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Labour Emigration and its Effects on the Economies of South Asia

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This paper is a macro-level study of the consequences of temporary labour emigration on the economic growth and structural change of the South Asian countries. It tries to contribute to fill a gap in research which has been neglected during the booming years of labour export when the focus of quantitative analysis was on the benefits of individual migrants families and not on the development of the domestic economy. As a consequence the migrants home countries are insufficiently prepared for the time afterwards. The subject is approached by theoretical considerations which parallel the "Dutch disease" model and by an analysis of the empirical evidence.

1. Introduction

During the last fifteen years temporary labour migration to the oil-rich countries of the Middle East has become a major factor in the economic development of Pakistan, India, Bangladesh and Sri Lanka. Every year hundreds of thousands of contract workers leave the region. As temporary migration for a few years is the rule, they remain part of the economy of their homelands and their remittances have become a most important source of foreign exchange for these countries; in 1986 they amounted to about 60% of Bangladesh's merchandise exports; 22% of India's; 84% of Pakistan's; and 24% of Sri Lanka's. At first sight they seem to provide considerable assistance in overcoming the growing balance of payment problems of the labour exporting countries and to serve as a means of promoting their economic development. Experience in many countries has shown, however, that an export boom in one sector of the economy often leads to a decline in other sectors, a phenomenon which has become known as the "Dutch disease". The present paper attempts to answer the question as to whether the labour export boom had similar consequences for the South Asian countries. Macro-economic research, and even more quantitative analysis, of the impact of large scale temporary labour migration is rare although its lack is generally complained and there exists a lot of micro-level investigations mostly based on sample inquiries. The questions associated with changes in the economic structure of the labour-exporting countries must, however, be clarified urgently because the peak of the boom seems to be crossed since the mid 80s and ways must be found to resolve the emanating problems.

The next section provides some preliminary theoretical considerations about possible effects of a labour export boom on various sectors of the domestic economy under different circumstances. After an overview over the economic contexts within which labour export takes place in the countries considered, which is given in Sections 3, Section 4 attempts to quantify the impact of remitted foreign exchange on the economic structure of the labour-exporting countries. The main conclusions are summarized in Section 5.

2. Preliminary theoretical considerations

The following theoretical considerations which establish the hypothesis of the investigation draw an explicit parallel between the effects of a primary export boom analysed by "Dutch disease"-models and the repercussions of a labour export boom[1] They are based on the assumption of a "small economy" which corresponds to the reality of the four countries considered: they have to adapt to the world market and are not able to influence the wages paid in the labour importing countries by their own actions or reactions alone. The same applies to the major products imported and exported by them; there are only few exceptions to this. We further assume that no restrictions on foreign trade are applied.

Our model economy produces two goods; one is internationally traded, the other is not tradeable for reasons which could be found in prohibitive transportation or conservations costs, or in restrictions in foreign trade. One could think of the tradeables as manufactures and of the non-tradeables as services. The price of the tradeable products is given exogenously by the world market, that of the non-traded goods adapts to domestic conditions of supply and demand. Demand for both commodities increases, and supply decreases, with falling prices, and vice versa. Both goods are produced with labour and capital. Labour is mobile between the sectors of the economy while capital is fixed for the period considered.

The wage rate at which domestic labour force can find employment abroad, is given exogenously, that of labour which is used as an input for home production adapts to the domestic market conditions. Labour migration

1 For theoretical descritpions and variations of the Dutch disease model see Sitz (1986); Corden and Neary (1982); Buiter and Purvis (1982); and Davis (1983).

occurs only when the margin between foreign and domestic wage rates exceeds a certain amount, a fact that can be explained by costs of migration and information (Katz, E. and O. Stark, 1987; Todaro, 1976). The foreign demand for labour is to a large degree determined by political considerations of the importing countries' governments and by personal preferences of employers which results in the fact that labour from different countries is not considered homogenous and its import is subject to quotas.

Temporary labour emigration influences the economy by resource movement and spending mechanisms. Via the resource movement mechanism labour is diverted from the domestic economy by an autonomous increase in foreign demand; the influence on the production conditions in the emigrants homelands depends on the kind and scarcity of the labour force withdrawn. Via the spending mechanism the extra expenditures which result out of the higher income of the migrants families cause economic growth which differs between the various sectors. The impact of the spending mechanism depends mainly on the share of remittances in GNP; the per capita income; the propensities to spend for different commodities; the elasticities of supply; and trade controls.

Under conditions of full employment in a free market economy the immediate reaction of large scale labour emigration will be rising wage rates and declining output and labour employment in both sectors of the economy. The price of the traded goods will remain unaffected by the higher input costs, but that of the non-traded good will rise; therefore its total output value might be higher than before inspite of a lower production.

This short term equilibrium is modified by the additional demand which results out of the higher incomes of the migrants. Depending on the consumers preferences, it is shared between both commodities. As far as demand for tradeables rises, the domestic sector does not benefit from it because at unchanged prices output will not be extended and the additional demand is satisfied by imports. As wages increase via the higher demand for non-tradeables, workers will be attracted from the tradeables to the non-tradeables sector and the tradeables sector will have to cut back on output. Against the short-term equilibrium, labour input in the non-tradeables sector has increased, in the tradeables sector it decreased. Depending on the income elasticites of demand, the total employment effect for the non-tradeables sector may be positive or negative; employment will raise if the negative resource movement is compensated by a positive spending effect.

This basic model must be modified if labour market conditions are characterized by high rates of unemployment and underemployment. In many developing countries a long-run equilibrium of wide-spread unemployment together with wage rates above the subsistence level prevails which is explained by the efficiency wage hypothesis (Stiglitz, 1976 and 1982). The preboom situation is characterized by a conventional minimum wage rate and unemployment. Foreign demand for domestic labour reduces unemployment but the wage rate as well as domestic employment may remain unchanged. Only if emigration is large enough to attain full employment will increasing foreign demand result in higher domestic wages.

As long as a large number of unemployed is available additional demand for traded commodities can be satisfied at unchanged marginal costs and prices. Employment and output can thus rise in both sectors provided that capital shortages do not constitute a contraint. The spending mechanism increases labour demand in the non-tradeables sector and in the tradeables sector and reduces unemployment at an unchanged wage rate. In the tradeables sector additional labour force can, however, only be employed until wages start to rise which implies higher costs. In this situation additional labour input of the non-tradeables sector will be drawn off from the tradeables sector and the employment creating effect in this sector is then reversed. According to the results of this section, the following diagnostic test will look for the symptoms (a) an increase in the relative price of non-tradeables to that of tradeables (b) a decline in the output of the tradeables and an increase in the non-tradeables production and (c) a rise in imports.

3. Economic framework of labour emigration from South Asia

3.1 International demand for South Asian labour

Labour emigration from South Asia has a century old tradition but it only gathered momentum during the last two decades in the form of temporary contract migration. Contemporary demand for South Asian labour arises mainly from the oil producing countries of the Middle East. After the first oil boom of 1973, these capital-rich and labour-short countries embarked on ambitious development projects. During the first development phase a huge amount of unskilled labour for the erection of a modern infrastructure was needed which the domestic markets were not able to supply. The consequence were large and increasing imports of workers from other countries.

When by 1975 the mobile supply of workers from neighbouring Arab countries was exhausted the reservoir of cheap South Asian labour force was discovered and often preferred. Workers from India, Pakistan, Sri Lanka and Bangladesh have the advantage of being cheap, hard working and disciplined and they did not get involved in political issues of their host countries whereas immigrants from neigbouring Arab countries always pose the threat of political instability. They are often organised in groups through private agents and government agencies, and can be contracted collectively and in advance which facilities planning for the employers. Moreover most of the immigrants are muslims (Knerr, 1988a). At the end of the 70s labour demand shifted in favour of higher skill levels as the phase of intensive infrastructural building was terminated and emphasis was put on the diversification of the economy by industrial investment. This has promoted immigration from countries with better educational standards.

In the small Gulf states South Asians constitute the largest single group of migrants. At the beginning of the 80s they comprised about half of the 628,000 foreign workers in these countries, and in the UAE and Qatar they already outnumbered native Arab workers by about three to one (Weiner, 1982:2, 11). The most numberous among them are the Pakistanis, followed by the Indians. Another very important host country is Saudi Arabia.

Since the beginning of the 80s the South Asians are, however, more and more pushed out of the market by South East Asian, especially Korean and Philippine, labour force. Well organised companies from this region offer comprehensive solutions which include engineering, construction and running of factories, and bring their domestic labour force as part of their package programmes. Moreover, growing social unrest among the South Asians in the Middle East at the end of the 70s (Ling, 1984:21) and the fact that, in contrast to South East Asians, many of them very quickly bring their families, while the governments of the host countries are highly sensitive to the growth of migrants communites (Serageldin et al., 1983) weakened the demand for South Asian labour force.

While demand for unskilled labour has rapidly deteriorated, employment opportunities for highly skilled manpower are much more favourable. A disproportionate percentage of the most educated labour force in the oil-exporting MENA countries is expatriate, and these jobs are to a large extent filled by Indians (Weiner, 1982:12). Higher qualified South Asians have advantages compared to competing Europeans and Americans: they accept lower salaries and do not demand the costly housing and other amenities that are expected by Europeans and Americans. As the higher educated South Asians usually speak fluently English they also have an advantage over South East Asians.

Another niche in the Middle-East labour market which is filled by South Asians is the health sector. Hospitals prefer to employ doctors from India, Pakistan and Bangladesh, and nurses are recruited from among the Christians of Kerala and Sri Lanka (Weiner, 1982:8). This foreign medical personal cannot be substituted by natives in the forseeable future. At the beginning of the 80s, the share of foreigners in the total number of doctors in Saudi Arabia, e.g., amounted to 95.4%, that of nurses to 85.5% and both figures show an uptrend (VIZ (ed.), 1985:02,4). Unskilled South Asians are employed as "replacement migrants" in Oman, Jordan and the Y.A.R. to fill the gaps which are left by the departure of nationals for employment abroad. This demand is, however, far from being able to substitute the declining demand in the oil-exporting Middle East countries.

3.2 Economic framework of labour export in the South Asian countries

According to the results obtained from theoretical considerations the macroeconomic outcome of large-scale labour emigration is essentially shaped by the labour market situation, the kind of labour exported, the productive potential, the amount of remittances, the spending behavior, the per capita income, foreign trade regulations and the government's policy towards migration and remittances.

a) Bangladesh

Of the four countries considered, Bangladesh has - with 150 US$ - by far the lowest per capita income as well as its lowest growth rate (Table 1). The agricultural sector where three-quarters of the labour force are employed contributes about half of its national product. There are many productive resources laying idle which could be used immediately, and the low output is generally ascribed to the population's low purchasing power (World Bank, 1985; Khan, 1985).

Bangladesh's labour force is the only displaying an increasing growth rate which is expected to reach 3% p.a. during the period 1985-2000. It is characterized by a very low educational level and insufficient vocational training, particularly in technical skills (Knerr, 1988c). The number of jobs offered has stagnated for many years. The results are very low wages, which have declined markedly during the last decade, with the wage gap between skilled and unskilled workers permanently widening, and large-scale unemployment even among university graduates. At at the same time technical personal of all levels is badly needed. This situation is a consequence of the country's structure of vocational training which gives high priority to "white collar" education.

Table 1: Structural characteristics of labour exporting South Asian countries (1985)[1]

	Bangladesh	India	Pakistan	Sri Lanka
GNP per capita (US$)	150	270	380	380
Annual growth rate of GNP capita, 1965 - 1985 (%)	0.4	1.7	2.6	2.9
Share of labour force (%) in				
- agriculture	75	70	55	53
- services	19	17	30	33
- manufacture	6	13	16	14
Share in GDP (%)				
- agriculture	47	32	24	26
- industry	14	29	28	27
- services	39	39	47	47
Share of population in rural areas (%)	82	75	71	79
Annual growth rate of labour force, 1980 - 1985	2.8	2.0	3.2	1.6
Share of labour force in the Middle East (%)[5]	0.3	0.4	7.0	3.0
Debt service in % of exports of goods and services	16.7	12.7	30.0	14.7
Share of remittances (%)				
- in fob merchandise exports[2]				
1986	39.5	21.6	82.9	24.3
1983	89.7	27.1	108.3	26.0
- in fob merchandise imports[2]				
1986[3]	17.2	16.3	44.2	13.7
1983[4]	33.6	19.1	55.7	14.7
- in GDP, 1986[4]	3.1	1.0	8.3	4.6

1 Data from or calculated with data from World Bank, World Development Reports, if not otherwise indicated.

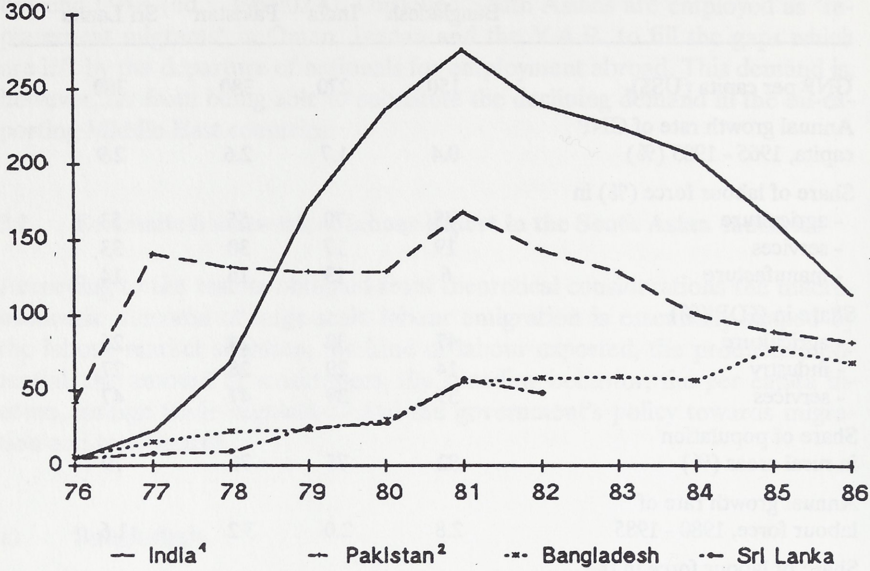
2 Calculated with data from IMF, International Financial Statistics.

3 Bangladesh and Pakistan 1985.

4 Calculated with data from IMF and World Bank.

5 Calculated with data from World Bank; Bangladesh Bureau of Statistics; Abella, M. (1984); VIZ (1987).

Figure 1: Annual labour outflow from South Asian countries, 1976 - 1986 (1000 persons)



1 Fig. for 1986 is estimated under the assumption of a constant annual outflow. Up to May, 34,125 labour migrants were registered.

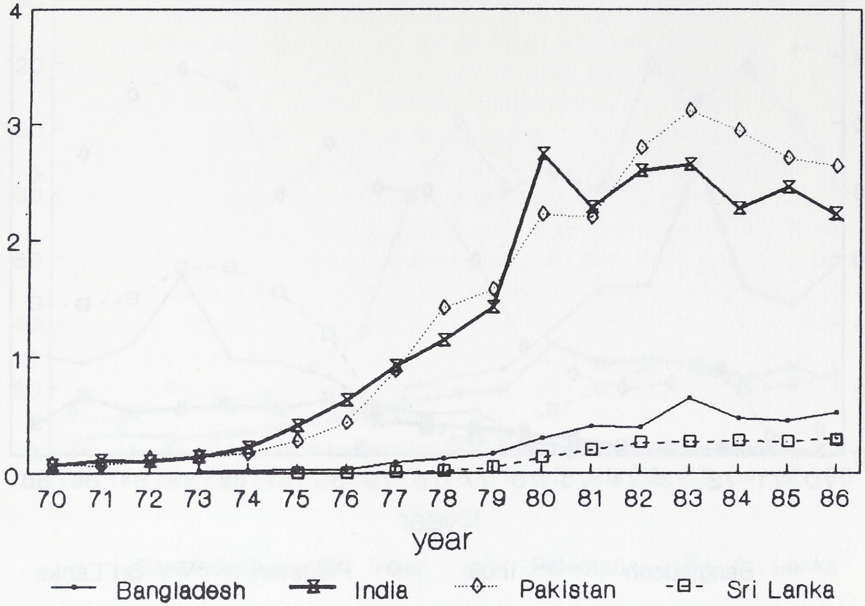
2 The figures relate to the number of Indian workers who obtained emigration clearance from the Protector General of Emigrants.

Source: Based on Pakistan Bureau of Emigration and Overseas Employment; Bangladesh Bureau of Statistics; Government of India, Ministry of Labour; Abella (1984)

The growing population pressure has already caused significant internal migration to districts with lower population densities (Knerr, 1988c).

Labour export from Bangladesh to the Middle East on a large scale began in the mid-70s. In 1986 an estimated 0.3% of the country's labour force (around 190,000 persons) worked abroad, nearly exclusively on short-term contracts. During the last years the gross annual outflow of migrant workers amounted to around 50,000 (Fig. 1), with the bulk going to Saudi Arabia. According to recent investigations (Mahmud, 1988) net out-migration is, however, negative since the mid-80s. Only few Bangladeshis are able to compete

Figure 2: Home remittances of South Asian migrant workers, 1970 - 86 (bio. US$)

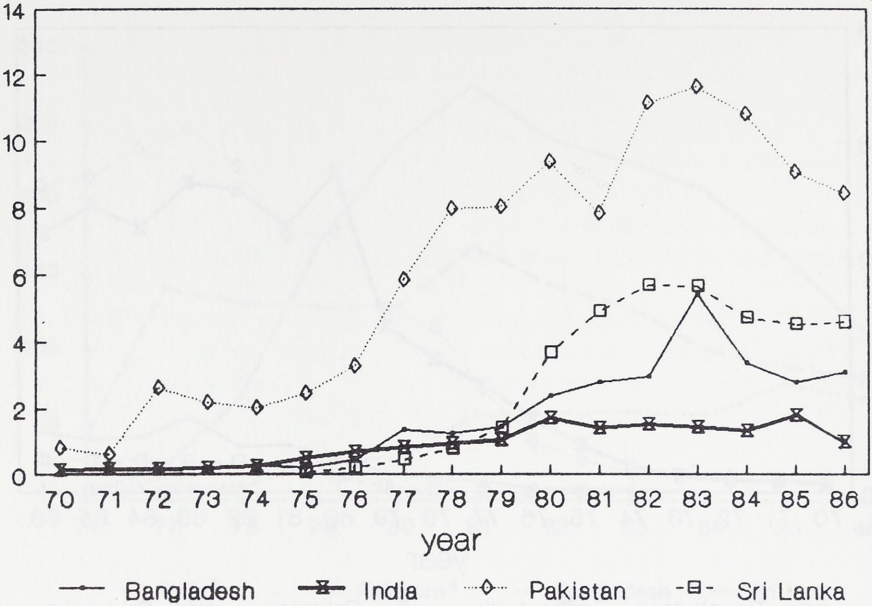


Source: Based on IMF, International Financial Statistics, var. iss.

in the Middle East labour market with its new requirements and most of the skills which are "marketable" there today are in very short supply and badly needed in Bangladesh, too. This applies first of all to medical specialists, graduate doctors, enigeering graduates, engineering technicians, craftsmen, medical technicians and agricultural professionals (Ali et al., 1981:163); World Bank, vol. III, 1985:57p.), to which Bangladesh's emigration pattern has shifted more and more (based on Bangladesh Bureau of Statistics, 1985:218).

Migrant workers come mainly from the districts of Chittagong, Dhaka, Sylhet and other regions with high population densities (Ali et al., 1981:36pp.). Remote and economically backward areas are hardly involved in the migration process; 90% of the migrants are from regions with a per capita income above the national average. 78% of them come from rural areas (Mahmud, 1988:13), and on the average their proportion is higher than the share of rural population of their home districts.

Figure 3: Migrant workers' remittances in per cent of GDP, 1970 - 86



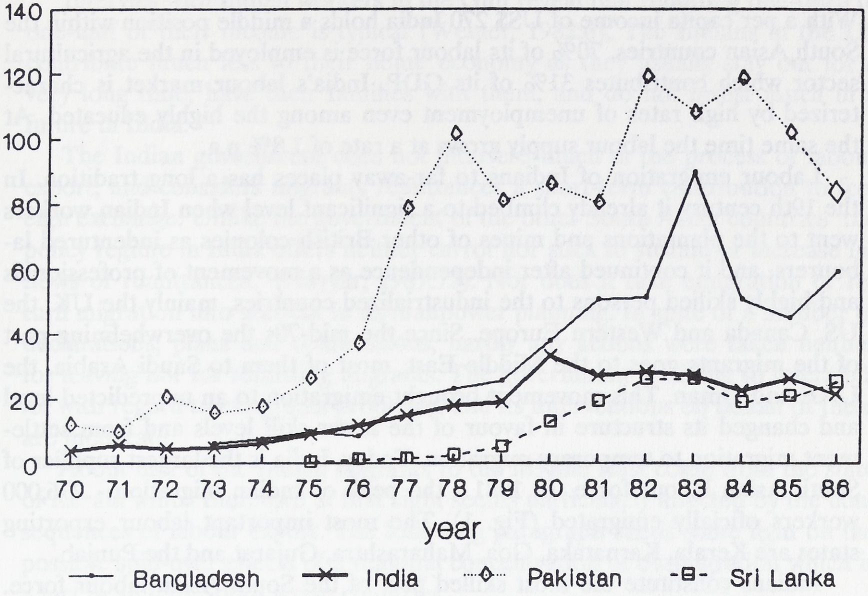
Source: Calculated with data from IMF, International Financial Statistics and World Bank, World Development Reports.

With 450 mio. US$ in 1986, migrants' remittances amount to about 3% of GDP and almost 60% of its merchandise exports (Fig. 2, 3, and 4). Remittance receiving households save around half of their income. It is estimated that more than half of their investments are in land and buildings. The consequences have been soaring land prices in the regions with the highest rates of migration, and a boom in construction related industries, with consequent increases in employment and wages (Knerr, 1988c).

The consumption patterns of the migrants correspond to the average of other households; half of their expenditures are on food and drinks (the most important item being rice), the other main spending categories are clothing and footwear, domestic servants, and ceremonies and festivities (Ali et al., 1981).

Most of the imports financed out of migrants remitted foreign exchange - which under the "Wage Earners Scheme" (WES) is allowed to be used for the

Figure 4: Migrant workers' remittances in per cent of total merchandise export, 1970 - 86



Source: Calculated with data from IMF, International Financial Statistics and World Bank, World Development Reports.

purchase of certain commodities that are otherwise subject to import restrictions - are finished consumer goods and raw materials, first of all textile, much of which is second hand clothing. The increasing imports of cheap textile were paralleled by a significant decline of the domestic textile industry. Productive investment goods, like machinery, have played only an insignificant role in remittance-financed imports.

Contract migration of Bangladeshis is subject to increasing intervention by the government which intends to promote labour export. The measures taken include visits by the Minister of Labour and Employment to the host countries; the foundation of the "Bureau of Manpower, Employment and Training" which mediates jobs abroad; training programmes to meet the requirements of foreign labour demand; and special regulations to encourage the inflow of remittances, their main instrument being the WES (for details of the WES, see Reza, 1984).

b) India

With a per capita income of US$ 270 India holds a middle position within the South Asian countries. 70% of its labour force is employed in the agricultural sector which contributes 31% of its GDP. India's labour market is characterized by high rates of unemployment even among the highly educated. At the same time the labour supply grows at a rate of 1.8% p.a.

Labour emigration of Indians to far-away places has a long tradition. In the 19th century it already climbed to a significant level when Indian workers went to the plantations and mines of other British colonies as indentured labourers, and it continued after independence as a movement of professionals and highly skilled persons to the industrialized countries, mainly the UK, the US, Canada and Western Europe. Since the mid-70s the overwhelming part of the migrants goes to the Middle East, most of them to Saudi Arabia, the UAE and Oman. This movement brought emigration to an unpredicted level and changed its structure in favour of the lower skill levels and from settlement migration to temporary migration. Today, India is the largest supplier of South Asian labour force. In 1981 - the peak of Indian migration - 276,000 workers oficially emigrated (Fig. 1). The most important labour exporting states are Kerala, Karnataka, Goa, Maharashtra, Gujarat and the Punjab.

Indians constitute the most skilled part of the South Asian labour force. At the beginning of the 80s, the largest single group of the migrants to the Gulf worked in the construction sector, the second largest group was employed by private sector firms in industry and services; many worked with governments and government-run institutions and some were employed by local Arab families as servants. Partly by tradition Indian merchants own many of the franchise and import permits in the Gulf and operate many of the small shops in the souks and some of the modern department stores (Weiner, 1982:9).

Emigration among the educated Indians is still particularly high and they are not only demanded in the Middle East. Several thousands of Indians emigrate to the US each year where they settle for long periods. The US seem to "cream off" the Indian labour market; of the 7.233 Indians naturalized there in 1981, e.g., half were professional, technical and kindered workers, and one quarter were dependents of the immigrant labour force (Statistical Yearbook of the I.N.S., cit. from Madhavan, 1985). As unemployment rates among Indian university graduates are particularly high this does not forcibly entail a brain drain, although the opinion that the best manpower leaves the country is very widespread. As middle-class Indian migrants tend to bring their wives and children which contradicts the non-settlement goal of the host countries the enlistment of additional Indian labour force in the Middle East is, however, not encouraged.

Intervies with Indian workers in the Gulf reveal that remitting one-third to one-half of their income is typical (Weiner, 1982:6). The Indians in the US contribute much less to their home economy as they usually stay out for a very long time, have their families with them, and do not invest much in a future in India.

The Indian government does not interfere much in the process of labour export, and considers migrants remittances a short-term contribution to foreign exchange. Unlike the government of the other South Asian countries "the policy regime in India offers neither carrot nor stick to sustain or increase inflows of remittances." (Nayyar, 1987:72). Nor does it take emigration or return migration into account in its manpower planning. In spite of a number of declarations, plans and commissions, hardly any actions were taken neither for leaving nor for returning migrants. The government is willing to tolerate a lot with regard to emigrants problems, and its interventions on behalf of them are moderate.

About half of the Indian migrants to the Middle East come from the state of Kerala which therefore at first sight seems particularly affected by the consequences of labour export. The following paragraph sheds some light on the possible spill-over effects of a regional concentration of outmigration which is a fact in all four South Asian countries.

With 654 inhabitants per sq. km Kerala is one of the most densly populated regions in the developing world (George, 1979:13) and has by far the highest population density of India. Although the literacy rate of its population lies - with 60% - significantly above the Indian average Kerala has the highest unemployment rate of the country (World Bank, 1986: appendix, p. 11) and a per capita income below the national average. 85% of its population live in rural areas. The agricultural structure is characterized by a large number of small holdings, a quickly declining land man ratio and increasing land fragmentation (Raj and Tharakan, 1983). The operational holdings have an average size of 0.2 ha which is half of the all Indian average, and nearly 90% of them comprise less than one acre (Bansil, 1984:211 pp.). Due to the labourers organisation, the daily wage rate of agricultural field workers is among the highest in India (Bansil, 1984:251)[2]. Its mostly agro-processing industrial sector is characterized by low productivity (Raj and Tharakan). Exports are mainly agricultural non-food products, like tea, coffee, cardamom or rubber; imports are manufactured goods and essential food items, such as rice, pulses and sugar (Nair, 1988:43).

2 It increased, however, markedly less than the Indian average during the last decade.

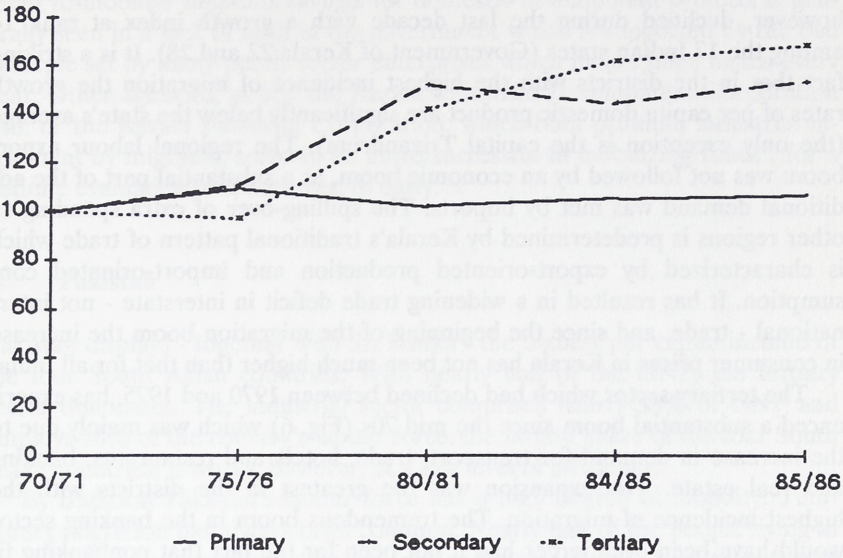
Figure 5: Development of remittances and average value per unit of land in Kerala, 1975 - 85

Sources: Based on Nair, G.: Incidence, Impact and Implications of Migration to the Middle East from Kerala (India); IMF: International Financial Statistics.

Out-migration from Kerala started in the 30s. The population movements were first from the more densly to the less densly populated areas within the state, then from the state to other parts of the country and lately to other countries of the world. Since the mid-60s employment possibilities arose in the US for the well-educated which benefitted the more affluent sections of Kerala's population. Labour demand from the Middle East, however, offered migration possibilities to the economically worse off, unskilled and chronically unemployed since the early 70s. An estimated 300,000 Keralites - which amounts to 11.75% of the population - lived abroad in 1979 with the largest share employed in the Gulf (Weiner, 1982:5). Between 1981 and 1986 net outmigration declined from 133,000 to 30,000 p.a. (Nair, 1988:11).

Surveys indicate that about 38% of the migrants were unemployed before they left for the Middle East. About three-quarters are less than matriculates,

Figure 6: Indices of sectoral growth of Kerala in constant prices of 1970/71



Source: Pres. with data from Nair, P.R.G. (1988): Incidence, Impact and Implications of migration to the Middle East from Kerala (India). ILO-UNDP Project Working Paper no. 12. p. 23 and 26.

the overwhelming part of them are Muslims (Nair, 1988:5). The share of better educated is much smaller among the returning migrants than among the stock of emigrants.

According to the planning board of Kerala about 500 mio. US$ of remittances from the Gulf flow in each year. As they accrue mainly to the lower income strata, the bulk of the additional income is spent on consumption (Nair, 1988:40). The most important investment of Kerala's migrants are motor vehicles, first of all three wheelers (Government of Kerala, 1986:148). It is followed by land, where most of the transactions were of small plots intended for house construction. Paralleling the development of remittances land price rose continously during the period 1975 to 1983 and declined afterwards (Fig. 5). A large share of the savings is invested in gold (Mathews, 1983). Per capita bank deposits in Kerala showed much more rapid rates of increase than in other states since 1971 (Nair, 1988:20), and since 1983 the proportion of migrants' savings kept in banks and other financial institutions has increased.

With increasing international migration the per capita national income of Kerala rose rapidly; its ranking according to the per capita domestic product, however, declined during the last decade with a growth index at rank 14 among the 17 Indian states (Government of Kerala:22 and 28). It is a striking fact that in the districts with the highest incidence of migration the growth rates of per capita domestic product are significantly below the state's average (the only exception is the capital Trivandrum). The regional labour export boom was not followed by an economic boom, as a substantial part of the additional demand was met by imports. The spilling-over of extra spending to other regions is predetermined by Kerala's traditional pattern of trade which is characterized by export-oriented production and import-oriented consumption. It has resulted in a widening trade deficit in interstate - not international - trade, and since the beginning of the migration boom the increase in consumer prices in Kerala has not been much higher than that for all India.

The tertiary sector which had declined between 1970 and 1975, has experienced a substantial boom since the mid 70s (Fig. 6) which was mainly due to the increase in demand for transport, trade, hotels and restaurants, banking and real estate. The expansion was the greatest in the districts with the highest incidence of migration. The tremendous boom in the banking sector would have been even larger had it not been for the fact that nonbanking financial institutions which mushroomed in the state by 1982, attracted large amounts of the migrants funds (Nair, 1988:2).

Within the secondary sector activities did not increase during the period of the migration boom, with the exception of building and construction which displayed considerable growth rates until the early 80s, followed by a marked decline towards the mid 80s. The agricultural sector lagged much behind the general development.

In view of Kerala's labour market situation and the structure of emigrants, the withdrawal of labour should hardly cause any significant bottlenecks. Shortages of skilled and semi-skilled workers which were experienced in the construction sector and which resulted in higher wage rates must be seen against the background of the particularities of Kerala's labour market which is characterized by segmentation, a strong staying power of labour and covert and overt unionisation.

The efforts of Kerala's government to persuade migrants to invest their savings within the state met with little success. This cannot be ascribed to a general aversion of the migrants to invest, as under the Indian government's "Non-Resident Investment Scheme" e.g., about 20% of the funds mobilised for projects in other states came from Kerala, but nothing went to Kerala (Nair, 188:46 p.). Returning Keralite migrants are also reported to have made huge investments in Karnataka and Tamil Nadu. The failure of the government to mobilise migrants savings for domestic development projects is generally seen in a lack of faith in the government which is supported by the bad example set by many public sector enterprises which incure huge losses every year. Other agencies, as e.g. the Kerala Industrial Development Corporation Ltd. or the Kerala Financial Corporation, which both promote industrial investment by migrants, seem to be more successful in mobilizing funds[3]; for a definite evaluation it is, however, to early.

c) Pakistan

Pakistan displays - together with Sri Lanka - the highest per capita income of the four South Asian countries. With nearly half of the GNP, the tertiary sector dominates. The industrial sector comprises nearly 30% of GNP and employs 16% of the country's labour force, the largest share of the four South Asian countries; it works, however, at a low level of efficiency.

By tradition Pakistan's labour force has a high degree of mobility. Temporary migration has always been common. Nearly half of the people living in Karachi, for example, are not born there, and many of them have their family in their home village to which they return periodically (Guisinger, 1984:202).

Of the four countries, Pakistan has - with about 7% - the highest share of its labour force abroad. At the same time it displays - with 3% p.a. - the highest growth rate of labour supply. According to recent estimates the number of Pakistanis working abroad was more than 1.8 mio. in 1985 (Kazi, 1988:3). The flow of out-migration reached its peak in 1981 with nearly 170,000 (Fig. 1) and since than has declined considerably.

45% of Pakistan's migrants at the mid-80s were unskilled (Quibria, 1985:86). The overwhelming part of them are production workers whose share increased from 71% at the end of the 70s to 93.7% in 1985 (Kazi, 1988:7). Nearly one half are skilled workers who are mostly employed as construction workers, tailors and transport operators (Pakistan Bureau of Employment, cit. from Kazi, 1988:7).

In Pakistan, too, international labour migration displays a very significant regional concentration. Nearly three-quarters of the migrants have come from the Punjab, the region with the highest population growth (Gilani et al., 1981:10). It is followed by the Sind with 14% of the migrants, NWFP (11.7%)

3 Promoted industries were, e.g., reclaimed rubber, soft drinks, aluminium powder making, ceramic substances, bulk drugs, engineering units and wood based industries. The KFC, e.g. sanctioned about 70 projects (Nair, 1988:54).

and Baluchistan (3.9%). About 80% of the migrants come from rural areas (Kruijk and Leeuwen, 1985:416), and most of them belong to the lower strata of the socio-economic ladder (Kazi, 1988:34).

Pakistani migrants on average consume an estimated 23% of their income while staying abroad (ILO/ARTEP, 1986) and remit about three-quarters of their savings (Gilani et al., 1981:105). Total remittances reached their peak with more than 3 bio. US$ in 1983/84 (Fig. 2). This amounts to nearly 12% of GDP, is higher than the total value of merchandise exports and pays for nearly half of the country's imports (Fig. 3 and 4). The economy's dependence on the remitted foreign exchange becomes obvious by considering the fact that its debt service amounts to 30% of the export value of goods and services.

According to estimates by ILO/ARTEP 70% of the remittances are sent home through official banking channels, an estimated 27% of the inflow of funds is hand-carried by the migrants, partly in the form of merchandise, mainly consumer durables (ILO/ARTEP, 1987). Living in rural areas the migrants' families spend part of their additional income on productive inputs like agricultural machinery, fertilizer, repair services etc. As these goods are produced in urban areas, non-farm activities did not expand much in rural areas and demand for labour increased especially in urban sectors and to a smaller extent in agriculture (Kruijk and Leeuwen, 1985:416).

According to surveys by ILO/ARTEP (ILO/ARTEP, 1986) and Gilani (Gilani, 1979), 17 to 22% of the remittances are spent on the acquisition of land and the construction of houses. Investment in business is mainly in the trade and service sector. A large part of the returning migrants do not go back to their previous employment; one third of them - the relatively better off strata - set up their own business with their savings. The employment potential of these enterprises is, however, low; most of them employ only one person. About one third of the returning migrants are absorbed by the agricultural sector, although only one quarter of them worked in this sector prior to migration. According to ILO-ARTEP investigations more than one-third of them are, however, underemployed (Kazi, 1988:25).

Emigration of skilled workers caused serious shortages of certain categories of the Pakistani labour force, as e.g. carpenters, electricians and plumbers (Gilani et al., 1981). In the construction sector, the quality and quantity of available labour was significantly affected (Ahmed, 1982). Moreover, the emigration of the most skilled workers at end of the 70s had negative repercussions on the quality of the skills acquired by new entrants into the labour market because the great majority of the workers in Pakistan receive their skills informally by the way of on-the-job training (Ahmed, 1982). In addition, Pakistan lost 50 to 75% of its recent medical school graduates between 1973 and 1978 (Nagi, 1986:28). After the peak of out-migration was crossed the severe shortages of skilled labour did, however, not persist, and against expectations the changed demand structure in the Middle East did not entail significant modifications in the skill composition of Pakistan's labour export (based on Kazi, 1988).

The booming years of labour export were accompanied by rising real wages, especially in the construction and agricultural sector - where they reflect both the loss of manpower and the higher demand -, and in the large scale industry; and by a shift in the earning structure in favour of blue collar jobs. In large scale industry and construction the wage rates reached their peak between 1977 and 80 and afterwards declined markedly, closely following the pace of out-migration (kazi, 1988:8). As a result new entrants into the labour market now had much higher incentives to take up blue collar jobs. The agricultural sector lost much of its manpower in the process of secondary migration in which many workers left the rural areas to take over the jobs which were left vacant by emigrating urban labour (Kazi, 1988:8). Wages of production and service workers increased more than those of professionals, which reflects the structure of out-migration (Irfan and Ahmed, 1985:428). At the same time the wage gap between the highly educated and the less educated and between the formal and the informal sector narrowed.

The producers' reaction to rising wages was a substitution of capital for labour in the construction, agricultural and large scale manufacturing sectors. In the construction sector, labour was substituted to a large extent by prefabricated material. Consequently labour employment declined drastically (Irfan and Ahmed, 1988). Growth of employment slowed down in all sectors with the exception of services where it accelerated from an average growth rate of 2.7% p.a. in the period 1971-78 to 5.3% during 1979-85. The declining job opportunities were first of all felt by unskilled urban workers.

As a considerable share of the remitted money was spent on land and the building of houses, output in the construction sector increased at an annual rate of 8.2% between 1976/77 and 1985/86, and the price index of building material rose from 100 in 1975/76 to 217 in 1983/84, against an increase of the general price index from 100 to 201 (Kazi, 1988:33).

The labour export boom to the Middle East was followed by an upsurge of Pakistan's merchandise exports to that region which increased from 16% to 34% of the country's total exports between 1973 and 1983 (VIZ). This was largely due to the demand by Pakistani workers for native goods such as rice and clothing which are the major export products to this region.

The large inflow of remitted foreign exchange caused the government to liberalize the international trade and to adopt a flexible exchange rate which was followed by a depreciation of the rupee against the currencies of its major trading partners. Under the "Personal Baggage/Gift Scheme" certain items particularly durable consumer goods, are allowed to be imported with little or no duty.

In order to encourage the inflow of remittances through official channels the banking system was expanded considerably, mostly by the instalation of new branches in the Middle East and in small towns of rural areas, and transfer procedures were simplified. Facilities for residents abroad to open foreign currency accounts with banks in Pakistan were created. Their interest rates vary in line with international rates, and they are easily convertible into foreign currencies (Kazi, 1988:41). The total value of these accounts increased from 26.13 mio. US$ in 1975 to 1494.94 mio US$ in 1987 (State Bank of Pakistan).

Pakistan pursues a liberal emigration policy and this is likely to continue, not only for the sake of remittances but also for more indirect benefits: "... Pakistan's liberal emigration policies are appreciated by Middle Eastern countries and are not overlooked in their determination of aid levels and beneficiaries." (Guisinger, 1984:215).

d) Sri Lanka

Regarding the economic performance as measured by GNP per capita and its growth rates, Sri Lanka is at the top of the four South Asien countries. The country's situation is, however, deteriorating as its foreign trade is largely dependent on agricultural products (mainly tea, rubber and coconuts) which face a weakening demand and declining prices on the world market. The country sufers from wide-spread unemployment and underemployment, although the educational level of its population is high. Overt unemployment alone amounted to 20% of the population in working age at the early 80s (Betz, 1982:35). As regards the labour export sector, Sri Lanka is the least investigated of the four countries considered. Moreover, the analysis of the impact of migration on the country's development is hampered by the fact that the year 1977 brought a significant rupture in its economic policy (Betz, 1982) which included liberalization of imports, major changes in the subsidies schemes and a tremendous increase in international development aid.

Today, an estimated 3% of Sri Lanka's labour force is working in the Middle East. Contract migration for a few years without family is the rule. Net outmigration is negative since 1985 (Irvin, 1986).

About half of the migrants are women who are working as housemaids, mostly for a period of up to two years. In 1983 and estimated 36.2% of the migrants were unskilled, a decline by 21.5% since 1980 (Quibria, 1985:86); 20% were skilled workers, most of them construction workers, machinery fitters and electrical workers; and around 10% came from middle and high level occupational groups with a concentration in engineering and related professions, medical and scientific personel, accountants, administrators and teaching personel (Rodrigo and Jayatissa, 1988:9). According to investigations by the Marga Institute, about one quarter of the migrants were unemployed before they left the country, another 45% were housewives (Marga Institute, 1986). Therefore the migration movement does not cause any labour shortages at the low skill level. Severe manpower shortages as a consequence of out-migration have, however, been felt at the high educational level in professions such as dentistry, medical care and veterinary care (ILO/ARTEP, 1985)[4].

Nearly half of the migrants come from households with an income below the country's average, and a MPI study reports that 41% of the out-migrants had no individual income before migration (Rodrigo and Jayatissa, 1988:17p).

In Sri Lanka, too, international migration displays a pronounced regional concentration. About half of the migrants come from the district of Colombo, another 15% from Gampaha (Rodrigo and Jayatissa, 1988:14). These are the most densly populated of the country's 24 districts, and the economically most developed ones.

The overwhelming part of the migrants make regular remittances to their families at home. On average, a high level migrant transfers about six times as much as an unskilled worker. In view of the country's foreign trade deficit and debt situation the remitted foreign exchange is a most important factor for its economic development.

During the period 1976 to 86 between 44.1 and 66.6% of the migrants annual remittances were used for consumption. Belonging to the lower income group, migrants' families display a very high propensity to spend their money on food. It amounted to an estimated 57.6% of their expenditures in 1985 whereas the national average was only 16.3%. Between 33.4 and 55.9% of the 1976-1986 remittances were invested, nearly one fourth of them in the construction and maintenance of houses, another fourth in the purchase of land. The next highest investment category were business related activities with

4 Manpower shortages which have lead to increasing wage rates appear also in the tea plantations were the jobs of the repatriated Tamil workers cannot be filled (Betz, 1982:18); it is, however, an open question if the situation would be different without the possibilities of emigration.

23% and vehicles with 20%. The total import leakage of all remittance-financed expenditures is estimated to be around one third (Rodrigo and Jayatissa, 1988).

The future prospects for labour migration from Sri Lanka to the Middle East are better than those of the other South Asian countries because the private demand for housemaids is less vulnerable to government employment policies and to the decline of the construction sector.

4. Quantitative analysis of structural adjustments

The following analysis tries to quantify the impact of the labour movement effect and the remittance-induced spending effect on the South Asian countries. It is based on regression analysis of macro-level data, and intends to provide an answer to the question how relative changes in remittances and the availability of labour influence the economy via different sectoral growth rates. Double log-linear equations are estimated on the basis of annual date of the period 1970 to 1985 for the agricultural output; imports, consumer price indices; GDP; construction; trade; finance and insurance; money reserves; and index of industrial production. The proportional change of these variables as a function of the proportional change in remittances is reflected by the coefficients of elasticity which are displayed in Table 2. The reaction of the agricultural output has been calculated with a one-period time lag in order to accomodate to the agricultural production process.

Although the economic situations of the labour exporting South Asian countries differ considerably from each other the results obtained are surprisingly similar.

In all four countries the share of agriculture in GDP significantly declined with increasing remittances which implies that agriculture belongs to the lagging sectors of the boom. This can be explained by the fact that the marginal propensity to spend money for agricultural products typically declines with increasing income and by the tradeable character of most agricultural products. The importance of agriculture declined the most in Pakistan where the percentage of labour force abroad is comparatively high and labour shortages are already felt in the rural areas. It is lowest in Sri Lanka where the agricultural sector is strongly export oriented.

Although the agricultural sector loses in terms of shares in GDP, the reaction of total production is positive in all food categories. This can be ascribed to the fact that there are idle resources available in the sector to satisfy additional demand, and to some efficient import controls. This result contrasts with the experiences made in other countries with significant outmigration where labour shortages and very open borders resulted in a decline of agricultural output and increasing food imports (Knerr, 1988b).

Table 2: Regression output (coefficents of elasticity)[1]

	Bangladesh	India	Pakistan	Sri Lanka
Agricultural Production				
- Share in agriculture				
in total GDP, t + 1	- 0.05	- 0.05	- 0.08	- 0.02
- Cereals, t + 1	0.07	0.09	0.12	0.12
- Vegetables, t + 1	0.06	0.12	0.07	(0.05)
- Fruit, t + 1	0.03	0.10	0.09	n.s.
- Meat, t + 1	n.s.	0.11	0.14	0.02
- Milk, t + 1	0.13	0.15	0.07	0.06
Imports				
- Total, t	0.26	0.52	0.50	0.26
- Nairy Products, t	0.53	0.52	0.54	0.22
- Fruits and Nuts, t	1.57	(0.07)	0.34[2]	0.76
Consumer Price Index, t	0.13	0.26	0.35	0.22
GDP	0.14	0.13	0.18	0.09
Construction	0.23	0.08	0.24	0.13
Wholesale, Retail Trade	n.s.	0.15	0.18	0.16
Finance, Insurance	0.33	0.16	0.17	0.09
Index of Industrial Prod.	n.s.	0.16	0.15	n.s.

1 The significance of the results was tested by t-Test and R squared.
2 only fruit
n.s. = not significant
( ) = figures in brackets indicate a t-Test result between 1 and 2

Source: Own calculations with data from IMF, International Financial Statistics Yearbooks; IMF, International Financial Statistics, Supplement on Price Statistics; UN, Statistical Yearbook; World Bank, World Development Reports; FAO, Production Yearbooks; UN, International Trade Statistics Yearbooks, vol. III. UN, Statistical Yearbooks for Asia and the Pacific. Bangladesh Bureau of Statistics, Statistical Yearbook of Bangladesh.

In all four countries total imports rose considerably - up to half percent per percent increase in remittances in Pakistan and India - which reveals a high leakage of remitted foreign exchange. The reaction is moderate in Bangladesh where - as a result of the low per capita income - much of the additional income is spent on food, which is produced to a large extent within the country where sufficient production capacities exist (Khan, 1985). It is low in Sri Lanka, too, which for some of the years considered, practiced rigid import controls. Because of the far-reaching changes in the country's foreign trade policy during the last years, the results for Sri Lanka are, however, to be considered with caution. Import elasticites are particular high for fruits and dairy products which generally display a strong reaction to increasing incomes.

In all four countries migrants' remittances created an important inflationary pressure. The reaction of the consumer price index to increasing demand is lowest in Bangladesh where many idle resources are available. It is highest in Pakistan where resource constraints which to a large extent are due to labour emigration, have caused inelasticites of supply.

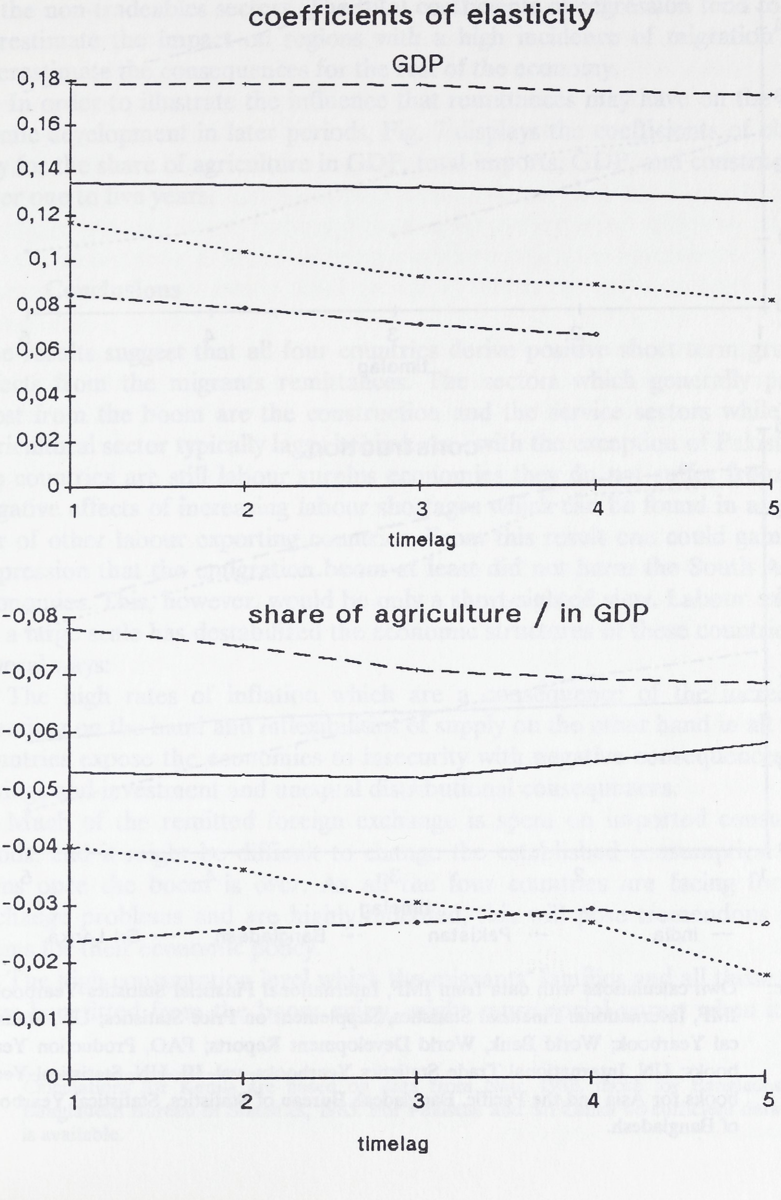
The development of prices has its counterpart in the development of real GDP. The countries with the highest rates of inflation display the lowest growth rate of real GDP and vice versa. This is explained by the fact that additional demand for goods with a low elasticity of supply entails price increases whereas a high elasticity of supply is accompanied by only minor price changes.

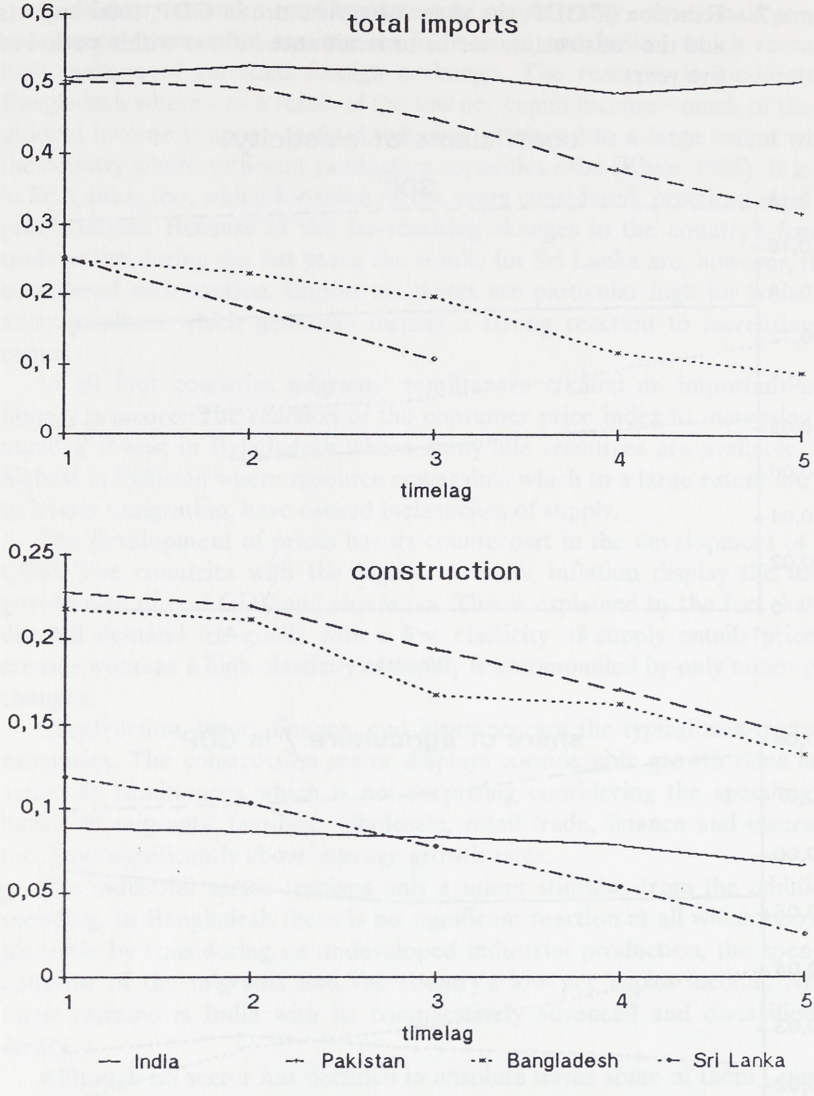
Construction, trade, finance, and insurance are the typical non-tradeable categories. The construction sector displays considerable growth rates in reaction to remittances which is not surprising considering the spending behavior of migrants' families. Wholesale, retail trade, finance and insurance, too, have significantly above average growth rates.

The industrial sector receives only a minor stimulus from the additional spending. In Bangladesh there is no significant reaction at all which becomes plausible by considering its undeveloped industrial production, the spending behavior of the migrants and the country's low per capita income. At the other extreme is India with its comparatively advanced and diversified industry.

Although no sector has declined in absolute terms some of them - namely agriculture - stay markedly behind. These lagging sectors will, on the other hand, not be hit so much by recessions in the labour export sector.

Figure 7: Reaction of GDP, the share of agriculture in GDP, total imports and the construction sector to remittance inflows within period of five years





Source: Own calculations with data from IMF, International Financial Statistics Yearbooks; IMF, International Financial Statistics, Supplement on Price Statistics; UN, Statistical Yearbook; World Bank, World Development Reports; FAO, Production Yearbooks; UN, International Trade Statistics Yearbooks, vol. III. UN, Statistical Yearbooks for Asia and the Pacific. Bangladesh Bureau of Statistics, Statistical Yearbook of Bangladesh.

Significant correlations can be deducted between the flow of remittances and land prices. The coefficients reach 0.76 in Kerala; and 0.70 (Chittagong), 0.53 (Noakhali) and 0.38 (Sylhet) in Bangladesh[5].

These global results can hide significant regional concentrations, especially in the non-tradeables sectors. The total coefficients of regression tend to underestimate the impact on regions with a high incidence of migration and overestimate the consequences for the rest of the economy.

In order to illustrate the influence that remittances may have on the economic development in later periods, Fig. 7 displays the coefficients of elasticity for the share of agriculture in GDP, total imports, GDP, and construction after one to five years.

5. Conclusions

The results suggest that all four countries derive positive short term growth effects from the migrants remittances. The sectors which generally profit most from the boom are the construction and the service sectors while the agricultural sector typically laggs behind. As - with the exception of Pakistan - the countries are still labour surplus economies they do not suffer from the negative effects of increasing labour shortages which can be found in a number of other labour exporting countries. From this result one could gain the impression that the emigration boom at least did not harm the South Asian economies. This, however, would be only a short-sighted view. Labour export on a large scale has destabilized the economic structures of these countries in several ways:

The high rates of inflation which are a consequence of the increased spending on the hand and inflexibilities of supply on the other hand in all four countries expose the economies to insecurity with negative consequences for savings and investment and unequal distributional consequences.

Much of the remitted foreign exchange is spent on imported consumer goods, and it might be difficult to change the established consumption patterns once the boom is over. As all the four countries are facing foreign exchange problems and are highly indebted, this will pose tremendous problems for their economic policy.

The high consumption level which the migrants' families and all those who have benefitted from the boom enjoy, might cause social unrest when it be-

5 Calculations for Kerala are based on data from Nair, 1988, those for Bangladesh on Bangladesh Bureau of Statistics, 1985. For Pakistan and Sri Lanka no sufficient data base is available.

comes clear that they have to return to pre-boom levels As experience from many countries has shown, under such circumstances people blame the worsening of their situation on their own government.

With the changed structure of international labour demand in favour of high skilled and educated manpower arises the danger that labour export might turn very soon into a brain drain, which will harm the general economic development of the labour exporting countries[6]. The acquiring of skills in the host countries which could be useful for the home economy is, however, neglectable which is underlined by the fact that 60% of the returning migrants from Kerala, an estimated 17.4% of those from Pakistan (Kazi, 1988:20) and more than half of those from Sri Lanka remain unemployed after their return.

The adoption of more capital-intensive production techniques will have serious consequences on labour employment in Pakistan after the migration boom, even more as the country's labour force shows considerable growth rates.

Emigration from South Asia declines rapidly as the downturn of oil prices, the changing structure of labour demand, and the increasing competition by South East Asian labour force brings the export boom for lower skill levels to an end, and the newly built industries in the Middle East need higher qualified personal. Possibilites of immigration for highly-qualified South Asians exist in a number of industrialized Western countries. As the incentive for the individual to take up a highly paid job abroad is strong, and the South Asian countries have limited resources to respond quickly to this, the consequence will be bottlenecks in the domestic economies. The lower the skill level of the indigenous population the more will these shortages be felt. The country which probably will be the most seriously affected by this new situation is Bangladesh.

Other categories of South Asia's labour force which have favourable prospects in the Middle East are persons working in the service sector. The local population of the labour importing countries will for the forseeable future dispose over a high income. The demand for services which has a high income elasticity will problably decline to a much lesser extent than that for manual labour as it can neither be substituted by capital nor by merchandise imports, and it is less dependent on governments' employment policy.

To a varying degree labour exporting South Asian countries have to take measures for the transition and adoption to a post-boom economy which in

6 That this category is also willing to migrate is underlined by the fact that since the beginning of the migration boom continuously more than half of the work seekers registered with the Employment Exchange of Kerala are matriculated (Nair, 1988:36). A similar situation prevails in Bangladesh.

many respects is quite different from that before the boom. As the South Asian region displays a significant tradition of ever-present outmigration one could, however, not expect that this was a "once-and-for all boom". South Asian labour force will presumably capture the next chance on the world market whenever it will arise and - depending on the development of the world labour market which becomes more integrated by modern means of transport and by the ease of short-term assignments - this might turn into another boom sooner or later. Politicians should not only adapt to the already on-going period after the Middle East boom but also try to learn from the experiences made. For this time, none of the labour-exporting South Asian countries has been able to derive long-term growth effects out of the billions of dollars of foreign exchange that have flown into their economies.

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