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MIGRATION AND REMITTANCES: IMPACT ON RECIPIENT AND NATIVE REGION

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ABSTRACT:

Globalisation has opened up a plethora of opportunities for the working class. The demand for labour, skilled or unskilled, in an economy to meet its growing need has resulted in the cross border movement of the factor. The relationship between migration and economic development is an important area for policy making. The contributions made by international migrants to their home countries in the form of remittances, investments, and donations are considered an important capital resource in economic development. Through this study, the importance of remittances as a source of external development finance for the top seven remittances receiving states of India has been discussed.

INTRODUCTION:

India and Migration

The basic motivation for people to migrate is largely economic all over the world. The labour, a part of the work force is expected to move between places in search of better opportunities for employment and income and for economic security. Migration is thus largely undertaken by people with the hope of raising resources to enjoy a better standard of living for themselves and their family. Other factors that cause people to migrate are - climatic conditions, religious considerations, kinship ties, educational aspirations and so on.

Migration workers flow from India is of two kinds: the first is the emigration of highly skilled professionals, workers and students with tertiary and higher educational qualifications migrating to the highly developed countries. Though this flow started after independence but gathered momentum with the emigration of IT professionals in the 1990's. The second is the flow of unskilled and semi-skilled workers going to the Gulf countries and Malaysia, following the oil boom in the Gulf countries, mainly from Kerala and their south Indian states. There are about five million overseas Indian workers working in different sectors spread all over the world. More than 90 per cent of these workers are in the Gulf countries and in South-East Asia. During 2012, 7,47,041 workers emigrated from India. Out of this, approx. 50% i.e; 3,57,503 went to Saudi Arabia alone, 1,41,138 to UAE, 84,384 to Oman, 63,096 to Qatar, and 21,241 to Malaysia. Indian states such as Uttar Pradesh, Kerala, Andhra Pradesh, Bihar, Tamil Nadu, Rajasthan and Punjab contributed more to the export of workers. **The paper is divided into five sections**. The first section gives the introduction. In the second section the long term trends in remittances and capital flows to the regions are discussed. The third section covers the economic implications of remittances for India. The fourth section captures the economic impact of remittances for the top seven remittance receiving statesof India and the final section concludes the study.

REMITTANCES:

Remittances that the migrants send to their home countries happen to be the most immediate and direct benefit of international migration. Remittances sent back from the country of employment to the country of origin have come to play an important role in the economies of labor-exporting countries. It is estimated that remittance transfer to developing countries are around US $328 billion which has more than tripled in the last 10 year period (Sasikumar and Hussain, 2007). India continues to remain a leading country globally to attract remittances and in being the highest recipient of remittances. Due to the proactive investment policy of the government, during 2009-10 to 2011-12, the total remittances received have reached to US $1,68,385 million. Since it is more than any other type of stable foreign investment, such large inflow has acquired special importance for the Indian economy. The gains from remittances can be realized in terms of higher economic growth, increase in investments, human capital formation, technological advancement and poverty reduction, if the receiving country is able to utilize them effectively. These gains from remittances can be realized at both the macro level - its effects on the national economy and the micro level i.eto the recipient region and the households. The development effects of remittances depend mainly on the magnitude of its value and on how productively the receiving economy and household use it.

India's private remittances have grown consistently over the last two decades (**Table 1**). The remittances have grown by approximately six times of the amount received in the starting period for the decade of 1990s and 2000. However, the growth in remittances happens to be substantial from just about US $2.1 billion in 1990-1991 to a massive figure of approximately US $ 70.00 billion in 2013-14. As a percentage of GDP, remittances grew from 0.7 % in 1990 to an impressive figure of approximately 5 % in 2013. Despite these staggering figures, remittances remain a negligible proportion of India's GDP. Although remittances today have grown astronomically since 1990-1991, they still represent only a small fraction (5%) of the country's GDP. It has being estimated that a significant proportion of these remittances are contributed by an increasing number of unskilled and semi-skilled Indian workers employed in the Gulf countries and Malaysia. The trend in remittances was expected to be reversed post the financial crisis of 2008. However, according to OECD 2010, from among the top 20 countries of migrant origin accounting for over half of all international migration flows in 2008, India was at the third position followed by China and Poland. Contrary to the speculation of a sharp decline in remittances, India remained the highest recipient of remittances from its overseas community. India received US $ 43.5 billion in remittances in 2008, a significant increase from the US $30.8 billion received in 2007 and US $ 25 billion in 2006- recording significantly higher growth rates than the global average. Despite the global economic downturn, India remained the largest recipient of inward remittances for a fourth year in a row, estimated $70 billion by the World Bank.

ECONOMIC IMPLICATIONS OF REMITTANCES:

Remittances act as a boon for a recipient country. It increases the recipient individuals' income and also augments the recipient country's foreign exchange reserves. Remittances also contribute to growth in every manner i.e if remittances are invested, they contribute to production and growth, and if they are consumed, then too they generate positive multiplier effects (Stahl and Arnold 1986). The output losses that a developing country may suffer from emigration of its highly skilled workers can thus be offset to a certain extent by the remittances received.[1] Adelman and Taylor study (1990) found that for every dollar that Mexico received from migrants working abroad, its GNP increased by \$2.69 to \$3.17, depending on whether remittances were received by urban or rural households.[2] Remittances also more than offset the loss of tax revenue in most developing countries. In a study undertaken by Desai, Kapur, and McHale, it revealed that the net fiscal loss associated with Indian emigration to the United States was estimated at 0.24 to 0.58 percent of Indian GDP in 2001,but remittances amounted to at least 2.1 percent of GDP during the same year. Also for the unskilled workers who emigrate to escape unemployment at home, remittances become a net gain to the developing country.

The permanent migration of individuals with professional expertise or technical qualifications mostly to the industrialized countries, described as the brain drain, represents a privatization of benefits and socialization of costs where the benefits in the form of higher income accrue to the migrants as individuals, while the substantial costs of their education are borne by society as a whole without any tangible return. The temporary migration of unskilled, semi-skilled, or skilled workers mostly to the Middle East, is different, insofar as the social costs of school education or vocational training is modest and the social benefits derived from remittances or skills formation are highly significant. The implications and consequences of return migration, however, are different. If migrant workers return with professional expertise or technical qualifications, it could transform the brain drain into a brain gain. The return of semi-skilled and skilled migrants who have acquired new skills or upgraded old skills while working abroad may also have a favorable impact on the economy. Return migration has augmented India's human capital through additional training, experience, and networks. Return migration of unskilled workers may aggravate the problem and lead to increase in the incidence of open or disguised employment, even at the margin, by exerting pressure on the labour market where job opportunities are scarce. Financial flows resulting from international migration receive the most attention, but a potentially more important type of remittance is the flow of ideas be it technologies, theories, beliefs, or new ways of doing things. For instance, economic policymaking in India has been singularly affected by returning economists. These economists though have pursued higher studies from foreign universities and did contribute to international labor market but have contributed to the Indian economic policymaking institutions when returned to the home country.

Remittances can no doubt be a real blessing, not only for migrants' families at a micro level but also for the economy at a macro level but there is striking asymmetry between social costs and private benefits, which is a function of the skill and education levels of migrants. Available evidence suggests that remittances from unskilled and semi-skilled migrants are significantly higher than remittances from others. Such migrant workers are at the lower end of the spectrum of incomes before departure and whose remittances essentially support consumption of their households or extended families at home. These remittances also provide resources for investment in the rural sector in agriculture and related activities, or help acquire assets for self-employment in the urban sector. In sum, such remittances create consumption possibilities and income opportunities for the poor or the under privileged society. In contrast, remittances from the educated and professional migrants, drawn from the upper end of the spectrum of incomes before departure are much lower. This is because they need not support the consumption of their extended families at home and would rather support the consumption of their households. They can thus use their savings for investment, in the host country. This means that migrants who impose low social costs provide high social benefits, whereas migrants who impose high social costs provide low social benefits, for the economy. Remittances indeed, are the most important source of external finance for the country like India, as the country tries to finance a large proportion of its balance of trade deficit and thus help reduce the current account deficit to manageable proportion. Remittances totaling about US $600 billion between 1991 and 2014, along with NRI deposits have been a protecting shield in the form of insurance, significantly contributing to India's burgeoning foreign exchange reserves thus allowing the Government of India to retire its multilateral debt prematurely and permitting Indian companies to refinance costly external borrowings.

IMPACT OF REMITTANCES AT THE REGIONAL LEVEL:

Remittances have been much more important for some states of India than others. Remittances in Kerala, account for nearly a large part of its state net domestic product& has a wide ranging economic and social consequences. Kerala's large investment in human capital, proximity and historical links to the Middle East and the stagnation of the economy, all largely contributed to extensive international migration. Migration, remittances, and return migration have played an important role in Kerala & have transformed the state's economy, making it the most globalized Indian state. Remittances have fuelled a consumption boom and the resulting demand has driven growth in the service sector, most of which- such as transport, trade, and telecommunication- is non-tradable (Zachariah, et al. 2003). Increase in demand for consumer durables in Kerala has spilled over to other states, but one sector that has grown on the back of investments is the hospitality industry (tourism, transport, hotels, and restaurants), and private institutions in health and education sector have also mushroomed. Kerala did witness a decline in migration of unskilled workers to the Gulf that require emigration clearance but the export of skilled labourers and technical professionals has shown a rise of about 133% from 1999 to 2004 (Zachariah and Irudaya 2004). (**Table 2**)

India, though was the highest recipient of international remittances, its economic impact across remittance receiving states is a mixed one. Studies indicate that though the top seven migrant exporting and remittance receiving states of India are Tamil Nadu, Andhra Pradesh, Kerala, Uttar Pradesh, Bihar, Rajasthan and Punjab, the socio economic impact across these states does not remain uniform. Bihar happen to the state with highest incidence of poverty (33.74%) greater than the national average of 21.92%. Poverty levels for Rajasthan, Tamil Nadu and Uttar Pradesh also remain higher than those for Kerala, Punjab and Andhra Pradesh (**Table 3**).

In terms of rural and urban consumption expenditure, the four states out of the seven i.e Punjab, Kerala, Tamil Nadu and Andhra Pradesh are ahead of the national average. This perhaps could be the result of the multiplier effect of the high remittances received (**Table 4**) by these states. Where, the share of remittances going for private consumption purposes has been the highest, investments, though not a significant fraction, have largely been concentrated in land, property and securities. The high standard of living measured in terms of per capita net state domestic product is consistently higher than the national average for the top four remittance receiving states than the remaining three (**Table 5**).

The above analysis clearly shows that migrant remittances have a more positive economic impact for states like Kerala, Punjab and Tamil Nadu thanthe other states mentioned in the study. Bihar, Uttar Pradesh and Rajasthan are far behind the national averages for most of the economic indicators and are yet to prove themselves.

CONCLUSION AND RECOMMENDATIONS:

India has achieved a large and sustained increase in remittances over the years due the phenomenal increase in the volume of international migration. Remittances, as a result of International migration, have emerged as one of the most fruitful remedy for the country to get rid of many of its socioeconomic problems. The potential macroeconomic and developmental impact of remittances at macro & micro level are seen in case of states that attract higher remittances from its migrant population. Research on the detailed impact of international remittances on the states of India is limited due to paucity of data. Research reveals that the remittances increased largely during the period 1991-2014.These increasing trends can be attributed to a number of factors like the shifting from informal channels to formal channels, liberalization of the Indian economy and economic reforms of 1991, changes in the regulatory framework regarding international migration etc. These increases in remittances have influenced the foreign exchange reserves of India significantly which have the potential to affect many of the macroeconomic variables.

Remittances should not be looked by a country as the 'source' of foreign exchange reserves to be used to finance the balance of trade deficit or the current account deficit but also a counterpart in terms of 'source' of external development finance. The remittances in control of the government should be utilized to finance higher level of investment rather than consumption, if the objective of the economy is to maximize development benefits. This would call for appropriate government policies on mobilizing and attracting migrant's remittances and redirecting them to formal channels. The government policies should focus on providing fiscal incentives such as removing restrictions on repatriation of profits and eliminating needless licensing requirements. Apart from that another important policy option for maximizing the development benefits of remittances is to channel remittances to small and microenterprises through financial intermediaries as deposits rather than expecting migrant's to directly invest. In this case, the policy focus might be to induce micro finance institutions to capture remittances to be in turn used to fuel productive activities.

There is also a need to improve the financial infrastructure of the country so as to bring down the costs of remittances and thus take care of the illegal modes of sending remittances such as the Hawala networks[3]. The policy makers will have to set the policies for India in the right direction so as to remain the highest recipient of international remittances and help India get a substantial share of remittances as a percentage of GDP. With the presence of adequate remittances as foreign exchange reserve, India can finance its need of capital for its economic development.

Annexure

Table 1.

Year	Private Remittances (In US $ Billion)	Percent of GDP
1990-1991	2.1	0.7
1995-1996	8.5	2.4
1999-2000	12.3	2.7
2000-2001	13.1	2.8
2001-2002	15.8	3.3
2002-2003	17.2	3.4
2003-2004	22.2	3.7
2004-2005	21.1	3.0
2005-2006	25.0	3.1
2006-2007	30.8	3.4
2007-2008	43.5	3.7
2008-2009	46.9	4.0
2009-2010	53.9	-
2010-2011	55.9	-
2011-2012	70.0	-
2012-2013	67.6	-
2013-2014	70.0	-

Source: RBI Monthly Bulletin

Table 2: Increase in the number of Nonresident Keralities by education, 2004

Education	1999	2004	% Increase
Primary	2,82,918	1,67,787	-40.7
Secondary	5,73,631	7,61,473	+32.7
Degree	1,81,395	4,22,596	+133

Source: Zachariah and Irudaya 2004

Table 3: Incidence of Poverty

STATES	Number and Percentage of People below Poverty Line (2011-12)	
	Percentage	**Number (In Lakhs)**
Uttar Pradesh	11.26	11.60
Kerala	9.14	23.95
Andhra Pradesh	9.20	78.78
Bihar	33.74	358.15
Tamil Nadu	11.28	82.63
Rajasthan	14.71	102.92
Punjab	8.26	23.18
India	**21.92**	**2,697.83**

Source: Databook for P.C, 4th August 2014

Table 4: Private Rural and Urban Consumption Expenditure

STATES	Private Consumption Expenditure (Rs. Per Month) at Constant Prices (1993-94)	
	Rural	**Urban**
Uttar Pradesh	314.01	470.83
Kerala	584.49	678.95
Andhra Pradesh	336.00	559.16
Bihar	266.43	399.95
Tamil Nadu	336.02	631.98
Rajasthan	344.78	474.05
Punjab	515.74	710.57
India	**334.61**	**577.01**

Source: Databook for P.C, 4th August 2014

Table 5: Per Capita Net State Domestic Product at Constant Prices (2004-05), (as on 31.05.14).

STATES	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13 E**	**2013-14 QE**
U.P	9672	9806	10120	12950	13445	14241	14875	15713	16390	17388	18217	18866	19512
Kerala	20681	21942	23156	31871	34837	37284	40288	42433	45921	48504	52095	56115	NA
A.P	17213	17340	18819	25321	27486	30114	33239	35272	36303	40054	42500	44526	46681
Bihar	5994	6658	6117	7914	7748	8896	9231	10230	10645	12000	13082	14904	16083
T.N	19748	19662	20707	30062	34126	39166	41314	43193	47394	53507	57131	59113	62589
Rajasthan	13933	12054	15579	18565	19445	21342	21902	23354	24304	27502	28429	29244	30120
Punjab	25992	25955	27075	33103	34096	37087	39567	41003	42831	44769	46729	48572	50572
India	**16764**	**17101**	**18301**	**24143**	**26015**	**28067**	**30332**	**31754**	**33901**	**36202**	**38048**	**38856**	**39904**

Source: Data Tables: Planning Commission

Notes:

1. The same skilled workers could be significantly lessproductive in a developing country (where the unemployment rate is higher and investment climate worse) than in an industrial country. See also Nayyar (1994).

2. Rural households tend to consume more domestically produced goods—and hence generate larger multiplier effects—than urban households.

3. The cost of transfers through informal channels, such as Hawala, used in other parts of the world is said to be much lower than it is through institutional channels(El-Qorchi 2002).

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