Global Financial Crisis and its Impact on International Migration

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Abstract

International Migration Plays an important role in the Indian Economy. But, the global financial crisis affected the Indian Economy too. The Indian economy looked to be relatively insulated from the global financial crisis that started in August 2007 when the sub-prime mortgage crisis first surfaced in the United States (US). In fact, the Reserve Bank of India (RBI) was raising interest rates until August 2008 with the explicit objective of cooling the economy and bringing down the gross domestic product (GDP) growth rate, which visibly had moved above the rate of potential output growth and was contributing to the buildup of inflationary pressures in the economy. This paper attempts an analysis of the Role of International Migration, origin and causes of global financial crisis and the impact of the crisis on the Indian economy.

Keywords:

International Migration, Global Financial Crisis, Recession, Depression

Introduction

The international migration of labor is an important component of globalization and economic development in many less developed countries (LDCs). The number of international migrants, or people residing in a country other than their country of birth, has increased more or less linearly over the past 40 years, International migration raises both hopes and concerns for the LDCs from which international migrants come. The migrants include millions of highly educated people from countries in which human capital is relatively scarce and relatively low skilled workers whose productivity and wages are far higher abroad than at home. International migration also produces benefits. The most tangible of these are remittances, the income that migrants send home. But the global financial crisis affected the Non Resident Indians a lot.

The **financial crisis of 2007–08**, also known as the **Global Financial Crisis** and **2008 financial crisis**, is considered by many economists to have been the worst financial crisis since the Great Depression of the 1930s. It threatened the collapse of large financial institutions, which was prevented by the bailout of banks by national governments, but stock markets still dropped worldwide. In many areas, the housing market also suffered, resulting in evictions, foreclosures and prolonged unemployment. The crisis played a significant role in the failure of key businesses, declines in consumer wealth estimated in trillions of U.S. dollars, and a downturn in economic activity leading to the 2008–2012 global recession and contributing to the European sovereign-debt crisis. The active phase of the crisis, which manifested as a liquidity crisis, can be dated from August 9, 2007, when BNP Paribas terminated withdrawals from three hedge funds citing "a complete evaporation of liquidity"

The bursting of the U.S. (United States) housing bubble, which peaked in 2004, caused the values of securities tied to U.S. real estate pricing to plummet, damaging financial institutions globally. The financial crisis was triggered by a complex interplay of policies that encouraged home ownership, providing easier access to loans for (lending) borrowers, overvaluation of bundled subprime mortgages based on the theory that housing prices would continue to escalate, questionable trading practices on behalf of both buyers and sellers, compensation structures that prioritize short-term deal flow over long-term value creation, and a lack of adequate capital holdings from banks and insurance companies to back the financial commitments they were making. Questions regarding bank solvency, declines in credit availability and damaged investor confidence had an impact on global stock markets, where securities suffered large losses during 2008 and early 2009. Economies worldwide slowed during this period, as credit tightened and international trade declined. Governments and central banks responded with unprecedented fiscal stimulus, monetary policy expansion and institutional bailouts. In the U.S., Congress passed the American Recovery and Reinvestment Act of 2009.

Global Financial Crisis and Indian Economy.

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Impact on Indian Economy

India, South Asia's largest economy, has been facing major challenges owing to the global financial crisis. The immediate effects were plummeting stock prices, a net outflow of foreign capital, a large reduction in foreign reserves and a sharp tightening of domestic liquidity. These caused a rapid depreciation of the exchange rate and a surge in short-term interest rates. The second round effects emerged from a slowdown in domestic demand and exports. Demand effects have been particularly severe in 4 housing, construction, consumer durables and the IT sector. As a result, manufacturing production has taken a hit and activities in the organized services sector (housing, construction, IT) are down sharply. Exports declined for two consecutive months in October and November 2008. A recent government study estimates job losses to the tune of five hundred thousand between October and December 2008. GDP growth rate is now estimated at around 7 percent for 2008, down from 9 percent in 2007, and is projected to decline to around 5 percent in 2009.

Impact are discussed in detail:

Information Technology: With the global financial system getting trapped in the quicksand, there is uncertainty across the Indian Software industry. The U.S. banks have huge running relations with Indian Software Companies. A rough estimate suggests that at least a minimum of 30,000 Indian jobs could be impacted immediately in the wake of happenings in the U.S. financial system. Approximately 61 per cent of the Indian IT Sector revenues are from U.S financial corporations like Goldman Sachs, Washington Mutual, Citigroup, Bank of America, Morgan Stanley and Lehman Brothers. The top five Indian players account for 46 per cent of the IT industry revenues. The revenue contribution from U.S clients is approximately 58 per cent. About 30 per cent of the industry revenues are estimated to be from financial services. The software companies may face hard days ahead.

Exchange Rate: Exchange rate volatility in India has increased in the year 2008-09 compared to previous years. Massive selling by Foreign Institutional Investors and conversion of their holdings from rupees to dollars for repatriation has resulted in the rupee depreciating sharply against the dollar. Between January 1 and October 16, 2008, the Reserve Bank of India (RBI) reference rate for the rupee fell by nearly 25 per cent, from Rs.39.20 per dollar to Rs.48.86. This depreciation may be good for India‘s exports that are adversely affected by the slowdown in global markets but it is not so good for those who have accumulated foreign exchange payment commitments.

Foreign Exchange Outflow: After the macro-economic reforms in 1991, the Indian economy has been increasingly integrated with the global economy. The financial institutions in India are exposed to the world financial market. Foreign Institutional Investment (FII) is largely open to India‘s equity, debt markets and market for mutual funds. The most immediate effect of the crisis has been an outflow of foreign institutional investment from the equity market. There is a serious concern about the likely impact on the economy because of the heavy foreign exchange outflows in the wake of sustained selling by Foreign Institutional Investors in the stock markets and withdrawal of funds by others.

Investment: The tumbling economy in the U.S is going to dampen the investment flow. It is expected that the capital inflows into the country will dry up. Investments in mega projects, which are under implementation and in the pipeline, are bound to buy more time before injecting funds into infrastructure and other ventures. The buoyancy in the economy is absent in all the sectors. Investment in tourism, hospitality and healthcare has slowed down. Fresh investment flows into India is in doubt.

Stock Market: The financial turmoil affected the stock markets even in India. The combination of a rapid sell off by financial institutions and the prospect of economic slowdown have pulled down the stocks and commodities market. Foreign institutional investors pulled out close to $ 11 billion from India, dragging the capital market down with it. Stock prices have fallen by 60 per cent. India's stock market index— Sensex— touched above 21,000 marks in the month of January, 2008 and has plunged below 10,000 during October 2008. The movement of Sensex shows a positive and significant relation with Foreign Institutional Investment flows into the market. This also has an effect on the Primary Market. In 2007-08, the net Foreign Institutional Investment inflows into India amounted to $20.3 billion. As compared to this, they pulled out $11.1 billion during the first nine-and-a-half months of the calendar year 2008, of which $8.3 billion occurred over the first six-and-a-half months of the financial year 2008-09.

Exports: The crisis will sharply contract the demand for exports adversely affecting the country's growth prospects. It will have an impact on merchandise exports and service exports. The decline in export growth may sharply affect some segments of the Indian Economy that are export oriented. The slowdown in the world economy has affected the garment industry. The orders for factories which are dependent on exports, mainly to the U.S have come down following deferred buying by big apparel brands. Rising unemployment and reduced spending by the Americans have forced some of the leading brands in the U.S to close down their outlets, which in turn has affected the apparel industry here in India. The U.S accounts for 55 per cent of all global apparel imports. The global recession will undermine other major export sectors of the Indian economy like sea foods, gems and jewellery.

Increase in Unemployment: One danger is of a dip in the employment market. The global financial crisis could increase unemployment. Layoffs and wage cuts are certain to take place in many companies where young employees are working in Business Process Outsourcing and Information Technology sectors. With job losses, the gap between the rich and the poor will be widened. It is estimated that there would be downsizing in many other fields as companies cut costs. The International Labour Organization predicted that millions of jobs will be lost by the end of 2009 due to the crisis – mostly in construction, real estate, financial services, and the auto sector. The Global Wage Report 2008-09 of International Labour Organization warns that tensions are likely to intensify over the issue of wages. There would also be a significant drop in new hiring. All these will change the complexion of the job market.

Conclusion

Majority of the remittances were received from foreign countries. But after the global financial Crisis, some of the Non resident Indians lost their job and forced to come back to their home country. This creates an adverse situation to the home country. In this context ,it is imperative to find out the reasons for global financial crisis and its impact on Non Resident Indians

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