



A million a year

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Overview

Russia faces a precipitous decline in labour force numbers beginning in 2007 that threatens the continuation of rapid economic growth. Put another way, while buoyant investment is the first essential condition for sustained growth, it may not be sufficient unless the workforce is bolstered. During the long years before domestic demographic policies start to have the desired effect, immigration will be the only answer. The 'million a year' of our title is the World Bank's estimate of the number of new migrant workers required annually from 2010.

The government has recognised that it must act. Like all governments dealing with increasing immigration, it must take account of popular backlashes. But even allowing for this constraint, present policies fall well short of what is needed.

Context

Imminent declines in labour force threaten continuation of rapid growth

Public Judgements

How serious is the challenge, what are the right policies to meet it?

- > **President Putin**, instructing Fradkov, United Russia party leaders
- > **Vyacheslav Postavnin**, Director of the Federal Migration Service
- > **World Bank**, special report
- > **German Gref**, Economy Minister
- > **Vladimir Sokolin**, Head of the State

Statistics Service
> **Dennis Donahue**, US Census Bureau

Wrap

Muddle-through works for now, but for how long?

Context

Imminent declines in labour force threaten continuation of rapid growth

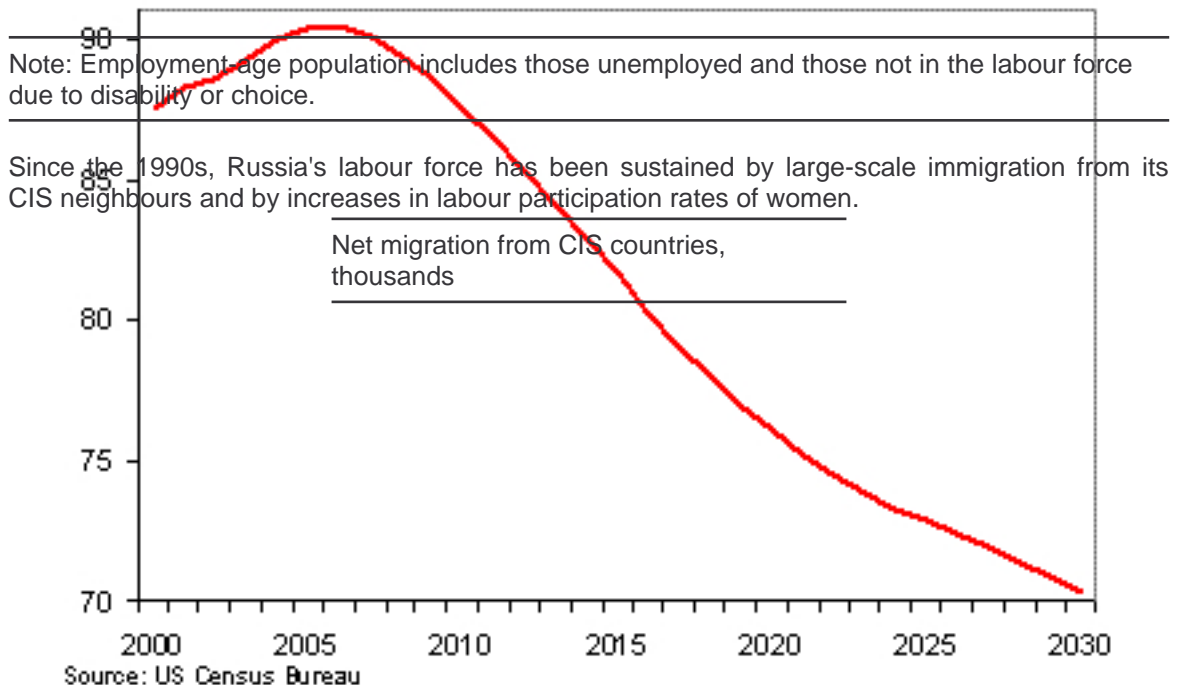
Although Russia's annual GDP growth rate has averaged a respectable 6.1 per cent GDP growth rate since 2001, cyclical and demographic factors threaten the sustainability of this pace of growth in the next few years.

Past sources of growth, derived from an undervalued ruble, substantial unused industrial capacity and a sustained rise in oil and other raw materials prices, are nearing exhaustion. The same goes for another piece of 'low hanging fruit' - improved labour productivity from the redeployment of excess and hoarded labour in Soviet-era industries. Economy-wide labour productivity growth slowed to 5.5 percent last year, from 6.5 percent in 2004 and 7.0 percent in 2003.

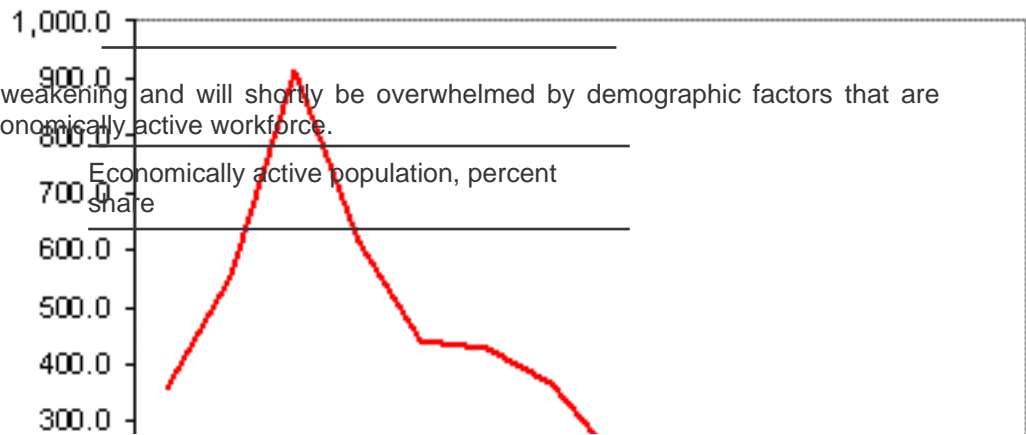
Diminishing returns to Russia's dominant growth model are already evident. Russia's evolving strategy to reverse this trend can be seen in the new priority being given to investment. An accelerating investment rate is the single most important factor in sustaining Russia's strong economic growth (for more details, see our 'House View' [here](#)). But this will most likely not be a sufficient condition.

For in the meantime, sharp declines in Russia's active labour force appear imminent.

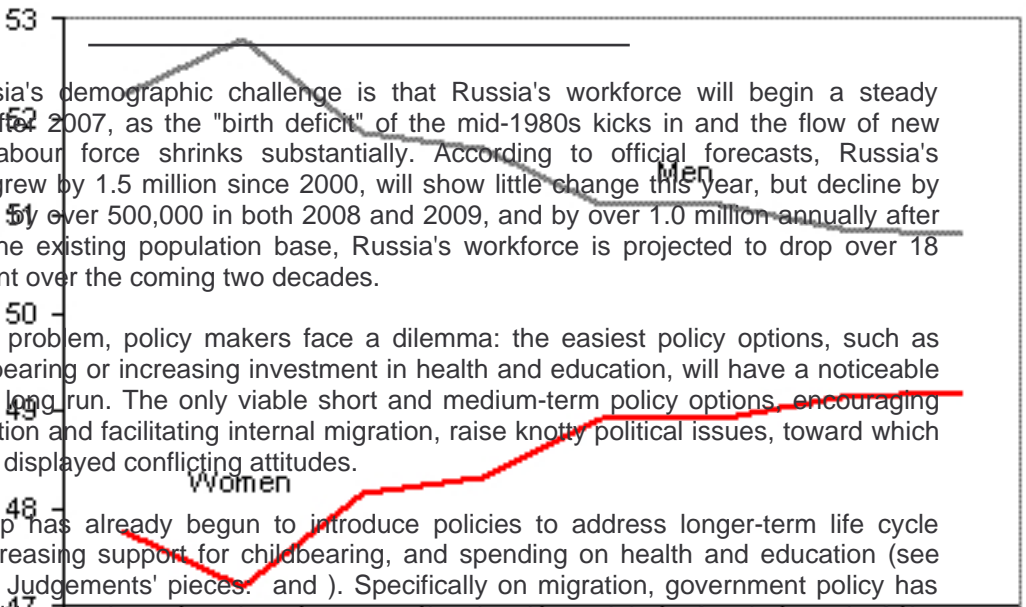
Russia's employment-age population, projected in millions



These trends are weakening and will shortly be overwhelmed by demographic factors that are cutting Russia's economically active workforce.



The core of Russia's demographic challenge is that Russia's workforce will begin a steady downward trend after 2007, as the "birth deficit" of the mid-1980s kicks in and the flow of new entrants to the labour force shrinks substantially. According to official forecasts, Russia's workforce, which grew by 1.5 million since 2000, will show little change this year, but decline by 300,000 next year, 51 over 500,000 in both 2008 and 2009, and by over 1.0 million annually after 2010. Based on the existing population base, Russia's workforce is projected to drop over 18 million or 25 percent over the coming two decades.



In addressing this problem, policy makers face a dilemma: the easiest policy options, such as encouraging childbearing or increasing investment in health and education, will have a noticeable impact only in the long run. The only viable short and medium-term policy options, encouraging increased immigration and facilitating internal migration, raise knotty political issues, toward which the leadership has displayed conflicting attitudes.

Russia's leadership has already begun to introduce policies to address longer-term life cycle demographics, increasing support for childbearing, and spending on health and education (see our related 'Public Judgements' pieces, and). Specifically on migration, government policy has blown hot and cold over the years, between attracting immigrant labour for the good of the economy and restricting it, especially since the resulting social tensions and increasing violent xenophobia. (For more details see [here](#)).

The result of this unstable and inconsistent policy framework is a large illegal immigrant labour pool. Against the background of an official annual quota of 328,000 migrant workers requiring visas, illegal immigration is much higher, estimated anywhere from 5 to 10 million. The bulk of illegal labour migrants are from neighbouring CIS countries, most of whom do not require visas for entering Russia (visas for CIS citizens are obligatory only for those from Georgia and Tadjikistan).

This messy picture is not being helped by latest policy initiatives. Several of these have been focussed on attracting more 'desirable' immigrants - skilled individuals from among the 30 million of ethnic Russians abroad, while cracking down on illegal migrants.

On 15 November, Prime Minister Mikhail Fradkov announced a new immigration regime to be effective early next year. The quota for migrants requiring visas was reduced slightly (to 308,000) and a quota for CIS migrants was introduced for the first time and set at 6 million. In addition, new immigration controls will incorporate age, education and skill guidelines and quotas will be distributed based on country of origin and regional destination in Russia.

The intention of these measures is to bring all labour migration under one set of regulations. A key element of this new regime is that employers will now have the responsibility of determining that all foreign workers have appropriate credentials, especially those from CIS countries. The Federal Migration Service is planning to hire an additional 10-20,000 staff to enforce the new regulations nationwide.

In addition to overall quotas, the new labour regime also sets restrictions on the employment of foreign workers in specific industries and trade. In order to protect the interests of the native Russian population, foreign workers will be banned as of 1 January 2007 from retail trade in alcoholic beverages and pharmaceuticals and as of 1 April foreign traders will be banned from operating in outdoor markets.

Public Judgements

How serious is the challenge, what are the right policies to meet it?

Russia's evolving policy on boosting labour resources consists of new incentives to spur the birth rate and attract "desirable" migrants, combined with a "get tough" position on illegal immigration. Public judgements on the challenges facing the country's policy makers reflect differing opinions on the seriousness of the looming labour shortages and the risks of an adverse popular reaction to increased immigration.

Yes, more immigration, but impose tight controls and fight illegal immigration

- **President Vladimir Putin.** In a recent meeting with Prime Minister Fradkov, Putin highlighted that the government needed to assess where foreign labour is needed and in what volumes, in order to ensure that companies and economy in general do not face a labour shortage. At the same time, he instructed the government to develop new measures to regulate trade in wholesale and retail markets and to impose a stricter visa regime on foreign labour in this sector. According to Putin, there is no labour shortage in retail trade and no need to employ foreign labour in this sector. In a recent meeting with leaders of the United Russia political party, the president emphasised that the country will be trying to establish a civilised policy in the sphere of labour migration. This means helping people to integrate normally into Russian society, thus removing the basis for inter-ethnic and inter-confessional conflicts. At the same time Putin said the government must protect the interests of Russian producers and population, what he called the native Russian population
- **Vyacheslav Postavnin,** director of the Federal Migration Service admitted that the current mechanism of attracting and employing foreigners does not meet employers' needs, and as a result, foreigners are mostly employed on an illegal basis. The overall effect of illegal migration, though, is negative: Russian firms lower costs, but also avoid paying taxes while illegals burden social services. The losses for the government's budget is estimated to be as much as the amount spent on education and healthcare. A clear system for recruiting and using foreign labour is a priority for Russia's national migration policy.

Labour shortages are a serious constraint on future growth; Russia must relax constraints on foreign workers and compete more effectively for foreign labour

- **World Bank.** Russia needs to triple its current inflow of immigrants to the level of one million per year. Given appropriate policies, Russia has the potential to tap the pool of millions of Russian-speaking residents in neighbouring CIS countries. This makes international migration an even more attractive option for Russia than it is for EU countries.
- **German Gref,** Minister of Economic Development & Trade, recently called for the lifting of restrictions on immigration, especially the imposition of regional quotas on foreign labour. In Gref's view, the quota system is limiting the net inflow of foreign workers to well below what the country needs to meet its growing demand for labour.
- **Vladimir Sokolin,** head of the Federal State Statistics Service, said Russia was encountering tough competition for workers from European and CIS countries. In his view, labour shortages could significantly restrict the country's future economic growth.
- **Dennis Donahue** of the US Census Bureau, produced projections in 2004 of Russia's population and labour force to 2050. In his view rapid growth rates look unsustainable without a very large influx of migrant labour. He concluded that reform of the pension laws to keep people working as long as possible and the workforce as large as possible is desperately needed.

Wrap

Muddle-through works for now, but for how long?

There is nothing new about a government wanting to have things both (irreconcilable) ways. The present Russian government immigration policy is a case in point: trying to attract migrant flows while at the same time micro-managing them via a plethora of quotas and outright prohibitions.

But this contradictory policy mix is unlikely to be abandoned any time soon. For despite running counter to the longer-term needs of Russia's service and manufacturing sectors, the policy represents the path of least resistance.

First, it is politically attuned to social tensions (hence the ban on foreigners engaging in small-scale trade in open markets). Secondly, the web of rules and quotas, and the army of officials to enforce them, suit the rent-seeking bureaucracy. Finally, employers will still manage to fill shortfalls in their workforce, despite the increased corruption overhead in the illegal migrant labour market.

So the real question is: to what extent and for how long is this position tenable before labour-related constraints on growth begin to bite? The sheer scale of the challenge - with the World Bank's estimated annual requirement of one million new migrants from 2010 - tells against complacency about the present 'muddle-through' trajectory. Even if government policy were much better than it is, additional pressures could in any case come from two other sources: first, demographically-challenged EU states fishing in the same (former-Soviet) pool of migrant labour as Russia; and strengthening reform and prosperity in other former Soviet countries (especially, perhaps, Ukraine) reducing the incentive to seek work in Russia.

The non-viability of present policies is reflected in the public criticism by no less than the Economy Minister (German Gref) of quotas for immigrant workers (especially sectoral and regional quotas). The fact is that the quotas make little sense in the face of the likely needs of the Russian economy for labour resources. This suggests that Russia's immigration policy will remain in flux in the coming years.

Next tests

The base case for government policy is more of the same: blowing hot and cold over the need to both attract new migrants and to crack down on illegal immigration that in large part is due to the government's restrictions in the first place. But this picture looks vulnerable to contrary pressures in the short and long term.

1. *Run-up to the 2007-8 elections*: the populist anti-immigrant tide will continue running, possibly widening the scope of recently announced bans on various types of foreign workers.
2. *Next presidential term*: with the elections out of the way, and to reverse the ill-effects of populist policies (including potential price inflation in popular outdoor markets), more liberal policies are possible - in particular, continuing to require employers to get permits for foreign workers while gradually abandoning quotas.