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Gulf NRIs and Their Remittances to India: The Saga of Overlooked Great Expectations

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As the leading labour exporting country to the Gulf, and also as the largest recipient of annual remittance inflows, India occupies an enviable position in the world, particularly because of the strong and unmatched beneficial macroeconomic effects of remittances. This paper views remittances from the Gulf to India not only as a case of "rich dividend to the country on zero investment," but also as a costless outcome characterized by "rich harvest from a policy of benign neglect." This paper outlines the macroeconomic justifications for according specialized policy attention to remittances on par with other sector specific policies, ranging from exports to foreign direct investment, and argues that the Gulf NRIs as a group deserve such a focused policy framework in India as a reward for their indelible contributions to the Indian economy. Gulf NRIs represent an important interest group, with genuine justifications supporting their great expectations that someday India's current policy of "benign neglect" will be replaced by a more focused policy framework, which not only could encourage remittance flows through an attractive policy environment, but also may lead to better harnessing of the immense growth and development potential of remittances.

Keywords: Remittances, Asian Expatriate Workers, Gulf, Non Resident Indians (NRIs)

1. INTRODUCTION

An estimated 12.5 million expatriates living in the six oil-rich Gulf countries (namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE) remitted close to USD 28.5 billion to various labour exporting countries in 2005. India has been the leading remittance receiving country in the World for quite some time now, and in 2005-06, total remittance inflows to India alone amounted to as high as USD 24.6 billion. An estimated 3.5 million Non-Resident Indians (NRIs) living in the Gulf, accounting for about 28 percent of the total expatriate population of the Gulf, would have contributed close to USD 8 billion to India's remittance inflows in 2005-06, and these NRIs have been a permanent and most stable source of strength and resilience to India's balance of payments in more than last three decades. The macroeconomic policy environment of India, however, has growingly turned against the interest of these senders of remittances. More importantly, despite being the largest beneficiary of remittance inflows in the world, there is no clear policy in India for either attracting larger remittance inflows or for better harnessing the immense growth and development potential of remittances for the country.

While every other important sector's needs are treated with specific policy focus in India, staring from exports, to FDI, to tourism, to FII flows to software services, remittances

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receive much less importance in the sphere of macroeconomic policy making, and the policies are in fact increasingly becoming remittance unfriendly, particularly as far as the interest of the vast majority of the unskilled Gulf NRIs is concerned. While the nominal exchange rate of the rupee is often allowed to appreciate these days (lowering thereby the rupee equivalent of remittances sent to the family members), the interest rates offered on various NRI deposit schemes have become much less attractive, and there are influential policy recommendations (like the recent one from the Fuller Capital Account Convertibility Committee Report) suggesting possible taxing of various NRI income in India. Domestic inflation in India has also been a concern for remittance receiving families of the poor NRIs, as most of these NRIs do not receive any wage increase in the Gulf even after working there for several years, and as a result they cannot prevent the erosion in purchasing power of fixed remittance amounts for their family members who reside in India. To the extent that evolving policy developments in India relating to exchange rate, interest rate and various instruments of fiscal policy are truly in the spirit of meeting the needs of an open competitive market economy, one could argue that the senders of remittances must adjust to this changing reality of the Indian economy. But in practice, when one finds that sector-specific policies are still in vogue, and areas like exports, software, tourism, FDI, FII flows, *etc.* are being encouraged through specific policy focus, it is felt as necessary to present the case of remittances as no less important in relation to any other sector/sub-sector in India's balance of payments. Accordingly, most of the Gulf NRIs could raise this very valid questions as to why remittances should not receive specific policy focus in India's macroeconomic management, and what alternative policy instruments the Government may be contemplating to attract larger inflows of remittances into India?

While advocating such a specialized policy attention for remittances, it is important first of all to establish clearly the indelible contributions of remittances to the macroeconomic environment of India. The robust economic performance of India in the last one decade or so, and the emerging perception of a lack of external constraint to India's economic growth, would not have been possible but for the strong performance on remittances. This paper aims at establishing the immense macroeconomic significance of remittances to India, and in that process strives to draw specific policy attention of the Government for this critical element in India's balance of payments. Section-I presents certain harsh realties about the difficult conditions against which these remittance flows into India get generated. Section-II offers a quick review of the available recent literature on remittances to make the point that (surprisingly) no attempt has ever been made in the past to justify the need for a remittance focused exclusive policy framework in India. The enormous (and possibly unmatched) macroeconomic significance of remittances to India is outlined in Section-III, followed by a list of suggested policy options. Each argument offered in this section may require a more comprehensive re-look, if a remittance-focused policy approach is envisioned at some stage in India. Section-IV sets out a few concluding observations.

2. SECTION-I: SOME HARSH FACTS, MYTHS, AND JUSTIFICATION FOR POLICY NEGLECT

One may often wonder as to why the Gulf countries are so open to Asian workers, despite significant unemployment problem faced by the Gulf nationals themselves in the face of rising population and a distorted demography favouring the young population? An assessment of this issue itself will tell volumes about the conditions of expatriate Asian workers in the Gulf. As noted by Tattolo (2003), openness to Asian workers could be because they are "less expensive to employ, easier to lay off, and thought to be more efficient, obedient and manageable". These expatriate workers have helped in converting the "financial wealth" accumulated from oil income into "real growth and development". As observed by Mohammed (2003), the Gulf States "bought" economic prosperity within a decade, what in fact had taken the industrial countries a century to achieve. The only major economic cost to the Gulf States in transforming their financial wealth quickly into real growth and development has been in the form of large remittance outflows from these countries (Table-1).

Table 1: Expatriate Population and Outward Remittance Flows from GCC in 2005

	Total Population (Expatriate Population)	Expatriate Population as % of total population	Expatriate Labour as % of total labour force	Outward Remittances During 2005 (USD million)	Number of Indian Expatriates in the Gulf
Bahrain	724,645 (276,154)	38.11	65.0	1,223	130,000
Kuwait	2,418,393 (1,291,354)	53.40	82.0	2,647	294,000
Oman	2,509,000 (666,000)	26.54	70.0	2,257	311,000
Qatar	744,029 (312,000)	41.93	57.0	3,007	130,000
Saudi Arabia	23,118,980 (6,264,836)	27.10	47.0	13,985	1,500,000
UAE	3,769,080 (2,944,159)	78.11	80.0	5,400	900,000
Total	33,284,127 (11,754,503)			28,519	3,265,000

Note: Figures relate generally to 2004-05, and are based on available official statistics for the respective countries, which have also been supplemented by GCC Economic Statistics, Gulf Investment Corporation, and Worldfacts. In the population/ labour figures, expatriates whose labour cards/employment visas might have expired but they may be still working in the Gulf are not included, and hence, the total expatriate population in the Gulf is approximately stated to be about 12.5 million, of which about 3.5million could be Indians (*i.e.* more than the figures reported in this table). Number of NRIs in the Gulf relate to 2001 data presented in the Report of the Working Group on Cost of NRI Remittances submitted to RBI in May 2006.

As per the figures reported in this table, about 12.5 million expatriates living in the Gulf remitted about USD 28.5 billion in 2005, which amounts to just about USD 190 per expatriate per month, which is not large, and essentially reflects the fact that more than 80 percent of the expatriates undertake very low paid jobs and remit almost the entire income, since basic essentials like accommodation and food are supplied by the local sponsors of such labourers as part of the contract. But for the higher wages of a small proportion of the skilled expatriate class (whose size is growing, but still less than 10% in the total), the average per-capita remittance per month figure would have been even lower (say just about USD 100 per month).

In the initial phases of the oil boom that started in early 1970s, or even before, a large part of the labour force migrating to the Gulf was from the neighbouring poorer Arab states. Arab-Israeli war of 1948 led to forced migration of Palestinians; so was the case in respect of Iraqis after the Bath party's coup in Baghdad in 1968, and Yemenis because of the civil war in that country. Iranians and Omanis also represented significant proportions of migrant workers in the Gulf those days. The wave, however, changed in favour of Asians because of major political developments. As documented by Mohammed (2003), the Iranian Revolution created the fear of risk associated with disgruntled foreign workforce in the Gulf countries, which led to gradual reduction in the number of Iranians in the expatriate labour force in the Gulf. During the Gulf war of early 1990s when the Governments of Yemen, Jordan and Palestine did not condemn the Iraqi annexation of Kuwait, it had grave implications for their workforce in the Gulf. By the end of 1991 itself, about 8,00,000 Yemenis, 54,000 Palestinians, and 3,00,000 Jordanians had to return to their respective countries from the Gulf. Because of Egypt's anti-Iraq stance during this war, however, Egyptian workers were particularly encouraged during the reconstruction of Kuwait. In the post Gulf-war period, Gulf countries preferred expatriate workers who could have least to do with the domestic political, social and cultural conditions in the Gulf, and who could be driven by the only consideration of economic needs. Asian countries as cheap sources of labour, thus, emerged as quite attractive. Moreover, Gulf countries also adopted a policy of deliberately fragmenting the expatriate workforce into diverse nationalities. Four South Asian countries (*i.e.* India, Pakistan, Bangladesh and Sri Lanka) and Philippines represent now the countries with the largest shares in the expatriate workforce in the Gulf, with Egypt being the only Arab country in that race. Country-wise distribution of the expatriate labour force of Oman presented in Table-2 shows the clear dominance of Indians in both public and private sectors, despite the policy of Gulf countries to diversify the nationalities of the expatriate workforce.

Table 2: Country-Wise Distribution of Expatriate Workforce in Oman (2004)

Private Sector			Public Sector		
Country/ Nationality	Number of Expatriates with Valid Labour Cards	Percentage of Total Expatriates in the Private Sector	Country/ Nationality	Number of Expatriates in the Ministries and the Govt. Sector	Percentage of Total Expatriates in the Public Sector
Indians	256,903	60.5	Indians	6,405	41.3
Bangladeshis	68,496	16.1	Egyptians	4,968	32.0
Pakistanis	52,087	12.3	Sudanis	1,132	7.3
Sri Lankans	6,782	1.6	Jordanians	695	4.5
Philippinos	4,840	1.1	Other Arabs	1,340	8.6
Egyptians	5,083	1.2	Pakistanis	315	2.0
Other Nationalities	30,128	7.2	Others	648	4.3
Total	424,319*	100	Total	15,503**	100

Source: Statistical Yearbook-2005, Ministry of National Economy, Oman.
*In the private sector, expatriates accounted for close to 83 percent of the total labour force, representing the high dependence of the private sector on labour exporting countries. If one takes into account about 1 lakh (*i.e.* 100 thousand) expatriates without valid labour cards (*i.e.* whose labour cards have expired but they may still be working in Oman), the dependence level will appear much higher.
**In the public sector (including another 7,395 expatriates working in Public Corporations and the Diwan of Royal Court), expatriates accounted for only about 18 percent of the labour force, representing the progress on Omanization of the labour force in the public sector.

The broad country-wise distribution of expatriate workers in the Gulf as published in various official statistics, however, do not reveal the segmentation of working conditions and differences in treatment for expatriates from different countries. As most vividly documented by Mohammed (2003), one could come across three distinct classes of expatriate workers in the Gulf, with the highly respected Westerners occupying the highest strata, who generally hold well-paid executive positions, with other lavish amenities like furnished accommodation, club membership, vacation allowance, *etc*.. Gulf employers even take pride in employing Westerners, since that symbolizes the strength of the sponsoring company. This treatment to Westerners has not changed post 9/11. Expatriates from the Arab World come second in the hierarchy, and because of their shared cultural and religious beliefs, they are treated almost like locals. They in essence integrate with local systems. In the third category come the vast majority of poorly paid Asians, who perform the hard manual labour in extreme climatic conditions for long hours, and are geographically isolated deliberately in work camps to avoid any contact with Arab society. As viewed by Mohammed (2003), "… they are ridiculed and stripped of any rights, given their low incomes and their uneducated status. Therefore, they tend to be outcasts in a society that depends on them for its basic functioning, and whose infrastructure their efforts built …. The ease with which they can be deported has made them wary of even exposing themselves to the risk of encountering the police." For survival, they must avoid any confrontation with the locals.

This low social status without any rights could be largely the result of low education and skills of the workforce coming from the Asian countries. As could be seen from the education profile of the expatriates working in UAE and Oman (*i.e.* countries for which recent data are available), the share of highly educated (*i.e*. post graduates) is less than only 2 percent, whereas those below secondary school levels are higher than 70 to 80 percent, with some of them in fact being completely illiterate (Table-3 and 4). Sectoral distribution of expatriate workforce also reveals that large majority of them are employed in the construction sector, wholesale and retail trade, car repairs, and as domestic servants (Table-5). These are the types of work local Gulf nationals, despite remaining unemployed, would abhor to do. As once candidly presented by the Economist (2002), "… Today's young people (among the Gulf nationals) tend to assume that they will enjoy the same lifestyle as their parents, with a desk job and a state salary fat enough to support servants and idle wives, with cash left over for foreign travel and their children's costly weddings, as well as such perks as generous housing loans." They may find it difficult to realize that the party may be over. The policy of distributing oil wealth through generous Government schemes for the public along with offer of public sector jobs cannot be sustainable.

It is the earlier Government policies in the Gulf to be blamed for creating a dual labour market condition, in which Gulf nationals simply won't do the work of the expatriates, and the national Governments, as a result, cannot address the local unemployment problem without effective replacement of expatriates. Even though national policies (such as Saudization, Emiratisation, Omanization, *etc*.) repeatedly emphasize such replacement plans, on ground they are difficult to implement in the private sectors. As highlighted by Mohammed (2003), un-elected national rulers used redistribution of oil wealth among nationals as an easy means to maintain or buy support. "… nationals in most Gulf States were guaranteed employment in the large public bureaucracies, where productivity tended to be low, demanded minimal effort, required few skills, provided little training and offered large salaries. This nurtured a social acceptance and expectation of administrative and managerial positions, and converted Gulf nationals into white-collared salaried middle class, who frowned upon manual blue-collar work." The Government policies have had major detrimental consequences for the human resource development in the Gulf, and the effective participation of the local labour force in the private sector always remained extremely low. While policies on nationalization of the workforce could be implemented in the public sector (where nationals now account for more than 80 to 90 percent of the work force), in the private sector, which employs the vast majority of expatriates, the dependence on expatriates continues to be heavy at around 80 to 90 percent because of the very dual nature of the job market. As once highlighted in the Economist (2002), "easy money and state coddling have seriously weakened the work ethics" of locals. Expatriate workers not only work for longer hours, but accept very low salary, which may appear pittance to many locals. Any replacement of expatriates by locals, thus, will entail clear implications for the cost and productivity in the private sector in the Gulf countries, which could possibly make most of the private businesses economically unviable and unsustainable. Moreover, locals become a permanent burden for the hiring company, whereas expatriates work on the basis of short-term contracts and can be fired easily. The difficulties in implementing policies on nationalization of labour force can be better gleaned from the stark reality presented in the Economist (2002) suggesting that "…… Saudi Arabia employs some 500,000 private chauffeurs for the simple reason that its women are not allowed to drive …… The estimated 3 million domestic servants in the region, all foreigners, often endure conditions equivalent to indentured servitude, with housing and food subtracted from salaries, no time off and no fringe benefits …… The luxury of having a docile, cheap and disposable workforce is hard to resist."

The extent to which differences exist between monthly salaries of local nationals and expatriate workers could be gleaned from Table-6. (The Gulf countries rarely publish this information, particularly for the recent period, given the sensitivity involved in a dual labour market, even though they may be very much available in official records. This information is taken as published in Wilson (2004) for the Kingdom of Saudi Arabia). Locals get almost three times of the monthly salaries of expatriates. Most educated expatriates, however, receive high remunerations (particularly those working in the oil and banking sectors), even though their number is insignificant in relation to the number of expatriate workers who are not that highly educated. This latter category does not receive much increase in salary, even after working for several years. The highly educated class, however, gets decent increases

Table 3: Educational Background of UAE Non-National Population (2005)

	Educational Background	Percentage of Total
1	Illiterate	9.1
2	Literate	14.3
3	Primary School	14.1
4	Preparatory School	15.8
5	Secondary School	23.8
6	Diploma	4.5
7	University	16.3
8	Post Graduate	2.0
9	Not Stated	0.1
	Total	100

Source: UAE Census, 2005.

Table 4: Educational Background of Private Sector Expatriate Workforce in Oman (2004)

	Educational Background	No. of Expatriates	Percentage of Total
1	Pre Primary	185,195	43.6
2	Primary School	64,370	15.2
3	Preparatory School	81,038	19.1
4	Secondary School	41,662	9.8
5	Diploma	16,687	3.9
6	University	32,356	7.6
7	Post Graduate	3,011	0.7
	Total	424,319	100

Source: Statistical Yearbook-2005, Ministry of National Economy, Oman.

Table 5: Sector-wise Distribution of Expatriates in the Private Sector of Oman

	2004	2005	Shares of Sectors in Total for 2005 (%)
Agriculture and Fishing	45,742	45,723	10.76
Mining and Quarrying	7,069	7,449	1.75
Manufacturing	52,085	50,442	11.87
Electricity, Gas and Water Connections	1,502	1,780	0.4
Construction	115,552	119,125	28.0
Whole Sale/Retail Trade and Car Repairing	97,380	86,257	20.3
Hotels and Restaurants	22,648	24,916	5.87
Transport, Storage and Communications	4,613	4,839	1.14
Financial Intermediaries	1,363	1,443	0.34
Real Estate and Renting Services	4,314	4,704	1.11
Education	4,507	5,014	1.18
Health and Social Work	8,988	10,006	2.36
Community and Personal Services	4,128	4,488	1.06
Domestic Servants	52,931	56,224	13.24
More than One Activity	543	516	0.12
Not Stated	954	1,862	0.43
	424,319	424,788	100

Source: Central Bank of Oman Annual Report, 2005.

every year, often in excess of local inflation. The Survey of Gulf Compensation Trends for September 2006 conducted by Gulftalent covering 3000 professionals receiving annual salaries in the range of USD 12, 000 to USD 2,00,000 showed an annual increase of 7.9% in base salaries in the entire Gulf, with Qatar offering the highest increase of 11.1 per cent, and Oman offering the lowest increase of 5.6 percent. Such surveys and statistics, however, are not much relevant as far as the interest of the large mass of Asian labour force toiling in the Gulf is concerned. One survey findings for Indian expatriates working in the UAE as documented in Zachariah, Prakash and Irudaya (2001) suggest that 36 percent of the Keralite Indians (Kerala is the state in India which leads the supply of cheap labour from India to the

Gulf) working in the UAE could save less than 500 Dhirams (Rs. 6, 000) and another 37 percent could save between 500 to 1,000 Dhirams (Rs. 6,000 to 12,000). These category of workers do not see much annual increase in annual compensation, and also face problems like non-payment of regular salaries, denial of wage and non-wage benefits as per the contract, no access to their own passport and non-payment of return air fare, as well as compulsion to pay a part of monthly income to the local sponsors in the Gulf who may only arrange the work permit but not the work.

Table 6: Average Monthly Salaries in Saudi Arabia as per Educational Background (2000)

	Saudi Nationals	Expatriate Employees
Illiterate	841	303
Read and write	920	336
Primary school	1,227	368
Intermediate school	1,450	423
Secondary School	1,920	688
College Drop-outs	1,816	768
University Graduate	2,905	1,488
Post Graduate	5,630	2,895
Average	1,878	628

Source: Wilson (2004).

Note: These are only broad comparisons, and hence have only indicative significance. Nationals on an average get almost three times of what the expatriates get. This is validated in Oman, where the minimum wage for the nationals is about RO 120 (or USD 312), whereas expatriates do similar work at as low as RO 40 (USD 104) or even less. This has been a major reason for which the private sector depends so heavily on expatriate workforce (besides also their higher efficiency, longer working hours, and ease at which they can be fired).

Even though things are changing of late, particularly with greater demand for skilled and educated workforce from the Indian subcontinent, the overall dualistic pattern clearly dominates the labour market conditions in the Gulf, making the progress on any national policy in the Gulf relating to nationalization of the labour force at best slow and gradual. This slow process also explains the large presence of the Asian labor force in the Gulf. What is important, however, is to examine what policies the labour exporting countries like India might be adopting to benefit from these conditions in the Gulf, and how best they could respond to any future changes in the local job market conditions in the Gulf. An Indian Recruiting Office apparently was opened way back in July 1936 in Bombay to recruit workers for oil companies in the Gulf, under proper contract, and subject to the supervision of the Government of India office for the Protector of Emigrants. It has been a long time since then, but still there is no formal policy to justify how India views its importance as a major labour exporting country to the Gulf, and what policy framework it might have to harness the full potential of this comparative advantage of India, while at the same time contributing to protect the rights and interest of all Indian workers in the Gulf. In the absence of any such stated policy, one could tend to believe in what Mohammed (2003) viewed that some countries' embassies play minimal role in protecting the legitimate rights of the workers, neglect social and economic status of their migrant workers, do little to improve the wage conditions, and even overlook many private recruitment agencies operating in the countries who fleece the migrants by charging very high fees for arranging work visas, which often mean only permission to work in the Gulf rather than any real job as such. Governments adopting such policies of "benign neglect" may be relying on the hope that "Gulf employers would find their workers more economical and thus attractive to recruit". Not doing anything, therefore, could be a policy in itself, and what is the harm in having such a policy of "benign neglect," particularly when the harvest in the form remittances could be so rich for the country?

3. SECTION-II: POLICY RELEVANT INFERENCES FROM AVAILABLE EMPIRICAL RESEARCH ON REMITTANCES

The subject of remittance flows has generated considerable interest among policy makers as well as independent researchers, and several very elaborate but useful papers have been published in last few years alone (please see the references), which also report the findings of other similar studies conducted before 2001 (and hence not covered in this Section). Ignoring the obvious repetitive coverage of facts and issues, each of these recent papers contains certain policy relevant inferences, all of which taken together can be immensely helpful in designing a remittance-focused policy strategy in any major remittance receiving country.

Most of the empirical studies generally highlight the "link between remittance and economic development", role of remittance in imparting strength and resilience to country's balance of payments, relative role of remittance compared with other inflows in the balance of payments — ranging from foreign aid to foreign direct investment, economic, social and political effects of remittances in the remittance receiving countries, factors explaining international migration and volume/pattern of remittance flows, *etc.* Besides the generally recognized beneficial effects of remittances on growth, balance of payments, poverty, local/regional development, *etc.*, certain adverse effects are also occasionally mentioned, such as brain drain, Dutch Disease associated with remittance driven exchange rate appreciation, social imbalance and inequality in labour exporting pockets/regions, dependency-induced low productivity and creativity of remittance receiving families, and higher inflation resulting from remittance financed consumption. Each of these issues needs to be studied in country specific context, particularly in order to be able to design a relevant policy strategy on remittances. Some of the key inferences drawn from available research could supplement the country specific studies on important issues.

As underscored by Ratha (2003 & 2005), unlike private capital flows that tend to be pro-cyclical (*i.e.* rising during economic boom and receding or reversing during an economic slowdown), remittance flows are stable, and even counter-cyclical (*i.e.* migrant workers may send more remittances to a country facing a financial crisis, which was evidenced in Indonesia, Mexico and Thailand). That explains the relative importance of remittances in relation to capital flows. High transaction cost, however, continues to be a worrisome issue, which explains partly the presence of large unrecorded remittances sent through informal channels. As per the findings of Ratha, remittance flows for the world as a whole exceeded USD 232 billion in 2005, with USD 167 billion flowing to developing countries. Unrecorded flows through informal channels could be expected to be at least 50 percent higher than recorded flows. Transaction costs may not be high for large value remittances, but for small value remittances of less than USD 200, transaction costs could be as high as 10 to 15 percent. Instead of using fiscal and other incentives to attract remittances, Ratha argued in favour of use of other instruments like better domestic investment climate, lower transaction costs and improved domestic financial systems to encourage the remittance inflows and to enhance their beneficial impact.

The relative significance of remittances compared with other capital flows appears particularly stronger when the concept of "net transfers" is used in relation to "net capital flows", since the interest, profit and dividend outflows associated with capital flows are captured better in the concept of "net transfers", and there are no such outflows associated with remittances, which are in the nature of "unrequited transfers". Emphasizing this aspect, Kapur (2004) also viewed that developing countries must use the slogan "migration not aid" along with the slogan "trade not aid" in global negotiations, because while external aid requires a costly Government bureaucracy for delivery of aid and also involves the major problem of siphoning off of funds, the delivery of remittance to the needy poor families is direct and more effective. Kapur also documented the major difference between India and China (the two countries having large shares in global migration) in terms of remittance inflows. Unlike India, China does not receive much of remittances, but the inflow of investment from overseas Chinese is several times higher than similar investment inflows from Indian NRIs.

Besides the analyses of remittances and international migration as per the standard "push-pull" factors, some studies try to better identify the macroeconomic determinants of remittance flows. Buch and Kuckulenz (2004) for example used a panel data set for 87 developing countries and studied the remittance pattern in response to changes in factors like interest rate differential between home and host country, level of economic activity, rate of inflation, political risk factors in the sending country, *etc*. They found that some of the macroeconomic determinants could be common to both remittance flows and private capital flows, even though remittances still turn out to be more stable in relation to private capital flows. Ramamurthy (2003) used other important determinants like the exchange rate, wage rates, number of workers abroad, number of years working abroad, employment status of family members back home, marital status, *etc.*

Shah (2005) emphasized Gulf-specific factors, which explain why a high percentage of Indian workers' income is sent as remittance to India. The important ones include temporary nature of job contracts (implying that everybody has to return someday and cannot settle down in the Gulf), policy to discourage number of dependents in the Gulf (family visas are not given to all, and given the high cost of living in the Gulf most of the blue collar workers cannot bring their families even when allowed), rising levels of unemployment among locals and pressures on national Governments to replace expatriate workforce with locals, the rising costs of employment visas, *etc.* Higher fees in the Gulf are being generally used to discourage locals from hiring expatriates, and under amnesty schemes, illegal expatriates whose visa validity has expired are being given a chance to leave the country without much punishment. Because of the Gulf Government policies on effective replacement of expatriates by locals, demand for employment visas for expatriates has generally gone up in the face of tight supply conditions, increasing thereby the premium on such visa, and a system of visa-trading has started, where local sponsors can get regular monthly income just by sponsoring expatriate workers. The expatriate would look for a job himself, and give part of the monthly income to the local sponsor, who would have arranged only the visa for him. According to Shah (2005), the number of such workers sponsored by fictitious companies is as high as 600,000 in UAE, and in Saudi Arabia, 70 percent of the visas issued by the Government are sold in the black market. These harsh realities have raised the costs for any new entrant to the job market, particularly for those who get exploited by the local agents. A work visa for an Indian is sold at about USD 2,000, and for an Iranian at about USD 4,000. Thus, even after paying USD 2,000 to the agent, an Indian worker has to look for a job for himself, and also pay part of his monthly income to the local sponsor of the visa. As highlighted by Shah (2005) "… prospective migrants often borrow from friends and relatives or sell their meager assets to raise the money for a work visa to the Gulf … housemaids and drivers in domestic service earn about the same amount they did 20 years ago … labourers and unskilled workers have not seen any appreciable increase in their monthly income and earn about USD 140-170 a month. Cost of living has increased while wages have remained the same for many categories of workers." Thus, it is evident that some may have to work for several years just to recover the cost they incur for working in the Gulf.

In respect of the issue of "brain drain" as a cost of remittances, Adams (2003) studied 24 labour exporting countries and concluded that even when migrants are well educated, international migration does not take a very high proportion of the best educated. In this context one can safely infer from the knowledge about local labour market conditions in the Gulf that the best and brightest from India do not migrate to the Gulf, and this applies to even the skilled category of the expatriate labour force in the Gulf. As noted by Ramamurthy (2003), given the high levels of unemployment and underemployment at home in all labour-exporting Asian countries, there is no brain-drain, and migration rather operates as a safety valve to reduce the pressure on employment at home. Unlike the "brain gain" that often follows "brain drain" when skilled migrants return to home countries with better skills, education and exposure from Western countries, in respect of Gulf migrants, there is little scope for the home country to benefit in the form of "brain gain."

In every empirical analysis of remittances, and their usefulness to policy making, remittance statistics have been a major constraint, which has been adequately recognized all over the world now, as is evidenced by the serious work in progress through the IMF Committee on Balance of Payments Statistics, Inter Agency Task Force on Statistics for International Trade in Services, and the Technical Sub-Group on the Movement of Persons, with representations from all concerned international organizations and national statistical as well as policy making bodies. There are also discussions on the development of international standards and codes on remittances. The paper by Patra and Kapur (2003) offers a vivid assessment of the statistical pitfalls in the available information on international as well as India's worker remittances, and they rightly caution the policy makers that "BoP statistics are as good as the users find them to be." With significant increase in the temporary cross-border movement of labour to deliver services that cannot be exported without the physical presence of the service provider, growing use of outsourcing to avoid excessive migration to labour-importing countries where migration is becoming politically more and more sensitive, and pervasive presence of unrecorded remittances suggest the immense importance of better quality statistics on remittances. In this context, the stream of literature on alternative/parallel remittance systems could also be useful, including those disseminated by the Interpol.

The major official initiative in India to study various aspects of migration and remittances was in the form of the Report of the High Level Committee on the Indian Diaspora (Chairman: Dr. L.M. Singhvi), which was appointed in September 2000 and submitted its Report in January 2002. This report touched upon many relevant issues such as dual citizenship, problems of overseas Indian labourers, economic development through trade, investment and tourism, better education, health and air travel facilities for the Diaspora, *etc.*, There was very little in the Report, however, on the macroeconomic significance of remittances to India, and whether a sector- specific approach is necessary for remittances. Several regular official publications and occasional reports in India often explain the significance of remittances to the Indian economy, but there has never been a mention as to why remittances should not be given a special focus like exports, tourism, software/ outsourcing, FDI, portfolio flows, ECB, *etc.* In the next Section, this paper elaborates on the immense macroeconomic justification for according greater policy attention to remittances.

4. SECTION-III: THE MACRO-ECONOMIC JUSTIFICATIONS FOR GREATER POLICY FOCUS

The growing neglect of "remittances" in the sphere of macroeconomic policy making might have resulted from the lack of adequate realization of the critical significance of this sector in shaping the macroeconomic conditions of India. Some of the myths and misplaced perceptions influencing this policy neglect are highlighted here.

(a) A major puzzle often noted in the context of India's macro-economic environment is the absence of any strong causal relationship between "fiscal deficits" and "current account deficits" in India's balance of payments. Many have wondered as to why the basic macro-economic identity [(S-I) + (T-G) = (X-M)] does not hold for India. If the Government perpetually runs high fiscal deficits (T-G), as has been the case in India, then the current account deficit in the balance of payments should increase correspondingly. One often misses out the point here that (X-M) represents "goods and services" in the balance of payments of any country, and large remittance inflows can suppress "current account deficits" even when a country may still have significant deficit in the "goods and services account." Thus, for countries receiving very low levels of remittances, the causal relationship between "fiscal deficit" and "current account deficit" could be much stronger. India being the largest recipient of remittances in the world, naturally, the relationship between "fiscal deficit" and "current account deficit" becomes much weaker. This becomes clearer with the correct representation of the macro-economic identity as [(S-I) + (T-G)] = [(X-M) + (net factor income from abroad) + (net current transfers)] = [Current Account Balance (CAB)]. While the identity discussed earlier relates to GDP, which equals [C+I+G + (X-M)], the latter identity relates to Gross National Disposable Income (GNDI) = [GDP + (net factor income from abroad) + (net current transfers)] = (C + S + T)]. For a country like India with large current transfers in the form of private remittances, the one-to-one relationship between "fiscal deficit" and "CAB" may break down, even though the causal relationship between "fiscal deficit" and (X-M) may still hold.

This India-specific relationship calls for two major policy inferences: (i) because of large remittances, India can run higher fiscal deficits in relation to countries not receiving similar magnitude of remittances, and the sustainable levels of fiscal deficits for India (in terms of implications for external sector vulnerability) could therefore be relatively higher, and (ii) the crowding-out implications of fiscal deficits may be moderated by remittances, since large remittances and the associated "overall balance" surpluses in the balance of payments may lead to easy monetary conditions. Even when these surpluses are mopped up to build official reserves and the resultant monetary impact is neutralized through sterilization operations, this certainly enhances the degrees of freedom available to the policy makers to counter the crowing-out effects of fiscal deficits. Moreover, remittances add to domestic saving, raising thereby national saving of the country, which finance competing needs for funds in India. Thus, even though higher fiscal deficits are often resented because of their implications for balance of payments vulnerability and crowding-out pressures on private investment, in India, remittances considerably relieve these two concerns, and as a result, India can run somewhat higher fiscal deficits to promote its growth and developmental objectives in relation to others who are not as much privileged as India in terms of annual remittance inflows. The absence of strong causal relationship between "fiscal deficit" and "current account deficit" is an India- specific "remittance" induced factor, which can be better utilized in formulation of fiscal policies.

(b) Remittance inflows do not cost anything to India, as there is no brain-drain involved in it, particularly as far as the large mass of unskilled workers living in the Gulf is concerned. At best, it is the demographic dividend to India, arising from large domestic supply of unskilled workers who are in search of better or some employment opportunities, which they cannot get by remaining in India. The Government does not invest anything on these exported unskilled labourers, unlike the skilled counterparts who may migrate to more advanced countries after receiving Government subsidized higher education in India. There is no other source of foreign exchange earnings in India's balance of payments like Gulf remittances, which comes as a "huge dividend to the country on almost zero investment." Unlike skilled NRIs who often migrate with the families, and as a result, a smaller percentage of their annual income may be remitted to India, in respect of unskilled NRIs in the Gulf, who leave their families back home, their almost entire income is sent regularly to the families left in India, and these Gulf NRIs also face much greater uncertainty about loss of job than the skilled ones in advanced countries. As could be seen from Table-1, per-capita average monthly remittance from the Gulf is only about USD 190, and if the remittances of high-income category within the Gulf NRIs are excluded, then the average per-capita monthly remittance of the unskilled workers may just be about USD 100 to USD 150. Most of these unskilled workers continue to work at the same wage for years together, whereas inflation in India (as well as nominal appreciation of the Indian rupee) consistently erode the purchasing power of the remittances for the remittance receiving families in India.

(c) Since India's transition to the unified market determined the exchange rate regime in 2003, the Indian rupee has depreciated much less in relation to the extent of depreciation seen in the national currencies of the countries who compete with India in exporting labour to the Gulf. As a result, assuming all other determinants of labour export to the Gulf as constant, appreciated exchange rate of the Indian rupee operates as a major comparative disadvantage, since for Indian workers in the Gulf there is always the pressure that workers from other competing countries may accept lower salary in USD. Even though purchasing power of different national currencies could be different in the respective countries, the depreciation induced comparative advantage of other labour exporting countries from Asia to the Gulf is a fact which affects the wage bargaining conditions of Indian workers in the Gulf. Since the exchange rates of all six Gulf countries are effectively pegged to the US dollar, it is the Rupee-USD nominal exchange rate that is the most relevant for meaningful comparison of comparative advantage of India in exporting labour. As could be seen from Chart-1A, which presents nominal exchange rates of the currencies of the competing labour-exporting countries to the Gulf (with respect to scale 1993 = 100 against the USD), the exchange rate of the Indian Rupee-USD in 2005 remains the least depreciated in relation to comparable

2005 levels for others, implying potential erosion in competitiveness of Indian unskilled labour. The family members who benefit from such remittances also see erosion in purchasing power of remittances because of domestic inflation. Chart-1B shows that cumulative CPI-based inflation in competing labour-exporting countries like Egypt, Bangladesh and Philippines were somewhat lower than that of India during 1993 to 2005. If

Implied Competitiveness of Unskilled Workforce in the Gulf

Chart-1A: Nominal Exchange Rates in 2005 (1993=100 for all exchange rates per USD)

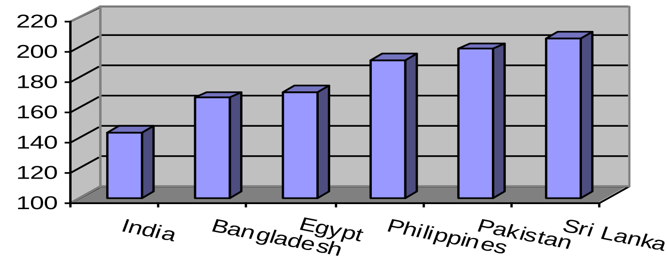


Chart-1B: Cumulative CPI Based Inflation in 2005 (In Relation to 1993=100)

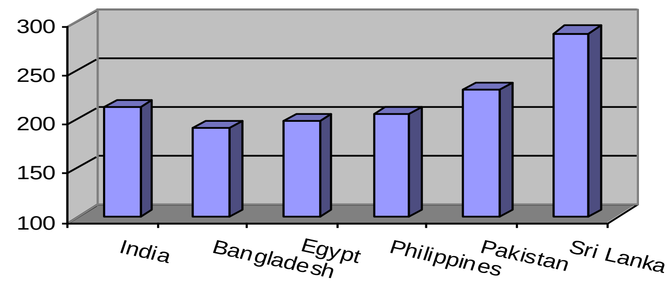
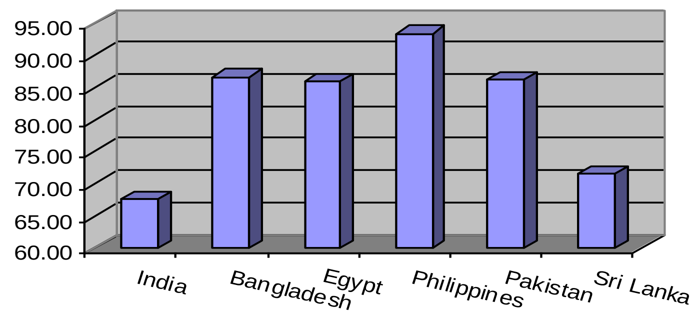


Chart-1C: Exchange Rates Deflated by CPI Inflation in 2005 (In Relation to 1993=100)



countries with lower inflation experienced relatively higher depreciation of their nominal exchange rates against the US dollar, that provides a more meaningful indication of clear erosion in the competitiveness of India in supplying unskilled labour to the Gulf. Statistically, nominal exchange rate index (1993 = 100) deflated by the index of CPI (1993 = 100), could offer more clarity on the issue of implied competitiveness of unskilled expatriate workforce in the Gulf. As could be seen from Chart-1C, India clearly lags behind its competitors in the Gulf unskilled labour market because the combined effect of lower nominal depreciation and higher domestic inflation gives rise to a situation when the purchasing power of one USD remittance in 1993 = 100 falls to little above 65 in 2005, whereas in all other competing countries the erosion is much less than that of India. Sri Lanka and Pakistan had higher cumulative domestic inflation, but their nominal exchange rates also depreciated much more, as a result of which India remained as the least competitive as per the trend presented in Chart-1C. It is largely various non-exchange rate based factors that explain the dominance of Indian expatriates in non-national workforce in the Gulf.

(d) The economic development potential of the remittances is often underestimated. Remittances, particularly from the Gulf region help in addressing the problems of poverty and unemployment for the family members receiving the remittance. Most of the times remittances serve as the seed capital, for setting up small business ventures by the family members of the remitter living in India. In view of the pilferages associated with Government sponsored anti-poverty or employment generation programmers, including external aid, remittances have a comparatively stronger and more direct effect on poverty and employment. In respect of remittances from the Gulf, the development effect is the maximum, because most of the Gulf NRIs return at some stage to India (who may be replaced by Indians again) because of the contract-based employment opportunities available in the Gulf. While the contracts may be renewed over several years, there is no scope for permanent employment and settlement in the Gulf. Saving for the uncertain future not only is a key factor behind large remittances in relation to average income of Gulf expatriates, but subsequent effective use also explains the high developmental potential. In formulating any remittance-focused macroeconomic policy, this stronger developmental potential of remittances could be extremely relevant.

(e) Despite the disappearance of black market premium in the foreign exchange market in India, remittances through informal channels are still in vogue, even though of much less magnitude than in the past. The main factor contributing to the sustained faith in the informal channels could be both “trust and convenience” as well as low “transaction costs”. Lamenting the high transaction costs in the range of 13 to 20 percent, one World Bank estimates reported in Ratha (2003) suggested that reducing the transaction costs to even 10 percent could save the workers and their families up to USD 3.5 billion a year for the world as a whole. Any unskilled Gulf NRI remitting about USD 100 a month would naturally prefer hassle free, reliable and low cost remittance vehicles. No wonder why even some of the Indian construction supervisors often easily operate as informal vehicles for remitting the funds of workers in the same construction site, particularly when both tend to be from the same region in India, enhancing thereby the smoothness of transfers at low cost. Besides these informal transfers, there are also transfers in kind. Most of the Gulf NRIs carry goods as part of personal baggage while visiting India up to the permitted limit of Rs.25,000. The officially published remittance figures often cannot capture such remittances in kind. Moreover, such NRI’s who are overstaying in the Gulf beyond the expiry dates of valid visas, they may also prefer informal modes of transfers, particularly because of the tightening of

Know Your Customer (KYC) norms under AML/CFT guidelines applicable to banks and exchange houses in the Gulf. Official statistics for UAE as per its 2005 census shows that such expatriates working in the UAE with invalid visas could number around 300,000. Similarly for Oman, the corresponding number could be about 170,000. Going by this available indicative information, total number of expatriate workers without valid visas could be expected to exceed about 1 million in the entire Gulf. There could also be differences between data compiled by the receiving country, and data collected by the remittance sending country, since in the data of the sending Gulf countries some of the remittances may also include capital transactions (such as remittances sent for credit to various NRI deposit schemes or for investment in stock market and real estate). There are also India-specific statistical issues, as noted by Patra and Kapur (2003), such as treatment of gold and silver imports by the NRIs as part of personal baggage, local withdrawals from NRI deposits, securitization of remittances through issuance of foreign currency bonds to NRIs, *etc.* The Report of the Working Group on Cost of NRI remittances submitted in May 2006 also highlights the high transaction costs and the need to reduce that, even though it offers little on how to contain the size of the unrecorded remittances coming through informal channels. India, being the largest beneficiary of remittance flows in the world, it could also provide the lead in terms of developing statistical standards and practices for remittances.

(f) Because of remittances, India's "national disposable income" exceeds its "GDP", and in 2005-06 remittances were as high as 3.1% of India's GDP (implying that without remittances, India's current account deficit would immediately turn unsustainable). Besides the direct contribution of "remittances" to the "national disposable income", there could be more significant contribution to the GDP itself, because remittances are generally spent on domestic consumption and investment. While the domestic investment part of the remittances contributes directly to higher GDP and poverty reduction in India, the consumption part of the remittances also assumes significance for GDP growth in a market economy where production responds to demand. Because of multiplier effects, one estimate for Mexico reported in Ratha (2003) suggested that Mexican GNP rose by USD 2.69 to USD 3.17 per every dollar of remittance received from the US. It may be important to conduct a comprehensive survey to identify the consumption and investment components of remittances in India and the possible multiplier effects, since that could be useful to better appreciate the contribution of remittances to economic growth in India. As far as unskilled Gulf NRIs are concerned, the statistical distinction in terms of remittances (in the current account) and NRI deposits and investments (in the financial account) are much less relevant, since effectively all of that are essentially unrequited transfers to India, though not on a year-to-year basis, but only over several years, given the fact that most Gulf NRIs return to India permanently at some point of time. Because of the uncertain job market conditions, many of the unskilled NRIs return to India to start their own small business using savings accumulated from Gulf income. Such workers may get replaced by new unskilled workers, but in this cyclical process, majority of them return to India at some point of time, and use their accumulated savings for some kind of self-employment. Periodic survey of returning NRIs from the Gulf can also throw useful policy inferences, which can be applied appropriately in a remittance focused national policy framework.

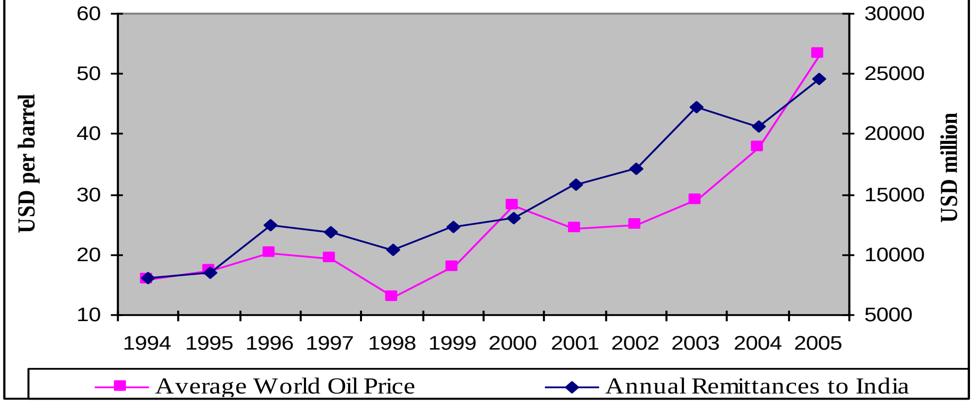
One such survey on "Activity Status and Rehabilitation of Migrants from Kerala" conducted in 1999 suggested that out of 11.41 Keralites working elsewhere all over the world, 95.6 percent were in the Gulf. While more than 19 percent of them received less than Rs. 5, 000 per month, more than 50 percent received monthly income between Rs. 5,000 and

10, 000; and another 21 percent had monthly income between Rs.10, 000 to Rs. 20, 000. Only 0.2 percent of the migrant Kerlaites had an income of Rs. one lakh (100 thousand) or more. [The much hyped Pravasi Bharatiya Divas (PBD)-type congregations held in India in January every year project essentially the achievements of this small fraction of NRIs, and it is their concerns that make the Government machineries sensitive. The problems and challenges of the majority of poor Gulf NRIs are discussed, at best, only to avoid any criticism from any quarter, rather than to address those with concrete action plans.] The survey also indicated that 5.43 lakh migrants had returned permanently to Kerala after working for several years outside for a variety of reasons. The importance of such surveys will be valued immensely only when a clear remittance-focused policy strategy is formulated at the macro level in India. Return migration as a potential source of economic development in India must also be recognized. Regular surveys can help in delineating the temporary and permanent nature of migration to the Gulf, and accordingly the consumption or investment focus of remittance flows from the Gulf.

(g) India is insulated to a large extent from the adverse effects of oil price shocks because of remittances. While India's oil import bills increase as a result of upswings in oil price cycles, remittances from the Gulf into India also receive a boost on account of higher investment of surplus oil revenue in the Gulf countries, which essentially involves higher demand for cheap labour from labour-exporting countries like India (Chart-2). Unlike the earlier episodes of oil price boom, the current phase of surge in oil prices coincided with deliberate policy shift in the Gulf countries to use a large part of the surplus oil revenue to diversify their economies, so that gradually the dependence on oil could be reduced over time, and the economies could thereby be better insulated from adverse oil cycle scenarios. Projections based on existing investment trends and plans for accelerated investment in the future in several mega projects suggest that the Gulf region could experience an investment boom of USD 600 billion over the next 5 years period (which some very optimistic assessments project to be of about USD 1 trillion, with construction sector investment in Dubai city alone exceeding USD 200 billion.) There will be a corresponding increase in demand for both skilled and unskilled expatriate workers, despite the Government focus of all the Gulf countries to reduce the dependence on expatriate labour force in order to be able to provide gainful employment opportunities to Gulf nationals, who continue to face the problem of comparative disadvantage *vis-à-vis* expatriate counterparts who accept very low wages (in relation to minimum wages for Gulf nationals) and work for much longer hours with much greater efficiency and sincerity. India must take note of the fact that unlike many other major oil-importing countries, the impact of the adverse terms-of-trade arising from oil prices is insulated to the largest extent possible through remittances (Chart-2). For example, in 2005-06, while India's oil import bills were about USD 44 billion, remittances of about USD 24.6 billion relieved the pressure on balance of payments to a considerable extent. No other country enjoys this natural process of shock-insulation, and India must realize that declines in oil prices also carry the risk of weakening of employment prospects for all expatriate workers in the Gulf. During downswings in oil prices, sustaining high outward remittances becomes politically sensitive in the Gulf, particularly because of high unemployment rates among Gulf nationals. Even though India's remittance pattern has diversified considerably away from the Gulf in the last decade or so, about 30 percent of the remittances still come from the Gulf, and the pro-cyclical movement of remittances and India's oil import bills, and the resultant insulation of the oil price shock, must be better appreciated in the sphere of macroeconomic policy making in India.

Moreover, unlike earlier episodes of oil price booms when large part of the surplus oil income of the oil-exporting Gulf countries used to get invested in the markets of advanced countries, in the current phase of high oil prices, there has been a diversification in the deployment of Government reserve assets of the Gulf countries in favour of Asia, including India. There is a general perception that Asia is heavily underweight in their investment strategies, particularly in the context of generally perceived future relative growth prospects of Asia in the world, and also in partial response to post 9/11 developments in the advanced financial systems. Thus, as far as India is concerned, the impact of oil price induced terms-of-trade shock can potentially be countered by not only high NRI remittances, but also prospects of investment of higher oil surpluses of the Gulf countries in India.

Chart-2: India's Rising Inward Remittances During High and Rising International Oil Prices



(h) India also gains immense diplomatic benefits internationally, since the presence of large Indian expatriates community in the Gulf allows the Government to receive diplomatic support from these Gulf countries, who otherwise could possibly have been more neutral or even hostile to India for other non-economic reasons. The contributions of Indian expatriates to the Gulf region, in terms of transforming financial resources (generated through oil exports) into real growth and development, is widely recognized in the Gulf, and that has significantly won diplomatic gains for the Indian Government, even though Indian Embassies and Consulates in the Gulf are generally seen by the unskilled Indian NRIs as the least sensitive and least effective in terms of addressing their concerns and problems, in relation to their counterparts from other labour-exporting countries of Asia. The Indian expatriate community at large has earned immense diplomatic gains for India in the Gulf through their hard work, and it must be seen as a rare example that India benefits in both ways, *i.e.* it receives money (or remittances) and at the same time also draws diplomatic gains, unlike countries who often use money (such as aid and other preferential economic concessions) to be able to gain diplomatic favour. There is no other source of foreign exchange in India's balance of payments (including bilateral trade agreements to promote trade in goods and services), which can be viewed to have yielded stronger diplomatic gains for India than the export of unskilled labour to the Gulf region. India's recent economic achievements, and the consequent change in international perception about India's potential, have certainly been immensely significant to India in terms of raising the force behind its claim for greater global importance, and voice in global governance. But remittances from the Gulf have all along been a strong and permanent source of comfort for India, both politically and economically, and separate policy focus for this sector with a clearer strategy can only further enhance the demographic dividend for India.

(i) A long-term strategy by India on remittances can also help the global economy immensely, both in terms of higher global growth and lower global inflation. Central banks are increasingly realizing that excess demand (and even excess money growth) may not be causing higher inflation these days, because part of the excess demand may be met by supply from the cheapest sources (such as outsourcing to India, and falling imported manufacturing prices because of the growing importance of China in the globalisation process), and another part of the excess demand may encourage inward migration of cheap labour which can keep the costs of production lower. The second type of labour movement in relation to excess demand has delivered a very low inflation regime in the entire Gulf for a pretty long period. Being open economies, imports from the cheapest possible sources anywhere in the world also help in keeping the inflationary pressure of excess demand under check in the Gulf. In effect, it is comparative advantage of India (in terms of cheaper but more efficient unskilled as well as skilled labour) which is being exported to the Gulf, and in that sense remittances could be seen as a substitute of exports. Since some of the services are non-tradable and physical presence is required to deliver the service (starting from house maids, to construction workers, to farm labourers to other jobs like plumbing, electrification, transportation, hotel maintenance, *etc.*), remittances must be seen as equivalent of export of services, in an analytical sense though.

During the early phase of the current wave of globalization, when MNCs found it difficult to export to some markets because of protectionist barriers, they entered those markets with foreign direct investment, and their domestic sales in the "host country" were as good as "exports from the parent country." Thus, for MNCs, "domestic sales" were effective substitutes for "exports." In the current phase of globalization, India has emerged as a major service provider to the world economy through export of labour, which does not appear as "service exports in India's balance of payments," and only part of the export of India's comparative advantage is realized in the form of remittances. It must be noted here that the import of this argument is not to be seen in terms of mere correct statistical classification of balance of payments transactions consistent with the balance of payments manual of the IMF, but in terms of the analytical force and the unrecognized harsh reality associated with export of labour, which can go a long way in developing a more appropriate policy framework focused on remittances in India. The issue of relationship between "migration" and "trade in services" was discussed in the November 2003 meeting of the IOM, OECD and the World Bank recognizing the growing importance of supply of (or trade in) services via the temporary movement across borders of natural persons. For analytical purpose (disregarding rigid statistical classification of transactions), "remittances from the Gulf could be best viewed as export of services", and hence "remittances" deserve to receive at least as much policy attention as exports.

During the current phase of India's globalization process, unlike clearer beneficial impact on growth and productivity, the consequences of globalization for poverty, unemployment, inequality, *etc.* have often been highlighted to stall further reform. With a clearer policy on remittances, it could be much easier to justify the beneficial impact of a major channel of globalization in the form of labour mobility (which generates remittance flows) in addressing poverty and rural unemployment. Earlier phases of globalization in economic history would also suggest that labor movement has been much more beneficial in relation to movement of goods, services and capital (Williamson, 1998). As a major labour-exporting country, a clearer policy on remittances and labour movement can also help India in contributing constructively to the global policy debates on harnessing the benefits of globalization. Many labour-exporting countries could benefit from a future course of globalization that is more open to freer cross-border labour movement. There is already a growing realization, at least among the central bankers, that labor mobility contributes to higher global growth as well as lower global inflation.

Options to end the policy of benign neglect:

The immense macroeconomic significance of remittances to India clearly explains the need for policy activism that is more sensitive to the genuine expectations of Indian NRIs in the Gulf. Even though in a market economy it could be increasingly difficult to link policies on exchange rate, interest rate, bank credit and fiscal incentives to the needs of specific sectors, taking into consideration the fact that sector specific preferential policies are still in vogue in India, several preferential policy actions favouring the unskilled NRIs in the Gulf could be explored, which include:

(i) Creating a fund with annual budgetary allocations, which could be used for financing the initial high cost of securing an employment contract in the Gulf (unskilled labourers often have to pay USD 1000 to USD 2000 to the agents, who in turn arrange only an employment visa through a local sponsor in the Gulf, and such visas do not guarantee any job. At times, after getting the visa, the person concerned has to look for a job, and also pay regularly part of his income to the local sponsor.) Since there are many exclusively earmarked funds in India with large budgetary allocations meant for poverty eradication and rural employment generation, a similar Fund supporting export of unskilled workers from India could be useful.

(ii) A part of the remittances received in India by the family members of unskilled NRIs is spent on education and health services. In Government-run or Government-aided academic institutions and hospitals, preferential and concessional access may be provided to the family members of the NRIs in the Gulf.

(iii) Reducing the transaction costs of remittances and ensuring the best possible exchange rate to the NRIs could be an important area for policy attention. If the commercial banks in India are given some tax concession based on their performance in attracting remittances, competition among banks could automatically ensure lower transaction costs and better exchange rates for the NRIs.

(iv) Commercial banks could start exclusive schemes to lend to returning unskilled NRIs for any new small business, possibly at concessional interest rate, and such schemes could be brought under the priority sector lending regulations in India.

(v) Returning Gulf NRIs who use their past remittances for starting new ventures in India, could be allowed 3 to 5 years tax break. Unlike migration to other countries, permanent migration to the Gulf is not possible, implying that every Gulf NRI has to return to India some day, with a considerable number of them possibly returning within 5-10 years. Tax-breaks could not only attract more remittances, but may also lead to higher percentage of remittances being put to investment activities, as opposed to consumption.

(vi) Just as senior citizens could get about 1 percent higher interest rate on their deposits with the commercial banks, NRI deposits up to a limit (say 2 lakh) could also be permitted to fetch 1 percent higher interest rate in relation to normal deposits in Indian banks.

(vii) In the conduct of the exchange rate policy in a managed exchange rate regime, if implications for export competitiveness influence to any extent a policy of prevention of nominal appreciation of the Indian rupee, then implications of nominal appreciation for competitiveness of Indian unskilled workers in the Gulf labour market could also be kept in view. Chart 1A to 1C clearly reveal the adverse implications of nominal rupee appreciation for the competitiveness of Indian expatriates working in the Gulf *vis-à-vis* the expatriates of other labour exporting countries working in the Gulf.

(viii) Private operators in the infrastructure and agricultural sectors (the two critical constraints to high and sustainable growth in India) could be permitted to raise long-term tax-free bonds, which could be subscribed by NRIs only. While ensuring stable long-term supply of finance for infrastructure and agriculture, such a policy can also offer higher returns to NRIs on their accumulated savings.

In the past, bonds targeted at NRIs have been issued as a matter of public policy only in the face of actual or anticipated pressures on India's balance of payments. Higher interest rates offered on NRI deposits in the past also seem to have attracted certain hot money, on account of the risk-free arbitrage opportunities. The immense significance of remittances to the country as explained in this section, however, suggest the need for a more focused policy attention, and the above list of action points should not be ignored by branding them as a list of irrational expectations.

5. SECTION-IV: CONCLUDING OBSERVATIONS

The Indian story of remittances from the Gulf could be best explained as a case of "rich dividend to the country on zero investment", and as an example of how a policy of "benign neglect" can reap rich harvest. Despite being the largest beneficiary of remittances in the world in terms of absolute magnitude of annual inflows, there is no clear policy in India on how to augment the inflow of this costless source of foreign exchange, and how to enhance the growth and developmental effects of remittances. There is a general perception in the Gulf that a policy of "benign neglect" of remittances is clearly evident in the macroeconomic policy making in India, unlike other important sources of foreign exchange inflows such as exports of goods and services, foreign direct investment, portfolio investment, external commercial borrowings, and the inflows associated with the green field software and outsourcing business. In respect of all other important sources of foreign exchange that get specific policy attention, exports may have an import content, and FDI, portfolio and ECB flows raise correspondingly the external payments liabilities of India, both in the current and capital accounts of the balance of payments. As unrequited transfers, remittances have no repayment obligations, what so ever. Without remittances, India's external balance position may still appear vulnerable and unsustainable, in terms of resultant higher current account deficits, or lower foreign exchange reserves, or much higher levels of external liabilities incurred possibly at a much higher cost. Accordingly, variability in economic growth and investment, as well as volatility in the exchange rate would have been much higher.

Remittance inflows from the Gulf have significant beneficial macroeconomic implications for India, such as fiscal and balance of payments sustainability, insulation from adverse terms-of-trade shocks associated with high oil prices, higher growth as well as economic development in the form of reduction in poverty, generation of employment, and improved access to basic amenities of life for the family members of the migrant workers. As the leading labour-exporting country to the Gulf, there are diplomatic gains to India as well, and the sheer magnitude of the remittances also provides enough indication about the benefits of globalization associated with cross-border movement of labour. In terms of sectoral prioritization, remittances may come next to none, and this aspect needs better reflection in the sphere of macroeconomic policy making in India. There could be a justification behind India's current policy of "benign neglect," since having a formal policy on as sensitive an issue like labour migration as a major labour- exporting country could be difficult. But taking into consideration the rich harvest reaped by the country in the form of remittances, and their strong growth and developmental implications in relation to other sources of inflows of foreign exchange, special sector- specific attention in the sphere of macroeconomic policy making could be desirable. If the voice of every sector/interest-group counts in India's democratic process of decision making, the interest of the migrant workers in the Gulf must also be kept in perspective while formulating macroeconomic policies, starting from exchange rate, to interest rate, to bank credit to use of various fiscal instruments. It is open for debate as to whether the current macroeconomic environment in India is sensitive to the concerns of migrant workers in the Gulf, and whether the immense macroeconomic significance of remittances justify a special, and possibly preferential, treatment in the sphere of policy making.

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