Migration and Remittances in South Asia

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Global migration flows have increased in magnitude and complexity due to economic and human security factors, both at sending and receiving ends. The last two centuries have witnessed several waves of migrant flows across the world.

Furthermore, a continuous rapid growth of population and labour force in developing countries facing vulnerable economic conditions, environmental degradation and resource depletion has increased pressure on people to migrate.

Migration was considered a problem in the developing world, including South Asia, in the past for its negative implications for development in terms of brain drain and labour force depletion. Yet, in recent times, the benefits of migration have received greater attention in the development discourse, particularly considering the importance of remittances as a source of foreign exchange as well as numerous human development benefits—knowledge, skill and technology transfers, reduction in unemployment, poverty reduction, and empowerment of underprivileged segments of the society, etc.

In most South Asian countries, remittances represent a significant proportion of their gross domestic product (GDP) as well as foreign exchange earnings. In 2007, remittances amounted to 15.5 percent of Nepal's GDP, 9.5 percent of Bangladesh's, 8.1 percent of Sri Lanka's, 4.2 percent of Pakistan's and 3.1 percent of India's.

Against this backdrop, this paper explores the trends, nature and role of migration and remittances in South Asian economies.

Recent trends in South Asia

Most South Asian countries have seen migration and remittances increase significantly since the late 1970s, driven to a great extent by increased economic activities in the Gulf region, particularly in foreign direct investment (FDI) and construction, following the oil price increases during this period. The more recent increases in oil prices between 2002 and 2008 have further enhanced growth and demand for labour in the Gulf region. Migration has provided a source of livelihood and employment to many workers from a labour surplus region such as South Asia, with their own economies not producing the same number of jobs with such high remuneration.

In Bangladesh, for instance, the outflow of migrants was slow during the 1980s but increased during the 1990s. During the early 2000s, migration declined again primarily due to the events of 11 September 2001 in the United States (US). However, in 2007, the migration rate increased by more than 60 percent. According to the Bureau of Manpower, Employment and Training, between 1976 and 2008, 6.26 million people migrated from Bangladesh under the labour migration category.

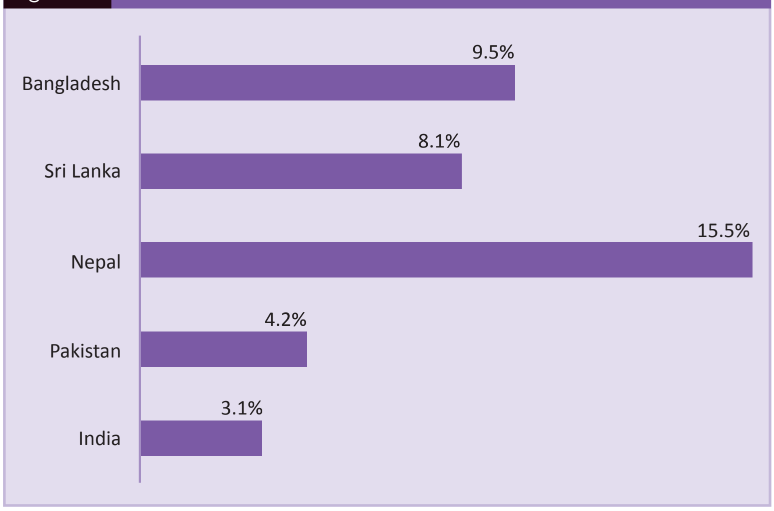
Remittances to India have also grown significantly. According to World Bank estimates, remittances have grown from US$80 million in 1970 to US$2.79 billion in 1980, US$3.42 billion in 1991 and US$52 billion in 2008. Migrant workers from Sri Lanka too began to grow steadily from the early 1980s to reach an estimated 1.6 million by 2007. The estimated outflow of migrants per annum is 200,000, which exceeds the number entering the Sri Lankan labour force annually. Likewise, migrant workers from Nepal began to grow from the mid-1990s, with annual departures now exceeding 200,000 and, as per World Bank data, total remittances surging from US$111 million in 2000 to US$3.08 billion in 2009. It is worth noting that the official figures of remittances grossly underestimate the actual inflow of remittances as informal channels are still much in use for remitting money home by South Asian migrants.

While the global economic crisis of 2008/2009 did not result in a severe downturn in remittances, job losses in the Middle East have been reported and the number of return migrants has increased. Outflows of migrants from South Asian countries to Gulf countries have declined as a result of the crisis. Therefore, a slowdown in the growth of remittances in 2010 can be expected. However, with oil prices stabilizing in the latter part of 2009, the prospects for economic growth in the Middle East have improved, and, therefore, even the lagged effects of the crisis on remittances are unlikely to be very severe.

Traditional markets

As mentioned earlier, the rapid economic growth in oil- rich Gulf countries played an important role in attracting migrant labour from South Asia. The Gulf continues to be the major destination of migrant labour from South Asia. The massive demand for labour was accounted for by the growth in the construction industry in the Gulf countries which embarked on an infrastructure-building spree—for example, roads, ports, airports, commercial complexes, schools and administrative blocks.

Figure 1 Remittances as a share of GDP in South Asian countries, 2007



Source: World Bank's World Development Indicators Database.

The major destinations for Bangladeshi migrant workers, for instance, include Saudi Arabia, the United Arab Emirates (UAE), Kuwait and Oman. As a region, the Middle East (consisting of five countries—Saudi Arabia, Kuwait, the UAE, Bahrain, and Oman) recruited over 77 percent of total Bangladeshi labour migrants between 2001 and 2008. This share was more than 83 percent between 1990 and 2000.

The Middle East remains the major host destination for Sri Lanka, too. Of the total migrants from Sri Lanka in 2007, over 90 percent went to Middle Eastern countries, with housemaids making up 50 percent of such out-migrants. North America and Europe were also important sources of remittance inflows in the 1980s. This is most likely related to the significant numbers of Sri Lankan nationals who migrated to countries in these regions—primarily as asylum seekers—following the outbreak of civil conflict in the country from the mid-1980s.[1] For Nepali migrant workers, the major destinations are Malaysia, followed by Qatar, Saudi Arabia and the UAE.

New markets

There has also been a growth in migration from South Asia into new markets across the world. For Bangladesh, for instance, new destinations include South Korea, Libya, Qatar, Italy and East European countries, particularly in the semi-skilled and skilled categories. Between 2001 and 2008, two important destinations were Malaysia and Singapore, accounting for 13.2 percent and 4.7 percent of Bangladeshi workers, respectively. Singapore and Malaysia are also emerging markets for labour migrants from India.

With regard to Sri Lanka, the importance of Europe as a destination is increasing. This reflects in part changes in the composition of out-migrants from Sri Lanka in terms of both gender and skills. Increasingly, more males with higher skills are migrating. In part, this also reflects changes in the global labour market where many developed countries instituted “visas for jobs” programmes to attract temporary job seekers to fill skill shortages in the home countries. More recently, the Sri Lankan government too has been promoting the idea of encouraging more skilled out-migrants, for instance, in areas such as health care.[2]

Skill levels

South Asia has traditionally had a comparative advantage in the export of low-skilled labour at low cost. This is reflected in the fact that unskilled workers continue to form the bulk of migrant labour from South Asia. In Bangladesh, between 2001 and 2008, less-skilled and semi-skilled people accounted for 70 percent of the total out-migrants. These migrants have less than 10 years of schooling with little or no knowledge of English or the language of the destination country and no certified training on any specific trade. Thus, they are generally engaged in low-wage employment. Such workers tend to be employed in sectors such as hotel, retail, construction, farming, low-skilled manufacturing, cleaning and maintenance.

According to the Bureau of Emigration and Overseas Employment in Pakistan, from 2002 to 2007, the share of unskilled workers increased from 35 percent to 50 percent and the share of highly qualified workers increased from 1.78 percent to 2.52 percent. The early out-migrants from Sri Lanka, too, were primarily unskilled workers. The majority of temporary migrant workers from Sri Lanka have been female workers, providing their services as housemaids in the Middle East. Likewise, most of Nepali migrant workers are essentially unskilled.

The lack of adequate livelihood and employment opportunities at home has been the prime driver for most such out-migration. While there have been some marginal changes in the profile of out-migrants in more recent years—with more opportunities for skilled migrants emerging in the labour-constrained economies of the European Union (EU) and the US—unskilled migrants still account for 70 percent of the total, and female migrants continue to make up about 62 percent of the total migrants from Sri Lanka.[3] Unlike female migrants, a significant share of the stock of male migrants (around 42 percent) is comprised primarily of the skilled labour category. However, it is noteworthy that despite the higher numbers of male migrants in recent years, the skill composition has not seen any discernible shift.

One adverse effect of skilled labour migration is the detrimental impact on human resource availability in the sending country. This is particularly problematic in South Asian countries where skilled labour is scarce. In Sri Lanka, for instance, the tourism sector has suffered as skilled workers who have completed training leave the country, attracted by higher salaries in the Middle East and the Maldives. The same applies to healthcare professionals such as nurses. The shortages of skilled labour adversely affect the economic performance and growth potential of the sending country. Similarly, in Nepal, migration of medical doctors to developed countries, mainly the US and the United Kingdom, is adversely affecting the health sector.[4]

Role of remittances

The countries of origin enjoy the benefits of international migration mainly by way of remittances—money sent home by immigrant workers abroad. In recent years, remittances have increased tremendously and are now the largest source of external funding for many South Asian countries, thereby surpassing official development assistance, foreign direct investment, and portfolio flows in many cases. Furthermore, the stability and predictability of remittances is far higher than other sources of external finance such as aid, which is often contingent on political imperatives, and investment, which is contingent on business sentiment and confidence.

In Nepal, for instance, remittances make up almost thrice the magnitude of foreign aid. An additional advantage of remittances is the fact that it is person-to-person aid that is directed to segments of the population that require it, thus overcoming the governance problems associated with official aid. Remittances have been identified as a key factor in poverty reduction in Nepal, from 42 percent 1995/96 to 31 percent in 2003/04.[5] Likewise, remittances have made it possible for Bangladesh to reduce poverty by 6 percentage points.[6]

However, remittance income may not always reach the poorest of the poor since the initial costs of migration are often prohibitively high for this segment of society. In Sri Lanka, compared to the national average, a higher percentage of urban households and richer households receives remittances from abroad. Remittances account for roughly 36–37 percent of household income on average. Remittances as a percentage of household income are lower for the poorest segments (30 percent) of the population.[7]

Nonetheless, a significant contribution is made indirectly by way of transfer payments that are used to finance household consumption and investment. In the context of households, which in fact are the direct recipients, remittances play a dual role—offering livelihood security for many poor households and acting as a savings and investment channel for wealthy households. The livelihood security given by continuous remittance flows includes food security, capacity to enjoy medical facilities, and the ability to undertake social capital development such as education of children, land acquisition and housing, and enterprise development. Remittances are found to have a positive and significant effect on the accumulation of important assets in rural Pakistan: irrigated and rain-fed land.[8]

Remittances are a stable source of funds during external shocks and even tend to be countercyclical. This means that unlike private capital flows, remittances tend to remain stable or actually rise during financial crises, natural disasters, or periods of political instability in countries of origin. The reason for this is the migrants' intention to protect their family in the home countries during difficult times. Sri Lanka, for instance, experienced its highest inflow of remittances in 2005, peaking at 8 percent of GDP, in the aftermath of the December 2004 Asian tsunami, which claimed the lives of nearly 40,000 people and caused extensive displacement.

Bangladesh has had similar increases in remittances following natural disasters. There have been similar experiences in other countries such as increased remittance inflows following the Mexican financial crisis of 1995 and the Asian financial crisis of 1997. Such remittance inflows to affected family members in recipient economies reflect the countercyclical nature of remittance flows referred to above.

Remittances play an important macroeconomic role in terms of contributing to GDP both directly and indirectly (by stimulating domestic consumption and demand for domestic goods and services which has multiplier impacts on economic activity). Worldwide remittances as a share of a country's GDP indicate that countries much smaller in size and with poorer economies tend to benefit more from remittance flows. Consequently, the top recipients of remittances as a share of GDP include Tajikistan (36 percent), Moldova (36 percent), Tonga (32 percent) and Kyrgyz Republic (27 percent). In South Asia, in 2007, Nepal registered the highest share of GDP for remittance flows (15.5 percent) (Figure 1).

Remittances are a major source of household income in Nepal. About 23.4 percent of households had received remittances in 1995/96, but the share increased to 31.9 percent in 2003/04.[9] In Bangladesh too, remittances are a key component of sustaining GDP growth. The total amount of official remittance as a percentage of Bangladeshi GDP has increased over time. In 2001/02, official remittance was 4.01 percent of GDP, which increased to 9.5 percent of GDP in 2007.

Remittances have been effectively channelled into investment in certain cases as well—examples include airports in Kerala, India, which were supported by remittance finance. Remittances contribute to savings and also create linkages between poorer households and formal financial systems, which contributes to the savings culture among the poor. Through these channels remittances contribute indirectly to economic growth.

Remittances also play a critical role in providing foreign currency and financing trade deficits (Figures 2 and 3). In 2000/01, official remittance as a percentage of total exports in Bangladesh was 29.10 percent, which increased to 49.09 percent in 2006/07. This suggests that official remittance flow increased at a much faster rate than exports. The remarkable increase in remittances caused the rise of foreign currency reserves even though Bangladesh recorded large trade deficits. On the one hand, this stabilized the Taka-US dollar exchange rate and, on the other hand, enabled the import of intermediate inputs necessary for investment. Due to this large official remittance, Bangladesh is the only country in South Asia where the value of the domestic currency has increased against all the major currencies during the current global economic crisis.[10]

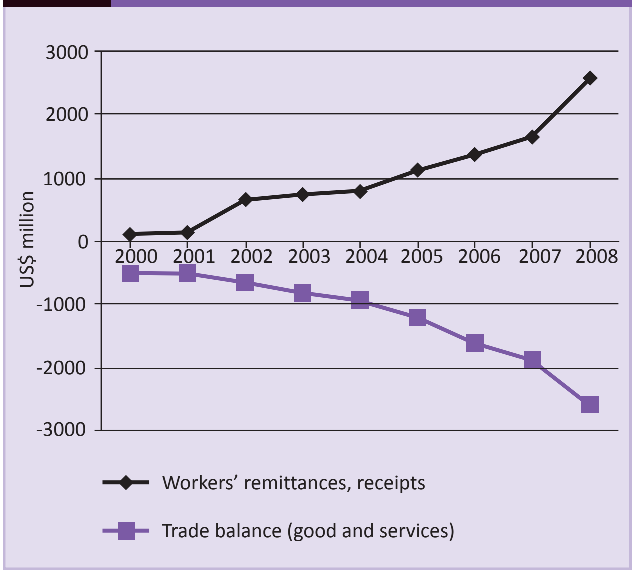
Remittances also contribute heavily to the foreign exchange earnings of Nepal. In the past, earnings from exports of commodities and tourism were the main sources of foreign exchange earnings. Yet at present, remittance has become the main source of foreign exchange. In 2007/08, remittance contributed about 68 percent of the overall foreign exchange earnings of the country.[11] Nepal's trade deficit was about 46 percent of its total trade, or about US$2.6 billion, in 2008. Declines in tourism income along with increases in expenditure on foreign education have further dented the current account position of the country. However, remittance growth has been able to mitigate these negatives. In 2007/08, there was a surplus of US$456.39 million in the current account, largely due to the performance of remittances.[12]

Similarly, in Sri Lanka, the role of remittances was important in terms of mitigating the effects of a balance-of-payments shock in the wake of the global economic crisis of 2008/2009. Sri Lanka has witnessed a steady increase in remittance inflows over the last two decades, rising from US$140 million in 1980 to US$2.5 billion by 2007—an increase from less than 4 percent of GDP to 7.7 percent of GDP over the same period.[13]

From the fourth quarter of 2008, Sri Lanka's exports began to decline and import bills were also extremely high due to the effects of the oil and commodity price hikes in early 2008. Furthermore, foreign capital outflows occurred as foreign investors withdrew funds from government treasury bills in the wake of the global financial crisis. However, remittances remained buoyant during this period, only dipping in January and February 2009. Since then remittances have grown substantially.

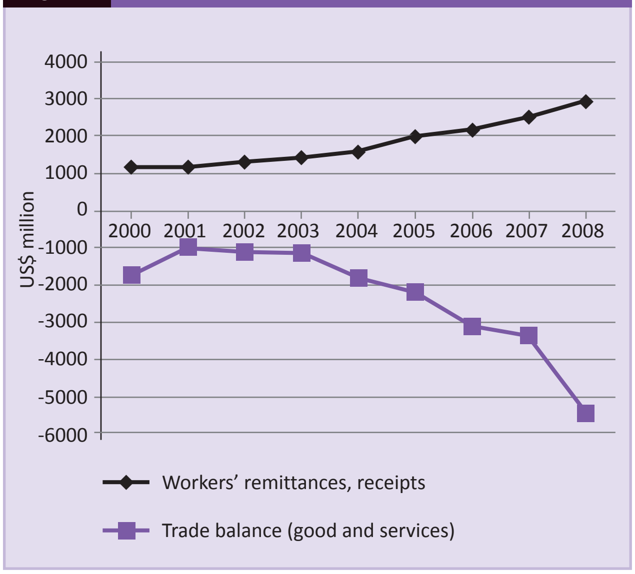
The fact that remittances remained strong despite the decline in exports contributed to Sri Lanka's ability to stave off an external sector crisis. This again highlights the importance of a stable source of external finance such as remittances for developing economies which are in general characterized by undiversified export baskets that are susceptible to external shocks.

Figure 2 Remittances and trade balance: Nepal



Source: World Bank's World Development Indicators Database.

Figure 3 Remittances and trade balance: Sri Lanka



Source: World Bank's World Development Indicators Database.

Conclusion

Migration has been a critical factor in South Asian economies as a source of employment and livelihood for workers, and as a source of remittances which provide a stable flow of external finance. Remittances have helped countries in South Asia adapt to various shocks, be they natural (tsunami in Sri Lanka, floods in Bangladesh) or economic (global economic crisis of 2008/2009). Remittances also contribute significantly to overall GDP and external economic stability in South Asian countries.

It is evident that the bulk of remittances received by South Asia originate in the Middle East and, in this context, there have been concerns about the sustainability of such remittances given the impacts of the global economic crisis on this region. However, remittances remained buoyant throughout the economic crisis but there could be some lagged impacts in 2010. Nonetheless, the price of oil has stabilized and is likely to continue to increase in the medium term as the global economy recovers from the crisis, suggesting an improvement in the health of the Gulf economies and, therefore, giving some stability to future remittance flows to South Asia.

At the same time, it is important for South Asian countries to improve the utilization of remittances by enhancing formal channels of financial transfer of remittances by reducing the transaction costs of this process, and improving knowledge and information among migrant households. Greater utilization of formal transfers ensures greater receipts of foreign exchange and also exposure of the poor to formal savings and financial systems. ■

Notes

1 Arunatilake, N. and R. Jayaweera. 2009. Migration, Remittances and Development in Sri Lanka. Presented at the Conference of Migration, Remittances and Development in South Asia, May. Organized by Institute of Policy Studies, Colombo, Sri Lanka.

2 *ibid.*

3 *ibid.*

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5 Pant, Bhubanesh. 2008. *Mobilizing Remittances for Productive Use: A Policy-oriented Approach.* NRB Working Paper, NRB/WP/4, December, www.nrb.org

6 Khatri, S. K. 2010. Labor Migration, Employment and Poverty Alleviation in South Asia. In Ahmed, Sadiq, Saman Kelegama and Ejaz Ghani (eds.). *Promoting Economic Cooperation in South Asia: Beyond SAFTA.* New Delhi: Sage Publications India Pvt. Ltd.

7 Arunatilake and Jayaweera. 2009. Note 1.

8 Khatri. 2010. Note 6.

9 Adhikari, J. 2009. Migration, Remittances and Development in Nepal. Presented at the Conference of Migration, Remittances and Development in South Asia, May. Organized by Institute of Policy Studies, Colombo, Sri Lanka.

10 Raihan, S. 2009. Migration, Remittances and Development in Bangladesh. Presented at the Conference of Migration, Remittances and Development in South Asia, May. Organized by Institute of Policy Studies, Colombo, Sri Lanka.

11 Adhikari. 2009. Note 9.

12 *ibid.*

13 World Bank's World Indicators Database, www.worldbank.org

SAWTEE
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South Asia Watch on Trade, Economics & Environment (SAWTEE) is a regional network that operates through its secretariat in Kathmandu and 11 member institutions from five South Asian countries, namely Bangladesh, India, Nepal, Pakistan and Sri Lanka. The overall objective of SAWTEE is to build the capacity of concerned stakeholders in South Asia in the context of liberalization and globalization.

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