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The outflow of migrant workers and the inflow of overseas remittances have had a profound impact on the economies of South Asia. Clearly this impact varies depending upon the size of the migration outflow in relation to the total labour force and remittances as a percentage of gross export earnings or the domestic product in different countries.

In Pakistan during the 1980s migration and remittance flows were perhaps the single most important factor in explaining the rapid decline in poverty during these years. In Sri Lanka, where nearly half of out-migrants are women, migration and remittances have both affected the labour market and foreign exchange position of the country. In Bangladesh and India migration outflows have been significant but never so large to have a major impact on the labour market, although in India at the regional level e.g., Kerala and in certain districts of Bangladesh the impact may have been more important. In Bangladesh and India remittances are still significant as a proportion of the gross domestic product.

This paper reviews the trends in remittances post-September 11, 2001 and analyses factors which may explain a significant increase in three of the four South Asian economies reviewed in the paper, namely, Bangladesh, India, Pakistan and Sri Lanka and the impact of this increase on economic developments in these countries.

Remittances and Development

There is rich literature available on the impact of remittances on economic development as well as more specifically on the labour market and poverty in developing countries. Of special interest is the recent study by Adams and Page (2003) of the World Bank which, based on a new data set of 74 low and middle-income developing countries, has concluded that, 'international migration - defined as the share of a country's population living abroad has a strong statistical impact on reducing poverty. On average, a 10 per cent increase in the share of international migrants in a country's population will lead to a 1.9 per cent decline in the share of people living in poverty (US$ 1.00/person/day).' As regards remittances, their key conclusion is that, 'international remittances defined as the share of remittances in a country GDP has a strong, statistical impact on reducing poverty. On average, a 10 per cent increase in the share of international remittances in a country's GDP will lead to a 1.6 per cent decline in the share of people living in poverty'.

The other major recent development has been the increased concern about the security implications of formal and informal (*havala*) remittance systems and their susceptibility to money laundering or terrorist financing. At a recent International Conference on Migrant Remittances (London, 9-10 October 2003), organised jointly by the U.K.'s Department for International Development (DFID) and the World Bank in collaboration with the International Migration Policy Programme (IMP), this issue of increasing transparency and accountability in remittance flows was discussed with a view to determine the optimal legal and regulatory framework for remittances. The meeting especially addressed the concern that tighter controls in the form of greater regulatory supervision on remittances may reduce availability and drive up costs of services for the migrants.

The paper does not rigorously pursue the conclusions of the Adams and Page study or the issue of building up an optimal regulatory framework for remittances but does explore both issues in the context of changing levels of remittances to the four South Asian economies in recent years.

Recent Trends in Remittances

Table 1: Remittance Inflows : Annual

(Million US $)

	1997 -98	1998 -99	1999 - 2000	2000 -01	2001 -02	2002 -03	2003 -04
Bangladesh	1525.4	1705.7	1949.3	1882.1	2501.1	3062.0	3343.2
India	11875	11830	12290	12125	14807	15174	14150 (9 mths.)
Pakistan	1490	1060	983	1086.57	2389.05	4236.85	3871.58
Sri Lanka	817.7	867.5	930.5	979	1040.5	NA	NA

Source: Data from website of Bangladesh Bank; Reserve Bank of India; State Bank of Pakistan and Central Bank of Sri Lanka. For India for 2003-04 from Government of India, Ministry of Finance, Economic Survey, 2003-04.

Officially recorded remittance flows, based on data from their respective central banks, to the four South Asian countries are shown in Table 1[1]. In Bangladesh, India and Pakistan, they show a significant increase as compared to the 2000-01 inflows. The most dramatic increase is in Pakistan where remittances increased four-fold from just over US$1 billion in 2000-01 to over US$4 billion in 2002-03. In Bangladesh, they increased by over 70 per cent from around US$1.9 billion to over US$ 3.3 billion. For India the increase was around 25 per cent from around US$12 billion to slightly over US$ 15 billion. The impact of remittances on the national economy can be gauged by seeing it as a percentage of gross domestic or national product.

Table 2: Remittances as % of GDP /GNP

	1995, 1996 or 1997 as % of GDP	2002 -03 as % of GNP
Bangladesh	3.16 (1996)	6.0
India	2.7 (1997)	3.07
Pakistan	2.19 (1997)	7.0
Sri Lanka	6.06 (1995)	6.46 (2001 -02)

Source: For 1995, 1996 or 1997, Adams and Page (2003); For 2002 -03 data on remittances from Table 1 and GNP from World Bank, World Development Indicators, 2004.

In Table 2, besides reporting the Adams and Page estimates for the late 1990s, we have recalculated remittances as a percentage of gross national product (GNP) for 2002-03 (2001-2002 for Sri Lanka). Though the data are not strictly comparable, as for 2003-02 we have used the GNP estimate which means that as a percentage of GDP the ratio of remittances would be slightly higher, the figures are still very revealing. They show an almost doubling of percentage for Bangladesh from around 3-6 per cent, about a 15 per cent increase for India and a more than three-fold increase for Pakistan to around

7 per cent of GNP. In Sri Lanka there is only a marginal increase in part because most remittances were sent through official channels.

Based on the results of the Adams and Page study we should see a significant fall in poverty in South Asia, especially in the case of Pakistan and Bangladesh. Outflows of migrant workers and inflows of remittances to Pakistan in the 1980s had been perhaps the single most important factor explaining a rapid decline in poverty during this period[2].

In analysing this impact especially on poverty a number of caveats need to be kept in mind. The most important of these is that the sudden jump in remittances to these countries does not appear to have been the result of any significant increase in the outflows of migrants from them. What appears most likely to have happened and what national official sources attribute this increase to is that in the post 9/11 period the inflows of remittances began to come much more through official rather than the previous unofficial (havala) channels as financial controls and scrutiny were tightened on such transfers, especially in the United States.

Table 3: Pakistan: Inflow of remittances by country of origin

Million US $

Country	2000 -01	2001 -02	2002 -03	2003 -04
Bahrain	23.87	39.58	71.46	80.55
Canada	4.90	20.52	15.19	22.90
Germany	9.20	13.44	26.87	46.52
Japan	3.93	5.97	8.14	5.28
Kuwait	123.39	89.66	221.23	177.01
Norway	5.74	6.55	8.89	10.19
Qatar	13.38	31.87	87.68	88.69
Saudi Arabia	304.43	376.34	580.76	565.29
Oman	38.11	63.18	93.65	105.29
U.A.E	190.04	469.49	837.87	597.48
U.K.	81.39	151.93	273.83	333.94
U.S.A.	134.81	778.98	1237.52	1225.09
Other Countries	88.40	293.28	727.64	567.93
Encashment/ profit FEBCs	64.98	48.26	46.12	45.42
Total	1086.57	2389.05	4236.85	3871.58

Source: State Bank of Pakistan (Website).

This is perhaps best illustrated by looking at the main sources of increase in remittances to Pakistan (Table 3). Between 2000-01 and 2002-03 while there is a general increase for all countries, the really big jump is from the United States where remittances increased from around US$ 135 million to US$ 1238 million. In the case of the UAE also there is an increase from US$ 190 to US$ 838 million. It is also important to note that in fact total inflow of remittances actually fell between 2002-03 and 2003-04 for Pakistan from around US$ 4.1 billion to US$ 3.9 billion with inflows from the United States remaining at the same level but falling sharply in the case of UAE from US$ 837 to US$ 597 million.

While we have not been able to examine the sources of increase for Bangladesh and India, in all probability the same has happened in these countries. Therefore, the increase signals a much greater flow of remittances from official channels of either incomes earned or past savings of migrants in the host countries. It is also probable that some of this increase is also money transferred in the face of greater scrutiny of bank accounts in these countries. The first question that we explore is the economic impact on the receiving countries as a result of this increase in remittances through official channels.

One unambiguous advantage that accrued as a result of the increase in official remittance flows was that it improved, and in the case of Pakistan dramatically, the balance of payments situation. This increase in remittances, if substantial, can contribute significantly towards stabilizing the exchange rate, increasing availability of foreign exchange for imports, lessen dependence on foreign borrowing and in some cases relieve the pressures to accept the harsh conditionalities imposed on such borrowing especially by the IMF and the World Bank.

For Pakistan's economy, which had been in a deep recession for many years, this increase in inflows was 'manna from heaven'. The rupee exchange rate against the US dollar was depreciating in the late 1990s due to an unfavourable balance of payments situation and a decline in aid inflows following the 1998 nuclear explosion. To prevent rupee resources from flowing into dollars during this period, which was possible as controls on nationals keeping foreign exchange accounts were considerably relaxed, thus leading to a further depreciation of the rupee the rate of interest on domestic savings was kept very high. This had a dampening affect on investment. Interestingly, after the large increase in remittances post- September 2001, the dilemma was reversed as the government now endeavoured to prevent the rupee from appreciating sharply against

the dollar which would reduce competitiveness of the country's major exports. Once the exchange rate was stabilized the State Bank was able to reduce drastically the rate of interest which was an important factor in both increasing consumer borrowing and new investment which helped turn around the economy. Also the resurgence of the national economy and improved macroeconomic indicators and balance of payments position led to not renewing the IMF's PRGF programme, with its harsh conditionalities, from the end of 2004 which it had entered into to help stabilize the economy in 2000[3].

In Bangladesh the increase in remittances from US$ 1.5 billion in 1997-98 to US$3.3 billion in 2003-04 was an important factor in putting into effect currency reforms including the free floatation of the currency from May 31st, 2003. Bangladesh had been under pressure from the World Bank and the IMF for a few years to float the currency but had earlier hesitated to do so until it felt that it had adequate foreign reserves. The strong inflow of remittances allowed foreign reserves to increase and provided the confidence to float the currency[4].

For India the balance of payments situation was already very healthy with large reserves building up as a result of very high foreign direct and portfolio investment and therefore the increase in remittances by themselves did not have a significant impact on the exchange rate or overall monetary policy. India's foreign exchange reserves (including gold and special drawing rights) had reached US$ 118.6 billion on May 7th, 2004 an unprecedented increase of US$ 42.5 billion since the end of March 2002[5]. However, the increase in remittances did contribute to the current account moving into surplus in 2001-02 for the first time in 24 years in spite of a sizeable trade deficit. Remittances over US$ 15 billion in 2002-03 more than offset the US$ 12.9 billion trade deficit that year and almost fully financed it during April-December 2003.

For India, a factor that may have contributed to the increase in remittances, besides pressures to send them through official channels was the relatively more attractive rate of interest being offered by the Reserve Bank of India as compared to the historical all time low interest rates in the United States and most developed economies. One result of the increase in foreign reserves, to which remittances contributed marginally, has been the pressure on the exchange rate to appreciate. In March-April 2004 as foreign exchange inflows accelerated the rupee rose in value by 2 per cent against the US dollar despite the intervention by the Reserve Bank of India to buy US dollars. It would appear that the overall policy being currently followed by the Reserve Bank is to allow the rupee to appreciate if inflows of 'hot money', encouraged by the rising US-dollar returns, continue to accelerate[6]. These movements also shows that exchange rate in India is now increasingly determined by capital flows and not by trade flows as conventional theory would predict[7].

In Sri Lanka remittances primarily from housemaids working in the Middle-East are the second leading net foreign-exchange earner after garments and are an important balancing element in the current account, usually offsetting around 60 per cent of the trade deficit. In 2002, private transfers, primarily transfers from housemaids in the Middle-East, were sufficient to finance 90 per cent of the combined deficit on the trade, services and income accounts[8]. There was no significant increase in these remittances most probably as they were being sent through official channels although we do not have the most recent data.

The next important question we need to explore is the extent to which the increase in remittances injects increased demand or purchasing power into the economy, thereby stimulating growth in the respective economies. This would depend critically upon how much of this increase in remittances simply represents migrants switching from sending funds through formal rather than non-formal channels. And, if there was an increase in total remittances being sent back, that is through both official and non-official sources, the magnitude of this increase and its causes need to be explored.

Again evidence on both counts is very sparse. A study carried out by the ILO in the late 1980s estimated that of total remittances flowing into Pakistan around 57 per cent was through official channels[9]. If one was to use the same benchmark, the total flow of remittances in 2000-01 would have been double at nearly US$ 2 billion as compared to the official inflow of US$ 1 billion. Continuing on the same assumption one could argue that of the US$ 4 billion that came as remittances in 2002-03 the net increased inflow into the economy was around US$ 2 billion. This represents a major injection into the

domestic economy of Pakistan at around 5 per cent of GDP. It is also of the same magnitude as the country's total Public Sector Development Plan (PSDP) in that year.

We do not have any surveys available to estimate the break-up of total remittances into official and unofficial inflows for the other countries and even the estimate for Pakistan is dated to a time when the rupee was still overvalued and there were much stricter restrictions on foreign exchange holdings and transfers by Pakistani residents and non-residents. While therefore being extremely cautious in drawing conclusions one could say that depending on a host of factors, and using the previous Pakistan study as some kind of a benchmark, anywhere up to 50 per cent of the increase in remittance through official channels in recent years could have been net additions to the remittances flowing into the country.

If indeed there was an increase in the remittances being sent through both formal and informal channels post-9/11, what could have been the reasons for it to happen? One factor which could have influenced this decision was the uncertainty and insecurity felt by the migrants in the post-9/11 atmosphere which made them, especially those living in the United States, to transfer a greater amount of their current earnings and possibly even more importantly transfer part of their accumulated savings to their home countries. The ILO/ARTEP (1987) survey of return migrants in Pakistan had shown that migrants keep part of their incomes as savings in the host country which they bring along with them on their final return. Also part of the increased remittances could have been transfer of deposits in banks which their owners felt may be subject to greater scrutiny. If these were indeed significant factors responsible for a possible increase in the overall remittances post-9/11 through official and unofficial channels, the flows could become more volatile in the foreseeable future depending very much on general conditions prevailing in the migrant's country of residence.

We now examine whether this increase in remittances, through both official and non-official channels, would have a positive impact on poverty as argued by Adams and Page. To the extent that these inflows increased domestic demand, stimulated new investment and spurred economic growth clearly the impact in the medium and long term on poverty should be positive.

However, we cannot say whether they would have a direct and more immediate impact on poverty levels. The best outcomes, in terms of poverty impact, is if the increase in remittances, is the result of an increase in the outflow of migrant workers from the county. And to the extent that these workers are mainly semi-skilled or unskilled and come from poor households, the money they send back has an immediate impact on the living standards of the families left behind. This is clearly what happened in Pakistan during the 1980s when the major migration took place to the Middle-East, mainly of skilled, semi-skilled and unskilled workers.

In the given circumstances this increase would have a far less immediate favourable impact on poverty and certainly not of the magnitude that Adams and Page stipulate. Indeed the results of recent survey in Pakistan on poverty shows some marginal decline in 2003-04 after increasing in the past decade but the immediate impact is clearly far less than one would have expected from the magnitude of the increase in remittances[10].

Some evidence on this can be gauged from the areas in which remittances have been flowing in Pakistan after the recent upsurge. The present boom in real estate prices and the stock market has been credited to a large extent to remittances from abroad. Also the increase in sales of consumer durables, mainly cars, facilitated by favourable lending arrangements, all seem to suggest that these remittances are coming from more well-to-do migrants rather than from the average skilled and unskilled workers in the Gulf. Also these inflows are going into bank deposits rather than National Savings Schemes which were mainly favoured earlier[11].

Finally, on the issue of *havala* and other informal funds transfer system, where cash is accepted at one location and a corresponding cash sum to a beneficiary paid at another location by a message or phone call, a number of steps have been initiated, including by the IMF and national banking authorities to ensure that consistent anti-money laundering and counter-terrorist financing measures are imposed on all forms of money or value transfer systems -- informal as well as formal.

However, the success of any such measures needs to consider the factors which have encouraged migrants to send remittances through

unofficial channels, the most important of which is the low cost and timely delivery of funds as compared to the formal banking system. Before enacting legislation or other measures, policy makers and central bankers need to analyse the role of *havala* and other informal transfer services, on how they can be better regulated and the formal banking system made more efficient in transferring funds; otherwise any new legislation or regulation could only drive these operations further underground[12].

Conclusion

The large increases in remittances post-9/11 in at least three of the four South Asian economies -- Bangladesh, India and Pakistan -- have had a significant impact on economic development. Based on our preliminary analysis of the causes and nature of this increase its immediate impact on poverty alleviation may be far less as compared to earlier inflows. In the medium and long term it could still have a positive impact on poverty as Adams and Page stipulate. There is a need for carrying out more analysis including primary data collection in both countries of residence and origin of the migrants to better gauge the economic and development impact of these flows including on reducing poverty.

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Endnotes

1 A comparison of these figures with those from the IMF on workers remittances used by other studies including Adams and Page show broadly the same magnitudes except in the case of India where the IMF figures for 2000, 2001 and 2002 are given as slightly over US $ 8 billion. While estimates in Table 1 for India and Sri Lanka represent private transfers on the balance of payments account these comprise predominantly of inflows of remittances from Sri Lankans and Indians working abroad as cited in official publications of both countries. (For IMF data see International Monetary Fund, Balance of Payments Statistics Yearbook 2003, Table B-19 Workers' Remittances.).

2 See Amjad and Kemal (1997)

3 See Ishrat Hussain, Governor, State Bank of Pakistan, 'Why Pakistan should Exit the IMF Programme', Daily Dawn, February 29 and March 1,

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4 See Economist Intelligence Unit, Country Profile 2003 Bangladesh. London.

5 See Economist Intelligence Unit, Country Profile 2004 India. London

6 See Economist Intelligence Unit, Country Report India, 01 June 2004. London

7 'In more recent times, with the tail of mobile capital accounts wagging the dog of the balance of payments , the importance of capital flows determining the exchange rate has increased considerably, rendering some of the earlier guideposts of monetary policy formulation anachronistic. ... On a day to day basis it is capital flows which influence the exchange rate and interest rate arithmetic', Rakesh Mohan, Deputy Governor, Reserve Bank of India, speech at the 22nd Anniversary Lecture of the Central Banking Studies at the Central Bank of Sri Lanka, Colombo, 21 November, 2003.

8 See Economist Intelligence Unit, Country Profile 2004, Sri Lanka, London.

9 ILO/ARTEP, Impact of out and return migration on domestic employment and labour market situation in Pakistan, 1987. Report submitted to the Pakistan Planning Commission.

10 See Government of Pakistan, Pakistan Economic Survey 2003-04, Islamabad.

11 I am grateful to Sakib Sherani for pointing this out.

12 See remarks by Agustin Carstens, Deputy Managing Director, International Monetary Fund at the IMF Seminar on Current Developments in Monetary and Financial Law, Washington D.C., May 24-June 4, 2004 (IMF Website).

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