CHAPTER-1

INTRODUCTION

1.1 Migration and Development: The Context

Migration from poorer to wealthier countries has been an inevitable phenomenon since decades, but the increased pace of migration in recent times, mainly attributed to the process of globalization and improved communication networks, has led to changing streams of migration making it an interdisciplinary issue involving developmental economists, sociologists and demographers. The global stock of migrants as of 2010\(^1\) is 215 million persons (3% of the world population) which have more than doubled within the last three decades. Two thirds of the global migrant stock resides in advanced countries with United States of America (U.S.A.) being the top immigrant recipient country presently. This has been a dramatic shift from the first half of the 20\(^{th}\) century when western European countries used to be the major destination. Again, major changes in migration streams are also observed within the advanced countries such as U.S.A., where immigration from poorer European countries during the 19\(^{th}\) century such as Ireland and Italy have been replaced by immigrants from other poorer developing countries, mainly Asian countries (Freeman, 2006) with significant movements occurring within the developing countries itself. As of today, Asian countries such as India, China, Philippines, Turkey and some Middle Eastern countries feature amongst the top emigration countries in the world.

But what makes international migration an essentially complex issue in the modern world leading to increased international level dialogues and research centres in different countries and increased number of conferences, is the involvement of relationship between the sending and the receiving countries apart from the livelihood issues of the migrants. So, in terms of international migration, the major challenge facing the policy makers today is effective management of migration with a balance

\(^1\) Data obtained from Migration and Remittances Factbook, 2011.
Introduction

between the costs and benefits of migration. In this regard, some considerations include firstly, the demographic imbalances across regions, contributing to the growing mobility of people. The developed countries have been experiencing aging population and a slow population growth whereas the Third World countries have been experiencing faster population growth with relatively younger population and hence abundant labour supply with a much lower demand for labour leading to pull and push factors. As Skeldon (2005) writes, “…Sustained fertility has led to slow and in some countries negative growth…Not all labour intensive activities can be moved offshore, and not all labour can be replaced with automation, leaving the importation of labour as the only realistic alternative…”

Another, rather contemporary factor identified that has been contributing to the changing pace of migration is the demand for specified skills in particular sectors in any country. For instance, the demand for semi- or low skilled personnel in construction sectors in U.S. and Gulf countries leading to increased and continuous flow of migrants from Mexico to U.S. and India to the Arab world, or an increased emigration of skilled IT related personnel from India to the U.S. post 1990 due to a boom in the IT industry in U.S. leading to an increased demand for cheap labour in their industry with temporary and permanent nature of residence of the migrants underlying in the process of hiring. In the process, this has lead to another issue in management of migration because not all migration in the world takes place in accordance with the demand and supply leading to uneven distribution of migrants. But in spite of ‘migration’ being considered by the developing countries – from where large scale emigration take place, as ‘loss of skills’ that could have possibly lead to development in their countries; and by the developed countries – to where large scale immigration happens, as a policy and border control issue, migration has been seen as a development issue for not only the migrants themselves but also the origin as well as the host countries leading to a shift in the focus of research on migration from causes and consequences to focus on more policy oriented approach towards development

In the present world scenario, the dialogue on ‘migration and development’ has gained acceleration due to increased interest of researchers and policy makers on capitalization of the positive impacts of migration, so much so that it has attracted the
attention of World Bank (WB), International Monetary Fund (IMF), United Nations (UN), Department for International Development (DFID) and International Fund for Agricultural Development (IFAD). Migration and development have been interpreted to having been influencing one another in the sense that development in a particular area initiates migration to that area from other less developed areas (Skeldon, 2008). Again, migration to any particular area does have certain consequences including development implications for the origin areas from where the migration takes place.

Sriskandarajah (2005) and Skeldon (2008) identify three key areas that connect migration with development including impacts of migration involving issues related to skilled worker migration and brain drain, impact of financial flows related to migration which is migrant worker’s remittances and the role of Diaspora communities. Each of these issues have been discussed in the following sections.

1.2 Skilled Worker Migration and Brain Drain v/s Brain Gain

While low skilled migration does not impact the sending countries adversely, the issue of skilled worker migration and its related costs and benefits to the country from where these workers emigrate has been highly debated. Initial schools of thought considered migration of skilled workers from a country to be a loss for the country in terms of skills, cost of education and loss of tax revenues (Newland, 2007). It has been said that ‘as of 2001, nearly one in every ten tertiary educated adults born in the developing world resided in North America, Australia or Western Europe’ (World Migration Report, 2008), especially, emigration of health workers have been considered to have adverse consequences in terms of loss of skilled health personnel for the source country. However, recent debates focus on the more positive outcome of this outflow of skilled workers in terms of benefits in the form of reinvestment of this human and economic capital back to the source countries\(^2\) (also known as ‘brain

\(^2\) Huge immigration of IT professionals from India to North America has led to increased business connections between the two countries leading to larger number of expatriates returning to India and establishing their own business. The country has in return gained not only advanced knowledge, but also ‘expertise, work culture and market information’ leading development in this particular sector in the home country.
Introduction

Hence, the more positive side of this phenomenon is being recognized\(^3\) (Boucher, Stark and Taylor, 2005 and Batista, Lacuesta and Vicente, 2007) leading to a major policy issues for the home countries to attract transfer of knowledge and skills from their expatriates for the benefit of the home country.

1.3 Impact of Financial Flows Related to Migration: Remittances

Financial flows related to migration involve mainly investments by migrants at the origin countries, philanthropy of migrants and migrant worker’s remittances to his/her family at the origin. Migrant worker’s remittances have been observed to have higher developmental impacts through elimination of credit constraints in the households receiving them, reduction in poverty and also higher birth weights for children in remittance receiving households and other better health indicators (Ratha and Mohapatra, 2007). For these directly observable positive impacts, remittances have been considered to be the ‘most tangible’ and ‘non controversial’ link between migration and development (Ratha, 2008) unlike skilled worker migration whose benefits are debated (Schiff, 2005). In this respect it is essential to firstly understand how remittances are defined and conceptualized in literature as well as economic and statistical arena. International Organisation for Migration, Geneva (IOM) defines remittances as ‘monies earned by non-nationals that are transferred back to their country of origin’ (World Migration Report, 2008) and World Bank defines remittances as ‘transfers of resources from individuals in one country to individuals in another’. So, what basically emerges from the above definitions is that remittances are transfers between individual migrants and their respective families at origin.

The standard definitions for compilation of statistics on remittances by countries currently follow the International Monetary Fund Balance of Payments Manual (BPM5) where remittances have the following components:

- **Worker’s Remittances** defined as ‘Current transfers by migrants who are employed in new economies are considered residents there. A

\(^3\) For instance, see Appendix III – “India converted ‘brain drain’ into ‘brain gain’: Manmohan”.
migrant is a person who comes to an economy and stays there, or is expected to stay for a year or more.'

- **Compensation of employees** defined as ‘wages, salaries, and other benefits earned by the individuals – in economies other than those in which they are residents- for work performed for and paid for by residents of those economies.’

- **Migrant transfers** defined as ‘contra entries to the flow of goods and changes in financial items that arise from the migration of the individuals from one economy to another.’

However, the above concepts on remittances stresses that these transfers are necessarily unilateral transfers meaning the residents of the country receiving remittances do not have to make any present or future payments.

However, the definitions and concepts as well as compilation procedures have been looked at critically of late as they do not encompass the different kinds of remittances that emerge in the various contemporary policy papers such as collective remittances. For instance, Carling (2007) addresses that the definitions differ widely in terms of their interpretations and fail to encompass the varieties of transfers including those of migrants associations to organizations in the home countries other than migrant families, government or private pension funds and business organisations remitting to return migrants. He points out that distinction needs to be made between the kinds of senders and receivers.

Also, the variations in compilation techniques between countries have been highly criticized. For instance, Carling (2007) points out that Pakistan includes pension transfers to return migrants who have retired in Pakistan but on the other hand Philippines do not. Again, Morocco includes foreign currency cash exchanged by emigrants on holiday into their remittance statistics. So, there exists huge variations in compilation techniques that make it difficult to compare country level statistics and questions on accuracy definitely arise.

The conceptual limitations of the BPM5 manual have been highlighted in the BPM6 Manual IMF (2009) as follows: ‘worker’s or migrants are not defined in the first place, transfers of self employed migrants are not classified as Worker’s
Remittances but current transfers are since according to BOP convention Worker’s Remittances arise from labour and not entrepreneurial income. This distinction has been regarded as a problem since money is fungible, it is difficult to distinguish from different sources of income of the households. Also households are comprised of people with diverse residence status.’ Besides inconsistencies in bilateral flows of remittances data has also been an issue of concern. The BPM6 Manual provides new concepts and definitions of remittances for better compilation of statistics on remittances; however, the process of data collection following it is yet to begin (see Appendix III for BPM6 manual).

Remittances and its potential for development has been the current focus in migration and development literature since the past decade. Newland (2007) and Ratha (2008) indicate four major reasons that make remittances the most important contributor to the increasing interest of researchers on the nexus between ‘migration and development’. They are as follows:

1.3.1 Volume of economic migrants in the world

With respect to the volume of economic migrants in the world, the magnitude of economic migration flows need to be mentioned. Of the total migrant stock in the world (215 million), which is 3.2 per cent of the total world population, almost 93 per cent are economic migrants (Migration and Remittances Factbook, 2011). Ratha (2008) stresses highly on the fact that economic migrants constitute a majority out of the different types of migrants that exist globally including refugees and asylum seekers. Income differences\(^4\) between countries have been identified as the most important driver of this economic migration. Wets (2005) observes that a continued migration to industrialized countries is inevitable; which is the main cause for the increased interest in migration and development link. International Development Committee Report (2004) on migration and development and how migration can be managed for poverty reduction at the origin, conclude that since it is the economic migration that links migration with development by benefitting all parties including

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migrants, their origin households as well as the host countries, hence it is a primary concern in this area of research.

1.3.2 Volume of remittances

Much of the ‘renewed’ interest in the area of migration and development is triggered by statistics on remittances along with that of migration. Manifold increase in the volume of global flow of remittances, especially within the last two decades, has attracted the attention of not only researchers but also policymakers. In 2010, the flow of remittances to the developing countries reached US$ 325 billion from only US$ 55 billion in 1995 (Migration and Remittances Factbook, 2011). It has surpassed global Official Development Assistance (ODA) and is second only to Foreign Direct Investment (FDI). Additionally, remittances from unofficial channels such as those carried by friends and relatives of migrants, carried by migrants themselves and informal money transfer agents are estimated to vary between 35 to 250 per cent of the amount through formal channels of transfer (Ratha, 2007). Although, remittances through informal channels are on a decline post 9/11 as it was believed (although not empirically proven) that much of the transfers through informal channels are associated with money laundering and used for financing terrorism (Bowers, 2009 and Rees, 2010), in spite of which significant amount of remittances continue to flow through informal channels and is highly preferred by beneficiaries because of the low cost and swift delivery service associated with it as observed in studies such as Puri and Ritzema (1999).

1.3.3 Stability of remittances and its Potential for Poverty Reduction

A World Bank study cited by the International Development Committee Report (2004) indicated that a 10 per cent increase in the share of remittances in a country’s GDP would lead to a 1.6 per cent decline in the proportion of people living in poverty. Country level studies such as in India by Jadhav (2003) indicate that remittances have not only surpassed Official Development Assistance (ODA) but also have proved to be a sustainable and stable source of foreign exchange that has the potential to improve the receiving countries’ credit ratings and ability to pay for imports. Wets (2004) cites the instance of Morocco where it is said that around 1
Introduction

million people could live just above the poverty line only due to remittance income definitely making remittances and hence migration, a development issue.

1.3.4 Resilience of remittances

Remittances have been proved to be resilient in times of economic crisis. Unlike other flows like that of FDI, flow of remittances remain resilient for reasons cited by Ratha, Mahapatra and Xu (2008) as: a) Remittances are cumulated flows of not only current migrants but also established migrants making remittances persistent over time, b) Although remittances form a small part of migrant’s income they continue to remit in times of economic shocks, c) Because of tighter border controls in present times duration of residences by migrants have increased leading to continuous remittance flows from those who stayed back, d) Return migrants bring back accumulated savings. In terms of the recent economic downturn, it is speculated that due to the possibility of the high income Organization for Economic Cooperation and Development (OECD) countries to undertake large fiscal stimulus packages in response to the financial crisis, this would lead to increased public expenditure if directed to public infrastructural projects and hence, will increase demand for both native as well as migrant workers leading to continued remittance flows. Additionally, Ratha et al (2008) point out that documented migrants are likely to remit more to their families to make up for the fall in remittances by undocumented migrants.

1.3.5 Money transfer business

One of the reasons for the increase in global remittance flows has been developed formal systems of transfer leading to better reporting of remittances. Transferring of remittances from the sending countries to the receiving countries is currently a major business industry that include various market players like banks, money transfer operators, exchange houses, informal networks (hawala\(^5\) operators),

\(^5\) ‘Hawala’ and ‘hundi’ refer to informal and illegal channels of transfer. These systems of transfer is said to have existed since long and took pace during the increased migration of 70’s and 80’s to Gulf countries (El Qorchi, 2002). This system works without actual transfer taking place between countries
micro finance institutions, credit unions and migrant associations (RBI, 2006; Ratha, 2006 and Singh, 2010). The formal money transfer channels are expanding with expansion of banking services in remote parts of developing countries, a large and expanding number of Money Transfer Operators (MTO) like Western Union, Moneygram, etc. This combined with technological advancements leading to even mobile transfers has led to growing competition between the different players that have also led to reduced costs of transfer attracting more transfers through formal channels. However, significant amount of global remittances are still said to remain unreported due to the presence of informal channels like **hawala** and **hundi** that continue to be the cheapest, fastest, convenient and trustworthy channels for a huge population of low skilled migrants in the world.

1.4 Role of the Diaspora Communities

From the discussion on the definition and concepts of remittances in the previous section, a point that emerged was that the current definitions of remittances do not encompass **collective** remittances from Diaspora communities. Hence, there is a need to include the contribution of Diaspora communities in any discourse on remittances, especially when it is related to developmental aspects at the origin countries. Newland (2007) points out that the relationship between migration and development also goes beyond the ‘trade off’ between remittances and brain drain to also accommodate for the role of Diaspora communities in the development of their homeland. Delgado-Wise and Guarnizo (2007) state that in mature migrations processes, that are ‘consolidated’ by social networks and migrant associations, the migrants are seen as potential agents of development. In this respect one needs to mention the concept of ‘transnational community’ that is increasingly being used alternatively with the word ‘Diaspora’ however, with the former perhaps giving a more stronger emphasis on the continuous maintenance of close links of the migrants with their origin (Skeldon, 2008).

(for details see Buencamino and Gorbunov, 2002). These systems, however, are infamous for their involvement in transfers of money originating from both formal as well as illegal sources of income. They are also linked to money laundering and use by criminal agents including terrorism.
Of late, there have been growing discussions on migrant associations or Diaspora organizations or transnational communities as development players in literature, many of which are policy papers. The International Development Committee Report (2004) on migration and development, defining Diaspora as ‘international migrants, who although dispersed from their home country, remain in some way part of their community of origin’, highlight that they are the actors who ‘build transnational networks on the basis of emotional and family ties, and in many cases a strong sense of commitment and responsibility’. The report also emphasize that these organisations involve themselves in charitable activities at both home and host societies and raise funds for disaster relief and play a crucial role in improving health and educational conditions at home communities. These activities are said to be carried voluntarily with or without the assistance of respective home country government. The International Development Committee Report (2004), Sriskandarajah (2005) and Orozco, 2006 advocate the participation of Diaspora communities for development at origin with a possible government collaboration for more encouragement and effective channelization of remittances for development.

Studies on Diaspora communities (for example Ndofor-Tah, 2000; Paul and Gammage 2004 and Orozco and Welle, 2006) highlight the several ways in which migrants stay connected to their home country and find that emotional ties and sense of community belonging play a significant part in maintaining such ties. One of which is popularly known as Home Town Association (HTA). Migrant associations in different parts of the globe, especially those based in developed countries, have taken part in several ways to contribute towards betterment of both home as well as host societies. Although the contributions of Latin American associations have been frequently cited, of late instances of Filipino and African Associations can also be found in literature. It is said that there are some 3,000 Mexican, 1,000 Filipino and 500 Ghanian migrant associations (Orozco and Rouse, 2007). Delgado-Wise and Guarnizo (2007) state that in mature migrations processes, that are ‘consolidated’ by

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\(^6\) Orozco and Welle (2006) define transnationalism as ‘dynamics of migrant cross-border engagements, encompassing a range of activities, including but not limited to sending of remittances, the building of social networks and economic relationships and fostering of cultural practices and political participation.

\(^7\) Taking a cue from Latin American countries and in certain communities where government collaborations do not exist.
social networks and migrant associations, the migrants are seen as potential agents of development.

There have been various other successful ways in which the Diaspora have been attracted by sending countries in terms of channelizing financial resources, for instance, business partnerships, trade and flows of investment. These have been successful ventures in India and China for instance. In India, an important agenda of ‘Pravasi Bhartiya Divas’ and ‘Vibrant Gujarat’ conferences have been aimed at such investments by Indian Diaspora communities. However, a mere presence of Diaspora community or an organization having a common origin does not guarantee a solution to development issues at the origin. Factors associated with the characteristics of the migrants such as their income, socioeconomic condition at the destination, interest and attitude towards philanthropy and/or investment at the origin leading to development and a host of other factors related to socio-political circumstances at the origin, does matter. If the associations are matured, membership is larger and the profile of the migrants demonstrate wealthiness, there exists a greater possibility for greater coordinated efforts and higher flows of collective remittances which otherwise may not be possible. Such a caveat has also been highlighted by Skeldon (2008). Hence, characteristics of members of migrant associations need specific investigation for any policy making aimed at attracting Diaspora organizations.

1.5 Increased Focus on Policymaking to Manage Migration and Remittances for Development

Policy makers, for reasons discussed in the previous sections, have been more optimistic in recent times with the positive impacts of migration and remittances and their potential for economic and social development at origin areas (World Migration Report, 2008), since, migration from poorer to richer nations is considered inevitable due to a variety of reasons related to globalization and demographic disadvantage of developed nations. In this context, ‘remittances’ – an outcome of migration which has been defined as ‘current transfers by migrants who are employed in new economies and are considered residents there’ (International Monetary Fund, 2007), has been considered to be the strongest link between migration and development.
Development policy makers especially in the developing world are concerned about the designing systems that would initiate more freedom of movement of all kinds of labour (high skilled, low skilled, etc.) with fairer treatment of migrants along with economical (low cost) and smoother flows of remittances (Sriskandarajah, 2005; Farrant, MacDonald and Sriskandarajah, 2006). Most common suggestions by the policy makers have been more country surveys of all developing countries to which remittances flow, promotion of circular migration as temporary migration has been linked with increased flow of remittances (Dustmann and Mestres, 2009), lowering cost of migration (Ratha, 2008, 2009; Singh, 2006 and 2010) and very importantly investigation of the behaviour of remittance flows at both national as well as household levels (Sriskandarajah, 2005).

However, certain challenges that have to be faced, as pointed out by the International Development Committee Report (2004) and Wets (2004) are management of migration so that it positively impacts people, the benefits of migration are maximized, the costs and benefits are shared equally by both home and host societies. In terms of development several issues need to be tackled including responding effectively to emigration and remittance flows and channelizing remittances so that it may lead to poverty reduction. However, in this context existence of ‘migration hump’ and its implications need to be discussed. ‘Migration hump’ indicates that poorest do not migrate, at least they do not migrate to long distances, policies aimed at poverty reduction and poor should be designed keeping in mind the push factors. Also, harnessing benefits of migration to accommodate even the poorest has also been indicated in terms of ‘trickling down effect’. However, the migration and development policy makers advocate that the primary concern for governments should be to maximize developmental benefits from the whole process.

Yet at the same time as Carling (2007) insists that it is desirable that the policies aimed at development through remittances be such that the development is self sustaining and independent of future remittances. For this reason he stresses the importance to distinguish between different forms of uses of remittances and the distribution of those benefits in the process because it has been observed that most of the remittances received by households are used up in conspicuous consumption. He
identifies that this consequence differs widely as households who depend highly on remittances for basic subsistence will not be able to save enough in spite of the fact that the remittances received by them leads to immediate poverty reduction and therefore, may not have a ‘sustained effect’. Only if households are able to save enough from the remittances will they be able to invest for ‘future benefits’. This implies that firstly, in order to unveil the complex interrelationship between ‘migration and development’, data gathering on migration and remittances need to be strengthened (Black and Skeldon, 2009) and secondly, different impacts of remittances need to be addressed based on the different communities and policies at development should be aimed accordingly.

1.6 The Study

Owing to the huge increase of remittance flows to developing countries in the past few decades, literature on the relationship between migration and development appears to have been dominated by the role of not only individual but also collective remittances on the development of mainly the home countries of the migrants. Several policy research papers such as Martin (2004), Sriskandarajah (2005) and Farrant and Sriskandarajah (2006), aim at mainly economic development of the home countries through effective channelization of remittances. From the recent increased attention of researchers and policymakers on remittances and the review of literature on migration and remittances, a need for an investigation on the phenomenon and impact of remittances in the Indian context was evident, encompassing obviously its various forms in order to understand the nature and consequences through its usage.

From the review of literature pertaining to remittances, it was observed that remittances have a significant positive developmental impact on the migrants as well as their households. On a community level, although, studies observe increased inequality between the remittance receiving migrant and non migrant households, yet its ability of poverty reduction both at micro as well as a general level has been highly acknowledged. Moreover, the role of the Diaspora communities towards development of their home towns by either through investment opportunities or through philanthropy has been recognized and included as a policy agenda. However,
inconclusiveness in understanding the true impact of remittances in different migrant sending societies remaining combined with inaccurate or limited availability of data on remittances in developing countries, more research and investigation to understand the impact of remittances from different levels has been highly emphasized.

In case of India, although being the top receiver of international remittances in absolute terms, significant gaps in research remains. Being a diverse country with significant variations in migration patterns following history and tradition, there certainly exists a possibility of variations in the remittance pattern and impacts at different regions or states. Since this area of study has been significantly under researched in India, this doctoral study aims at understanding such an impact of remittances by adopting a multilevel approach and focussing on two different high remittance receiving states of Gujarat and Kerala to understand the variations that exist within a developing country itself.

The broad objectives of the study were mainly three fold. First being to understand the flow and relative importance of international remittances in India vis-à-vis other external flows at a macro level. The second main objective of the study was to investigate and understand the impact of remittances on the receiving migrant households in two high remittance receiving villages belonging to two high remittance receiving states in India, Gujarat an Kerala, respectively. The third objective of the study was to investigate the impact of remittances (both individual and collective) on the village development.

The thesis is presented in 9 chapters. Chapter 1 introduces the broad theme of the study which is ‘migration and development’. It also discusses how remittances are perceived to be a major link between migration and development. Understanding the definitions of remittances in International Monetary Fund Balance of Payments Manual and how remittances are generally conceptualized in literature, it also presents the major issues in this particular field of research.

Chapter 2 reviews the existing theoretical and empirical approaches to the study of remittances at both international and national levels. It presents how theories on migration and remittances had evolved over time and the various dimensions of
empirical research on remittances. This chapter also highlights the findings of the earlier studies based on remittances in the Indian context and finds out the major gaps in research on remittances.

Chapter 3 describes the methodology of research adopted by the present research to study and analyze the impact of remittances at the households and village level in the two states of Gujarat and Kerala.

Chapter 4 presents an overview of remittances to India covering the broad macro aspects of migration and remittances within a brief historical context and present facts and figures. It also presents a brief description of the macro economic policies in India related to foreign money inflows in the form of remittances and Non Resident Indian (NRI) deposits and also analyses the relative importance of remittances to other current as well as capital account receipts in the Indian Balance of Payments.

Chapter 5 describes the socio economic profile of the migrant households surveyed including the profile of the migrant members belonging to the households and their migration process.

Chapter 6 focuses on remittance related variables. It describes the quantum of remittances that flow to the migrant households in the villages surveyed, the modes used by the migrants to transfer the money and the end uses of the remittance money by these migrant households.

Chapter 7 reports the results of the analysis of the data obtained from the household survey. This chapter describes the impact of remittances on the households receiving them in the two villages through econometric modelling.

Chapter 8 highlights the impact of remittances on the village development in the two selected villages. Beginning with the description of the general development scenario in the two villages, the chapter presents a meso level approach aimed at exploring the multiplier effect that remittances received by the households have on
employment and trade in the villages studied. It also highlights the role of migrant associations in the development of the study village in Gujarat.

Chapter 9 presents the summarized findings of the study with conclusions drawn from the study. This chapter also presents a set of recommendations for future research in the area of remittances in India and policy frameworks for effective channelization of remittances towards development.