"An Analysis of Economic Consequences of Labour Emigration on India"

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Abstract

The paper develops a macroeconomic analysis of the international labour migration and remittances in the Indian context to present their economic impacts on various macroeconomic indicators like unemployment, savings, investment, balance of payment etc. It highlights important issues and problems pertaining to the policies on international labour flows, remittances and financial flows in the context of national development. It delves on the issue to prescribe policy suggestions to augment labour emigration, to stimulate and lubricate the inflow of remittances and to channelize these inflows for economic development.

Key Words: Emigration, Unemployment, Remittances, Saving, Investment,

Introduction

It is evident from our past that people had been migrating across countries and continents for various socio-economic and political purposes. In the present time, the quantum of international migration is so high that it has become a major factor in global change. Large numbers of people are migrating these days either permanently or for short duration, as economic migrants or as refugee and asylum seekers. Migration is a multifaceted phenomenon, which is of vital importance in economic development, manpower planning, urbanisation and social change.[1]

In the realm of globalisation of trade, finance and production, migration is then only source to fulfil the requirement of manpower in labour scarce countries. It is geographical imbalance in supply and demand (that is excess demand in one country and excess supply in other) that causes migration to take place. From the viewpoint of migrants, emigration is prompted by a greater opportunity to employment or higher earning abroad. However from the viewpoint of employers, immigration is the way to fill up vacancies without pushing up wages and prices. Historically, two types of migratory flows have been observed: involuntary and voluntary. Involuntary migration is generally under the compulsion of the circumstances of war, natural calamities and such other situations. On the other hand, voluntary migration is generally induced by the differences in the levels of economic activities and employment opportunities among different parts of the World. The two types of flows are generally based on push and pull factors respectively.

India has experienced outflow of its people across national boundaries since the ancient times. However migration of workers on a significant scale came much later, first during the colonial period and later in after independence. Five types of migratory flows have been identified from India. These are indentured labour emigration, *kangani/maistry* labour emigration, free or passage emigration, brain-drain type of emigration and labour migration to West Asia. The first three types of emigration were observed in the colonial period while the other two are observed in the post independence period.

Objectives of the Study

The major objective of the present study is to present an analysis of the economic consequences of labour emigration on a labour exporting country. It tries to highlight various economic aspects of labour emigration in Indian context. We have a very extensive literature on this issue. Thus it is an analysis of

[1] Rao, M.S.A (1986)

macroeconomic impacts of labour flows and remittance flows on the labour exporting countries with reference to the Indian experience. The research paper mainly concentrates on emigration

An Overview of Literature

The geographical redeployment of labour produces changes in output, wages and prices of receiving countries and on unemployment and Balance of Payments in the sending countries. As far as labour exporting countries are concerned remittances are a source of foreign exchange. These countries can finance their capital imports by the remittances and thereby enhance their economic development. However it can be termed as a long-term goal. A more immediate consequence is that the outflow of labour represents a way to export unemployment and the social cost associated with it. Hence the present study would be an attempt to examine the issues or problems that arise in a wider macroeconomic context with reference to Indian labour migration.

Nineteenth century onwards, economists have taken a serious note of emigration of workers. They have emphasised on the role of wages, income, level of employment and unemployment in influencing migration flows. Various theories have been propounded to explain the phenomena with different sets of assumptions and references. In fact, we have a very rich literature on the subject but it is mostly microeconomic in nature focussing on the emigrant and his/her household. However, the literature has some exceptional writings too, which consider the macroeconomic implications and consequences of migration in the wider context of development. Borjas in 1995 presented a model of emigration in a closed economy. According to him immigration alters factor returns so that benefits outweigh losses resulting from redistribution effects.[2] In Hecksher-Ohlin model, international trade has a strong effect on wages. We assume a two-country world where skilled labour and unskilled labour are the two factors of production with linearly homogenous production functions. In the absence of transport costs prices of commodities converge across countries which in turn results in a convergence of wages in the absence of factor intensity reversal *(Factor price equalization theorem).* Wages are therefore determined by the world prices and level of technology.

Trefler has developed a model, which shows that immigration raises the productivity of domestic labour force and there is an optimal level of immigration beyond which further immigration reduces domestic welfare. Net welfare gains from labour emigration depend on the attributes of the emigrant workers. If productivity is an attribute of a worker (emigrant has low productivity wherever he works) there will be no welfare gain from emigration. But if productivity is an attribute of a country (low productivity is then the result of poor policies adopted by the nation) migration will increase productivity and there will be positive welfare effect from migration[3].

Economic Impacts of Migration

The impact of labour flows on output and employment at a macroeconomic level depends on the magnitude of workers, the employment status before emigration and the skill composition of the migrants. If the emigrants are unemployed before their departure, it would result in direct reduction in the level of open or disguised unemployment. The migration of employed persons on the other hand may also lead to an indirect reduction in unemployment if they can immediately be replaced by other unemployed persons. However the extent of such reduction in unemployment or underemployment would depend on the size of the outflow of workers. Therefore the skill composition of the emigrant workers becomes consequential. The emigration of unemployed workers has little or no impact on output but it definitely reduces unemployment in the country. On the other hand, emigration of skilled workers and high skilled professionals is likely to affect the output level and the employment level if such these employed emigrants could not be replaced without training, which again, absorbs not only resources but time also. The loss of skills embodied in the brain drain represents income lost for the home country and income created for the host country, so that the emphasis is on the income rather than output and employment. The country of origin incurs the cost of training of persons who choose to migrate while the country of destination reaps the benefits of such expensive training. Therefore it can be termed as an unrequited transfer of human capital from the former to the latter[4].

However if we include the return migration in the picture, it may prove to be beneficial for us. Skills are acquired by the migrants while abroad. The utilisation of such skills by them on return in home country may of course influence the productivity and output level positively but usually people go abroad to earn money so that they can laze at home after return. In the Indian case where emigration of workers does not

[2] Borjas (1994)
[3] Trefler (1997)
[4] Nayyar (1994)

reduce domestic output, remittance inflows should lead to some increase in national income. As long as the value of remittance exceeds the income lost as a consequence of emigration of workers across national boundaries, it should lead to some increase in national income. We can use here, the national income identity: Y = C + I + G + (X - M), to demonstrate the macroeconomic consequences of the changes in income and expenditure by observing the impact on the variables and major components of national income identity. An increase in private final consumer expenditure can lead to either an increase in output or it may increase price level or it may lead to an increase in imports to meet the increased demand. The difference between increase in income and increase in expenditure (ΔY-ΔC) will be saved. Rate of saving will be determined according to the propensities of consumption and saving out of domestic income and foreign income. Savings can be utilised in capital formation. The increase in investment may, consequently lead to a further increase in output and income through the multiplier effect. However in a situation where output cannot be expanded multiplier will work in terms of money income rather than real income, therefore leading to inflation or rise in imports or some combination of both.

Therefore the remittances inflow arising from international labour migration can remove either the saving constraint or the foreign exchange constraint thus enabling the economy to achieve a higher rate of growth, which is somewhat similar to the role played by foreign aid in the economy. International labour migration affects Balance of Payment (BoP) for which we can use (X-M) in the national income accounting. Remittances and capital inflows from emigrants constitute a net addition to foreign exchange receipts. In the absence of such receipts Balance of Payments deficit would be larger and foreign exchange reserve, smaller[5]. Since mid 1970s, labour emigration from India has been enormous. Financial flows that resulted from these labour outflows have also been significant in such an economy where mounting balance of payment deficit, fiscal deficit and current account deficit on one side and rapidly accumulating external debt on the other side had been causes of concern for economists and policy makers of the country.

Labour Emigration, Output and Employment

The database is very scarce for the size and composition of migrants to industrialized countries and we have no information about migrants to industrialized countries and the clandestine and illegal migration taking place. Hence we are not in a position to find out the effects of labour migration on our macroeconomic indicators with much accuracy. If we compare the total informed number of emigrants to total population and total work force, it comes out to be negligible and prima facie one can assume the insignificance of such meagre out flows.

We have no information on the employment status of these migrants before their departure. We can only assume that at least persons with professional expertise and technical qualification would have been employed before their emigration. It is also possible that some of them might not have tried to take up any job, though otherwise they were capable of getting job. As these emigrants do not return home and we had a large reservoir of qualified persons, it can be concluded that such emigration does not affect employment and output level significantly. These emigrants to developed countries constitute significant proportion of total number of unemployed graduates. Such emigration is more or less permanent. Out of these emigrants, the number of those who were employed before their departure is of significance to the economy. The vacancies created by their departure will be filled up by those who are considered next best in terms of skills, qualifications and talent. Therefore the net result will be a reduction, even if not significant, in unemployment, but these replacements would result in some deterioration in the quality of the workers. There shall be some benefits in terms of reduction in unemployment. But there will be loss in terms of outflow of human capital embodied in brain drain. The cost of training and educating of these professionals is not too less to ignore. The cost may exceed the gains of any in the form of capital inflows and foreign exchange receipts. The whole cost is borne by India while benefits are reaped by industrialized countries in terms of income created by them in the country of destination. Remittances, if sent by them, are meant to be used by their own families or relatives, however the cost of training them was borne by the whole society. Hence this brain drain means a privatisation of the benefits and socialization of the costs for India, while it meant an internalisation of the benefits and an externalisation of the costs for the industrialized countries.[6]

Emigration to Middle East mainly constitute of unskilled and semi-skilled workers. It is very much possible that these emigrants would have been either underemployed in the subsistence agriculture farms or unemployed landless agricultural labourer in the rural sector, and underemployed or unemployed (particular casual wage labour) in the urban sector. Around 50 percent of the total migrants to Middle East are either skilled worker or white-collar workers. Some of them would also have been either unemployed or semi

[5] ibid
[6] ibid

employed before their departure. Some of them who are in construction sector and those with high skill (around 5 percent of the total) are probably employed at the time of their departure. We have a large reservoir of skilled, semiskilled and high-skilled workers spread over the whole country from unskilled to high skilled labour. Many of them are not able to secure employment. In the state of widespread unemployment in the country, the vacancies created by these employed, skilled and highly skilled workers migrants will be filled up by those who are almost equally educated and talented and looking for job. So it has a net beneficial effect on the employment level in the country by reducing open and disguised unemployment.

While considering the benefits of outflows we need to note the return migration too. There is no information available on the return migration. In the period of large return migration the net outflow becomes small and net effects on the macroeconomic variables negligible. In the absence of information, it is difficult to examine effects of return migration yet it seems that these effects may not be very significant. The return emigrants may cause unemployment to increase in some places where job opportunities are not much. However, remittances, through real investment, can create employment opportunities. Remittances can also indirectly create employment opportunities by creating final demand through consumption expenditure. However to analyse the employment effect of remittances, it is important to reconcile the macro and micro dimension of consumption and investment behaviour. Consumption and investment for the individual migrant's family may be just a transfer payment for purchasing land and property or second hand goods. From a macro economic perspective, even additional consumer expenditures of migrant's family could induce investment in later stages, through the response of other decision makers in the economy. Additional investment concentrated in any particular sector may not have an additive effect but rather generatge a substitutive effect.

Labour Emigration, Remittances, Saving and Investment:

Remittances are expressed as a percentage of some macroeconomic variables like Gross Domestic Product, Private Consumer Expenditure, Gross Domestic Savings and Gross Domestic Fixed Capital Formation. The remittances for a big economy like India thus expressed are in very small fractions. Theoretically, these deposits should provide resources to banks to finance investment but in practice these are used for consumption and investment both. The amount deposited in these accounts may not be that much to have some significant impact on the total investment in the country. Theoretically, it is justified that such deposits along with remittances can be a substitute for savings and can remove the foreign exchange constraint. Savings generated by recipients of remittances can be used to augment either consumption or investment or a mix of both. Foreign exchange, received in the form of remittances, may be utilized to curtail the deficits in the Balance of Payments.

So, excess of investment over domestic savings may be realized with the help of these repatriable deposits. In India national income accounting identity (Y=C+I+G+Net Factor Income from abroad) is treated in slightly different way wherein remittances received are not included in the net factor income from abroad. However the domestic resources equivalent to remittances receipts enters into consumption, savings and investment. Therefore the part of remittances saved is included in the domestic savings.

International Remittances and Balance of Payment

International labour migration affects balance of payment the most, through the financial flows associated with migration. India has been among the top two recipients of international remittances in the World. So the magnitudes of remittance inflows remained huge. The significance of remittances relative to some BoP components is high. Hence it is clear that these financial flows associated with international labour emigration were indeed significant in the context of balance of payment. These inflows have helped by financing a large part of India's total trade deficits and therefore reduced the current account deficits to manageable levels.

Workers' emigration and return create new trade opportunities between the source and the destination countries. A closer look on Inida's trade data with the rest of the World reveals this fact. For example, exports and imports to countries of Middle East show how these variables remain affected by the presence of Indian population in the region. Immigrants must have some particular wants to be satisfied only by the goods produced in their native countries. This affects balance of payment favourably by augmenting exports. On the other hand, workers abroad tend to develop taste for products available in their countries of destination and try to import those items upon returning home. This will operate to offset the positive effects of remittances on current account.

Policy Prescriptions

The forgoing discussion has highlighted comprehensively on the all dimensions of international migration from independent India. However at each step of the research it was felt that India is lagging behind, in the sense that she has no concrete policy in the area of international labour migration. However it is very much necessary to have a sound emigration policy in order to reap the benefits from labour exports.

Policy Prescriptions for International Labour Flows

In order to develop our macroeconomic analysis further we need to examine policies and related problems. What have been the government policies towards remittances? It is evident that emigration to the industrialised countries is confined largely to persons with high technical qualifications and professional training. However migration to Middle East remained mostly temporary. Unskilled, semi-skilled or low skilled persons migrated to these countries. Policy regimes for financial investments by non-resident Indians (NRIs) or persons of Indian origin (PIO)[7] living abroad are similar. Investments in government securities, National Saving certificates or UTI are exempted from wealth tax, income tax and gift tax. Special concessions are also available for portfolio investment in shares and for company deposits. In spite of all these incentives, capital inflows in the form of portfolio investment by NRIs have remained insignificant. Focus of policy regime has been on high skill, high-income emigrants who live abroad permanently in the industrialised countries or in the developing world. There has been a constant effort to induce them to provide repatriable financial resources if they continue to live abroad and to make real investments if they wish to return home. Very little has been prescribed for the low skilled, low income and temporary migrants mostly working in the Middle East.

Policy regime has ignored the expected benefits from labour emigration. Significant efforts have not been made to adopt proper plan in the sphere of labour outflow. There was even no step taken towards directing the labour outflow to the most beneficial regions of the World. We notice two broad characteristics of the emigration policy of India. First, there is no migration authority in India to monitor, regulate or stimulate the emigration of persons with technical qualifications or professional expertise. Even a person who holds merely a graduate degree or some diploma in technical trade may go abroad for work abroad without any emigration clearance. If we have something in the name of emigration policy, that relates to migration of unskilled and semiskilled workers in manual or clerical occupations. Second, the policy is concerned entirely with emigration. Very little attention has been paid towards return migration in the policy document.

As we have noticed in the first chapter emigration from India to industrialized countries remained largely confined to persons with technical qualifications and professional expertise. Very few persons with such qualifications have been immigrating to the Middle East. Labour outflows to the Middle East remained largely temporary and confined to those people who possessed either no skill or very ordinary skill. These people are generally provided manual works in the Middle East.

The first step in the direction of immigration policy was taken up by the then British government by enacting an Emigration Act in 1922. According to the Act the recruitment agents were required to obtain a license and to follow the specified rules and procedures in sending workers for work abroad. However a decision by the Supreme Court in 1974 simplified the rules and regulations for licensing and registration of the recruiting agents. As a result of this decision, a large number of Primary Recruitment Agencies (PRAs) mushroomed in the metropolitan and other major cities and thereafter, remained a whole story of exploitation of migrant workers by these agencies. The main victims of these agencies were workers with low skills, low income and without skills.

One important aspect of the migration policy to be noted here is that the government has classified the employers into several categories and they are bound to follow different procedures. The prescribed policies so far did not influence the profile of emigration from independent India. The policy integration of the government in the sphere of labour flows remained very minimal. This is due to the fact that the size and composition of the labour outflows have been demand determined rather than supply determined. Although the desire to migration has played some role, yet labour migration was entirely dependent on the possibilities of getting job in the countries of destination. We can say that force of demand rather than supply in combination with immigration laws determined the labour flows from India.

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[7] A non-resident Indian is defined as an Indian citizen who stays abroad for employment or to carry out a business or for any other purpose for an indefinite period. However a person is deemed to be of Indian origin if he held an Indian passport at any time or if either of his parents or any of his grandparents were an Indian and a permanent resident of undivided India at any time. A wife of a citizen of India or a person of Indian origin is also deemed to be of Indian origin even if the person may be of non-Indian origin.

In the case of labour migration to Middle East the labour importing countries have to consult recruitment agencies about the number of workers required, their skill composition, wage levels and working conditions. The recruitment agents are required to make basic decisions. Hence the recruitment agents have been assigned a major role to play by monitoring the demand and supply of migrants. Hence workers who wish to go abroad for work have to enter into such labour market. The only role government has to play in the whole process is to ensure that the terms and conditions of employment contract are in conformation with those specified minimum norms, so that the exploitation of workers does not occur.

In respect of return migration, too, there is no administrative system, which can record the number of such workers on a regular basis. Exceptionally, we can get some information about the returning migrants from the records of Central Board of Custom and Excise, Ministry of Finance, Government of India. However this information is not complete as it merely records the number of those who either availed of transfer of residence concessions or mini-transfer of residence facilities. Therefore proper agency should be set up to record the magnitude and composition of returning migrants also. Information collected by the Ministry of Home Affairs is not available in public domain.

Therefore the most important policy intervention from the government side should be to create and upgrade the information collection system on the labour migration from India and return migration to India. Proper records should be maintained about the dimensions and composition of the outflow as well as inflows. Then only we will be able to prepare some guidelines for the intervention of the government in the future contract labour export and can prepare proper schemes to reabsorb the returnees. The data can significantly be upgraded, by making the registration of entry by migrant workers, necessary, in the Indian embassies in the destination countries. Adequate information should also be collected about their standard of working conditions and living conditions. The nature of the outflow data at home can be strengthened by a fuller utilization of the data already available with government departments and recruitment agencies.[8] There is need to strengthen statistical bureaus in all concerned departments. We can maintain counters at airports to register the particulars of all the migrants leaving or returning to the country. Then we can obtain data on the outflows and inflows.

The data relating to return migration can be strengthened by a proper use of the disembarkation cards at the international airports. Disembarkation cards can also be used to obtain the information as to whether the migrant worker is returning permanently or for short duration.[9] Furthermore the data on migrants characteristics should be collected at state level so that data collected at the national level could be classified state wise. We can take the help of NSSO (National Sample Survey Organisation), to conduct detailed surveys on the international migration periodically. There are several Indian associations operating in the Middle Eastern countries for the betterment of Indians living there. At the time of Gulf crisis these associations have shown their importance in safeguarding the interests of Indians at the time of emergency.[10] These organizations should be identified and linked to Indian Embassy in the respective countries to collect necessary information about the Indians living there.

Policy Prescriptions for Financial Inflows

A similar condition has to be faced by migration researchers in the context of the data on financial flows. We, however, have some official data on the financial transfers made through banking system. Transfers are also made through other routs, which cannot be monitored. The policy intervention of Indian government to maximize remittance inflows has been quite minimal. The inflow of remittances through official channels has been determined largely by the exchange rate policy and the exchange rate control regime.

In the late 1950s government introduced foreign exchange control regulations which stipulated that remittances should be channelled through the official banking system and balances held abroad by migrants should be repatriated when they returned. From 1977 onwards these balances could be kept in a special account, which allowed the returnee to claim 25 percent of the amount within 5 years for any purpose including for repatriation, if the person decides to migrate once again. This was known as the Returning Indians’ Foreign exchange Entitlement scheme (RIFEES). After 1987 the limit was raised to 50 percent for a period of 10 years. These accounts were denominated in rupee and were not protected against foreign exchange. In 1992 RBI introduced a new scheme under which NRIs who wish to return India can open Resident Foreign Currency Accounts denominated in US dollars worth their foreign exchange balance repatriated from abroad. The amount held in these accounts can be remitted abroad without any limit for any

8 Sasikumar, 1995
9 Sasikumar, 1995
10 Verma and Sasikumar, 1994

purpose of account holder or dependents except for investment or for purchase of immobile properties abroad. The balances can be repatriated if the person wishes to migrate once again. Therefore we can note in brief that following incentives are provided to those NRIs or PIOs who maintain external account in India:

Returnee migrants or their friends and relatives can return to India with foreign currency up to a value of US $1000 without having to declare it to the customs authorities. It is noteworthy that this money is converted into local currency and then written in the official account under the head other than remittances, tourist, travelling etc. This amount can significantly affect the records of the government on remittances. The other form of remittance flows is the carrying of foreign produced goods by the emigrants on their visits and upon their final return. Such goods are usually electronic goods, camera, watches, textiles, gold and ornaments, etc. The value of these goods should be included in the estimate on remittances. Goods imported up to the prescribed limit are exempted from Custom duties and are not recorded.

We can differentiate financial flows between remittances and repatriable deposits or portfolio investment. So far we do not have any concrete policy to attract or sustain the inflows of remittances. No incentives were provided in the form of premium exchange rate. It was only in 1992 when partial convertibility of the rupee was introduced. Therefore all remittances could be converted into domestic currency with a premium on the official exchange rate as long as market exchange rate was higher than official exchange rate. This provided certain incentive to remittances.

1. The interest rate on deposits, denominated in foreign currencies is higher than that in international capital markets, while the interest rate on deposits denominated in rupees is higher than that for domestic deposits of comparable maturities.
2. The deposits and interest accrued on them are repatriable.
3. The deposits and accrued interests are both exempted from wealth tax and income tax and gifts to residents out of these amounts are exempted from gift tax.
4. Loans and overdraft facility against the securities of these deposits are available not only in India but abroad too.
5. Foreign Currency Non-Resident (FCNR) accounts are protected from any exchange rate risk but can be kept only in the form of term deposits. On the other hand the Non Resident External Rupee Account carries the exchange rate risk but can also be maintained as current account or saving account in commercial banks.

It seems that the main focus of the policy regime has been on the high-skill and high-income migrants living abroad permanently either in industrialised countries or in developing countries. It seems that government is trying tooth and nails to induce them to provide financial resources to our economy. It is the inadequacy of the whole policy regime that they have seldom thought of low skill, low income, and temporary migrant workers in Middle East and other countries. However it is these emigrant workers who provide significant amounts of foreign exchange in the form of unrequited transfers. These emigrants often go mainly to the Middle East for temporary work in manual or menial occupations.

Furthermore, government has not paid any attention towards guiding the use of domestic resources provided to people through remittances. Recipients are totally free to use these resources according to their wish on consumption or investment or a mix of both. Also it is required on the part of government to transfer the savings of recipients of remittances to investors through financial intermediaries in a more systematic manner. We could provide more incentives on the savings out of remittances in the form of better rates of return on remittances placed in specified assets or deposits.

We can merely presume that the high skill and high income group of recipients have their main attention on the purchase of consumer durables, houses, to support essential consumption or to pay the loans borrowed to finance their emigration. In the case of low skill, low income migrants to Middle Eastern countries it can be assumed that their remittances are mainly spent on the consumption expenditure whether for immediate consumption or on durable goods. Generally it has been observed that these migrants brought several durable goods from their country of destination at the time of their return to India. Some migrants might use remittances money to buy investment goods such as tractor and other farm vehicles.[11] In the recent past keeping imported goods was a matter of high status and prestige even in the villages. The same trends are found in Thailand in a study by Pitayanon.[12] They also used their savings to pay their loans and to purchase agricultural land or to purchase or construct new houses. Hence the major impact remained on consumption and not on investment. Thus it led to expenditure by them on unproductive activities. This is supposed to be due to the lack of entrepreneurship and education among them. The Impact of such pattern of spending out of remittances has either led to an increase in the price level or to imports and a little if any on the expansion of

[11] Rehman, 2001
[12] ibid

domestic production of manufactured wage goods. Government should try to motivate people to invest rather than consume a larger part of remittances.

Conclusion

So far we have tried to highlight all aspects of international migration from India in the context of open economy macroeconomics. The huge annual outflows of workers at present is of immense importance for such an economy where more than one quarter of total population is below poverty line, GDP growth is irregular, per capita income is growing at a slow pace and unemployment is widespread. Although benefits of such flows are realized by the migrants and their families but society as a whole is also benefited. For the society significant benefits include the creation of additional economic activities in the economy thereby reducing unemployment by exporting of idle workers or by replacing unemployed persons in the jobs left behind by emigrants.

In spite of massive outflows of labour, impacts on output and employment levels have been marginal. Total labour outflows in comparison to total workforce in the country have been very small. Even though the labour emigration to the Middle East helped in reducing open and disguised unemployment, emigration to industrialized countries has reduced unemployment indirectly through substitution. On the other hand the returnee migrants have been offsetting the positive effects of outflows by increasing the level of open and disguised unemployment.

Labour outflows have been a major source of foreign exchange receipts in the form of remittances on the one hand and repatriable deposits by NRIs and PIOs on the other. Larger part of remittances has been received from Middle East during the last twenty years. This is due to the fact that migration to Middle East has been mostly of temporary in nature. However emigrants to industrialized countries remit only a small part of their earnings because of the permanent nature of their emigration.

In spite of massive inflows of remittances, our analysis shows, that savings and capital formation have not been affected significantly but we could definitely finance our balance of trade deficits and reduce our current account deficits. Resources obtained in the form of repatriable deposits by NRIs and PIOs remained a source of finance for current account deficits but it proved to be an expensive option. This is akin to borrowing, and interest rates on the repatriable deposits have been higher than in international capital markets. So government could have opted for cheaper option, that is, loans. The third source of foreign exchange, associated with labour migration, has been exports. Labour migration could augment export earnings of India. Millions of Indians living in Middle East demand goods produced in India. This results in increase in exports.

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