been a backlash against globalization<sup>3</sup>, very different to that in the 1930s. The world is more integrated and the nature of trade and commerce makes nations interdependent; with global supply chains, and fragmentation of production processes, unilateral protectionism makes little sense. But trade and immigration are often blamed for job losses and declining wages. Although technology, automation, changing demographics and shifting patterns of economic progress all play a role in shifting comparative advantage – singling out trade and immigration as the cause of economic decline is politically popular. Immigration policy and, to a lesser extent,

trade have become highly politicized in recent years, and the economic crisis has made the backlash worse, notwithstanding multilateral regimes designed to mitigate neo-mercantilist policies.<sup>4</sup>

There are different definitions of international regimes,<sup>5</sup> but Krasner (1982:185) defines a regime as a set of ‘principles, norms, rules, and decision-making procedures around which actor expectations converge in a given issue-area’. While a multilateral regime exists in trade, there are only seeds of a regime in (labour) migration especially related to high-skilled immigration (HSI).<sup>6</sup> The WTO mechanism commits members to legal obligations and the recourse to dispute settlement, helping to lock in trade openness. There is no corresponding World Migration Organization, even though a number of international organizations (inside and outside the United Nations system) deal with migration to some degree. So while there has been high-level political commitment to keeping trade open, despite significant declines in trade volumes and rising unemployment, international coordination has mostly averted protectionism (see Part 3). However, this has not been the case in immigration, which has been the main focus of a protectionist backlash (Part 4) during the current crisis.

We explore the role of international regimes in order to explain different responses to the economic crisis. This chapter looks at the impact of institutions by comparing two regimes, one where multilateral rules are strong and another where they are weak. We argue that multilateral frameworks can effectively short-circuit beggar-thy-neighbour policies caused by the crisis.

The chapter examines what factors have played an important role in influencing the openness/closure of HSI policies. Many governments have implemented short-term policies to deal with the economic crisis and to gain favour with their voters. However, labour shortages in certain high-skilled sectors (e.g. engineering, health

care, and higher education) persist despite the economic downturn. Therefore, some countries have considered HSI as a stimulus during the crisis. The chapter seeks to analyse how migration and trade policies have changed in terms of openness/closure due to the economic crisis and examines what impact the globalization backlash has had on these two types of policies.

The chapter seeks to make three contributions. First, it will help to clarify the relationship between trade and migration. Second, the chapter offers a typology of sources of policy openness and closure across a range of countries. Third, it challenges some conventional arguments about crises, business cycles, and policy.

The chapter is set out as follows: Part 2 discusses the literature on international regimes in trade and immigration policy, while Part 3 turns to the impact of the economic crisis on trade policies. Examples of changes in migration policy across countries (such as protectionist or stimulus measures) are presented in Part 4. Some conclusions on the topic are offered in Part 5. The findings are based on reports from the International Labour Organization (ILO), the Organisation for Economic Co-operation and Development (OECD) and the World Trade Organization (WTO), the analysis of media coverage, and academic literature on the political economy of immigration and trade.

## 2. INTERNATIONAL REGIMES AND POLICY RESPONSES

Much of the recent literature on the political economy of trade and migration offers a historical perspective (e.g. Garrett 1998, Lipson 1982, Hatton 2007, Milner 1988, Ruggie 1982) and considers the impact of globalization and business cycles on

openness and closure (Goldin 1993, Hatton & Williamson 2008, 2009, Timmer & Williamson 1998, Hollifield & Wilson 2010). There is also some literature analysing differences in trade and immigration (Hatton 2007, Hatton & Williamson 2005, Mayda & Rodrik 2001). A number of these authors focus on global governance and regimes (Ghosh 2000, Hollifield 2008a, Koslowski 2004, Straubhaar 2000). We consider the role of regimes in order to explain different responses to the economic crisis.

Helen Milner (1988) has demonstrated ‘how advanced industrial states in the 1970s were able to resist the kind of beggar-thy-neighbor policies that were adopted in the 1920s and 1930s. She argues that growing interdependence helped to solidify free trade coalitions among the OECD states in the post-war period, thus preventing a retreat into protectionism following the economic downturns of the 1970s and 1980s’ (Hollifield 2008b:208). While preferences for trade can be largely explained by material interests, migration is much more complicated. It can be partly captured by economic interests (Freeman 1995, 2002, 2006), but there are also powerful rights-based dynamics at play (see, for example, Hollifield 1992, 1998, 2010). Ideas and institutions play an important role in determining migration openness and closure (Hollifield 1998:598).

‘Migration affects societies and their cultures in ways that trade does not; migration is typically more permanent than trade, it is a stock rather than a flow, and migrants eventually get the vote’ (Hatton 2007:373). None of the [existing international] agreements have achieved the status of a full international migration regime, which is capable of changing state behaviour (Hollifield 2000, 2008a:12). Instead of international organizations (e.g. ILO, IOM or UN), nation-states are mainly in charge of the rules for entry and exit of labour migrants in their territory. The ‘regime’ for

international labour migration is based on weak institutions without a central norm, and its principal actors, the ILO and the IOM, have limited regulatory and institutional capacity.

The General Agreement on Tariffs and Trade (GATT)/WTO regime was constructed through a multilateral process and based on principles, such as most-favoured nation status (MFN), non-discrimination and reciprocity. Multilateralism and international institutions and regimes were meant to solve collective action and international cooperation problems (Hollifield 2008a:14, Deardorf and Stern 2002). However, ‘there has been little effort to regulate international labor migration on a multilateral basis. Even the insertion of a clause in the GATS dealing with the movement of natural persons (Mode 4) has done little to promote cooperation in the area of migration’ (Hollifield 2008a:14).

Most international regimes have had a long period of development, and they began as bilateral or regional agreements. The prerequisites for multilateralism (i.e. indivisibility, generalized principles of conduct and diffuse reciprocity)<sup>7</sup> are difficult to achieve in the case of migration. The non-discrimination norm is non-existent, no mechanisms for the punishment of free-riders or systems for dispute resolution exist (Hollifield 2008a:14). As Hatton argues, ‘the reciprocity principle, significant in trade, is missing in the case of migration, which is driven largely by absolute advantage rather than by comparative advantage’ (Hatton 2007:373). Elevating migration – or more accurately a regime for governing migration – to the level of a global public good is extraordinarily difficult (Hollifield 2011).

In recent years, the international competition for the ‘best and brightest’ has intensified (Mahroum 2001, Chiswick 2010). Since labour market shortages threatened economic growth and progress, governments needed to respond to the

demands for more open HSI. They also had to react to the preferences of high-skilled workers for more restrictive policies. The number of high-skilled immigrants has increased (OECD 2013). This has heightened tensions within countries between labour and capital. It will be up to the political parties in government to reconcile these tensions (Garrett 1998). Labour market institutions can also play a larger role in the representation of affected groups. If an increasing number of high-skilled workers organize themselves in professional unions or associations (e.g. medical, engineering, law or IT sectors), they may become more powerful actors in lobbying the government. This can happen when labour market competition between native and migrant workers intensifies.

As some authors have claimed, labour market competition intensifies when unemployment rates increase and economic growth decreases because native and migrant labour forces are placed 'in more direct competition than in periods of economic prosperity' (Money 1997:693). As with trade, deteriorating economic conditions can lead to more negative attitudes of survey respondents towards immigration (Esses et al. 2001, Coughlin 2002). Esses and co-authors suggest that even immigration policies designed to 'ensure the economic prosperity of immigrants, such as employment-based policies favoring highly skilled occupations may also increase the likelihood that immigrants will be seen as competing with non-immigrants for resources and thereby increase resource stress and bias' (Esses et al. 2001:395). This finding is rather surprising since previous research has shown that immigrants, especially those requiring social services, were perceived negatively by the native population, although few immigrants had entitlements to these provisions. It seems that the negative perception can also occur in the case of (successful) high-skilled immigrants (Esses et al. 2001).

Research shows that voters' perceptions of labour migrants can be negative, even if native workers are employed. According to Lahav (2004:1169), 'the fear of losing one's job in a declining national labor market (societal conditions) appears to be a much more important factor than personal unemployment itself'. These findings are in line with US findings that personal economic circumstances play a smaller part in public opposition to immigrants than beliefs about the national economy and culture (Citrin, Green & Muste 1997).

Milner and Keohane analyse the effects of internationalization (i.e. processes generated by underlying shifts in transaction costs that produce observable flows of goods, services and capital) and argue that 'governments will have to be concerned about threats of exit and hence non-investment by mobile capital' since they benefit electorally from prosperity (Milner & Keohane 1996:250). Owners of mobile factors of production (i.e. financial capital) and firms, which are able to shift their production abroad, gain bargaining power over immobile factors of production (e.g. most low-skilled labour) and firms relying on locally specific assets. These actors may then be able to threaten an 'exit' in order to increase their influence (voice) in national politics (Hirschman 1970, Garrett 1998). In times of economic prosperity, multinational companies such as Microsoft have repeatedly threatened to relocate their operations and services outside the US. Microsoft demonstrated credibility when it opened a subsidiary in Canada, a country with a more liberal HSI policy.<sup>8</sup> According to Shugart et al., as a country's economy goes through the business cycle, its policy mix shifts – workers receive greater leverage in economic downturns, whereas capitalists and owners are more influential during economic growth (Shugart, Tollison & Kimenyi 1986). The power of actors thus varies according to economic conditions. The question remains as to how governments deal with these economic challenges.

### 3. IMPACT ON TRADE POLICIES

The last economic shock of equivalent magnitude took place during the 1930s. It precipitated a backlash against globalization forces which were being renewed after the shock of World War One (Hynes, Jacks & O'Rourke 2012, Haas & Hird 2013). Protectionism emerged and acted to prolong the recession and delay the recovery. However as serious as the shocks of war and then the Great Depression were, a backlash against trade in Europe had been evident for decades following the grain invasion in the late nineteenth century (O'Rourke 1997). The distributional consequences of trade, the perception and the political power of interests opposed to trade plus democratization itself led to a backlash (Gourevitch 1977). Nevertheless after the war, markets were reintegrating, trade flows recovered and international financial flows grew once more. Reglobalization following these calamities was not automatic and Taylor (2010) points out that trade openness did not recover until the 1970s.<sup>9</sup>

Eichengreen and O'Rourke have compared the 1930s depression with that of today and find many similarities in the scale and scope of the decline in output and trade (Eichengreen & O'Rourke 2009). The one major difference between the two cases has been the policy response. International coordination, absent in the 1930s, has proved resilient in the face of the deepening crisis (this was also the case for the 1970s crisis when an international regime for trade was already in place through GATT, see Milner 1988). Despite many concerns about increasing trade barriers, the WTO is optimistic that the crisis may stimulate the long delayed Doha Round negotiations,

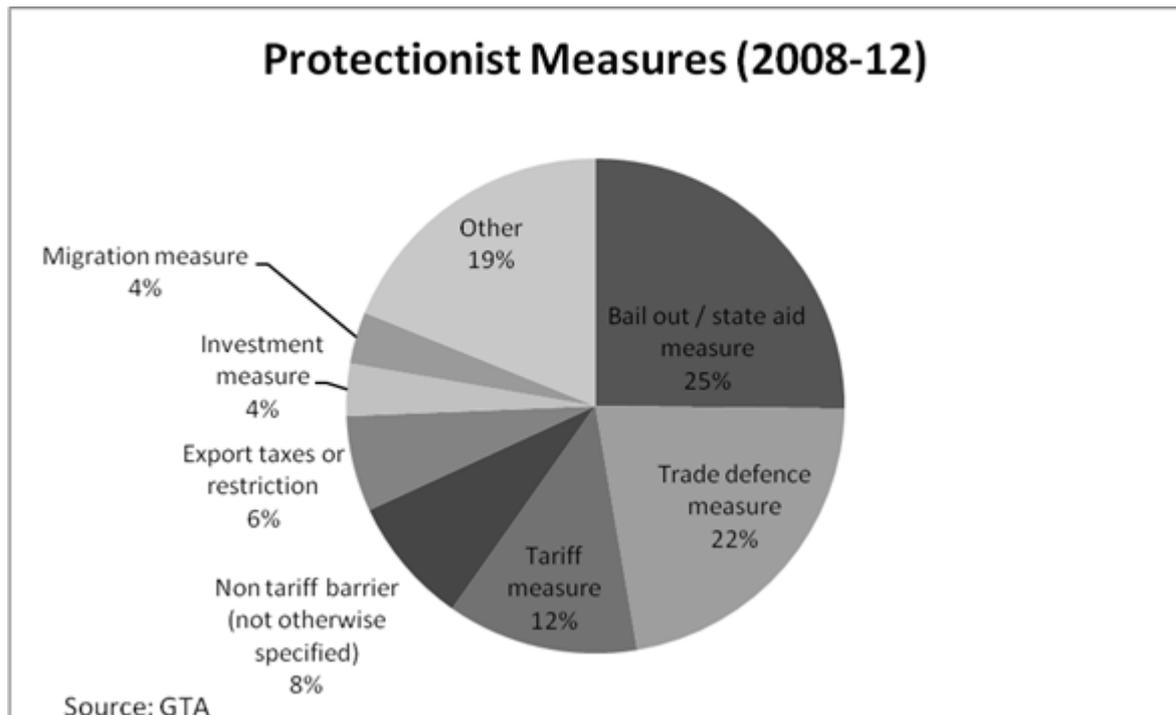
further lifting trade restrictions.<sup>10</sup> As former Director-General Lamy said, ‘we are witnessing the renewal of high-level engagement in the DDA (Doha Development Agenda) negotiations’ (Lamy 2009). It is clear that WTO disciplines played a positive role in constraining protectionism (Deardorf & Stern 2002, Evenett 2009). The G-20 agreed to keep markets open, referring to the 1930s and the need to prevent history repeating itself. However there was some misunderstanding among G-20 members about what the commitment meant – just honouring WTO obligations being one interpretation. There is considerable flexibility through WTO agreements and other international obligations, which some members took advantage of. Under WTO rules, ‘countries can “legally” impose a wide range of protectionist measures via antidumping and safeguard provisions; moreover, in areas where WTO disciplines are incomplete or absent (e.g. government procurement), countries can discriminate against foreign suppliers without worry about WTO censure. In fact, many of the standstill violations fall into this latter category’ (Schott 2009). While these steps were legal, they defied the spirit of the G-20 proclamation. The WTO and the multilateral trading system have not been effective in furthering trade liberalization through the Doha Round, but it has succeeded in acting as a bulwark against protectionism during the crisis.

The spectre of encroaching protectionism has been talked up by analysts and academics. Evenett documents many examples of increasing protectionism and details of approximately seventy initiatives containing measures that ‘almost certainly discriminate against foreign commercial interests’ (Evenett 2009). Further examples of the policy measures taken during the crisis are available on the Global Trade Alert (GTA) website which provides information on state measures taken during the global downturn that were likely to affect foreign commerce. ‘It goes beyond other

monitoring initiatives by identifying the trading partners likely to be harmed by these measures.’<sup>11</sup> The figures in 2009 indicated a spike in protectionist measures. In 2012, the GTA report sounded the alert on protectionism once more suggesting that the amount of protectionism in 2010 and 2011 was considerably higher than previously thought. The total number of measures introduced since 2008 stands at more than 2700, about half of which have a supposedly negative beggar-thy-neighbour policy component. It should be noted, however, that more than 800 of these measures have not yet been implemented.

The obvious problem with the policy measures described in the GTA is that they capture unilateral actions, but not multilateral, regional or bilateral ones – like implementing agreements. It also treats bailouts and subsidies as protectionism – which made up the majority of the numbers in the 2009 spike. And it does not provide any historical perspective – so for example, anti-dumping is actually way down from its high-water mark in 2001. Figure X.1 illustrates the main protectionist measures or more accurately ‘measures which almost certainly discriminate against foreign commercial interests’. The numbers are dominated by bail-outs, trade-defence measures and tariff and non-tariff measures. Of the tariff measures introduced since 2008, there have been more which have been liberalizing or at least non-discriminatory in nature (265 versus 178). Of the trade defence measures, only half were discriminatory.

Figure X.1: Protectionist measures, 2008–2012<sup>12</sup>



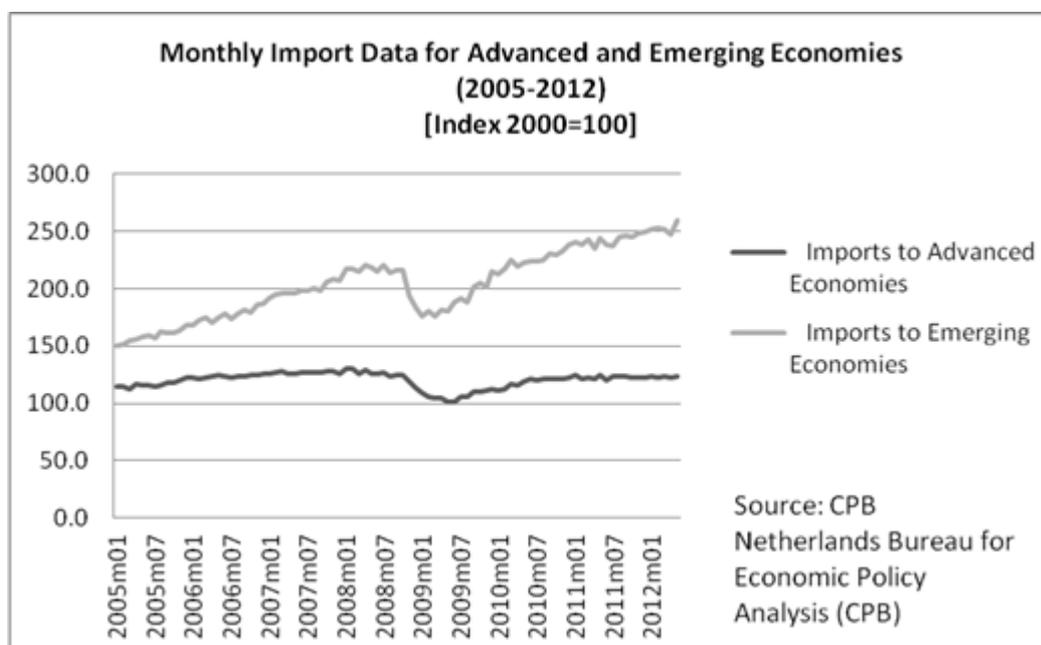
Source: GTA, [www.globaltradealert.org](http://www.globaltradealert.org) Accessed January 2013

Rodrik called the measures more of a nuisance than anything else and described protectionism as the dog that didn't bark during the financial crisis (Rodrik 2009). The rhetoric of protectionism has not materialized in actual policy changes, although international agencies and the GTA have tended to overemphasize the extent of protectionism. Increasing resort to protectionist measures does not imply that WTO rules are useless, 'rather so long as they remain incomplete, circumvention is to be expected' (Evenett 2012:2).

Figure X.2 shows the large decline in imports in both advanced and emerging economies, although emerging economies rebounded quickly while advanced economies remain stagnant. The large declines in trade during the economic crisis cannot be attributed to changing trade policies. In fact the World Bank has stated that despite a rise in use of tariffs and anti-dumping duties, protectionism accounted for no

more than 2 per cent of the decline in world trade in 2009 (Looi Kee, Neagu & Nicita 2010). Much more important reasons include the credit crunch, the nature of global production chains, a generalized loss of confidence and the interaction between these factors. Borchert and Mattoo (2009) also point out that trade in goods has declined whereas services trade has not. Much of the discussion about trade deficits refers to merchandise trade and services are often left out (Ghosh 2000). A trade war precipitated by perceptions about the primacy of goods would be extremely harmful to the US and Europe in terms of lost trade in services. In addition a ‘retreat from openness in services in industrial countries could undermine reform efforts in developing countries, and even trigger a costly spiral of retaliatory protection’ (Borchert & Mattoo 2009).

Figure X.2: Monthly import data, 2005–2012



Source: CPB. [www.cpb.nl](http://www.cpb.nl) Accessed January 2013.

Developing countries have made impressive progress in stimulating economic growth in recent years and trade is an important part of this story. A movement against trade would no doubt hurt these countries the most. So far the crisis has had a relatively limited effect but threats remain.<sup>13</sup> Where multilateral disciplines exist, recourse to protectionism has been limited (Evenett & Hoekman 2009). The architecture of modern trade agreements and the interconnected nature of the global economy<sup>14</sup> means that this was never really in doubt. The crisis has provoked a backlash nonetheless, but the political response has been focused at the national level – in particular on immigration policy – where the primacy of national policy-making remains and international coordination is absent.

#### **4. Impact on Immigration Policies**

Part 3 discussed the implications of the 1930s crisis, while this section concentrates on the 1970s and recent economic crises and labour immigration.<sup>15</sup> Countries in Western Europe, such as Germany and Switzerland, experienced labour immigration in the 1950s and 1960s through guest-worker programmes set up to spur their industries after the war.<sup>16</sup> The governments negotiated bilateral agreements with several countries, such as Italy, Turkey, Greece and Portugal. As Hollifield (2008b:208) succinctly summarizes, ‘liberal states had little incentive to cooperate or to build regimes for managing labor migration because there was an unlimited supply of (unskilled) labor available, which could be recruited through bilateral agreements’. European countries had quite liberal labour immigration policies until the early 1970s when the worldwide economic downturn increased the number of unemployed native

workers and led to loud outcries for more restrictive policy (mainly by unions and Social Democrats, Hollifield 1992). These changes took place amid a more general shift from social democracy to market liberalism. The guest-worker programmes promised to bring temporary workers instead of permanent citizens, as well as economic benefits instead of social costs (Plewa 2007). Employers 'were reluctant to lose their valuable human investment in a nearly full-employment economy' and often permitted guest workers to stay after the expiry of their work permit, as well as to bring their family to Germany (Messina 2007:125). The support of the unions was won by securing the 'primacy of domestic workers in filling of job openings and by guaranteeing equal wages and social benefits to the recruited foreign workers' (Hollifield 1992, Joppke 1999:65). Misled by the results of a number of surveys on migrants, the government was under the 'illusion of return' that guest workers would return home after some years, so it did not 'exercise the administrative prerogative of non-renewal of permits in any systematic way' (Miller & Martin 1982:86). The period between 1975 and 1985 is often considered 'the decade in which many European countries became reluctant countries of immigration' (Martin 2009). The European economy eventually recovered in the late 1980s.

In recent decades, labour market shortages have emerged in OECD countries in both the high and low-skill sectors (OECD 2012b). Skill-biased technological change has raised the productivity of high-skilled relative to unskilled labour. The focus on HSI grew at times when labour shortages intensified because of changes in the global demand for labour in high-skilled industries. Most European countries have been latecomers in competing for 'the best and brightest'. It was not until the late 1990s that they changed their legislation to facilitate the recruitment of high-skilled immigrants. These countries have been paying attention to HSI due to perceived

labour market shortages in sectors which require certain skills. They have been interested in recruiting high-skilled immigrants on a temporary basis to give them some time to educate and/or train their own workers (Chiswick 2010, Hollifield, Martin & Orrenius 2014). This is the first globally synchronized economic crisis since the end of World War II, which affects all countries around the world. This crisis also has important effects on (high-skilled) labour migration.

According to the OECD, labour migration policies are ‘tending to become restrictive, partly in response to the economic downturn, through tightening existing administrative mechanisms’ (OECD 2010:81). Restrictive policy changes across countries have included giving preferential treatment to native workers, omitting some sectors from shortage occupation lists, reinforcing labour market tests, decreasing numbers of quotas or numerical limits, limiting non-discretionary flows (e.g. family reunification, work permits for spouses) and halting certain immigration programmes (OECD 2009). However, there are differences among countries’ responses. The following section provides a qualitative examination of recent developments in the HSI policy area, based on a review of secondary sources,<sup>17</sup> and seeks to test a proposed typology of openness/closure on different cases.

First, policy responses to the economic crisis vary according to the type of labour immigration in countries. Permanent labour immigration (‘human capital model’)<sup>18</sup> has been ‘less affected by the economic crisis but has declined as well’ (OECD 2010:33). Temporary labour migration (‘labour shortage model’)<sup>19</sup> has been more reactive to changing labour market conditions and thus more affected by the crisis.

Second, responses to the crisis also differ between demand-driven and supply-driven labour migration. Policy restrictions were observable in countries with demand-driven systems (such as the United States). Targets or caps for permanent migration are

supply-driven and did not change in Canada, New Zealand and the United States. But Australia responded to the economic crisis by decreasing its target level (OECD 2010:32). As we will show next, these models and systems thus affect crisis responses in migration policy. Two additional factors are relevant for this discussion on openness/closure of immigration policies. The extent of the impact of the crisis on countries (measured for instance by GDP growth or unemployment rate) as well as immigration inflows prior to the crisis play an important role in influencing countries' policy responses. It is evident from Table X.1 that the largest decreases in economic output in 2009 took place in Ireland (−7%), followed by Denmark, Italy and Germany. Countries such as Australia and Canada experienced positive growth, but this did not stop them from implementing more restrictive immigration policies in some instances.

Table X.1: World economic output in selected countries (in percentage change in output)

	<b>2008</b>	<b>2009</b>	<b>2010</b>
Australia	2.5	1.4	2.5
Austria	1.4	−3.8	2.3
Canada	0.7	−2.8	3.2
Czech Republic	3.1	−4.7	2.7

Denmark	-0.8	-5.8	1.3
France	-0.2	-2.6	1.4
Germany	0.8	-5.1	3.6
Ireland	-3.0	-7.0	-0.4
Italy	-1.2	-5.5	1.8
Korea	2.3	0.3	6.3
Netherlands	1.8	-3.6	1.6
New Zealand	-0.1	-2.1	1.2
Spain	0.9	-3.7	-0.1
Sweden	-0.8	-4.8	5.8
United Kingdom	-1.1	-4.1	2.1
United States	0.3	-3.5	3.0

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Source: IMF, World Economic Outlook 2012:191.

Unemployment rate also indicates the extent of the economic crisis – most countries in the Table below have experienced an increase in their unemployment rates especially in 2009. Again, countries such as Ireland and Spain show particularly significant change from 2008 to 2009.

Table 2: Unemployment reates in selected countries (in percentages)

	<b>2008</b>	<b>2009</b>	<b>2010</b>
Australia	4.3	5.7	5.3
Austria	3.9	4.8	4.5
Canada	6.2	8.4	6.2
Czech Republic	4.4	6.8	7.4
Denmark	3.5	6.1	7.6
France	7.4	9.2	9.4
Germany	7.6	7.8	7.2
Ireland	5.8	12.2	13.9
Italy	6.8	7.9	8.5
Korea	3.3	3.8	3.8
Netherlands	3.0	3.7	4.5
New Zealand	4.3	6.3	6.7
Spain	11.4	18.1	20.2
Sweden	6.1	8.5	8.5
United Kingdom	5.4	7.8	7.9

United States

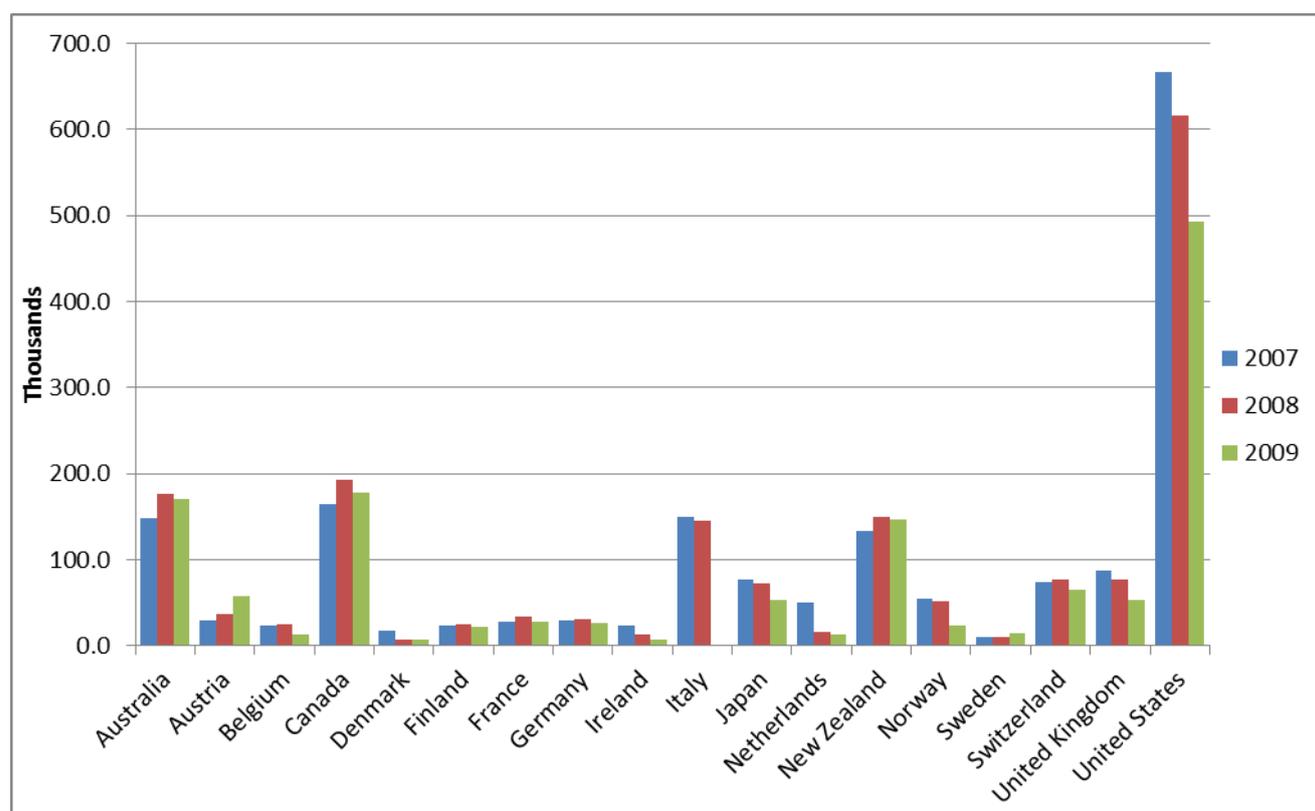
5.8

9.4

9.8

Source: OECD statistics.

Figure X.3: Inflows of foreign workers into selected OECD countries (permanent and temporary migration combined)



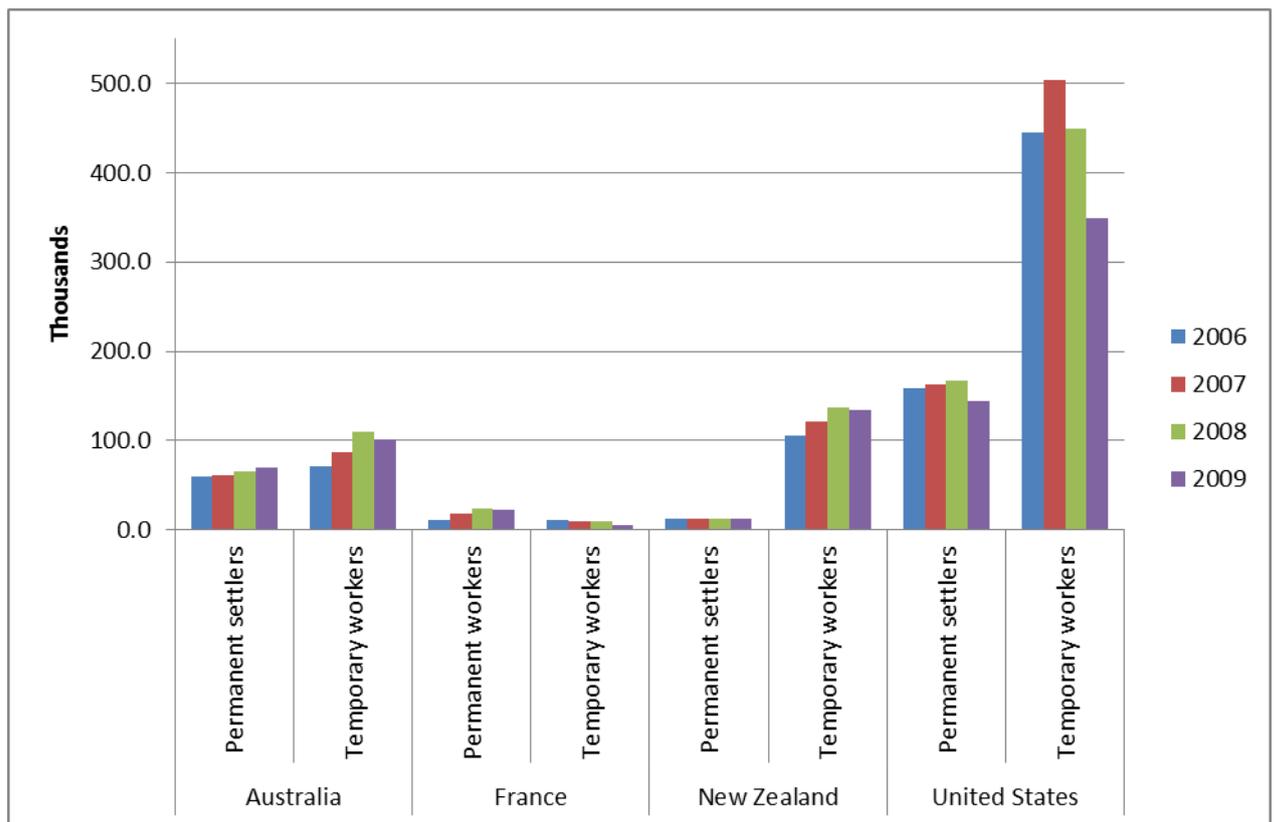
Source: OECD statistics. <http://stats.oecd.org/Index.aspx?DataSetCode=MIG>

Accessed October 2013.

Note: Spain was excluded from the figure since only 2007 data is available (102,500 workers). Unfortunately the data does not differentiate between high- and low-skilled immigration.

Interestingly, the inflows of migrants increased only in a few countries in 2008: Australia, Canada and New Zealand (‘settlement countries’). Flows remained fairly similar for permanent migration in New Zealand and increased for Australia from 2008 to 2009. This could be linked to a backlog in applications. It is possible to differentiate four countries according to their patterns of permanent or temporary migration. Figure X.4 indicates that there were not dramatic changes in inflows of permanent settlers in Australia, France, New Zealand and the US. Inflows into New Zealand remained almost constant.

Figure X.4: Inflows of foreign workers into four OECD countries (2006–2009)



Source: OECD statistics.

Permanent migration declined (except for some settlement countries such as Australia, Canada, the UK and the US), including during 2010 (OECD 2012a). Temporary labour migration was one of the first migration channels to be affected by the economic downturn (OECD 2010:20). To simplify the typology, we assume that supply-led systems correspond with permanent migration, whereas demand-led systems go hand in hand with temporary migration (of course some exceptions exist).

Table X.3: Demand vs. supply-led systems (with specific programmes)<sup>20</sup>

Demand-led systems	Supply-led systems
France	Australia
Germany	Canada
Ireland	Denmark
Italy	Netherlands
Korea	New Zealand (permanent)
New Zealand (temporary)	UK (Tier 1 until 2011)
Sweden	United States (permanent)
Spain	
UK (Tier 2)	
United States (H-1B)	

Closure is defined as follows: when one of the elements described earlier is altered to make the policy more restrictive (i.e. to give preferential treatment to native workers, omit sectors from shortage occupation lists, reinforce labour market tests, decrease number of quotas for migrant workers/numerical limits, limit non-discretionary flows, or halt certain immigration programmes). Openness is the opposite but can also refer to no change in the status quo.

The typology in Table X.4 links the previously described factors in a systematic way – here focusing on inflows of immigrants and demand versus supply-led systems. Countries have, however, been affected by the economic crisis to a varying extent, as discussed above.

Table X.4: Typology of HSI policy outputs and openness/closure during economic crisis

Inflows of labour immigrants (prior to crisis)	Demand-led system	Supply-led system
High	Australia Ireland Italy Korea New Zealand Spain UK US	Australia Canada? UK

	CLOSURE	CLOSURE
Low	France Germany Sweden  OPENNESS	Austria  Denmark?  OPENNESS

Note: Some countries such as Italy and Spain did not have a specific HSI policy at that time – high-skilled immigrants have come through a general quota system (though Spain and Italy adopted the EU Blue Card for high-skilled third-country nationals (TCNs) in 2011 and 2012, respectively).

The following sections analyse some selected cases, drawing on the linkage between important factors, such as inflows of immigrants, demand- versus supply-led systems and the impact of the economic crisis. Many countries have responded to the economic crisis by tightening access to labour migration channels, for instance by cutting quotas (e.g. Italy, Korea, Spain), changing the labour market test (e.g. the UK, Canada) and redrawing shortage lists (e.g. Australia, New Zealand, the UK) (OECD 2010:79).

For example, some countries (e.g. the UK and the US) have made it harder for employers to hire migrant workers by imposing stricter conditions on job advertisements and work permit renewals. Other countries have decreased the number of migrants allowed to enter – these concern especially low-skilled workers, although

the high-skilled have also been affected. Spain let in 15,731 migrant recruits under its 'contingente' scheme in 2008, but decreased the quota to only 901 in 2009. In the same country, the number of professions listed in the shortages occupations list from October 2008 decreased by nearly one-third compared to the previous version (The Economist 2009b). The Italian government announced that no non-seasonal workers would be admitted in 2009, in contrast to the 70,000 admitted in 2008. South Korea set the 2009 limit for the Employment Permit Scheme to 17,000, down from 72,000 in 2008 (it restored the quota as the economy improved – OECD 2011). Australia has lowered its limit to 108,100 from 133,500 skilled migrants (The Economist 2009b).

Immigration policy restrictions have been applied in a number of regions. Free movement inside the EU cannot be stopped (or not easily) due to an established regional regime, so Member States are changing their national immigration policies towards Third Country Nationals (TCNs). Both Ireland and the UK are EU members and they fully adhere to the free movement of EU workers (except from Romania and Bulgaria), but they have opted out from other EU directives and labour immigration policies. Therefore, labour immigration of TCNs has remained in their own hands (Geddes 2014). Both countries restricted labour immigration policies by strengthening labor market tests, shortening shortage occupation lists and implementing higher salary thresholds (Agence France Press 2009, BBC 2009, Migration News 2009a,b, OECD 2010). Other countries have also restricted immigration policy towards the high-skilled. Australia has restricted its policy, adjusted immigration levels downwards and reduced the shortage occupation list (Australian Government 2009, Migration News 2009a). New Zealand also reviewed its shortage occupation list for temporary migration (OECD 2010), while the US imposed restrictions on H-1B-

dependent companies which benefited from the Troubled Assets Relief Program (Herbst 2009).

Nevertheless, some countries have not implemented new restrictions as they consider HSI policy as a stimulus during the economic crisis. Openness is thus a different policy response to the previously described protectionist measures. Canada and New Zealand are among the few countries that have not announced more restrictive HSI policies (especially for permanent immigration). For instance, Canada continues its HSI recruitment policy (Reitz 2014). Jason Kenney, the Minister for Immigration stated that the country 'would maintain its current policy of encouraging immigration in order to meet identified labor shortages in key areas despite the financial crisis'. He further claimed that 'attracting different types of skills and talent are necessary for developed countries to compete in the global economy. Canada's strategy of encouraging people to move there is the best way to prepare to exit the crisis' (Mittal 2008). Due to the expected demographic changes over the next twenty years, 'developed countries need to attract talent, reduce skills gaps and project the skills shortage for the next few years. This is the time to attract the best skills instead of reducing the intake of immigrants' (Mittal 2008).

There are several reasons why HSI policy could act as a stimulus during the economic crisis. High-skilled workers in certain sectors will continue to be in short supply, despite the economic crisis. Labor shortages will remain due to geographical mismatches and occupations requiring specialized knowledge, such as health care and certain technical jobs (e.g. engineering, IT and advanced sciences). For these jobs, native workers cannot easily and quickly retrain (The Economist 2009). (Unemployed) native or migrant workers might also be unwilling to move to regions

with jobs because they have family ties or do not want to take unattractive jobs (Papademetriou & Terrazas 2009).

Governments should find ‘effective safety nets for migrant workers and resist the inclination to establish adjustment measures that could have lasting impact on restricting future movements’ (Abella & Duncanes 2009:11). In similar terms, the ILO states that ‘the global crisis will not be solved by protectionist solutions. Rather, such solutions would depress world trade and investment, further aggravating the recession’ (ILO 2009b:59). Thomas Friedman, a *New York Times* op-ed columnist, argued that the main principle ‘should be to stimulate everything that makes us smarter and attracts more smart people to our shores. That is the best way to create good jobs’ (Friedman 2009).

Adopting restrictive labour migration policies during the crisis is likely to be ‘sticky and stay even when recovery is achieved for a variety of reasons’ (Abella & Duncanes 2009:10). Countries will continue to face structural changes, such as the ageing of the population, rapid technological change and decline in the manufacturing industry, leading to shortages in some sectors of the labour market (OECD 2009, 2012). In high-skilled occupations, such as health care and engineering, labour shortages will remain severe, despite economic crisis and policy changes in a number of countries (Abella & Duncanes 2009). Education and experience remain important and high-skilled migrants are seen as a stimulus for ailing economies. The impact of the crisis and the policy responses have thus varied from country to country, and from region to region.

## **5. Conclusions**

This chapter has highlighted the importance of regime arrangements during crises. Where multilateral regimes have been strong, nation states have been restrained in (over) reacting to political pressures exacerbated by the crisis. Beggar-thy-neighbour policies have not emerged and international coordination has been maintained. In trade there have been some moves to protectionism but the integrity of WTO mechanisms has remained intact. In immigration, where regimes are weak, there have been swift increases in restrictions. Migration might indeed be the last bastion of state sovereignty.<sup>21</sup> But governments, which have made commitments in bilateral or regional agreements to accept immigrants in certain categories or from certain countries, have been restrained in changing policies (OECD 2009).

The crisis, which started on Wall Street, has not ended at the time of writing. Policymakers are cautious and threats remain. As this chapter demonstrates, some countries have undermined their future competitiveness by restricting immigration, most notably in HSI policy. Immigration is different from trade, and restrictive coalitions have been more effective in this field than in trade at least for now, but this situation is evolving, and will hinge on the length of the economic recession. Is it just global governance or a reflection that trade has become too deeply entrenched in the foreign policies of the most powerful OECD countries? Protectionism would be self-defeating as it would be met with retaliation. Threats of retaliation matter in trade but there is no such dynamic with respect international migration, hence states resort to unilateral restrictive measures, which are essentially beggar-thy-neighbour responses to the crisis. Trade policy instruments are a pretty crude way of protecting workers, but limiting labour market competition by preventing immigrants from gaining access

to national labour markets may be perceived as a more politically efficient form of protectionism.

Given that in social science, researchers tend to look at immigration or trade policy in isolation, this chapter looks at the relationship between the two. Moreover the chapter challenges the conventional wisdom about crises and business cycles. While the economic crisis has had a limited impact on free trade, the backlash against immigration has been much stronger and more atavistic. Hence ‘the logic of markets drives us together, [while] the backlash of culture, ethnicity, tribalism is driving us apart’.<sup>22</sup>

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<sup>2</sup> In 2007 and 2008, world output grew by over 5 per cent and 3.4 per cent, respectively. The European Union, Japan, the United States (US) and other large developed economies had already entered into recession as early as the fourth quarter of 2007 (ILO 2009b:3). In the advanced economies, GDP declined by 3.5 per cent in 2009, a significant contraction. This was followed by sluggish growth in 2010, which failed to check rising unemployment.

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<sup>3</sup> Globalization (broadly defined as increasing levels of exchange) is based on three pillars: (1) finance, (2) trade in goods and services, and (3) migration. This chapter focuses on the last two – although the literature has analysed the impact of the economic crisis on finance and trade, migration has been largely neglected.

<sup>4</sup> ‘In many countries, a combination of trades union defense of jobs and the rise of new right-wing parties is pushing towards a strong nationalist restriction of immigration’ (Halliday 2010:29).

<sup>5</sup> Koslowski’s work on global migration regimes considers the role of regimes at the global rather than the domestic level: see also Koslowski 2008.

<sup>6</sup> See the typology in Hollifield (2000) for a comparison of regimes for trade and migration.

<sup>7</sup> Indivisibility means that ‘the object of multilateral regulation should take the form of a public good’ – costs and benefits should be shared equally among states. Second, principles or norms of conduct can alter states’ behaviour. It is more likely that states will respect the principles and norms, the fewer there are. Third, diffuse reciprocity signifies that states need to be convinced that everybody will respect the rules of ‘the game’ (Hollifield 2008a:10).

<sup>8</sup> Interview with Microsoft, Washington, DC, October 2007.

<sup>9</sup> Immigration was never the same again. The era of mass migration was over. The Great Depression saw a sharp rise in anti-globalization sentiment. In both the 1920s and the 1930s the US tightened its immigration policies. The Depression exacerbated this trend and far from immigration increasing, many foreign workers actually re-emigrated – ‘some 500,000 left in the 1930s, with many southern Europeans moving back permanently to the old continent. In the same decade the stock of Mexicans in America fell by a dramatic 40 per cent, as they lost jobs and many were deported’ (*The Economist* 2009a).

<sup>10</sup> The WTO has consistently tried to promote a successful conclusion of the Doha Round as a solution to everything from the food crisis (more consistent trade rules in agriculture) and climate change (trade rules on environmental technology transfer), to public health (‘Lamy urges multilateral cooperation to advance public health “in the real world”’, 14 July 2009) and sustainable fishing (‘Lamy urges Doha deal for sustainable fishing’, 8 June 2009).

<sup>11</sup> The Global Trade Alert website is available at [www.globaltradealert.org](http://www.globaltradealert.org).

<sup>12</sup> Of 99 migration measures in the GTA database, 49 have discriminated against foreign commercial interests. A wide range of often revealing examples are presented although there are also a number of

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examples with minor or questionable outcomes – a particular weakness is the heterogeneity of the sample. For example on 29 February 2012, the government of Indonesia issued a decree prohibiting wholly Indonesian-owned companies from hiring foreign staff for senior positions. On 6 April 2011, the British government raised the requirements to qualify for a permanent settlement permit. In November 2011, the British government announced the extension of the employment restrictions on Bulgarian and Romanian citizens. More information at: <http://www.globaltradealert.org/taxonomy/measure-type/migration-measure>

<sup>13</sup> International aid flows have the potential to act as a countercyclical flow for developing countries. But they would seem to be particularly vulnerable to decline. However, they have remained resilient, again because of high-level political commitment and international coordination. In the case of the United States, pledges have been made to increase, perhaps even to double, foreign aid in the years ahead. A survey of indicative forward planning from the OECD indicates that other major donors plan to sustain aid flows at the current level. Some countries experiencing a severe fiscal crisis, like Italy and Ireland, have been forced to cut their aid budgets. But, overall, globalization in the trade and aid spheres has held up quite well.

<sup>14</sup> Two-way trade in manufactured products now characterizes not just trade within the North, but also between the North and the South (O'Rourke 2009).

<sup>15</sup> The Asian crisis in 1997–98 did not have such major effects on global labour migration and thus is left out of this analysis.

<sup>16</sup> In contrast to European countries, after the closure in the 1920s and 1930s, the United States did not reopen immigration until the 1970s–1980s (Hollifield & Wilson 2010).

<sup>17</sup> This section builds upon an ILO working paper on economic crisis and high-skilled immigration (Cerna 2010).

<sup>18</sup> Under the human capital model, endogenous growth theory suggests that increasing human capital stock leads to dynamic growth and spillover effects (Romer 1994). 'Settlement countries' have used immigration for increasing their human capital stock and thus considered this type of immigration as permanent.

<sup>19</sup> This second model of HSI has been predominantly used in the United States, Japan and European countries. But the models are not mutually exclusive.

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<sup>20</sup> Three European countries have introduced point-based systems for labour immigration: the UK (October 2008), Denmark (July 2008) and the Netherlands (January 2009) (OECD 2010:58). In the UK, Tier 1 is for high-skilled immigrants (mainly a points-based system which was discontinued in autumn 2011), whereas Tier 2 is meant for skilled labour migrants with a job offer.

<sup>21</sup> Ibrahim Awad, personal communication, 14 August 2010. Also Hollifield 2012.

<sup>22</sup> John Hancock, personal communication, 29 November 2009.