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MACRO-ECONOMIC ISSUES IN INTERNATIONAL LABOUR MIGRATION: A REVIEW

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CONTENTS

1. Introduction: The Context

For several Asian countries, and several million Asian migrant workers, the Middle Eastern interlude has revived their economic fortunes in a dramatic fashion. But it appears that the migration bonanza has crossed the ridge, and that the phenomenon is on the wane. The recent collapse in oil prices has underscored this emphatically, and has shifted the focus of attention to the accelerating flow of return migrants: the central issues in the forefront of the discussion are now concerned with the productive absorption of the returning migrants, and with the adjustment of the economy to a reduced level of financial inflows in the form of remittances. Given the nature of the downturn in the Middle Eastern economies, it could even be opined that the findings of the Project might be too late to be of real assistance in the process of policy formulation (on the assumption of a lag in this process of, say, two years). However, any such conclusion might be counter-productive: while the migration phenomenon might well have passed through a point of inflexion indicating its maximum strength is past, in absolute and relative terms, it is likely to remain a major feature in the foreseeable future. Further, since the migration linkages of different Asian economies with the Middle East are quite different, within an overall decline there could be several moderating forces which cushion some Asian sending countries from the downturn while exposing other vulnerable economies even more to the decline. To place the theme in a regional context, and also to emphasise the degree of intra-regional differentiation in country-level migration experiences, it might be useful to note some relevant features.

Firstly, the degree of dependence of different countries varies quite radically with respect to both labour and remittance flows. On the one hand, both flows are extremely important for Pakistan, where official remittance flows have been known to exceed the value of merchandise exports, and where a substantial slice of the labour force has found its way to the Middle East over the previous 15 years or so. The withdrawal of labour has been sufficient to siphon off much of the slack in the domestic labour market, thus rendering wages upwardly mobile in response to the growing labour demand of an expanding economy. The entire economy was fuelled by this benevolent interaction; it is this which has now threatened to become a downward spiralling vicious circle, with remittance flows declining, and accelerating flows of return migrants stagnating in growing pools of unemployment. On the other hand, for a country such as Bangladesh, the labour withdrawal factor has never been a powerful one relative to the domestic labour market situation. However, the remittances play a crucial role in providing foreign exchange to an economy with an export barrier. The present slowdown therefore involves different levels of stakes for the different economies in each of the labour market and the foreign exchange spheres.

Secondly, within the overall decline in the demand for foreign labour in the Middle East, there is a process of restructuring going on. The recession has implied a curtailment of activities in the new construction sector. Consequently, the pattern of demand has shifted noticeably away from several categories of relatively unskilled and semi-skilled workers required in this sector to service, operations and maintenance workers requiring higher skills. This seems to have had two effects. On the one hand, it has provided a boost to labour migration from countries which specialise in these skilled categories at low wages, e.g. the Philippines, where labour outflows have not declined in recent years; on the other hand, there is an increasing degree of competition in the relatively unskilled categories with the result that countries willing to accept very low wage tenders for their workers have managed to maintain, or perhaps even increase, their absolute and relative shares in the overseas labour market. The shrinking and restructuring has thus involved a shake-out which has not affected all countries or categories of labour.

Thirdly, while the Middle East migrations might have been declining, there have been noticeable diversions of late into the more developed ASEAN economies. Indeed, several Asian labour exporting countries, Sri Lanka, the Philippines and Thailand, have initiated policies to facilitate this redirection towards Japan, Singapore and Brunei. In this game, it is likely that Pakistan, India and Bangladesh will have a lesser role to play.

Fourthly, while declining remittances are likely to affect some countries such effects could be mitigated to an extent by the positive impact of the decline in oil prices on the balance of payments of the labour exporting but oil importing Asian countries. Countries such as Indonesia might find themselves losing on both counts, however.

Fifthly, it must not be overlooked that the decline in labour migration is also likely to have a recessionary income and employment impact on the Middle Eastern economies themselves. In some cases, the service, trade and transport, and housing sectors could be quite adversely hit, setting up further negative multiplier effects on the rest of the economy. To avoid these, some receiving economies have begun to liberalise their immigration rules so as to attract the families of higher paid migrants to join them; the objective is to increase the proportion of the earnings of the migrant that are spent overseas. If this policy were to succeed, the result would show a positive impact on labour outflows (though many of these might be dependents) but a further negative impact on remittances.

Sixthly, it might be mentioned that survey data shows that a surprisingly high proportion of the overall savings of the migrant are transferred to the home country by the migrant at the time of his/her final return. This implies that as the process of return migration proceeds, the flow of remittances might well experience a lagged boom, before eventually subsiding to new low levels. If this phenomenon is generally valid, it emphasises the importance of policy formulation in this regard in an expeditious manner.

Seventhly, the experience of the past few years would have brought home the futility of making strong predictions about the behaviour of such politically influenced price fixation processes as are operative in the oil industry. Should there be a moderate revival, it is highly likely that the ensuing expansion in the level of economic activity would begin, once again, to suck in increasing volumes of Asian labour. However, even if this should not come to pass, labour migration is likely to remain a live phenomenon and policy issue during the next decade.

There is a mushrooming body of literature on the migration phenomenon. Three features characterise this literature: firstly, it is mainly concerned with out-migration; secondly, its empirical content is primarily derived from survey data covering samples (usually not randomly selected) of migrants; thirdly, it treats the problem both at the levels of analysis and policy, from the point of view of the individual migrant worker and his immediate family and surroundings. These features provide the point of departure of this exploratory note on current issues pertaining to labour migration: it focuses attention (though not exclusively) on return migration; and it argues in favour of a wider methodological approach which analyses the phenomenon of migration within a macro-economic perspective where the impact on economy and society as whole can also be identified and evaluated. It is only within this framework that appropriate policies and strategies can be formulated which maximise the development benefits of migration both for the migrant as well as for the sending economy. This note is neither intended to provide a survey of the literature, nor a comprehensive treatment of all current issues; rather, it is intended to view the same phenomenon from a somewhat different methodological perspective, and through this to identify some issues which have so far not received the attention they merit. It should also be mentioned that the note does not purport to fit the reality of any specific country faithfully; rather it utilises stylised observations drawn across the range of countries, keeping in mind the diversity which characterises their experience with respect to various aspects of migration.

2. Data Problems

Shortcomings in the coverage and quality of data prevail in virtually every field of development analysis and policy formulation. However, in the case of overseas migration, such data inadequacies are both somewhat greater than in most other fields and also of rather greater significance. Consequently, it is virtually impossible to conduct any systematic, full-blown analysis of the impact of the migration phenomenon on the sending economy; and in the absence of such an analysis, policy formulation rests unfortunately but unavoidably, on a shaky basis.

Data requirements can usefully be divided into two categories. The first relates to international economic flows related to migration. Here, the need is to generate comprehensive flow data on the outflows and inflows of labour from the economy and on the inflow of remittances and physical and financial transfers into the economy. Without such data, any estimation of the overall magnitude of impact of the migration phenomenon on the economy is reduced to guesswork. The second category pertains to a wide range of statistics on various dimensions and parameters of the domestic linkages of the labour and remittance flows. Here, the need is for survey based data rather than for comprehensive census returns. Without such data, it is difficult to identify the nature and incidence of the impact of migration on the domestic economy. The position with respect to these two types of data is quite varied, and some initial observations on this aspect are necessary.

To begin with, the statistics on labour flows, both outward as well as return, are dubious. For outward-bound migrants, numbers are available for workers whose migration has been handled by the official manpower export bureau of the country. However, these figures are not directly usable as indicators of the total outflows of labour. Firstly, there are substantial outflows handled by private agencies which do not liaise with the official bureaux, and statistics on these are not generally available. Secondly, a significant stream of migrant workers do not register as such, but travel out initially on tourist visas and subsequently divert their journey to the originally intended direction. Thirdly, for an increasingly significant section of Asian labour migration, no registration or visa is required, as in the case of intra-ASEAN labour flows. Fourthly, there are also substantial, albeit seasonal, flows of labour in the form of border crossings - e.g. between Thailand and Malaysia, or between Indonesia and Malaysia - which cannot, but need to be monitored. Fifthly, even such official time series data as do exist are subject to problems since the recorded numbers are very sensitive to variations in procedures for the registration of migrants, whether at the labour bureax, at points of exit, or at the consulates of the visa-issuing offices of receiving countries.

With respect to returning migrants, the position is even worse: in most Asian countries, there is virtually no administrative system in place which can record the numbers of such workers on a regular basis. Exceptionally, in Pakistan, data are available from an one-off airport survey mounted with enormous effort and cooperation between the various official and other agencies related to return migration. While some data are better than none, it would be obvious that the results of a single survey cannot constitute an adequate basis for generating flow statistics on return migration. Elsewhere, even such surveys are not available. The other method of estimating the projected numbers of returning migrants from the time profile of out-migrants (read alongside the contractual information on their intended length of stay abroad) is too unreliable to be of any real utility. For one, those workers also return who do not go through the official channel where such length-of-contract information is recorded; for another, there is no hard information on the proportion of workers who manage to extend their stay abroad after reaching the country of destination.

An alternative source of statistics on labour outflows and inflows could be the labour flow records of the receiving countries. For any <u>one</u> sending country, this would require information from <u>all</u> the receiving countries to and from which flows of labour took place for the reference years. As it happens, such comprehensive data are just not available in the sending countries on an annual basis. Occasional internal censal or survey data are available on an ad hoc basis for some receiving countries, but these could only help in making a cross-check of flow figures derived from other sources.

The state of data on remittances is not too dissimilar. Taking financial remittances first, the one flow for which official data are available is financial transfers made through official banking channels. But transfers are also made through other routes which cannot be monitored. Firstly, there are significant transfers made in the form of cash - or other instruments - carried by migrants (or their friends) when they return to the home country, whether permanently or for a brief visit. Thus, in India, a traveller can enter the country with foreign currency upto a value of US$ 1,000 without having to declare it to the customs authorities; in some other Asian countries, the figure is much higher at US$ 5,000 or even US$ 10,000. It should be noted that from a macro-economic point of view, such money, when subsequently converted into local currency, would show up in the official accounts. However, it would be recorded under a head dealing with tourist travel etc., and not under remittances of labour income from overseas. This leakage in the remittance data - though not in actual inflows - is likely to be quite significant, and would probably affect the records for the lower income migrants relatively more than the others. Secondly, private unofficial transfers are also made whereby the migrant transfers the sum in foreign currency to an agent overseas, while an equivalent sum at an agreed exchange rate is then transfered by the agent's counterpart to the migrant's family (or nominee) in the local currency in the migrant's country of origin. Two transactions occur: one entirely overseas and the other entirely in the domestic economy, but no remittance in foreign currency enters the migrant's home economy. These transactions - both of which go officially unrecorded - are commonplace, and could account for a substantial fraction of the total 'remittances' sent by migrants. They could arise from various considerations: one standard motivation is an overvalued exchange rate which acts as a disincentive for using official channels. But even where there is no great discrepancy between the official and the market rates of exchange, tax avoidance could be another reason for avoiding the bank route. Yet another reason could be convenience and the avoidance of cumbersome banking procedures. Where foreign exchange rules are restrictive, capital flight from the migrant's home economy could create a strong source of demand for such double transactions.

The absence of these two types of transfers from the remittance statistics leads to a serious underestimation of financial inflows. It should be noted though that in the former type of understatement, the inflows <u>are</u> in the form of foreign exchange and <u>are</u> recorded, though under the travel accounts; in the latter case, there are <u>no</u> net inflows into the economy - a domestic transfer involving only local currency takes place. Thus, in the latter case, not only are the inflows not recorded, but also, the macro-economic impact on the economy is restricted to that arising from the internal transfer of the monetary sum concerned.

The other form which remittance flows take is the import of goods by the migrants on their visits and upon their final return. Such goods include electronic consumer durables, cameras and other gadgets, watches, textiles, gold and ornaments, cars and jeeps, air conditioners etc. The value of these goods should rightly be included in the estimate of remittances, to record the entrant by his/her migration status; as such in these records, there is no distinction between ordinary travellers and tourists and returning migrants. Secondly, goods imported within the limit allowed for duty free imports in the country are not recorded, and these could be substantial. Thirdly, it is probable that in most countries, there are quite substantial leakages at the point of import, whether through customs irregularities, or through more organised smuggling networks. Here, one item which is especially subject to undeclared entry is gold brought on the person of the migrant. While no data are recorded, it might be possible to derive approximate estimates on the basis of parameters derived from the expenditure pattern surveys of returning migrants, and applying these to the estimated number of returning migrants.

Of course, when imports of goods attract customs duties, such flows do enter the national accounts, but then only in the form of import data without reference to the migrant status of the importer.

In sum, 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. Of course, some figures are available for almost every variable, but they must be taken to include rather large margins of error.

The position with respect to the second category of data, viz., that pertaining to the domestic linkages of the labour and remittance flows, is somewhat better. Various surveys provide information on the origin and socio-economic characteristics of the migrants; on their expenditure patterns and the uses to which remittances are put; on their labour market status prior to migration, and sometimes also upon return; on their remittance propensities, etc. Usually it is possible to piece together some picture of the nature of these flows. However, whatever parameters are derived through such exercises are also subject to wide margins of error arising at least in part from the frequent absence of any rigorous sampling frame for such surveys. Thus, on the one hand, the data on the parameters - though available - are shaky; on the other hand, the statistics on the magnitude of the labour and remittance flows are even more questionable: it follows inevitably that exercises based on the application of the former on the latter need to be interpreted with considerable caution when analysing the macro-economic impact of the migration phenomenon on the sending economy.

One other relevant point concerns the manner of inclusion of the remittance data in the national accounts. The conventions followed by different countries are not uniform, and this requires care when making international comparisons based on the official aggregated national accounts data of different countries.

3. Impact Analysis

3.1 Macro Economic Aspects

Within the analysis of the overall macro-economic impact of international labour migration, four areas of discussion are taken up below: the influence that the migration phenomenon may have had on the formulation of aggregate national economic strategies within a medium term perspective; second, the impact of migration on the balance of payments of the labour exporting country; third, the impact on the aggregate rate of savings and investment in the economy; and fourth, the impact on the sectoral pattern of investment. These, along with some of the topics discussed later with respect to labour issues, would together govern the overall impact of the migration on the growth rate and process in the sending economy. It is in this context that alternative policy options can be meaningfully introduced into the discussion.

The first issue dealing with the impact on the macro-economic strategy within the medium/longer term is an exceedingly difficult one to link in any precise manner to the migration phenomenon. At a very simplistic level it might be possible to argue in favour of some sort of a causal link between the migration experience and certain macro-strategic policy shifts that coincide in time. But beyond this, argumentation becomes quickly murky, and specific links between elements from the migration-set of 'causes' and the strategy/policy-set of 'effects' become exceedingly tenuous. What the migration phenomenon does achieve is firstly a transformation in the position of the sending economy with respect to the state of its foreign exchange balances, and secondly an easing of the employment imbalance. While neither change can be posited to be permanent, since the migration phenomenon and its remittance bonanza are not safely predictable over time, the impact could well be lasting if the manouverability and the additional resources made available could be put to such use as would push the economy onto a superior growth trajectory. While achieving this might well have been the intention of the governments of all the sending countries, it does not follow that they did, or could formulate appropriate strategic shifts in economic management and organisation which could actualise the intentions. This is partly because other severe structural constraints might operate in the process of policy formulation; it might also reflect the rentier nature of the state when it has certain class roots; it may reflect a lack of relative autonomy in actually determining its own strategy of development on account of an undue degree of dependence on foreign countries with conflicting interests; or it may reflect an inefficient policy package. What is possible though is to link the adoption of specific sets of policies with the onset of the remittance flows. The main such policy combination which may be mentioned is import liberalisation within a broader framework of internal structural adjustment, coupled sometimes with specific programmes oriented towards poverty alleviation. These aspects have to be identified on a country specific basis. In doing so, the questions as to whether such open economic strategies render the economy unduly vulnerable to external disturbances and shock, and whether the new strategy is sustainable beyond the foreseeable point when remittances will taper off, need to be particularly explored.

Turning to the balance-of-payments (BOP) issue, while is is widely recognised that the remittance flows from the migrants provided a dramatic boost to the BOP, the precise position is not really clear. In part this is on account of the absence of appropriately and accurately recorded data and other problems discussed earlier. But even beyond this, two other factors need to be taken into account. The first concerns the leakage or diversion of the remittances into imports. To the extent that the liberalised import regime, even when it includes a freer import of non-essential items, is part of an over strategic shift enabled by the remittances, such incremental imports need not be netted out from the remittance flows. But often, governments, wanting to entice higher flows of remittances through official channels, provide various incentives which permit the migrant to make use of his remittances for easy imports, for holidays abroad, or for use in duty-free shops especially set up at home. These import leakages can rightfully be regarded as the price of remittances, and need to be netted out from the gross remittance flow data to get to the net effect.

It should be noted though that the scale and type of out-migration might also raise the level of exports from the labour-sending to the labour-receiving ones. The overall impact would then depend upon the magnitude of this induced export expansion, and also on the resulting change in the pattern of domestic availabilities; the induced imports referred to earlier are likely to be mostly luxury or consumer items while induced exports are more likely to be elements of the migrants' customary wage basket, viz., necessities.

Of course, an improvement in the BOP does not in itself guarantee an acceleration in the pace of economic development. Within the framework of the two-gap models, an easing of the foreign exchange constraint would lead to an improvement in growth performance. However, between the impulse and the effect is the crucial arena of policy formulation and implementation. Thus remittance flows provide an opportunity at best; it would be interesting to investigate, on a comparative international basis, the circumstances under which this opportunity came to be utilised successfully.

The second major aspect which has not been adequately integrated into the analysis of the BOP, and thus also the macro-economic impact of migration on the sending country is the compensatory, or accentuating, effect of changes in oil prices. Since the migration phenomenon is itself directly linked to the fortunes of the index of oil prices, it would be methodologically inappropriate to restrict the analysis of the macro-economic impact to the effects of labour withdrawal and re-entry and those of inflows of remittances. At the present juncture, for instance, there is great concern over the negative effects that the slow down in the Middle East generated by the collapse in oil prices might have on the economies of the labour exporting countries. However, it could be misleading to ignore the simultaneous effects of that same impulse, i.e. lower international market oil prices. Obviously these effects would vary from economy to economy. In the case of a country dependent on commercial oil imports, the compensatory effects could be substantial. Clearly, the lower oil prices would mean a lower oil imports bill, even after adjusting for such increases in oil consumption as might be encouraged by the shift in the relative prices of oil vis-a-vis other energy sources. Such an effect could be considerable in view of the drastic degree of reduction in oil prices in the recent past. How this improvement in the balance of payments effects the rest of the economy would then depend upon how the price reduction is passed on. If passed on fully to consumers, the effects would be deflationary to some extent, and expansionary as well, to the extent that the level of economic activity - and consequently of labour absorption - rose as well. Usually, oil imports processing and sales are handled by private companies, or by the government. The latter is the case in India where the drop in prices has not been passed on by Government which has consequently reaped rentier surpluses in its budget. The impact on the economy subsequently depends upon the effect that such surpluses have on budgetary decisions of the government, but it might be reasonable to expect a substantial positive expansionary impact on the economy. In the case of private companies, the domestic impact would arise partly from final consumers to the extent that they gained from any passing on of the price drop. In part the effect would be to increase the profits of the companies, a part of these being repatriated and thus constituting a leakage. But another part of the profits could be expected to be utilised domestically leading to positive economic multipliers. It should be noted, though, that in such times, even when oil companies make massive windfall gains through not passing on the fall in prices, they are still loathe to invest, since the price fall renders investment in the oil industry less attrative. To examine the relative magnitude of such effects, and also to check whether or not they compensate sufficiently for the negative economic impact of the weakening of the migration flows, it is necessary to employ a numerically specified macro-economic model of the economy. Such an analysis designed to determine the net impact has not as yet been undertaken for the Asian countries. It is worth reiterating that both the direction as well as the magnitude of the impact would vary depending upon whether the labour sending country was an oil importer or exporter and to what extent; upon the incidence of the benefits of the fall in oil prices; and upon the responsiveness of the economy to the positive impulse of lower oil prices.

Moving to the third area, viz, the impact of migration and remittances on savings and investment, one finding which emerges from the national accounts data of several countries is that there appears to have been hardly any effect on the rate of savings and investment at the macro-economic level. Thus, in Pakistan, these rates held steady through the remittance boom phase, implying that the impact was neutral in this regard. In one sense, this is analogous to the debate over the impact of foreign aid inflows on the domestic rate of savings and investment in the receiving country. Except through the use of an appropriate macro-economic model, it would be difficult to separate the impact of remittances (on the domestic rate of investment) from other independent internal and external economic forces operating during the period. Such exercises are not available.

Some national resource managers might argue that remittances are no different from the foreign exchange savings made through a reduction in the oil import bill when oil prices drop. However, the final macro-economic impact of the two might vary. If, say, the Government does not pass on the oil price drop but converts it into budgetary resources for development expenditure on the agricultural sector, or on specific poverty alleviation programmes, the direct impact, and also the subsequent effects via later multiplier rounds, would be quite different from the pattern of direct and indirect demands set up by all those who have the claims to the inflows of remittances. The notion that the two are equivalent in macro-economic terms is therefore not really valid; though it might nevertheless characterise planners who view remittances only in terms of the foreign exchange effect while ignoring the domestic impact generated by the subsequent expenditure of the counterpart local currency funds released by the remittance flows.

The relative absence of any major impact of remittances on the domestic rate of investment contrasts sharply with the savings behaviour of the migrant himself who is often found to remit upto 75% of his overseas earnings. (A substantial portion of this is usually brought in by the migrant at the point of return.) But in turn, the savings and investment rates out of these remittances are not dramatically high. Such investments as do occur are dominated by land purchase, house purchase or construction etc. with very little investment in the 'productive' sectors. A significant portion frequently goes towards debt repayment. As such, the direct impact of the migrant's expenditure pattern does not provide much of a boost for domestic investment.

Taking this a step further, it may be useful to separate two types of savings-investment behaviour. A section of the return migrants behave essentially like rentiers in that after meeting their priority consumption, debt repayment and chosen investments in say, house improvements, they maintain the rest of their savings as financial deposits with banks. This is not surprising since most migrants would not have been experienced investors on a small/medium scale prior to migration. The savings of these rentiers then become available for investment within the rest of the domestic economy according to the priorities and demands operating and determining the direction of invesment there. In contrast, those with a previous business background, and those who are attracted to such investments despite the absence of prior experience, use their own savings to make direct investments in their chosen fields. Indeed, in doing so, they would also be drawing on additional resources from the banking system in the form of loans. The impact of the two types, the rentier-saver and the investing-saver could be rather different. It would also be interesting to see if put together migrants' savings/investment behaviour makes them rentiers or investors in net terms.

The difference between the two types becomes apparent when we move to sectoral composition and impact of migrants' investment behaviour. The migrant saver-investor shows a distinct preference for certain types of activities. Typically, he goes in for a small operation run on a self-employment basis. Trade and commerce, food establishments, and single-vehicle transport ventures come out as most favoured sectors, after real estate of course. While all this is income generating for the migrant, from a macro-economic point of view, the question arises whether such investments could be treated as additive and incremental to the investment level of the sector and the economy, or whether they are substitutive and restructuring in character. Two examples may be considered to elicit some important analytical issues. Firstly, consider investments in petty trade. These are relatively risk free; involve little fixed capital and overheads; turn over the working capital rapidly; usually have few barriers to entry; can be mobile; and can be run on a small, self-employment basis which can take advantage of the migrant's family labour. As such, it is obvious why they are so popular. The same applies to entry into the transport sector as commercial motor-scooter, jeepney, or taxi owner-cum-drivers. The issue which arises, is whether such investments do not merely involve an internal restructuring of the sector concerned without adding much to the overall contribution of the sector to GDP. After all, it may be taking Say's Law too far in asserting that the overall level of demand for transport services would rise in step with the sudden large scale injection of additional capacity on account of the special investment preference of the migrants. Of course, the restructuring might well make the system more flexible, but on the other hand it may do this at the cost of a reduction in capacity use in the sector as a whole. Similar arguments could be applied to trade; can the trading sector expand out of step with the other 'productive' sectors of the economy ? Thus, when viewed not from the individual migrant's but from the macro-economic point of view, the overall impact of migrant's direct investments might not be significantly additive but substitutive in nature.

The second example concerns land and real estate purchase. Again, from the individual point of view, this is clearly an investment, and in the context of most Asian economies, probably a very sound one. But from macro-economic point of view, it merely constitutes a transfer. Large scale real estate investments, especially when concentrated regionally, may raise land prices, and set up other re-distributional and cost-push effects, but again the net investment impact of this is nil in direct terms. However, one qualification is necessary. From a macro-economic vantage point, it matters little who owns the house. If the migrant transfers his savings to buy a house, say, the day he returns, the transaction would have second round effects depending on the expenditure/saving/investment behaviour of the person who sells the house and receives the transfer payment. Thus, real estate operations might not be quite so irrelevant from a macro-economic point of view. An identical argument applies in the case of transfers made by the migrant for debt repayment upon return.

One other aspect to note is the effect that the return and remittance flows might have on the domestic sectoral investment pattern through an indirect route. We have seen the return migrants' propensity to spend money on consumer durables on a priority basis. Some of this demand is met by purchases made overseas by the migrants prior to their return. But to a considerable extent - and the magnitude would obviously vary from country to country - such demand is also met by the production sectors of the domestic economy. (This would have to be true for non-tradeable items everywhere.) To the extent that this happens, the domestic investment pattern in the industrial and service sectors could experience a discernible shift through the operation of the accelerator effect. Whether such a shift is then classified as a 'distortion' of investment priorities would depend on the macro strategy being pursued, but also on the specific point of view adopted with respect to social priorities. Some might argue, as in China today, that such a distortion could release positive development impulses through the operation of the consumption demonstration effect; others might think of this as less likely than the generation of a political demonstrations effect on the resident have-nots. To the extent that such consumer durable demands are met not through domestic supplies but through additional imports, the distortionary effect is transmitted into the import pattern, and subsequently, to the other sectors of the economy - the effect being stronger where total exports are relatively stagnant.

3.2 Labour Aspects

Without attempting to be comprehensive, comments on certain labour-related aspects of migration are made with a view to ascertaining the impact of out and return migration on the economy and identifying some issues that might deserve special attention.

The first major question is whether the level of output drops in response to the withdrawal of labour from the economy. This question has all too frequently been analysed at the level of the migrant's household where, not surprisingly, it is often found that domestically generated earnings drop. In agricultural households less land is found to be cultivated with a parallel drop in household-level output and income. Others have frequently made the assumption that the migrant's wages, prior to his/her exit, provide the measure of the loss of output. Such deductions are, of course, untenable. The land given up by the family of the migrant farmer might now be cultivated by some other rural household, and this goes unrecorded in surveys on migrant households. Similarly, where there is substantial unemployment, and/or possibilities of labour substitution, the migrant's wages would be earned now by some previously unemployed worker. For a skilled worker, the replacement might take time, and hence some output might be lost while substitutes are being trained, or the technological specification of production is being altered to adjust for the reduction in availability of certain categories of labour. Here, some have used the difference between the trainee's wages and the departing migrant's wages as the measure of the loss in output after taking into account the (usually quite short) length of the training period for non-professional categories of labour. While this method is open to query as well, the finding that the loss amounts to 2% of the migrant's remittances per year (in the case of Bangladesh) tells its own story. The position might be quite different in economies such as S. Korea where the labour market is quite tight, and for professional categories of labour, where training is lengthy and expensive (though even here, if there exists considerable unemployment, as in India, the marginal loss in output might be negligible). The relative importance of labour replacement, and of labour substitution consequent upon labour withdrawal through migration, needs to be examined in closer terms at industry-product-process specific levels.

The question of labour substitution is linked to the impact of return migration back into the economy. One hypothesis could be that upon withdrawal, employers follow a labour substitution policy and raise the capital intensity of the production process. This change is then held to be irreversible, and thus migrants returning after the lapse of a few years find they are now confronted with a tighter and less responsive labour market. There could be several problems with such a thesis. Firstly, why should one assume only one-way adjustment in capital intensities ? Of course, employers would not write off newly installed equipment, but such changes are generally made at the margin in an incremental way, or by new entrants into the industry. As such, future replacements of obsolete machinery could adjust the capital intensities in the reverse direction. Secondly, manufacturing processes are very varied involving a variety of technologies and functions, many of which retain considerable flexibility in this regard. Thirdly, the issue must be looked at in a dynamic framework where the migration also imparts an impulse to the overall growth rate itself; this might compensate for the higher capital intensity. Fourthly, it is not necessary that migrants would return in the same proportions to the sectors from which they were drawn; more appropriate then might be the question of the capital intensity and adjustment capacities of the labour receiving sectors of the domestic economy than of the sector of origin of the migrant. Fifthly, judging by the phenomenal increases in the indices of wages of a wide variety of semi- and skilled workers (e.g. in Pakistan) it might be asked if this does not reflect the absence of strong mechanisms of adjustment through the route of labour substitution by raising the level of capital intensity.

A third area which needs some exploration is the turnover of migrant labour. Does each case of migration involve a first time migrant? To the extent that this is typical, the experience of migration (and all it entails) is spread out and shared by larger numbers of domestic workers. On the one hand, more workers might benefit and also imbibe skills etc.; on the other hand, one cost of a higher turnover at the macro-economic level would be that the savings and remittance propensities would be lower, and upon return, the investment propensities would also probably be lower. The rate of turnover would also have implications at the social, cultural and political levels.

A fourth aspect which needs to be investigated is the impact of migration on skill formation of both the migrant and resident populations, and on related issues of the transfer of technology. Systematic information on the levels and uses of skill in the period before, during, and after migration, according to industry and occupational categories, is seldom available. Even so certain observations are possible. The occupational and industrial-process profile of skills demanded by the Middle East economies is quite distant from that required by the labour sending economies. This is apparent from the lopsided occupational profile of outmigrants while overseas, being mostly concentrated in the construction and related sectors. As such, upon return, assuming that these migrants do not crowd out domestic workers in similar skill categories, they will require forms of retraining. Thus, while some new skills might well have been imbibed overseas, these cannot be fully used upon return; a high degree of wastage is structurally built in. On the other hand, various other positive elements can be identified. Migrant workers might have been exposed to new forms of manufacturing organisation; to the demands (often through highly exploitative) of industrial discipline; to generalised skills, such as the use of electrically powered machines and the use of new industrial processes and raw materials etc. In addition to this, there is also an <u>induced</u> skill formation effect on the resident workforce in the sending economy to the extent that labour withdrawal leads of parallel - though not identical - changes in manufacturing and management processes there. Thus the scale withdrawal of carpenters may induce the use of electrically powered equipment; or alternative raw materials to wood which involve different techniques etc.

A fifth set of issues relates to the questions concerning the phenomenon of high unemployment amongst the return migrants. Again, data are scanty, but such as are available, read along with other casual observations reported, permit the identification of certain areas for further investigation. The starting point is to recognise that such high unemployment constitutes a resource waste in several senses. It undermines the morale of an otherwise enterprising section of the workforce; it erodes the skills that they might have developed while overseas; and since such unemployed return migrants are not poor but have their savings to live of, it diverts potentially investible funds into consumption purposes. It might be added though, that giving preference to the re-employment of the returning migrant might only pass on the incidence of the burden of unemployment to the less fortunate domestic worker; thus, the unemployment of the return migrant could be viewed as a manifestation of employment sharing between the migrant and the resident workers. To say this is not, however, to condone the unemployment in the first place. The levels and pattern of unemployment, and its duration need to be empirically investigated to better understand the constraints operative to the smooth re-entry of the migrant worker into the labour market. This leads to an examination of the factors explaining the unemployment: is it a macro phenomenon reflecting employment imbalances? Is it voluntary? If so, is it because migrants are choosy about their occupations, their wages, their location of work (!); or because they are waiting again in the queue to make a second trip overseas? The reason could also be structural, in that returnees still register to seek employment in the trades and functions they performed overseas (or before they left) instead of in occupations where new opportunities are available. If this is the case, the policy implications regarding retraining and information systems are obvious enough. It could also be that domestic employers have an aversion to employing returning migrants in the conviction that they would soon be disgruntled and hence become 'troublemongers'. From a macro-economic point of view, it might be possible to argue that in the case of return-migrant unemployment in an economy which has a generally high rate of unemployment, the cost to society is very low and as such efforts need to be made to deal with the <u>general</u> level of unemployment rather than with specific programmes for the returnees. While it is difficult to deny a certain degree of justification in this argument, it would be cynical to use it as a rationalisation for indifference or complacency at the policy level.

In addition to the above sets of issues related to labour, the process of wage fixation for the migrant workers also needs to be investigated carefully. Typically, the migrant worker would sign on for a job at a wage rate stipulated by the national overseas employment agency handling the migration, or by the private contractors operating in the field of labour export. Such a wage is generally supplemented by board and lodging facilities provided by the employer overseas. Cross country data reveal considerable differentials between dollar wages for identical categories of labour drawn from different Asian countries. In the main however, the differences probably reflect the bilateral nature of the wage fixation process involving oligopolistic middle east labour power buyers, and individual country level selling organisations. The balance of market power is clearly in favour of the buyers, a position accentuated in those countries where the official overseas employment agency is supplemented in its role by a large number of private agencies. In the boom years of migration, the situation constituted a non-zero sum game, with all sending countries able to increase the numbers of out-migrants. However, with the recession, the situation has been transformed into a zero-sum game, where increasingly, the buyers have successfully been taking advantage of the increased competition between the sending countries, and within any country, between alternative sources of supply, to bid down contracted wages. In Sri Lanka in December 1986, the wage rates for unskilled categories of labour were cited at as low as US$ 100 per month; in Thailand, at about 10-20% more.

Some implications of this cut-throat competition need to be noted. Firstly, there is clearly room for cooperative action on the part of the overseas employment agencies of the sending countries to avoid unnecessary inter-country competition. At the same time, it is very difficult to achieve, since there would always be incentives for any individual sending country to break a cooperative understanding over a collective wage rate and gain dramatically - albeit temporarily - by surreptitiously undercutting its rivals. Indeed, it could even be argued that such competition has a positive redistribution dimension, since the poorest country would be able to undercut the others in the matter of the acceptance of low wage for its migrant workers, and would thus benefit more than others - even if at a reduced rate on account of the lowered wages - from the positive effects of the migration. While the experience of international cartels - even in good times - does not provide grounds for optimism, the possibility of adopting some collective safeguards to preempt avoidable competition should still be explored.

Secondly, a negative spin-off of this is that the costs of the competition are inevitably borne by the migrants themselves. The reduced wage rates constitute just one element in this. It is reported, e.g. from Thailand, that employers in the Middle East have often failed to meet their obligations with respect to the provision of board and lodging facilities, which then have to be met by the worker from the low wages. Furthermore, the Thailand experience suggests that with the increased competition between the large numbers of private agencies in the labour export business, such contractors are having to pay substantial sums to other intermediaries who arrange orders for them from overseas. To some extent, this reduces the profitability of the enterprise, and this is borne out by the significant numbers of companies which have gone out of business in recent years (though this could also be an index of the wide incidence of fraud in this field). But most of the increased transaction cost is apparently borne by the would-be migrant in the form of higher charges made by the recruiting agents. In Thailand, the average figure cited at the Overseas Employment Administration offices was approximately 30,000 Baht, (about US$ 1,200) which was twice the officially permissible level, and formed nearly one whole year's wages for the unskilled worker at basic wage rates. Apparently, this figure has been drifting upwards with the recession and the increased inter- and intra-country competition. The level of this liability is high enough to warrant the question as to why migrants would be forthcoming at all at such a low supply price. The answer could be that the migrant hopes - or is given the assurance - that his contract will be extended sufficiently for him to be able to make a profit in the latter part of his stay abroad; or that he/she proposes to add substantially to the basic wage through lucrative over-time earnings. It needs to be remembered that few potential migrants would be able to meet the demands of the labour contractors from personal savings or asset liquidation; in all Asian countries, a high percentage of them have to get into debt to local moneylenders or others to be able to meet this obligation. Such loans involve a punitive rate of interest, so that by the time the migrant is able to start repaying, the sum may have expanded to claim the earnings of an even higher number of months of employment abroad. Clearly there is room for some improvement through curtailment of the domain of both international and national intermediaries.

Finally, while it might not concern the nature of the macro-economic impact on the sending economy, it should be recorded nevertheless that a vital virtually unexplored issue concerns the treatment, rights and welfare of migrant workers during their working stints overseas. It would be ironical, to say the least, to be so concerned with maximising the development benefits of migration without being equally concerned with the migrant's own status and well-being; yet this is what seems somehow to have happened.

3.3 Distributional Aspects

The positive impact of migration and the ensuing remittances on the balance of payments and the growth rate of the sending economy is not difficult to verify. However, this leaves open the question of the distributional dimensions of this impact: do the poor benefit especially? Does inequality worsen or improve? These issues, which have so far not been adequately studied in most Asian countries, can be taken up at various levels: at the (intra-) household level; at the local, community level; or at the regional and inter-sectoral levels.

Various studies reveal that a majority of migrants do not belong to the poorer strata of society; in general, only a very thin slice comes from the poorest sections. Amongst the skilled and technically qualified sections, the level of living prior to migration might have placed them well above national average per capita income levels. It is also self-evident that migrants themselves benefit substantially, often spectacularly, in economic terms from working overseas. The question then is how and to what extent this prosperity affects the rest of the population through direct and indirect effects of the migration.

This said, however, it is necessary to put in one important qualification concerning the leakage of the migrant's direct benefits into the pockets of the agent who demands a huge advance for arranging the exit, and the moneylender who provides the loan to the migrant to meet this demand at exorbitant rates of interest. On quite plausible assumptions about the unskilled migrant's wages overseas, the size of the recruitment agent's fees etc., the incidence of indebtedness amongst migrants on this account, and the rate of interest charged by the informal moneylending sector, it can be deduced that anything upto a year's earnings could be soaked up in working off this debt. Seeing that migrants' contracts are usually for a year or two years, it follows that in the case of a significant fraction of the migrants, a very heavy proportion of the benefits of migration are siphoned off by the agents and rentiers. Here, it may be noted that this burden is likely to fall disproportionately on the poorest amongst the migrants, since they are the ones least likely to be able to meet the contract and transaction costs from their own savings. To this should be added the losses incurred by would-be migrants after falling prey to the subterfuges of deceitful agents.

Moving from the migrants to their household, the impact is still powerfully positive on account of the massive flow of remittances that can often form a large multiple of the household's pre-migration income. A few qualifications are again necessary. Firstly, in several cases, migrants take recourse to a sale of assets to meet the transaction costs of migration. While this keeps them out of the clutches of the moneylender, and as such protects the future stream of earnings, it often imposes special hardships on the family left behind which has now to contend simultaneously with the loss of both prime power, as well as some household assets. In general though, this hardship is a transitory one and disappears as the remittances begin to arrive. Secondly, the migration of the male - and there are significant proportions of married males with children amongst migrant groups - imposes a double burden upon the female head of the household, and exposes her to other socio-cultural forms of difficulties as well. Divorce rates amongst married migrants are known to be well above those of the rest of the population. In general, however, both migrant and his/her family are catapulated upwards on the income and (often) status scales; and since many, if not the majority, already belonged to above-average income groups, this boost is likely to have little direct impact on poverty levels, while it is likely to worsen income distribution in the country. As the demand pattern in the Middle East receiving countries shifts more in favour of relatively skilled and qualified workers, the direct poverty-reducing impact is likely to be even further weakened, while the negative impact on inequalities is likely to be accentuated.

The overall impact on poverty and inequalities however also requires us to consider the indirect effects generated by the migration overseas, whether through the impact of remittances, or through the altered working of the labour markets of the sending country. Here we need to examine several effects both at the local/community and national macro-economic levels.

There would be positive spill-over effects of remittances to the extent that these are shared within the extended family and the local community. The former occurs quite often, partly also because the extended family framework provides the required material support and social insurance for the migrant's family while he is away. To the extent that the prosperous migrant and his family either invest directly in local community facilities or infrastructure, or to the extent that their augmented expenditures set up beneficial local multipliers, other non-migrant members of the local community also gain, though these are likely to be marginal in comparison with the migrant's gains. On the other hand, the new wealth could also project the migrants into higher positions of political power and status with a greater control over the community and local resources resulting in a leakage away from the rest of the community. So also, migrants might wish to acquire more land in their village, and thereby become the force which pushes some poorer families off the land. Equally, the migrant's family could encounter a new found social animosity as well. The local impact is therefore difficult to gauge unambiguously on a priori reasoning.

At the macro-economic level, the heavy inflow of remittances makes possible a higher growth rate of the economy. This in turn would have an impact on the distribution of income and levels of poverty. The magnitude and nature of this impact, however, would depend crucially upon the nature of the growth process, and the institutional framework of the country within which it occurs. Indeed, as seen earlier, the very fact that the foreign exchange constraint has been dramatically eased might itself lead to a policy shift which alters the internal economic rules of the game in favour of greater liberalisation etc. In general, the scale of the expansionary effect consequent upon such an injection of resources could be expected to outweigh whatever regressive distributional effects the growth process - in its original or adapted forms - might have had inherent in it. Certainly this could be expected with respect to the incidence of poverty, though it is conceivable, indeed likely, that inequalities might well worsen. From the point of view of the incidence of poverty, the easing of the resource constraint could also permit the government to launch infrastructural or other specific poverty alleviation programmes.

Again at the aggregate level, the impact of migration upon the price level needs to be considered. Two important elements to be discussed here are food prices and land prices. With regard to the former, one needs to consider the impact of migration on both the demand and the supply sides.

Taking basic foodstuffs first, the demand situation would emerge from two factors: the rate of growth of income, and the income elasticity of demand for these products. With respect to the latter, it should be mentioned that for the migrant household themselves, where the income increase is the greatest, the elasticity of demand is likely to be quite low over the range of the income expansion; indeed, staple products could well be seen to be behaving like inferior goods. But this has to be set against the expansion in demand from the rest of the population through the positive income effect on account of the rise in the growth rate of the economy due to remittances. On the supply side, the crucial issue is the behaviour of the marketed surplus of foodstuffs: the withdrawal of a worker from a farm household would *ipso facto* reduce the demand as total household consumption might not be reflected in increased marketings if the level of output itself falls as a consequence of the withdrawal of labour from the farm. The overall impact on market supply in the short run would then depend upon the magnitude of the impact upon output; the changes in the level of household demand of the households affected; and the relative importance of such farming-migrant households in the economy. In a system where the migrants are drawn mainly from non-farming backgrounds, the impact on supply in the short run could be minimal, while the demand side could display a distinct upturn, thus setting up an inflationary pressure. This pressure of course might be countered to the extent that the flow of remittances finds its way to higher levels of investment (and hence output) in the foodstuffs production sector. The strength of this dynamic effect would again depend upon the relative importance of the landowning families in the profile of migrants. It is not impossible, at least in theory, for migration to have a deflationary effect. In practice, incremental agricultural investment might well be drawn into such expensive non-basic foodstuffs which display a very high income elasticity of demand, e.g. milk and milk products, meats, poultry products and fish, processed foods, vegetables, edible oils etc. This shift in investment is likely to be a response to the widely observed increases in the prices for this range of foodstuffs consequent upon the injection of excess demand of account of remittance flows. The scale of this effect would depend upon the relative magnitude of the incremental income flows, and the supply responsiveness of production to higher relative prices. To the extent that such inflation occurs, this is likely to adversely affect the real incomes of certain middle and other classes which consume such products at significant levels. On the other hand, to the extent that such inflation draws away resources from the staple to the 'luxury' foodstuffs, there are likely to be inflationary pressures generated for the former, with negative distributional effects for the poorer sections of the society. Clearly, the outcome of this distributional process cannot be predicted unambiguously; it could vary in magnitude and even direction from country to country. Any serious estimation also requires a methodology which uses a numerically specified macro-economic model as a basic tool of analysis. Thus far, this has yet to be done.

The other case worth commenting on is land prices. It is well known that a large share of the remittance are spent on acquiring land and in the construction of residential housing. The result has been a substantial increase in the price of land, especially that suitable for such uses. One way of viewing this would be to argue that such land prices are unlikely to have any impact on the incomes of the poor, since they do not enter into the determination of their level of living. Indeed, it has also been suggested that such land price hikes could reduce the incidence of distress land sales which arise hypothetically from a fixed cash need. On the other hand, higher land prices generally also mean higher rents, and these are likely to influence the poorer sections directly. Also, higher land prices would also apply to low-cost housing, which must after all still use residential land. Further, an immediate purchase of land by a returning migrant would also immediately transfer the incremental buying power into the pockets of the seller of land, and the pattern of the subsequent expenditure of these sums might generate additional price effects which impinge upon the real incomes of the poor. In general though, irrespective of the nature of commodity, so long as it remains tradeable, an inflow of remittances need not be inflationary since the additional demands set up could in principle be matched by imports financed by the foreign exchange acquired. Some of the inflationary effects referred to earlier are contingent upon the implicit assumption of inadequate import compensation for domestic imbalances.

Perhaps the single most important positive impact on the poorer sections of the non-migrant population emanates from the effect of migration on the labour market. To begin with, it must be emphasised that the scale of the impact depends upon the initial situation (of glut or otherwise) in the labour market and upon the proportion of the labour force which is withdrawn through the migration. In a country such as Bangladesh, migration does of course reduce the pressure in the labour market, but given the dimensions of the internal structural imbalances in employment demand and supply, the overall impact of the outflow is weak enough to be regarded negligible. On the other hand, the impact in countries such as Sri Lanka and Pakistan has been very powerful since here, the initial condition - while having some slack - was not one of glut; and since in both cases, a substantial fraction of the incremental labour force was drawn off by migration. Thus, while even in Bangladesh the distributional impact of labour withdrawal would have been positive, the scale of the impact in Pakistan has been large enough to raise domestic wages - across a wide range of occupations - quite dramatically. This effect is only partly due to this reduction in supply; it is also a product of the expansion in the labour absorptive capacity - even in the face of such increases in the capital intensity of new investments as might have been induced by labour shortages and higher wages - of the economy as a whole on account of the increase in the level of economic activity due to the injection of the remittance flows into the economy. In this context, it might be appropriate to draw attention to the likely reverse impact in the event of any significant reverse migration. The one mitigating factor here might be that such migrants, even (and perhaps especially) when they were drawn from the manually labouring classes, display a noticeable aversion to returning to such occupations. To that extent, the burden of unemployment might be borne by the return migrants disproportionately, thus reducing the dimension of the negative employment impact on the resident labouring sections.

Finally, some comments on the regional and sectoral aspects might be made. With respect to the former, the starting point is the factual observation that frequently migrants, in terms of their geographical origins, are concentrated in certain regions of the country. This may be on account of higher levels of infrastructural development which enhance information flows and physical mobility; or because such regions have traditionally been outward-going as in the case of several coastal trading areas; or because the workforce of the region possesses some special attributes which make it especially suitable as migrant labour, viz., literacy and education, especially in English; a long prior historical experience of proletarianisation such that the workforce is 'disciplined'; or because the region displays high levels of inequality in asset ownership and also high levels of poverty both of which facilitate and motivate out-migration. In such cases of concentration, the local economy is likely to feel the full force of both the labour withdrawal as well as remittance flows, and the ensuing effects would become much accentuated. This would certainly apply to factors involving non-tradeable items, such as land, several categories of labour etc. However, such direct effects would in turn set up various indirect ones. Thus, if local demands for agricultural and industrial products are set up, additional incentives and prices might well be transmitted into other regions of the country which specialise in the production of these goods; a share of expenditure would be extracted by governments in the form of direct and indirect taxes, which would not then be spent in proportion in this region thus setting up some redistributive effect. To gauge these effects, the direct impact analysis, which can be explored through region-specific survey methods, has to be supplemented by a macro-economic exercise which can locate the final destination of the additional value added through multiplier effects on an economy-wide basis. This requires a data base which includes national input-output matrices as well as matching regional locational coefficients. A full scale exercise might show that the migration-specialist region gains enormously in the first round direct effects, but that subsequent indirect effects - the size of which could be considerable - mostly leak away from the region into the other already developed regions of the economy. In any event, it is highly unlikely that such indirect effects would favour other poor regions. At best then the regional redistribution through the indirect rounds would provide the already developed regions with a share in the bounty of the migration-specialist region. To the extent that the latter was initially itself a poor region, there would be some positive impact on the regional distributional indicators; if this was not the case, and the sending region was already relatively rich prior to the migration, the regional impact would almost definitely be negative. The policy implications of this are obvious, but must be derived more precisely on the basis of a full-scale macro-economic analysis within a regionally specified exercise.

With respect to the sectoral aspect, it need only be noted that while few urban migrants would return as rural residents, the reverse might not be the case. Rural migrants, especially when they do not own much land, might indeed seek ways to make a transition into the urban sector of the economy upon return migration. To the extent that this happens, the inter-sectoral distribution is likely to worsen, even though the permanent withdrawal of this labour could have positive effects on the position of the rural poor operating in the internal rural labour market. In dynamic terms, the loss of relatively skilled, enterprising and now monied sections would probably be to the detriment of the rural sector.

It will be apparent from the above discussion that while some of the distributional effects of migration can be identified and gauged from survey-type observations, the final outcome with respect to the impact on poverty and inequality cannot be surmised through such a method; instead, it requires a macro-economic approach where the economic effects are analysed within the cast of an appropriately (numerically) specified model for the economy concerned.

4. Policy Perspectives

The entire phenomenon of overseas migration could be, and indeed usually is, viewed from the vantage point of the individual migrant and his/her household. Of course, various social, political and welfare considerations would require this to be done. Yet, the phenomenon is too large and significant in its impact on economy and society for it not to be located more in aggregate, macro terms. Within this framework, it can become readily apparent that the impact on the individual migrant/household need not necessarily be mirrored in a like impact on economy and society at large. Indeed, the two could, and do often, run in qualitatively different directions. For example, buying up real estate upon return might be a good investment proposition for the migrant, but might contribute little in net terms to investment and growth in the economy as a whole. So also, the unemployed return migrant could be regarded from a broader perspective as sharing employment with the resident non-migrant population. Therefore, it is crucial to seek policies towards migration which, while keeping the interests of the migrants themselves as one objective, seek solutions which are compatible with the maximisation of the potential macro-development benefits from the point of view of the economy and society as a whole. Within this perspective, several strategic policy options and issues may be identified.

Firstly, should labour migration to the Middle East, or other labour receiving countries be encouraged? Bearing in mind the undeniable benefits which accrue from it to the migrants as well the economy, the answer should clearly be positive. Respecting the rights of individuals to migrate is essential and should be inviolable even when such a migration does not generate any special benefits for the sending economy. This said, however, some implications of this need to be acknowledged. It is very necessary to integrate the migration phenomenon into the national resource management framework. This would require developing strategies oriented towards the GNP instead of just the GDP as the target variable. Doing so would then raise various issues concerning the relationship between international economic flows not included under GDP, and domestic resource use. To take one example, if migration is to be systematically encouraged or managed, it must be integrated into the national human resource development framework and strategies. This may call for a re-orientation in the manpower and educational planning exercises. A special awareness of the additional vulnerability that such migration imposes on the sending economy would also have to inform macro-economic strategy formulation. This range of issues concerning the integration of migration into development planning is as important as it is overdue.

A second issue concerns the treatment of return migrants and involves equity-cum-political considerations. The results of various country surveys show that migrants do not in general belong to the poorest strata of society in the pre-migration phase whether judged in terms of pre-migration incomes or assets (this is plausible since negotiating the migration contract itself is an expensive business, as mentioned earlier). Even within their strata they form, through a process of self-selection strengthened by requirements set by the potential foreign employers, the stronger, more dynamic components: they are somewhat younger, better educated and more skilled than average. By the time of their return, this advantage has generally widened quite significantly in terms of assets and financial savings. As such, an equity issue arises whether the migrants, as a category, deserve to be treated with special favour upon their return vis-a-vis the resident non-migrant poorer sections of society. Should additional resources be channelled into special employment, investment and incentive schemes for the return migrants? Or should they be left primarily to their own devices with the Government only committing itself to passive guidance and support? This equity consideration is overlaid with political considerations as well. On the one hand, the orientation of the equity-based conclusion could be further emphasised by the possibility of political tensions arising in the resident poorer sections consequent upon any policies designed in favour of the returnees especially. On the other hand, the conclusion could be moderated to the extent that the return migrants themselves form a potentially explosive political category which could be ignited by frustration generated by an unsuccessful re-entry into their home country.

The third set of issues concerns the type and extent of government policy intervention with respect to harnessing the macro-economic impact of migration, as well as catering to such needs of the return migrants (whether as workers or as investors) as are deemed admissible within the domestic socio-economic and political scenario. This is a vast area, and hence, the discussion is restricted to the identification of some important strategic aspects. The need is to formulate an appropriate package of policies and specific interventions so as to maximise the development benefits of this migration, while still keeping in mind the claims of the return migrants. In what follows, alternative policy instruments and approaches are considered with respect to selected specific aspects.

As a point of entry, a few observations on existing policies may be made. In general, governments of labour sending countries have shown considerable interest in the administration of the out-migration process. In sharp contrast they have shown indifference to the work and welfare of their workers abroad, which is a glaring omission in view of the employment-related problems such workers encounter overseas. Again, governments have in general displayed no interest in the return migrant. While the spectre of heavy return migration conjures much anxiety, there is no Asian labour exporting country from our sample which has as yet installed any effective system for monitoring the return flows of labour. A few half-hearted, isolated schemes for self-employment and vocational retraining are operational, but these collectively contribute only marginally to assisting the direct reabsorption of labour. The policy with respect to labour thus appears to be one of letting the market bear the burden of reabsorption. Hence it is worth noting the high rates of unemployment amongst return migrants (though in the absence of reliable unemployment statistics for the economy, a comparison with the resident workforce is difficult to make). Such a policy may be justifiable on grounds of equity (i.e. not favouring the richer return migrants in a situation where the labour market is not tight), but does need to be supplemented with generalised economy-wide policies oriented towards augmenting the labour absorptive capacity of the system. Progress with respect to the latter is also generally weak. As such, to the extent the migrants eventually do manage to gain employment, the burden of unemployment would be passed on to the resident work force through a crowding out process.

The policy stance of governments regarding remittances has been varied, but in general shows far greater concern than in the case of labour. In countries where the exchange rate is overvalued officially, governments have usually had to introduce a variety of special incentive schemes to attract migrants' remittances through official banking channels. It is interesting to note that the heavy potential remittances have not in themselves pushed official exchange towards the market rate but led to dual exchange rate systems. In some cases, e.g. the duty-free domestic shopping facilities in Sri Lanka, there is a danger of going too far with the incentives. If migrants can spend freely on imported consumer goods, foreign holidays etc. later, the net impact of the incentives might well approach zero.

Finally, with regard to policies promoting domestic savings/investments by the returning migrants, governments have shown a propensity to encourage self-employment schemes usually on an individual, but occasionally on a cooperative basis. The premise here is to convert the migrant-saver into an investor as well in his own establishment. While this approach could suit those with prior experience in the chosen activities (as well as some others), in general, such a strategy is prone to several weaknesses. Firstly, it places workers in high risk situations. Secondly, these projects are very small-sized and as such miss out on scale advantages. Thirdly, there is a high propensity to concentrate in the trade and commerce, and petty transport sectors involving substantial duplication and ensuing loss of efficiency and profitability in the sectors. To some extent cooperatives overcome these difficulties, but they introduce new thorny ones concerning management problems. That a significant proportion of such self-employment ventures fail, with a loss of resources, testifies to the difficulties associated with converting successful savers with no prior experience of direct productive investment, into small-scale entrepreneurs. At a more general level, governments have not usually formed specific policies to guide such investible resources into 'target' sectors. In view of this rather poor performance, and keeping in mind the fact that the big majority of the return migrants are workers, not entrepreneurs, a case can be made for developing an alternative approach oriented towards the (majority of) savers who are not would-be entrepreneurs. Here, the underlying premise would be to make them saver-rentiers but with effective access to a more active participation in the capital market.

One rather ambitious scheme worth considering might be where the saver could also acquire an entitlement to employment by investing an appropriate sum with approved financial institutions. Simple financial instruments and attractive returns on the capital invested could attract the savers into making the investment. If this covered the stipulated amount required to fund one job, the investor, or say, any suitable member of his immediate family, would also claim an employment entitlement. The modalities of both the terms of investment and the employment could be worked out given the circumstances. The job allocation procedure would require a well managed employment placement system. It may also then be possible for the fund created to be made available to target sectors of the economy in return for the employment of a certain number of return migrants or their nominees. Migrants could even be encouraged to start 'investing in a job' at home while they are still overseas. At the same time, the investible resources could be harnessed and directed within the national macro-economic priorities instead of concentrating themselves in self-employment activities mostly in the trading sector. A disadvantage of this scheme, though, is that it is likely to leave the resident worker out in the cold even more than before. As such, such schemes would be more appropriate within a policy framework which increases the overall labour absorptive capacity of the economy.

One last outstanding issue which needs to be touched upon pertains to the integration of the migration phenomenon into the national planning framework and process within the sending economy. It is possible to take two polar approaches. Ideally, planners would wish to attempt a full <u>ex ante</u> integration of migration, remittances etc. within the plan frame. However, there are several difficulties which emerge. Firstly, <u>ex ante</u> integration requires a relatively reliable prediction of the magnitudes of the outflows. These depend upon the state of the Middle Eastern economies and their policies, which in turn are overwhelmingly influenced by variables - the most important of which is the price of oil - which are inherently volatile, and therefore not easily predictable. These factors, in any event, would affect the overall inflows of labour into the receiving countries - but from the point of view of any single sending economy, it is also then necessary to be able to predict this economy's share in the future migration into the receiving countries. This pulls in a new set of factors which concerns the migration policies of other labour sending countries in the foreseeable future. Secondly, even if prediction were possible, it is questionable to what extent it would be desirable to integrate extremely volatile variables into the overall planning framework since this could be less useful than even the partial planning exercise which treats the migration phenomenon as an exogenous occurrence. Thirdly, as things stand, the existing data base is far too weak to allow any serious *ex ante* integration of the migration variables into a national planning exercise. Fourthly, full integration also presumes a high degree of control over the flows involved in terms of their utilisation within the economy. In contrast to this, the other approach relies on *ex post* monitoring and adjustment of the economy to the behaviour of the migration variables, which are treated as being exogenous. Here, it is vital that the flows and especially their impact be monitored. When the end use of these resources does not conform to accepted national plan priorities, the strategy is not to control and reorient these remittance resources, but rather to adapt the use of domestic resources - especially those under the control of the government - so as to arrive at an acceptable overall pattern of resource use. Strong controls, which could have adverse incentive effects, are thus avoided while overall priorities are still protected. For example, if remittances tend to flow into small scale transport and urban housing, schemes could be devised to orient such investment within these sectors into specific types which while according to the desires of the migrants, also fit somewhat better into the overall plan priorities; subsequently, government investment in these sectors could be adjusted to take account of migrants' investments. The possibilities with regard to either type of integration need to be explored more fully for each economy separately. In doing this, special attention needs to be focussed on the common ground shared by the two approaches arising from the fact that in the medium term, it is possible to make a strong *minimum* prediction concerning the magnitudes of outflows of labour and inflows of remittances. These could form the basis for an element of *ex ante* integration into the plan framework; responses to the 'excess' flows above the minimum could then be handled in an *ex post* adaptive manner.

The above exploratory discussion is designed really to emphasise the importance of viewing policy aspects not just within a narrow framework which looks merely to the individual migrant's claims, but within a broader perspective which examines alternative policies primarily using the criterion of maximising the development benefits at a macro-economic level. As is obvious, much remains to be achieved by governments at both levels.

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