Economic impact of migration to the Middle East on the major Asian labour sending countries - an overview

Amjad, Rashid

April 1989

1

Economic Impact of Migration to the Middle East on the Major Asian Labour Sending Countries — An Overview

RASHID AMJAD *

1.1 Introduction

From the mid-seventies to the early eighties, for a number of Asian countries no factor more dramatically affected domestic employment and the balance of payments situation than the outflow of contract workers to and inflows of workers remittances from the Middle East. In more recent years, the slowing down in economic activity in the major labour receiving countries has led to a slowing down in remittance flows. However, while there is a consensus that the peak of the 'migration boom' to the Middle East is over there is also general agreement that these economies will continue to be dependent on imported labour for a range of skill categories in the foreseeable future. Asian migrant workers are also actively seeking new employment opportunities in the fast growing economies of South East and East Asia. There is therefore little doubt that contract migration will continue to be important both inter-regionally and intra-regionally even though it may not play as important a role in acting as a safety valve to domestic employment pressures and easing the balance of payment situation as it had in the peak years of the late 1970s and early 1980s.

The major labour exporting countries in Asia are Pakistan, India, Sri Lanka, Bangladesh, Thailand, the Philippines, Republic of Korea and more recently Indonesia. Of these Pakistan represents the extreme case of close dependence of an economy on migration and remittances and of being subjected to the full cycle of its vicissitudes. During the years of its Fifth Five Year Plan (1978-83), as much as one-third of the increase of its fast growing labour force found employ-

* Senior Development Economist, ILO's Asian Employment Programme (ARTEP), New Delhi.

ment in the Middle East.[1] At its peak in 1982-83 the official flow of remittances from the Middle East was $ 2.5 billion which was greater than its merchandise exports and contributed 70 per cent to the country's total export of goods and non-factor services. For a country which had seen its oil bill increase from US $ 54 million in 1971-72 to US $ 1,503 million in 1983-84 these remittances provided much needed relief to a worsening balance of trade position. Hoping that this labour export boom would extend to its Sixth Plan (1983-88) Pakistan projected a net export of labour of slightly over half a million workers (or 15 per cent of expected increase in its labour force) and a 10 per cent increase per annum in its official remittances during this period. The actual situation turned out to be quite to the contrary. Rather than a net export of labour it found that return migration outnumbered its out-migration leading to a sharp increase in the pressures on its domestic employment situation. Remittances from the Middle East also fell by over 30 per cent during the same period. A more sombre Seventh Plan covering the period 1988-93, now gives the highest priority to generating domestic employment opportunities and increasing export earnings while still hoping through active policy measures to maintain the country's share in the Middle East labour market so that the situation does not worsen further and the country continues to reap some benefits from overseas migration.

For other labour exporting countries too, this dependence if not that extreme as Pakistan's was still very significant especially at the peak of the Middle East boom. Gross outflows as a percentage of the incremental labour force in 1982 were 45 per cent for the Philippines, 40 per cent for the Republic of Korea, 26 per cent for Thailand and about 33 per cent for Sri Lanka.[2] In the case of countries as large as India whereas overall impact was marginal, direct impact was concentrated in the state of Kerala where it was as high as 50 per cent. Official workers remittances from the Middle East as a share of merchandise exports in 1982 were 45 per cent in Bangladesh, 15 per cent in India, 28 per cent in Sri Lanka, 9 per cent in the Republic of Korea, 7 per cent in Thailand and 10 per cent in the Philippines for all land based contract workers. While in all countries official data on remittances have underestimated actual flows, this was most severe in the case of the Philippines where official estimates may have been less than 40 per cent of the total. In the Republic of Korea, if we include incomes of firms to the remittances of migrant workers in the Middle East it was nearer 20 per cent of total export earning. In the Indian state of Kerala remittances in 1980-81 formed about 23 per cent of the state's domestic product and for certain districts the ratio was as high as 40 to 50 per cent.[3]

The overall impact of this phenomenon has, however, extended beyond just direct economic repercussions. In many of these countries the large exodus of mainly skilled and semi-skilled migrant workers has affected the entire socio-economic-cultural milieu. Attitudes and expectations of not just the migrant workers but the entire labour force have been affected. Consumption habits have changed not only because of higher incomes but the demonstration effect

1. For details see Amjad (1986); also Kazi (Chapter 6) and Burney (Chapter 7) on Pakistan in this volume.

2. See ILO-ARTEP (1987a).

3. Estimates of remittances are from the country studies presented in this volume.

as migrant workers brought home consumer durables. The so called 'Dubai Syndrome' affected the lives of workers and families of a significant proportion of the population.

As expected the immediate attention of governments was directed towards the 'administrative' consequences of this phenomenon, primarily at minimising malpractices and exploitation of prospective workers by illegal recruiting agents, middlemen, government officialdom and prospective employers. Soon, however, another dimension of the problem surfaced which demanded urgent attention of the governments. En-masse migration of selected skills especially in the construction sector led to severe shortages. It soon became necessary for governments to launch skill development programmes, mainly through formal skill training institutions, to overcome these shortages as well as to meet overseas demand. When a slowing down of migration began to occur the governments were faced with the prospects of large scale return migration and instituting measures to deal with the situation.

Government policies in the field of migration have been mainly reactive and regulatory. Similarly, research in the area of migration has been focussed primarily on the individual migrant and his individual family and surroundings. This marks the point of departure of the present set of studies carried out under an ILO-UNDP project launched in 1986.[1] The main objective was to develop a wider methodological approach which could analyse the phenomenon of migration within a *macro-economic perspective* where the impact on the economy and the society as a whole could be identified. The primary aim was to direct governmental efforts from being reactive and regulatory to being pro-active and developmental. The results are contained in the 'issues' paper and the seven country and one regional study presented in this volume. The overview sums up some of the main findings and policy conclusions of the studies. Before presenting these results, however, we present, albeit briefly, an historical resume of recent migration to the Middle East primarily to identify its basic features and characteristics.

1.2 An Historical Overview[2]

The oil price increase in 1973 giving rise to a massive investment programme by the oil producing Arab countries and the resulting increase in demand for expatriate workers initiated the first phase of labour mobility in the region. Upto 1975, the main source of imported labour continued to be the neighbouring Arab countries and was characterised by effectively unregulated market-determined labour movements. Between 1975 and 1979 the region witnessed a sharp increase in the presence of South Asian workers, mainly from Pakistan and India. Two crucial factors influenced the demand for South Asian workers. Firstly, demand outstripped the ability of Arab states to supply labour. Secondly, South Asian workers accepted jobs and wages that Arab workers

1. For a summary of the results of the two years of work undertaken by the ILO under the Asian Regional Progamme on International Labour Migration supported by the United Nations Development Programme (UNDP) and eight Asian countries, see ILO-UNDP, *Agenda for Policy* (1988). The studies presented in this volume were carried out under Sub-Programme I 'Maximising Development Benefits from Labour Migration' of this project.

2. For details of the pre-1981 period see Nazli Choucri (1983).

refused to take. The period also witnessed the initiation of some forms of control by the Gulf states in varying degrees.

The period after 1979 was characterised by an eastward expansion of the migration phenomenon. Workers from the Philippines, Thailand and Republic of Korea began to enter the market. From South Asia, Bangladesh and Sri Lanka were new entrants. Political factors also played a part in the induction of non-Arab and later non-Muslim labour, as the labour importing countries wished to reduce their reliance on migrant workers from one particular religion or country. Also as distinct from South Asian migrants, the majority of East Asian migrants were regular employees of either companies owned by their countries or multi-nationals that had contracts in the Middle East.

After 1981, falling oil prices and oil revenues and a general slowing down in development plans and growth of the major labour importing countries began to have their impact. From a peak in 1981 the total outflow of workers began to decline. This happened most sharply in the case of India and Pakistan where migration to the Middle East fell by over 50 per cent between 1982 and 1986. In the case of Thailand there was a sharp fall of about 40 per cent between 1982 and 1983 but then outflows stabilised. In the case of the Philippines there was a small decline between 1983 and 1985. The countries that managed to maintain their shares despite this general slowing down were Bangladesh and Sri Lanka while Indonesia joined the migration stream. Low competitive wages was the major factor in the case of Bangladesh while the very large share of housemaids was the primary cause for the increase in migrant workers from the other two countries.[1]

More recently there has been a slight upturn in the contract migration to the Middle East with almost all countries with the exception of South Korea experiencing a slight increase. While extremely difficult to project the future it appears that migration levels will stabilise with total migration being on the average about 30 per cent lower in 1990 compared to its peak in the mid-1980s.[2]

1.3 Maximising Development Benefits from International Labour Migration

The studies presented in this volume are aimed at examining the economic impact of overseas migration on the labour sending countries so as to evolve a framework for incorporation of overseas migration in the development process and to enhance the capability of the planning authorities to maximise its development benefits and minimise its adverse effects on the economy. Saith's 'issues' paper (Chapter 2) in this volume addresses itself to the complex issues of methodology, processes and data for undertaking such an analysis at the country level.

The main thrust of the 'issues' paper is on impact analysis which covers the macro-economic aspects, labour aspects and distributional aspects of migration. Within the analysis of the overall *macro-economic impact* four areas are identified: first, the influence that the migration phenomenon may have had in aggregate national economic strategies within a medium term perspective especially

1. See Table 1.1.

2. For projections of labour demand in the major labour importing countries in the Middle East see ILO-ARTEP (1987a, Volume I).

balance of payments; second, the impact on the functioning of the labour market including absorption of return migrants; third, the impact on aggregate savings and investments; and fourth, the impact on the sectoral pattern of investment. Under *labour aspects* the major issues relate to impact on output and growth of labour withdrawal from the economy, questions related to labour substitution and turnover of migrant labour, skill formation and the important phenomenon of high unemployment amongst the return migrants. The *distributional dimensions* of migration especially its impact on poverty and income inequality are raised at the level of household, local community, regional and national level. In examinining *policy perspectives*, the 'issues' paper argues that strategic policy options need to be identified which while keeping the interest of the migrants themselves as one objective would seek solutions which are compatible with maximising potential macro-development benefits from the view of the economy and society as a whole.

Since the framework developed in the 'issues' paper is closely followed in the country studies we summarise the main findings below.

1.4 Estimates of Out Migration and Remittance Flows

As Saith points out, "with respect to the data on international economic flows of labour and remittances, the conclusion is justifiable that the state of data available does not permit the construction of any reasonably accurate time series on either item". A major contribution of the studies is that a serious attempt has been made to improve this situation. The country studies have critically reviewed the existing available data and constructed new and more reliable data series where possible. At the same time the project has also undertaken a detailed review of existing practices and procedures followed by different countries for collecting migration statistics and prepared a manual for improving the present situation.[1]

Based on the country studies and more recent estimates Table 1.1 presents outflows of migrant workers from 1977 to 1987 from the major labour exporting Asian countries to the rest of the world as well as separately to the Middle East[2]. Table 1.2 presents estimates of official remittance flows for this period. Table 1.3 presents the skill-mix of migrants from the major labour exporting countries. Table 1.4 gives the average monthly earnings by country of origin and occupation.

While keeping in mind the data caveats a number of interesting issues nevertheless arise from looking at these flows. What, for example, explains the inter-country difference and changes in volume, skill composition, wage rates and remittances? While it is certainly true that the structure of demand in the Middle East explains the skill composition, and political factors definitely influenced the relative shares of different countries, there is little doubt that relative supply responses also significantly affected these variables[3]. The best example is

1. See ILO-ARTEP, *Manual on International Labour Migration Statistics* (1988).

2. Estimates of stock of migrant workers in the Middle East are not available. Rough estimates for 1987 are Bangladesh (240,000), India (800,000), Pakistan (850,000), Sri Lanka (180,000), Indonesia (93,000), South Korea (70,000), Thailand (230,000) and the Philippines (730,000).

3. See Tan (1987) for a detailed discussion of some of these issues.

TABLE 1.1

Annual Outflow of Contract Migrant Workers to the Middle East from Major Asian Labour Exporting Countries, 1977-1987

Country of Origin	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
South Asia											
Bangladesh	15,932	22,739	24,209	32,514	53,839	62,186	58,229	55,921	76,785	68,004	54,500
	(98.2)	(99.7)	(98.9)	(96.4)	(96.5)	(99.0)	(98.3)	(98.5)	(98.8)	(99.0)	(99.1)
India[a]	22,900	69,000	171,800	268,200	272,000	224,257	217,971	198,520	160,396	109,234	121,812
						(93.6)	(96.9)	(96.4)	(98.4)	(96.1)	(97.2)
Pakistan	74,589	75,966	82,195	117,187	151,849	141,416	127,616	99,654	87,523	62,390	69,340
	(53.1)	(58.2)	(65.5)	(90.3)	(90.2)	(98.9)	(99.5)	(99.3)	(98.9)	(99.6)	(99.6)
Sri Lanka[b]	n.a	n.a.	20,980	24,053	47,394	63,522	68,905	n.a.	n.a.	n.a.	n.a.
				(84.0)	(82.6)	(90.0)	(95.0)				
South and East Asia											
Indonesia	–	–	7,651	11,501	11,484	9,595	17,899	28,702	48,280	42,142	n.a
			(73.7)	(71.1)	(64.1)	(45.4)	(61.8)	(75.8)	(85.2)	(90.9)	
Republic of Korea	52,247	81,987	99,141	120,535	138,310	151,583	130,776	100,765	72,907	44,753	n.a
	(94.0)	(97.8)	(98.7)	(96.6)	(93.7)	(91.5)	(83.5)	(85.0)	(90.0)	(85.2)	
Philippines	25,721	34,441	73,210	132,044	183,582	211,033	323,414	311,517	266,617	262,758	306,757
	(70.1)	(67.6)	(79.1)	(83.9)	(87.0)	(84.4)	(85.1)	(84.0)	(78.9)	(73.5)	(72.0)
Thailand	3,870	14,215	8,282	20,761	24,638	105,163	64,405	67,430	61,659	74,046	74,921
	(100.0)	(96.6)	(85.5)	(96.6)	(92.1)	(96.9)	(94.1)	(89.9)	(88.5)	(86.4)	(87.8)

Note: a. Breakdown to the Middle East not available for 1977-81.
b. ARTEP estimates.
Figures in parentheses give percentage of migrant workers to the Middle East out of total migrants to all countries in the world.

Source: Data collected under the Asian Regional Migration Project from the Ministries of Labour in various countries.

TABLE 1.2

Migrant Workers Remittances from the Middle East to the Major Asian Labour Exporting Countries

(Million US Dollars)

Labour Sending Countries	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
South Asia												
Bangladesh[a]	11	40	82	159	205	380	497	390	363	592	583[b]	n.a
	(19.6)	(37.0)	(45.5)	(51.1)	(62.3)	(72.8)	(78.0)	(77.6)	(75.8)	(78.7)	(78.7)	
India	303	569	587	976	1542	1224	1418	1451	1442	n.a.	n.a.	n.a.
	(43.4)	(53.1)	(51.0)	(53.7)	(57.3)	(52.7)	(56.4)	(56.7)	(57.5)			
Pakistan[a]	434	933	1096	1363	1667	1850	2403	2344	2069	2022	1674	1437[c]
	(75.1)	(80.0)	(78.5)	(78.0)	(78.7)	(83.1)	(83.3)	(85.8)	(84.6)	(77.9)	(73.5)	(70.7)
Sri Lanka[d]	12	n.a.	n.a.	112	190	283	279	288	265	264	n.a.	n.a
	(35.3)			(68.1)	(73.3)	(80.3)	(64.8)	(67.8)	(69.5)	(79.1)		
South and East Asia												
Indonesia[e]	–	–	–	–	33.1	47.9[f]	44.8	52.6	58.1	39.2	18.2	n.a
Republic of Korea[e]	584	770	1158	1292	1673	1939	1663	1489	1242	1077	n.a.	n.a.
Philippines[e]	213	291	365	421	546	811	945	659	666	681	n.a	n.a
Thailand	5	25	63	198	298	457	689	706	487	402	403	n.a
	(9.6)	(24.2)	(33.9)	(54.1)	(62.8)	(73.9)	(81.4)	(79.0)	(55.5)	(50.4)	(50.4)	

Notes: a. For Bangladesh and Pakistan figures refer to financial year, i.e. FY1976-77 for 1977.
b. Estimated from total remittances assuming share of Middle East remained same as in 1986.
c. Extrapolated on basis of July-March estimates.
d. Estimates based on Rodrigo and Jayatissa (Chapter 9).
e. Separate estimate for the Middle East not available.
f. For Indonesia estimated total remittances including informal channels and private banks are:
1983 1984 1985 1986 1987
67.1 78.9 87.2 58.9 27.4 (*Source:* Asian Regional Migration Project).

Sources: Based on country studies and figures collected from the Central Bank of each respective country under the Asian Regional Migration Project.

TABLE 1.3

Skill-Mix of Migrants by Sending Country

Occupation	Bangladesh (1977-85)	India 1985	Pakistan 1985	Philippines 1985-86	Sri Lanka 1985	Thailand 1981	Republic of Korea 1985
Professionals	6.5	5.2	1.7	15.1	5.5	–	2.2
Skilled/Semi-skilled	42.5	47.0	52.0	35.3	44.3	40.5	39.1
Unskilled	51.0	40.1	41.9	–	50.2	21.5	31.9
Service	–	–	–	31.5	(40.8)	–	20.0
Other	–	7.7	4.4	4.6	–	38.0	6.8
Seamen	–	–	–	13.5	–	–	–
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Country studies compiled in Tan (1987).

TABLE 1.4

Average Monthly Earnings of Migrant Workers by Country of Origin by Occupation

(U.S. Dollars)

Occupation	Bangladesh (1982)	Pakistan (1985)	Philippines (1985)		Sri Lanka (1980-81)	
	Basic	Total	Minimum	Total	Basic	Total
Professional	387	979	800	1068	958	1335
Technical	–	546	–	–	–	–
Skilled	300	321	400	–	404	–
Unskilled	184	243	200	–	224	–
All Migrants	237	307	–	706 (land based)	304	–

Source: Same as Table 1.3

of the Philippines which managed to avoid the sharp decrease in migration flows after 1982 which both India and Pakistan experienced. The Philippines paper (Chapter 8) in this volume gives considerable importance to the flexibility of the country's labour market and uses it to explain the responsiveness of the labour force to job openings not only in the Middle East but the rest of the world. An important factor contributing to this flexibility, the paper argues, is the openness in the educational system reflected amongst others in high rates of school enrolment. In contrast, India and Pakistan have found it extremely difficult to cater to the changing demand especially to the switch from construction to service sector jobs because of generally very low educational levels, and also a failure to speak the English language. This only highlights the importance of integrating national policies for labour exports with investments in education and skill training. Cross-country differences in regard to some of the key variables which influence migration flows are separately taken up in this overview.

1.5 Labour Market Impact of Migration

While the labour market impact of migration obviously varies across countries depending upon its magnitude and skill composition in relation to the size of the labour force, some of the important conclusions that emerge from the country studies are as follows:

(i) Given the existing high levels of underemployment and unemployment in almost all the major Asian labour exporting countries, migration to the Middle East has had no obvious unfavourable impact on output or output growth. Indeed in all countries it has acted as a safety valve to increasing supply pressures of population and labour force growth especially at a time when most economies faced a serious recession in the late 1970s and early 1980s.

It is, however, important to note that open unemployment estimates for most countries do not correspondingly reflect the changing pressures on the domestic employment situation both during the peak of outmigration as well as subsequent increased return migration. A number of factors affected the labour market situation in these countries. In some cases migratory workers were mainly from the non-economically active population as in the case of the Sri Lankan housemaids who accounted for almost 40 per cent of total labour outflows. An important phenomenon affecting labour force participation rate was that of 'encouraged workers' entering the labour force in response to higher wages and shortages as a result of migration who otherwise would not be actively seeking work in the labour market. The reverse of this, the 'discouraged workers' phenomenon affected most prominently the return migrants who did not find immediately enter the labour force on return amongst others as they did not find domestic wages attractive at least in the short run. As Tan and Canlas in their chapter on the Philippines point out, "the theory of inter-temporal behaviour appears most applicable to the present group of migrants on short-duration contracts. High wages abroad exert a substitution effect of labour for leisure and on return substitution of work time at home in order to enjoy his leisure on return." There is no doubt that the short-duration of contract to the Middle East and the circulatory flow of migration may have dampened the fluctuations in unemployment levels. At the same time there is little doubt that both outflows and return flows had important consequences on the state of the domestic labour market even if these are not reflected in open unemployment estimates.

(ii) Only in the case of a few industries, especially construction, did some of the major labour exporting countries face skill shortages. But these were quickly overcome given the short gestation period for skill replacement. What suffered more seriously in most countries was the quality of output as it was the more experienced who left and shortages were met in many cases by lowering recruitment standards and hiring inexperienced workers.

(iii) The immediate impact of skill shortages in affected industries was on money wage rates which increased in almost all countries with the exception of the Philippines which was going through a major recession. Where migration accounted for a significant proportion of the labour force, overall real wage levels were favourably affected. This was true in the case of Pakistan where real wages even of the rural labour force increased in the late 1970s and early 1980s. In the case of the manufacturing sector firms faced high labour turnover as experienced workers left and the cost of on-the-job training for replacements increased manifold. In Sri Lanka average daily wages in the construction sector increased from 65 to 70 per cent during 1979-81 while the average price index went up by 49 per cent in this period. In subsequent years increases in money wages were almost the same as the increase in prices. In the Republic of Korea growth rate of wages in the construction sector outpaced other sectors in the late 1970s. The wage differential between migrant construction workers (e.g. carpenters, welders), and domestic workers was halved from a factor of five between 1976 and 1983. In labour surplus economies like Bangladesh, however, there is no evidence that nominal wages of skilled construction workers behaved much differently than those of unskilled workers during this period. However, there may have been some localised increases in agricultural wages.

(iv) Some of the country studies argue that skill shortages combined with increasing wages led to adoption of capital intensive techniques to overcome shortages which might be irreversible. Adoption of more capital intensive techniques are especially cited for the construction sector (mainly housing), selected processes in manufacturing and increasing mechanisation of agriculture. It is argued that the decline in overall labour absorptive capacity of the economy can pose serious problems in the future especially in a situation where high growth rates of the labour force are compounded with increasing return migration. There is some evidence to support this view especially in economies where migration has been a significant proportion of the labour force. But here too it would be wrong to simply attribute this entire change to migration alone. Also there is no reason to believe the situation is irreversible. For example, in Pakistan tractor mechanisation drastically slowed down after the peak outmigration in the 1978-82 period. Also to the extent that migrant workers do not come back to the same jobs this need not pose as serious a problem. However, it is true that where migration was significant and sudden, wage rates rose and labour turnover increased, pressure for adopting labour displacing technology intensified. This could adversely affect within the short and medium term the economies absorptive capacity even if the situation were to improve over the long run.

(v) To minimise the impact of this 'skill drain' governments in many cases launched ambitious skill training programmes. The success of these efforts is highly questionable. The cost of formal training is extremely high and public sector training institutes lack flexibility to cater to changing skill demand. The private sector has been more cost effective and flexible although the quality of training may not have been of a high standard.

(vi) An important conclusion of the studies is that skill training for exports should be integrated with overall national manpower development schemes. The overall supply responsiveness to overseas demand for labour on a more sustained basis is a function of the educational/skill levels of the national labour force as well as attitudes towards working abroad. This needs a well planned strategy rather than ad hoc responses to job opportunities abroad. In this context it is important also to mention that a positive impact of the migration phenomenon has been some re-orientation of school leavers away from traditional aversion to manual skilled jobs.

(vii) A more direct and immediate task which governments should undertake relates to supply management in terms of access to information on job opportunities abroad, lower costs of securing jobs (especially eliminating exorbitant profits earned by agents)[1], preparation of the worker especially in respect to information on country of migration and specialised training for skilled workers based on curriculum of requirements abroad.

1.6 Balance of Payments Impact

While the impact of migration on the labour market has been varied, dominating the entire labour market in some countries, like Pakistan but confined to a few regions in countries like India, the financial flows triggered by international migration have had a dominant impact on the balance of payments of all the labour exporting countries. At a time when massive increase in oil imports and international recession put severe pressure on the country's balance of payments, remittances offered much needed relief. The success of different countries in being able to attract these financial flows has been varied. Unfortunately lack of reliable data especially on the stock of migrant workers abroad, makes it difficult to quantify more precisely the leakages of financial flows through unofficial channels. However, there is sufficient indirect evidence presented in the studies to suggest that for a number of countries the amount was disproportionately large. In the case of the Philippines in the early 1980s the amount coming in through official channels may have been between one-half to one-third of potential remittances. ARTEP's calculations for Pakistan made for 1985 suggested that over 40 per cent of remittances were coming into the country through unofficial channels.[2]

Some of the important findings of the country studies relating to attracting both remittances and deposits through 'official' channels are as follows:

(i) The ability to remit of contract migrant workers is extremely high (between 50 and 70 per cent of income). This is because of the extremely high propensity to save out of current income of workers belonging to the skilled and

1. For a comparison of the cost of securing jobs abroad across countries see Abella (1988).
2. See ILO-ARTEP (1987a, Vol. 1).

semi-skilled categories. Saving levels of professional and higher income categories is marginally lower.

(ii) The desire to remit savings through official channels is a function of convenience, flexibility and profitability of this transaction. The first depends upon the ready availability of financial intermediaries who can remit funds to families which in many cases are located in far flung rural areas. Flexibility affects deposits more than remittances and is related to the availability of facilities to migrants to keep their deposits in foreign exchange and to withdraw their deposits when they so desire. Profitability is primarily determined by the gap between the official rate of exchange and the unofficial rate available to the migrant. Besides this gap the other important factors relate to the 'real' interest rate, inflation rate as well as expectations regarding changes in these variables including exchange rates. Social and political stability in the home country are also important factors besides the economic factors that have been earlier emphasised.

(iii) A stable favourable macro-economic environment is clearly conducive to the flow of remittances and deposits. A comparison of the economic environment of Thailand and the Philippines is illustrative of the contrasting situation migrant workers from these two countries faced in their home countries. During the 1976-86 period Thailand had a devaluation rate of 28.9 per cent, an average annual inflation rate of 7.6 per cent and offered average real interest rate on deposits of 4.3 per cent. The Philippines over the period had a devaluation rate of 175.7 per cent, an average inflation rate of 18.3 per cent and real interest rate of 3.9 per cent. It is not difficult to see why the Philippines found it far more difficult to attract remittances through official channels.[1]

(iv) The country studies also show that while exchange rates have an important bearing on remittances it is not true that in any country remittances were primarily responsible for determining exchange rates. However, attracting remittances through official channels, was a contributory factor in depreciation of overvalued exchange rates. Also many countries offered additional foreign exchange benefits to attract remittances. In Bangladesh the Wage Earners Scheme (WES) introduced in 1974 enables migrant workers to earn the scarcity margin on remittance financed imports by allowing migrant workers to sell their foreign exchange earnings to importers at a premium over the official exchange rate. The government intervenes by various policy instruments to effect premium, e.g. list of allowable imports and preferential rebates. In the 1970s the WES premium was between 25 to 35 per cent but declined appreciably to very low levels in the early 1980s mainly as the economy moved to a more freely determined official exchange rate. In Sri Lanka transfers that came through unofficial channels were small due to liberalisation of trade and payments policy and the managed floating system introduced in 1977. In Pakistan to provide further incentives to use legal channels and to compete with the premium offered by the 'Hundi' system of illegal transfers a scheme of Foreign Exchange Bearer Certificates (FEBCs) was introduced in 1985. These certificates can be acquired on payment of foreign exchange by overseas Pakistanis and can be cashed whenever desired in foreign currency or domestic currency. The implicit

1. For details see Tan (1987).

return on these certificates has been high. The encashment value of a Rs.100 certificate is Rs.114.50 after one year, Rs.131 after two years and Rs.157 after three years. These FEBCs can also be exported or imported without any restrictions. Because of this facility they command a premium varying between 8 and 15 per cent on the official exchange rate. The introduction of FEBCs in effect not only makes the local currency convertible at a premium (in that any local resident can buy the bearer FEBCs in rupees as they are traded in the local market and cash them in foreign exchange abroad with no questions asked by customs authorities) but can also be used as a devise to 'whiten your black money' from abroad. Total FEBCs issued by the State Bank of Pakistan between 1985-86 to 1987-88 amounted to Rs.5,459 million (or approx. US $ 300 million).

(v) Besides premium on the official exchange rate governments have introduced a variety of measures to attract remittances and deposits[1] from migrants abroad. On the one hand there has been a simplification of banking procedures for remittances, and extension of banking services overseas and most important a liberalisation of foreign exchange regulations for non-resident citizens. In India (as in the case of a number of other countries) non-resident Indians (NRIs) and persons of Indian origin abroad are allowed to open foreign currency non-resident accounts which can be denominated in US Dollars or Pound Sterling.[2] The balances on these accounts, as also the interest earned are repatriable. The deposits are also exempt from wealth tax and the interest income arising from income-tax. After 1982 deposits of one year or more were entitled to interest at rates which were 2 per cent above those of comparable deposits in capital markets of countries where non-resident Indians lived. In 1987 the total amount outstanding in external accounts was Rs.43.3 billion in rupee accounts, Rs.30.5 billion in U.S. dollar denominated accounts and Rs.4.7 billion in Pound Sterling denominated accounts. In 1985-86 net inflows into external accounts of NRIs were equivalent to 25.6 per cent of the current account deficit, 18.8 per cent of capital account receipts and 96.4 per cent of net aid inflows into India. Between 1984-85 and 1985-86 there was a five-fold increase in net inflows in US dollar non-resident accounts from Rs.2.2 billion to Rs.11.4 billion and in 1986-87 the net inflow was Rs.12.9 billion. Important factors contributing to this massive jump were the sharp depreciation in the Indian rupee and the drop in interest rates in the international capital markets and in domestic capital markets in the industrialised countries. This degree of responsiveness suggests, as the Indian study (Chapter 4) points out, that these repatriable deposits originated from relatively high-skill, high-income permanent migrants largely in the industrialised countries but also from those in the Middle East. In Pakistan too there was a sharp increase in deposits in foreign currency accounts after June, 1985 and in June, 1987 they amounted to almost 1.5 billion U.S. dollars.

(vi) Besides measures to attract remittances and deposits countries have also initiated schemes for non-residents intending to return for permanent set-

1. As regards deposits and investments made by nationals living abroad the discussion also covers the more permanent migrants living in the West especially UK and the USA. It is important, however, to emphasise that the share of migrants from the Middle East in these transactions is also significant although because of lack of data it is not possible to give firm estimates of relative shares.

2. Based on Nayyar (Chapter 4). For a rather interesting and informative account of Non-Resident Indians see the *Far Eastern Economic Review*, May 21, 1987.

tlement to set up a new industrial unit, or participate in the expansion of an existing unit or preferential access to imports provided that the payment is made in foreign exchange. In India these facilities are offered (including import of second-hand machinery) but neither the capital invested nor the profits earned can be repatriated. However, none of these facilities are available for non-resident Indians who continue to live abroad. In Pakistan under the Non-Repatriable Investment Scheme imports of machinery are allowed at concessionary rates of duty. Investments by overseas Pakistanis sanctioned under this scheme increased from Rs.157 million in 1977-78 to a peak of Rs.987 million in 1981-82 or an equivalent of 20 per cent of total private investment in manufacturing in that year. However, it subsequently declined to Rs.517 million in 1985-86. Data are not available on how much of this approved investment was actually implemented. Overseas Pakistanis are also allowed to invest in export processing industrial zones either on their own or in collaboration with foreign investors. But this programme has not met with much success. Import of vehicles (commercial vehicles, trucks, buses and tractors) are allowed for Pakistani migrants who live abroad for at least two years. Professional tools and equipment upto a value of Rs.5000 can also be imported by Pakistanis returning home after a minimum stay of six months abroad.

(vii) The period of large inflows of remittances and deposits in the late 1970s and early 1980s also coincides with the adoption of a more liberal trade strategy and flexible exchange rate systems by most of the major Asian labour exporters. However, the country studies warn that no cause-effect relationship between the two should be implied. What is certainly true is that these inflows played a significant role in maintaining these policies as the country study on Sri Lanka (Chapter 9) shows. In India in the 1970s it was a permissive rather than a causal factor. This is confirmed by examining the situation in the 1980s when import liberalisation was sustained in spite of a difficult balance of payment situation and near stagnation in remittance inflows. In Pakistan too large inflows of remittances enabled the country to undertake steps to liberalise trade policy with a view to building a more competitive industrial structure and providing incentives to export growth. These measures included removal of quantitative restrictions on non-capital goods imports, replacement of a positive import list with a negative import list and most important the adoption of a flexible exchange rate. However, in the face of slow growth rate of exports, stagnant remittances and increasing imports a number of these countries would find it difficult to sustain their liberalisation drive and may have to resort to heavy borrowing and concomitant high servicing of these debts.

(viii) Another important factor contributing to improving the balance of payment situation during the late 1970s and early 1980s was the large increase in exports to the Middle East from the major labour exporting countries. Indian exports to the Middle East as a share of total exports almost doubled from 6.5 per cent in 1973-74 to 12 per cent in 1977-78 but declined to 8 per cent in the mid-1980s. Exports from Thailand to Saudi Arabia increased from 710 million baht in 1977 to 4382 million baht in 1985 with rice, maize and textiles accounting for about half the total value of these exports. From Pakistan there was also a rapid increase in exports to the Middle East from 16.3 per cent of total exports in 1973-

74 to 34.3 per cent in 1983. The high growth in exports was largely due to increased demand by Pakistani workers for native goods such as rice. However, the situation changed considerably with the downturn in oil prices in 1983 with total exports from Pakistan to the Middle East declining from $ 1055 million in 1983-84 to $ 555 million in 1985-86. This only confirms that the increase in exports from these countries to the Middle East was primarily a function of increase in oil prices and resulting income and not only due to the export of their manpower.

1.7 Utilisation of Remittances by Migrant Households

The utilisation of remittances by migrant households abroad and by the migrant on his return has been the subject of much empirical research mainly to search for incentives and policy prescriptions to channel these resources into 'productive' uses. The basic rationale behind this approach is that it is in the best interest of the migrant and the economy that the maximum possible amount be diverted into savings or productive investments so that these resources supplement the overall development efforts as well as ensure a stream of future income to supplement the migrants earnings on his return. The popular view has been that remittances by and large have gone into increased consumption expenditure, wasteful consumer durables and unproductive investments mainly land and housing and fuelled inflation. The real potential of these remittances has been lost to both the migrant as well as the economy. Let us examine the evidence and the policy issues involved.

(i) Evidence from surveys of migrant households in different countries shows that a large proportion of remittances went into increased consumption mainly food items, clothing as well as consumer durables. Also the bulk of investment was in housing—either renovation, repairs or construction (Table 1.5).

TABLE 1.5

Saving/Investment Out of Remittance Income *(Percentage)*

	Pakistan (1980-85)	Philippines (1982)	Sri Lanka (1986)	Thailand (1982)
Property Investment				
Land, Housing, Real Estate	20.7	7.2	18.1	33.1
Business Investment				
Transport, Trade, Services	12.8	–	17.8	11.5
Financial Savings/Deposits	8.0	7.9	8.6	13.4
Total (Savings/Investment)	41.5	15.1	44.5	58.0

Source: Same as Table 1.3.

(ii) It is also important to note that savings from remittance incomes by migrant households were not low as is generally believed to be the case. In Bangladesh, surveys showed a remarkably high savings rate for rural migrant households, i.e 50 per cent of their income and 40 per cent in urban areas. In contrast 'control' households surveyed which received no remittances with comparable incomes saved ony 1.8 to 4.2 per cent of their incomes. In Pakistan, investments together with financial savings were over 40 per cent of remittance income. In Sri Lanka migrant households saved between 37 to 47 of their income between 1980-86. In the case of the Philippines as compared to other countries total investment/financial savings were significantly lower—about 15 per cent of remittance income.

(iii) The results of surveys of return migrants (as compared to those of migrant households while the migrant is still working abroad) also come up with the interesting finding that migrants keep some of their savings abroad which they bring back on their final return. If these savings are added to those made by the migrant household while he is away total savings of the migrants would be higher by 10 to 15 per cent.

(iv) The survey results also show that return migrants retain a significant amount of their savings in the form of financial assets. Insofar as migrants are better savers than investors, it may be desirable to transfer their savings through financial intermediaries and investors.

(v) While savings rate of migrants was high most of their investment both while abroad and on return went into land and housing. Country studies show the following proportions of savings invested in housing and real estate: Sri Lanka 40.6 per cent, Thailand 57 per cent; Bangladesh 45 per cent, and Pakistan 50 per cent.

(vi) The key policy as regards utilisation of remittances by migrants and their households are (a) whether savings rates could be higher; (b) more investments by migrants could have been diverted into areas besides land and housing. Despite the evidence that the savings rate was generally high and investment in housing made economic sense from the viewpoint of the migrant, at the same time there is little doubt that *more* could have been done by the government, financial intermediaries and small scale industrial/investment corporations to channel these investments into increased savings or more productive investment. In surveying the economic scene in almost all the countries one cannot but be struck by the singular lack of attempts by government or other organisations to intervene in, or guide, the use of domestic rupee resources provided in lieu of remittance receipts in forieign exchange. As Deepak Nayyar in the Indian study points out, "The degree of intervention is minimal in the sphere of labour flows – close to minimal insofar as remittance flows – in sharp contrast the degree of policy intervention, in terms of incentives, is considerable for repatriable deposits and financial investments. It would seem the focus of the policy regime is on the high skill, high income migrants living abroad permanently either in the industrialised or in the developing countries. There is little that is addressed to the low skill, low income, temporary migrants, mostly workers in the Middle East who provide substantial amount of foreign exchange in the form of unrequited transfers and re-enter the labour market in search of employment on their return. The asymmetry is worth noting".

1.8 Reabsorption of Return Migrants

The lack of productive investment by migrants as well as the severe dearth of wage employment opportunities in their home economies has created problems of smooth re-absorption of return migrants. Even if one accepts Tan and Canlas' argument (Chapter 8) that migrants substitute leisure for work after a period of sustained hard work in difficult conditions abroad, the evidence on extent and length of unemployment amongst return migrants suggests that the problems are more structural in nature than just a 'rational' response by the return migrants not to seek work. Evidence presented from field surveys and other sources in the country studies substantiates the view. As the Bangladesh study (Chapter 2) points out there is a sharp deterioration in the employment status of the returned migrants compared to their pre-migration status. Among both rural and urban migrants the proportion of unemployed sharply increased from below 10 per cent before migration to about 40 per cent on return. This is only partly explained by the time-lag for adjustment after return and is far more due to a reluctance to accept available jobs and a strong inclination to independent trade or business which is very slow to materialise. The Bangladesh study also points to the sharp decline in incomes as return migrants attempt to maintain living standards by living off their accumulated saving. A comprehensive survey of over 1400 return migrant households conducted in Pakistan[1] from November, 1985 to March 1986 showed that 20 per cent of return migrants were unemployed even after subtracting 3 to 4 per cent not presently seeking work in the hope of going abroad again. Results of the survey reveal that the adjustment process for reabsorption may take as much as two years for return migrants to find employment. Even after one and a half years of return hard core unemployment amongst returnees is over 10 per cent. The results are shown in Table 1.6. In Thailand unemployment amongst return migrants was as high as 17 per cent compared to 2 per cent in the pre-migration stage. In Sri Lanka unemployment amongst return male migrants was 74 per cent and 28 per cent amongst females which was astonishingly high even if one takes into account those waiting to go back who were included in the survey. As the Sri Lankan study points out there takes place a progressive encroachment into savings which instead of being put to productive use is dissipated on day-to-day consumption. Only in the case of the Republic of Korea was there little change in employer status for return migrants who had served as company employees abroad. However, unemployment amongst South Korean return migrants was due to health related reasons mainly because of the severe and difficult working conditions in the Middle East.

The country studies presented in this volume (as well as studies separately conducted on return migrants under this project) have helped form a clearer perspective of the issues and problems arising from return migration. First and foremost, the problem of return migrants must not be viewed as one of 'rehabilitation' as these migrants are in most cases substantially better off than the majority of their countrymen who did not have the opportunity to go abroad. The real challenge is of utilising the skills and accumulated savings of migrants both for their own benefit as well as for the overall economy. In this approach the return migrant must be viewed as a potential asset (a package of labour skills, experience and investible resource) rather than a liability.

Surveys and studies of return migrants have helped us better understand the process of re-entry into the labour market and the economy. All studies show that more often than not re-entry is not in the same jobs. There is a marked preference amongst return migrants to move out of their earlier blue collar jobs

1. The results of the survey are reported in ILO-ARTEP (1987a, Vols. II to IV).

TABLE 1.6

Pakistan: Length of Unemployment of Migrants After Final Return

(Percentage)

Length of Unemployment	Rural	Urban	Total
Never Unemployed	54	33	47
Less than 6 months	18	25	21
7-9 months	6	9	7
10-12 months	9	13	10
1-1½ years	5	6	5
1½-2 years	3	6	4
Above 2 years	5	8	6
Total	100	100	100

Source: ILO-ARTEP (1987a, Vol. II).

into self-employment mainly in services (retail trade) or transportaion. The Pakistan survey of 1400 return migrants referred to earlier showed that in rural areas there was a sharp drop of those previously engaged as artisans, casual labour and permanent wage earners from 63 to only 27 per cent while those employed in agriculture and own business increased from 34 to 56 per cent. In urban areas changes are almost as dramatic with the shares of those having their own businesses increasing from 13 to 32 per cent and permanent wage employees declining from 44 to 17 per cent. Important factors influencing return migrants choice of setting up business were length of stay abroad, size of financial savings and educational levels (mainly those with vocational training and college/university education). Over 70 per cent of all businesses were in trade and services and another 17 per cent in the transport sector. The primary source of investment funds were the migrant's own savings and this ranged from 83 to 96 per cent according to the size of the business set up. Borrowing (both institutional and non-institutional) provided an insignificant proportion of total funds.

Unfortunately, however, most return migrants are ill-equipped to take up their new role of self-employed or small scale businesses. (It is a misnomer to refer to them as entrepreneurs as most return migrants from the Middle East opt for self-employment and at best set up very small scale enterprises.) Business failures are common. In the Pakistan survey the major reasons cited for business failures were lack of capital, marketing and technical problems. As high as 28 per cent had to close their business because of frauds or quarrels with family members.

There have been some efforts by government to assist return migrants in setting up their own businesses.[1] Similarly in some countries entrepreneurial training programmes have been organised. The problem of course is that these can at best cater for a few. What is required besides these selected efforts is the creation of an 'overall environment' favourable to single owner enterprises catering not just to the return migrants but to all those wanting to participate in setting up small scale enterprises. This requires de-regulation of controls, availability of finance, raw materials and infrastructural facilities for small scale enterprises. Even where special schemes have been developed most return migrants are unaware of them. Majority of return migrants have dealt with banks and more than 50 per cent have their savings deposited with the banks. At present the banks do not provide any information or guidance to returning migrants. Bank officials in areas of large concentration of return migrants could be trained to provide guidance service to potential investors.

1. For a review of programmes initiated in different Asian countries for return migrants see Farooq-i-Azam (1987)

Unless such favourable policies are implemented the return migrant will find his savings dissipated either financing long periods of unemployment or a string of business failures and will be encouraged to invest only in housing or land. It is a situation which can and must be remedied.

1.9 Utilisation of Remittances: Macro Implications

An important contribution of the country studies included in this volume is that they have explored the implication of remittances on the overall economy instead of limiting it to the migrant households. Extreme data limitations have made it difficult to undertake formal macro modelling exercises for most countries but the results are still sufficient to give a broad quantitative and fairly good qualitative analysis of the impact of remittances on the economy. A major advantage of this exercise is that it alerts the economic planner to expected changes in the economy as a result of a downturn in labour and remittance flows and measures needed to counteract, to the extent possible, the resulting adverse effects on the economy.

(i) Mahmud in the Bangladesh study (Chapter 3) emphasises the indirect and economy wide effects of remittances. These so called 'multiplier effects' arise out of migrants household expenditure out of remittances as distinguished from the direct impact on income and employment due to investments out of remittances. Since the Bangladesh economy was generally supply constrained, the multiplier effects, Mahmud argues, were limited to demand led activities which require little fixed capital. This explains the substantial growth in service sector activities especially in areas like Chittagong and Sylhet where migrant households were concentrated. As a result of remittance expenditures domestic activity also shifted emphasis from the production of import substitutes to non-tradeables such as construction and services. Since these were more labour-intensive activities current income and employment growth were higher although again benefits were likely to be concentrated in the labour sending regions.

(ii) For the Republic of Korea, Hyun reports the results of his earlier macro model exercise[1] which traces the impact of remittances on stimulating domestic demand through increases in private consumption and fixed investment. Hyun estimated that during the late 1970s a 10 per cent increase in remittances led to a 0.32 per cent increase in private consumption in the long run and fixed investment by 0.53 per cent. GDP increased by 0.22 per cent and GNP by 0.24 per cent. The GDP deflator (increase in price) rose by 0.13 per cent due to the expansion of aggregate demand and the money supply. Hyun also estimates that a 10 per cent increase in remittances leads to a decrease in the ratio of the current account deficit to GNP by 0.40 per cent in the long run. He, however, argues that the

1. Hyun (1984).

immediate effect of increase in remittances is to adversely affect exports due to increase in prices and wages but the net effect in the long run would be positive.

(iii) For Sri Lanka, Rodrigo and Jaytissa have attempted to estimate the annual addition to output and employment due to investments by migrants and other expenditure of out of worker remittances. Their exercise although limited only to *first round* effects of these expenditures, comes up with some interesting and significant results. Additional employment created in the economy due to these expenditures increased from 2870 in 1980 to 5168 in 1986 and the additional output generated was between 0.60 to 0.65 per cent of GDP during these years. Although small in absolute amounts in terms of increments, these were significant increases especially since these calculations do not take into account the indirect and lagged effects of domestic spending on output and employment. Also investments out of remittances as a proportion of gross domestic capital formation increased from 3.41 per cent in 1981 to 6.84 per cent in 1986.

(iv) With the help of regression analysis Burney in the country study on Pakistan explores the relationship between remittances and total fixed private investment in the economy. His results show that there was no systematic relationship between the two and draws the conclusion that for the economy as a whole remittances have not been significantly utilised to enhance the capital stock of the economy. At the sectoral level the only sector which appears to have benefitted from the inflow of remittences in terms of increased private investment was ownership of dwellings. Kazi in her study on Pakistan extends the results of an earlier World Bank study to quantify the net effect on the balance of payment of migration to the Middle East incorporating the benefits of using remittances from and exports to the Middle East as well as the negative effect of the increase in oil imports. Her results show that for the whole 1978-85 period the total inflow from remittances and exports of $5.2 billion exceeded oil imports of $ 3.8 billion yielding at net inflow of $ 1.4 billion.

(v) In India remittance variables were small in relation to macro variables. However, as Nayyar shows, they were not insignificant. In the mid-1980s they were equivalent to 1.5 per cent of GDP, 2 per cent of final consumer expenditure, a little more than 6 per cent of gross domestic savings and almost 7 per cent of gross domestic capital formation.

(vi) In the context of India the study on Kerala state (Chapter 11) is illuminating in that it shows the classic case of an economy not being able to reap any real benefits from remittances because of the lack of linkages between remittances and the state economy.

1.10 Impact on Poverty and Income Distribution

On the impact of migration on poverty and income distribution lack of recent data makes it difficult to come up with firm quantitative estimates. However, there is sufficient evidence on a number of issues bearing upon poverty and income distrubution so that certain broad conclusions may be drawn. The first important point to note is that the large majority of migrants to the Middle East although mainly skilled and semi-skilled production workers, did not come from the poorest strata of the population. Also the cost of migration which was high meant that certain minimal resources had to be available to join the migration stream. However, the direct and multiplier impacts of migration were on the whole so directed, especially on domestic wages and employment as to have an overall faourable impact on poverty alleviation. This was especially true of countries which had large outflows, e.g. Pakistan, where poverty levels significantly declined although again other favourable developments such as high growth in agriculture and manufacturing during the same period need to be taken into account (see Burki, 1988). In the case of Sri Lanka, where a large population of migrants to the Middle East were housemaids the direct impact on poverty may have been significant. As the Sri Lankan study points out, with one migrant per 47 households remittances lifted many migrant households over the poverty line. In the Republic of Korea overseas employment allowed low income workers some upward mobility in the size and distribution of income.

The impact of migration on income-distribution may, however, not have been so favourable. In the Republic of Korea, the Gini-coefficient increased in the late 1970s (from 0.33 in 1970 to 0.40 in 1978 and 0.36 in 1985) when overseas employment was at its peak suggesting that the inflationary impact of remittances contributed to this increasing inequality (Park and Chae , 1984). In Pakistan the available evidence between 1971-72 and 1984-85 shows that income distribution worsened during this period (Gini-coefficient increasing from 0.33 to 0.39) after a reduction in income inequality between 1963-64 and 1971-72 (when it declined from 0.37 to 0.33). The share of the lowest 20 per cent households in 1984-85 was the same as in 1963-64 while that of the highest 20 per cent rose from 43.9 per cent in 1963-64 to 45.5 per cent in 1979 and to 46.7 per cent in 1984-85 implying that the shares of the middle income groups were relatively under pressure. The evidence also points to a reversal of gains in income distribution having taken place largely in rural areas (*Pakistan Economic Survey, 1987-88*, p.7). In Sri Lanka, while one has to be extremely careful in terms of base years used for comparison, the evidence tends to suggest that workers remittances may have played a contributory role in helping to moderate the widening of distribution disparities at the national level under the open economy strategy. This again may be mainly due to the fact that the large proportion of migrants came from the poorer households. However, regional distribution may have worsened as the multiplier effects were typically concentrated in the areas of large outmigration.

1.11 Adjustments to Changes in Labour Migration and Remittance Flows

At a time when outmigration from most of the major labour sending countries is slowing down the implications for the domestic economy can be better understood from the study results reported earlier. Some of the immediate pressing problems that these economies will face are as follows:

(i) The greater the dependence on migration to absorb the incremental growth of the labour force, with this safety valve no longer available, the greater the pressure to generate additional domestic employment. The situation will be further compounded by the increasing flow of return migrants. As return migration flows become greater than outmigration, the economy will have to generate jobs not only for the additional labour force due to population growth but also for increase due to net (return) migration.

(ii) To the extent the economy has moved to a more capital intensive plane, as a result of earlier outflows or other factors, the more difficult will be the process of adjustment.

(iii) The process of re-absorption of return migrants will be made more difficult and the period of unemployment longer for return migrants if avenues and opportunities for self-employment are limited and for those seeking wage employment if wage and salary expectations are unrealistically high.

(iv) For migrant households the process of adjusting to much lower income levels and cuts in consumption will be a painful one, as few households have invested enough from their remittances to generate the equivalent of incomes earned abroad.

(v) A significant part of the population have benefitted both from the direct impact and multiplier effect of labour outflows and remittances. They will now face a situation of the economy no longer able to provide increases in real income and wages unless high rates of growth are generated by other sectors in the economy and alternative avenues for employment are created.

(vi) The impact on the balance of payments of the slowing down in economic activity as a result of low and declining oil prices is a mixed one. The fall in oil prices will in itself ease the import burden and compensate for declining remittances and fall in exports to the Middle East. Also where export earnings of goods on services having shown a healthy growth (as in the case of tourism in Thailand) and this can be maintained, the decline in remittances may be counter balanced. What will be more difficult to maintain in case the balance of payment squeeze continues will be the liberal trade regimes which remittances helped to sustain.

1.12 Integrating Overseas Migration into Development Planning

For a phenomenon whose contribution to several of the country's key variables has been extremely significant the attention given to migration by development planners has been very marginal indeed. Till recently there was hardly any mention of its impact in the basic planning documents (e.g. Five Year/Annual Plans), in any of the major labour sending countries. A situation which can only be termed as one of 'benign neglect' by the development planners seems to have prevailed in all these countries. The situation is now gradually changing with some of the more recent development plans incorporating migration in their overall and sectoral planning framework. The best example is the current Pakistan Five Year Plan (1988-93) which has paid attention to migration in the macro framework, balance of payments and employment analysis, emphasising the necessity to respond to changing market conditions and to more successfully reintegrate returning migrant workers. Thailand's Sixth Five Year Plan (1987-91) takes into account overseas migration as an objective in overall human resource development planning, with emphasis on labour market policies, but remittances are still not taken into account in either macro-economic policies or in its analysis of external resources. The situation in most of the other countries remains unchanged with India, Bangladesh and Sri Lanka and the recent Philippines Medium Term Development Plan (1987-92) still giving very little attention to overseas migration in either the macro or sectoral planning framework.

The country studies present a number of important issues which need the urgent attention of development planners in the region. It is important, however, before we discuss some of these issues, to clearly emphasise that integrating migration into development planning in no way implies a bias in favour of greater government intervention in this field. It only underlines conclusions that have emerged from this review of its impact and which many years earlier had also been emphasised by Paine in her pioneering work on the Turkish migrant workers that "without vigorous policy measures many of the favourable effects of migration on the home country economy and on the migrants themselves will not occur while many adverse ones will" (Paine, 1974, p. 160). It is primarily to tap these favourable impulses and to reduce to the extent possible the negative impact that a development planning perspective is essential. Let us briefly discuss some of the important components of this perspective.

1.12.1 *Integrating Remittances into National Income Accounts*

The major labour exporting countries follow different conventions on whether to include remittances from overseas workers as part of the net factor income in national income accounts. The resulting GNP estimates (GNP = GDP + net factor income from abroad) therefore are not comparable[1]. Amongst the major Asian labour exporting countries GNP estimates published by governments in India, Sri Lanka, Thailand exclude workers remittances while Pakistan, Philippines and Bangladesh include them.

The country studies on Bangladesh, Pakistan and India analyse in some detail how remittances affect the conventional national income accounting identities as well as the behaviour of some of the key variables especially the savings rates. The important point to grasp is that the increase in income attributable to remittances enables the economy to realise an excess of investment over domestic savings through a corresponding excess of imports over exports with a smaller withdrawal on external resources than would otherwise be the case. As Nayyar explains, as a result of remittance financed investments it "may appear to be paradoxical — but it is gross national savings rather than gross domestic savings that would rise and the economy would be able to realise an excess of investment over the latter." What this means is that the effective savings constraint on investment is not domestic savings but national savings which take into account remittances.

Similarly, in interpreting conventional national-income-accounting identities one has to differentiate between accounting conventions and behavioural

1. In terms of national income accounting identities after including workers remittances in net factor income from abroad the basic relationships are:

Net Factor Income from Abroad	≡	(Investment Income + Workers Remittances + Other private transfers received by residents from abroad) – (Investment Income + Private Transfers made to non-residents)
External Resources Balance	≡	Imports (goods and non-factor services) – Exports (goods and non-factor services)
Total Investment*	≡	Gross Domestic Savings + External Resource Balance
Gross Domestic Savings (as % of GDP)	≡	Total Investment – External Resource Balance (as % of GDP)
Gross National Savings (as % of GNP)	≡	Gross Domestic Savings + Net Factor Income from abroad (as % of GNP)

*$Y \equiv C+I+X-M$ or

$I \equiv (Y-C)+(M-X)$ or $\equiv S+(M-X)$

effects (see Amjad, 1986). In Pakistan, for example, the decline in gross domestic savings rate in a period of large increases in workers remittances is the result of national income accounting convention rather than a behavioural relationship. However, at the same time gross national savings is not a true reflection of either level or changes in the economy's saving rate as it includes consumption that is financed through remittances. Burney suggests a method for correcting this distortion but his corrective factor is based on micro field surveys which may not accurately reflect the economy-wide situation or its final impact.

Two important conclusions may be drawn from this summary discussion. The first, not just from the point of uniformity although this would be an important added advantage, inclusion of remittances in GNP would help in focussing attention on the important and changing contribution migration makes to the total resources available to the national economy. It would enable countries to more vigorously pursue the objective of maximising GNP rather than just GDP. The second (and this is independent of whether remittances in GNP are included or not) the movement and interpretation of key macro variables has to be carefully qualified when the economy is passing through a period of large changes in remittance flows. This is especially true for the gross domestic savings rate of the economy.

1.12.2 Policy Planning Issues

The important conclusion that emerges from the country studies is that it is not correct to view labour migration as a temporary phenomenon outside the context of the developments in the domestic economy. At one level a more conducive overall economic environment reflecting factor scarcities and market realities has an important bearing on the extent to which a country can maximise the benefits from overseas migration. In many cases reforms in industrial, monetary, trade and exchange policies that would be needed are the same set of reforms that are called for by the overall development of the economy especially the exports and financial sectors. Also the ability of a country to respond to overseas market opportunities would depend very much on the flexibility and mobility of its labour force since foreign openings are increasingly limited to a set of occupations and flexibility and mobility are greatly dependent on a country's investment in and policies for overall human resources development. At the same time the country studies also clearly emphasise the need to go beyond just the adoption of broad favourable macro policies. There is a clear need for 'selective interventions' in the form of sharply focussed policy measures such that the economy and the migrant can gain from overseas migration. In many cases this implies concrete policy programmes at the regional and local level especially since in most countries there is a regional concentration of out and return migrants. More specifically some of the important policy conclusions that emerge are:

(i) First and foremost there is a clear and continuing need to monitor changes in labour and financial flows. While the present project has helped to improve the existing situation far more still needs to be done. The biggest gaps are in monitoring return flows and remittances. Without creating an effective monitoring system any attempt at integrating migration into development planning will at best remain a pious hope.

(ii) On policies regulating the export of workers there is a growing concern that the statutory nature of the policy framework monitors the letter rather than the spirit of the law especially in regard to the conditions on the employment contract. The actual working conditions of the migrant overseas are seldom monitored. Governments may also consider introducing policy interventions that lead to a more even spread in the recruitment of migrants across different regions so that the gains from migration are more evenly distributed.

(iii) On remittance flows one must clearly distinguish between the foreign exchange that it makes available for the economy as a whole and the corresponding use of local counterpart resources that are released on surrendering the foreign exchange. In the case of the former while governments have instituted a number of policy measures to attract remittances, deposits and investments by migrants through official sources far more can and needs to be done. There is much that countries can learn from the past and each others experience. It is clearly established that remittances through official channels are a function of convenience, flexibility and profitability of this transaction with profitability being primarily determined by the difference between the 'official' and 'unofficial' rate available to the migrant. Also 'real' interest rates, inflation rates and social and political stability are important determinants. There is also need to more carefully evaluate the costs in relation to the benefits of attracting these funds. This is especially true of capital flows (e.g. foreign current non-resident deposits) in terms of interest rates offered which are normally higher than the rates prevailing in international capital markets and other incentives. Also these funds can make the economy more vulnerable to sudden withdrawals or outflows in times of economic and political uncertainty. The utilisation of these capital flows also needs more careful attention. They should be utilised in a manner that at least ensures rates of return to cover interest payments as well as finance depreciation of the domestic currency.

The important point to comprehend is that most governments are only now awakening to a situation where a significant amount of foreign exchange resources are available with their nationals living abroad. The policy response for attracting these funds must be worked out in terms of a comprehensive, consistent and well-knit policy package rather than piecemeal or ad hoc responses. These flows cannot only continue to generate much needed balance of payments support but also assist domestic economy generate more efficient growth, especially the over-protected manufacturing sector, through injection of foreign resources, technology, management and entrepreneurship.

(iv) It is, however, in the use of domestic resources in lieu of remittances especially by the households of short-term contract workers that far more could have been done. This is not to suggest that increased food consumption or investment in housing is either unjustified or irrational. They make good sense from the viewpoint of the migrant household. However, even after allowing for such consumption and investments there were still sufficient savings as well as funds brought by migrants on their final return that could have been more effectively and productively utilised. In many cases this required neither special nor new schemes but expanding, modifying or making more effective existing schemes to attract in investments by migrants. This is especially true of government institutions engaged in promoting the growth and developments of self-employment and small-scale enterprises.

(v) The realisation that return migrants be viewed as a potential asset (a package of labour skills, experience and investible resources) which can be tapped for the benefit of the economy has unfortunately been very slow to sink amongst policy makers of the major labour exporting countries. Unfortunately the view remains that return migrants are significantly better off than the large proportion of the domestic population and therefore need little assistance from the government. What needs to be continuously drilled into policy makers is that what is required is not 'rehabilitation' programmes but policies for effective utilisation of potential resources which will lead to smoother reabsorption of return migrants as well as benefit the economy in the process.

(vi) It is, however, not only the individual migrant and his related household who are affected by the use of domestic resources generated through remittances. The macro-economic impact has been significant in affecting a number of key economic variables. The need for careful macro management in the face of large and changing labour and financial flows is clearly required. This again is an area which has been largely ignored by the policy makers. One result has been that governments have been slow to institute anti-cyclical policy measures for generating domestic employment when outflows decline or institute strong policy measures to increase exports when remittances stagnate or fall. The fact that use of remittances generated additional employment in the more labour intensive construction and service sectors further worsens the domestic employment situation. Also the fact that migration flows have had on the whole a favourable impact on poverty alleviation means that development planners would need to institute alternative policy mechanisms for compensating declines in migration and remittances otherwise they will face the harsh realities of social unrest as rising expectations which migration flows have helped encourage are suddenly left largely unfulfilled.

(vii) The studies presented in this volume have not explored the issue of future migration flows. However, studies carried out under this project as well as by ARTEP suggest that the economies of the Middle East will continue to be dependent on imported labour for some time to come although the skills mix will change (mainly from construction to services). Also the end of the Iran-Iraq war and prospects of peace in Afghanistan will open new venues for migrant workers. Similarly, Japan is presently seriously debating opening up its economy to migrant labour and Hong Kong faces severe labour shortages. To exploit these potentials, as and when they arise, governments will need to carefully monitor changes in overseas labour demand as well as invest in skill development programmes which have an export potential. There is a real need for incorporating skill migration in overall human resource development policies.

(viii) To conclude, the central message of these studies is that for a number of Asian countries migration has and will continue to play an important even if a less significant role in their overall economic development. Governments need to move away from an attitude of 'benign neglect' to careful policy planning and 'selected policy interventions' to be able to maximise the potential benefits from both labour and financial flows resulting from migration. As Nayyar aptly sums up, overseas migration "should be incorporated into macro-economic planning and policies rather than simply be used as a manna from heaven to make hay while the sun shines".

References

Abella, Manolo I. (1984), "Labour Migration from South And South East Asia: Some Policy Issues", *International Labour Review*, International Labour Office, Geneva.

Abella, Manolo I. (1988), "Financial Costs of Emigration for Employment: Review of Recent Evidence", *Asian Regional Programme on International Labour Migration*, Regional Office for Asia and the Pacific, Bangkok (monograph).

Amjad Rashid (1986), "Impact of Workers Remittances from the Middle East on Pakistan's Economy: Some Selected Issues", *The Pakistan Development Review*, Vol. XXV, No. 4, Winter.

Burki, S.J. (1988), "Poverty in Pakistan: Myth or Reality", in T.N. Srinivasan and Pranab K. Bardhan (eds.), *Rural Poverty in South Asia*, Columbia University Press, Columbia.

Choucri, Nazli (1983), *Asians in the Arab World: Labour Migration and Public Policy*, Technology Planning Program, Cairo University/Massachusetts Institute of Technology, TAP Report 83-13, Cambridge, Massachusetts.

Farooq-i-Azam, "Re-Integration of Return Migrants in Asia: A Review and Proposals", *Asian Regional Programme on International Labour Migration*, Working Paper No. 2, ILO-ARTEP, New Delhi.

Government of Pakistan, Finance Division, Economic Advisers' Wing, *Economic Survey 1987-88*, Islamabad.

Gunatilleke, Godfrey (1986), *Migration of Asian Workers to the Arab World*, The United Nations University, Tokyo, Japan.

Hyun, Oh-Seok (1984), "A Macro-Econometric Model of Korea: Simulation Experiments with a Large Scale Model for a Developing Country", unpublished Ph.D. dissertation, University of Pennsylvania.

ILO-ARTEP (1987a) *Impact of Out and Return Migration on Domestic Employment in Pakistan*, Vols. I-VII, Asian Employment Programme, New Delhi.

ILO-ARTEP (1987b), *Structural Adjustment: By Whom, For Whom*, Asian Employment Programme, New Delhi.

ILO-ARTEP (1988), *Manual on International Labour Migration Statistics*, Asian Regional Programme on International Labour Migration, New Delhi.

ILO-UNDP (1988), *Agendy for Policy*, Asian Migration Project, Bangkok.

Park, Rae Young and Hee Kyung Chae (1984), "Study on the Economic Analysis of the Effects of Overseas Migration", *Kyungie Yunku*, Hongik University: Seoul (in Korean).

Paine Suzanne (1974), *Exporting Workers: The Turkish Case*, Cambridge University Press.

Tan, Edita (1987), "Migrants' Savings, Remittances and Labour Supply Behaviour: a Comparative Experience of Asian Countries", *Asian Regional Programme on International Labour Migration*, ILO-ARTEP, New Delhi.