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India's Worker Remittances: A Users' Lament About Balance of Payments Compilation

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INDIA'S WORKER REMITTANCES : A USERS' LAMENT ABOUT BOP COMPILATION

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INTRODUCTION

Currently, India is the largest recipient of workers' remittances in the world. According to the Balance of Payments Statistics Yearbook (BOPSY), recorded flows of workers' remittances at US $ 9.0 billion accounted for over 14 per cent of global flows in 2000 (IMF, 2002). The BOPSY understates these flows by classifying remittances routed through local withdrawals from non-resident deposit accounts under 'other current transfers'. Correcting for this misclassification yields a significantly higher global share for India at 21 per cent (US $ 12.5 billion). National balance of payments (BoP) statistics indicate that receipts of workers' remittance rose even higher in the subsequent years to about US $ 14 billion in 2002.

Earnings by expatriate Indians have provided vital support to India's BoP for several decades. In particular, they have mitigated the impact of the oil shocks of 1973, 1979 and 1990-91 by cushioning foreign exchange reserves, smoothing domestic consumption and investment and ensuring a debt servicing record free of default. Over the period 2001-2003, workers' remittances have played a prominent role in turning the current account around from traditional deficits to modest surpluses. Workers' remittances are the largest constituent of current receipts after merchandise exports and finance more than 15 per cent of current payments since 2001. They are equivalent to over a year's debt servicing payments (Table 1).

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Table 1 : Workers' Remittances in India's BoP : Key Indicators

(per cent)

Indicator of	1980-81	1985-86	1990-91	2001-02	2002-03
1	2	3	4	5	6
Competitiveness					
Workers' Remittances (WR)/Exports	23.2	19.1	9.0	25.7	27.6
WR/Current Receipts	12.6	11.4	6.4	14.1	15.1
Purchasing Power					
WR/Imports	12.0	10.4	6.0	20.0	22.1
WR/Current Payments	10.6	8.7	4.7	14.3	15.8
Solvency					
WR/Debt Service Payments			18.2	102.0	103.1
Memo:					
Workers Remittances (US $ billion)	2.0	1.8	1.7	11.5	14.5

In the aftermath of the severe financial crises of the 1990s and the marked volatility of cross-border financial flows, workers' remittances have gained prominence in professional and academic interest as a source of external funding for developing countries. In recent years, these remittances have emerged as the second largest source of foreign inflows after foreign direct investment (FDI). In sharp contrast to private capital flows, workers' remittances are credited with stability associated with a home bias as they are perceived to be less prone to sudden reversals and euphoric surges (World Bank, 2003). They exhibit low sensitivity to credit ratings. Furthermore, despite being influenced by phases of the business cycle in host countries, workers' remittances often tend to be counter cyclical in economic downturns in recipient countries. In the case of India's BoP crisis after the Gulf war of 1990, large remittances prevented a collapse in current receipts under a combination of adverse shocks.

Cross-border movements of labour are an integral part of human history, explaining spatial and temporal divergences in economic performance among nations, technological change and even the contemporary process of global economic, social and cultural integration. Indeed, it is labour migration which underlies the phenomenal advancement of the world's most powerful economy - the USA. Ironically, differences in the economic profiles of North and South America continue to remain an enigma since both were powered by labour migration in their initial years. The macroeconomic effects of remittances are well-documented in the literature and enjoy a strong theoretical tradition dating back to Adam Smith and the international division of labour as a means of delaying the onset of diminishing returns, David Ricardo and the labour theory of value and comparative advantage. It extends right up to the endogenous growth innovation in the 1980s assigning human capital a key role in modern production and exchange. In the recent period, several countries have undertaken measures to securitise future flows of workers' remittances and to create the facilitating financial infrastructure so as to reap the maximum benefits of labour earnings for national growth and welfare.

Against this background, the treatment of workers' remittances in balance of payments statistics and, in particular, the one-year thumb rule that diverts a significant portion of these flows into unrequited transfers represents a disconnect with reality. This paper argues that BoP practices are, in fact, affecting accurate measurement of major national income aggregates and are turning out to be a handicap for labour exporting countries in multilateral negotiations. Key to gaining a proper understanding of the returns to labour services is an appreciation of the characteristics of outflows of labour in terms of destinations, skill composition and duration of 'overseas worker' status. This is the subject of the following section. In Section III, the characteristics of the financial flows emanating from cross-border movement of labour are dealt with to highlight the fungibility of these flows. The macroeconomic effects of misclassification of workers remittances in the BoP and the implications for multilateral dialogue under WTO/GATS are addressed in Section IV. Concluding observations are set out in the final section.

II. CHARACTERISTICS OF LABOUR FLOWS

India's comparative advantage in the export of labour spans several centuries. Prior to independence in 1947, it had yielded a massive socio-cultural diffusion across south-east Asia, trade and commerce networks with the Middle-East and beyond up to Venice, and two world religions. Even with the abolition of indentured labour in the British empire, labour exports from India expanded on an entirely voluntary basis. A colonial pattern characterised labour outflows in the first half of the twentieth century – West Indies, Mauritius, Malaysia, Singapore, South Africa, present day Myanmar, East Africa and the littoral countries of the Persian Gulf.

The profile of labour exports from independent India reflects a clear break from the past in terms of skill composition and destinations. The vibrant and burgeoning Indian diaspora of the present day in several countries of the world and the sustained flow of their earnings/saving into the Indian economy has emerged out of three overlapping and interactive phases.

The First Phase

Beginning in the early 1950s this outflow consisted of the movement of persons with technical skills and professional expertise to the UK, USA and Canada, and to a much smaller extent, Western Europe and Australia. It was driven by the desire for permanent migration and common ties promoted by the English language and a colonial past. There are several notable features of the phase:

Table 2 : Immigration to the USA, Canada and the UK

Destination	1951-60	1961-70	1971-80	1981-90	Immigrant Stock at end-1990
1	2	3	4	5	6
The USA	2,120 (0.1)	31,214 (0.9)	1,72,080 (3.8)	2,61,841 (3.6)	4,67,255
Canada	2,802 (0.2)	25,772 (1.8)	72,903 (5.1)	79,304 (5.9)	1,80,781
UK	NA	125,600 (19.8)	83,040 (11.3)	51,480 (10.0)	2,60,120

Note : Figures in brackets are India’s shares in total immigration to host countries.

- India’s share in international migration was 4 per cent in the USA, 6 per cent in Canada, and 10 per cent in the UK by the end of the 1980s.
- a gathering of momentum has occurred since the 1980s; accordingly India’s share is expected to have gone up in the 1990s
- 57 per cent of Indian labour outflow to the USA comprised high skilled workers; this constituted 13 per cent of global migration of high skilled workers to the USA

Table 3 : Skill Composition of Indian Labour Outflow

(per cent to total)

Occupation	1971-75		1976-79		1980-85		1986-90	
	US	Canada	US	Canada	US	Canada	US	Canada
1	2	3	4	5	6	7	8	9
Professional and Technical	43.4	11.1	26.9	3.5	15.7	2.8	13.5	2.1
Executive, Administrative and Managerial	2.1	1.3	4.7	0.7	5.2	0.7	5.8	1.5
Clerical and Sales	2.7	5.5	4.2	2.6	3.7	1.5	4.2	1.7
Service	1.1	1.3	1.0	0.6	2.2	0.7	4.5	0.9
Farming and allied	0.3	4.9	1.7	1.3	2.7	3.7	3.3	4.7
Skilled Workers	2.2	14.0	3.3	3.2	2.9	2.4	2.5	4.1
Dependents/ Unclassified	48.2	57.8	58.2	75.7	67.6	69.4	66.2	64.8
Total (in Numbers)	72,912	42,632	76,561	30,271	98,179	32,657	142,140	46,647

- 32 per cent of labour moving to Canada was to agricultural and allied activities
- skill composition of labour flows to the UK was similar to that to the USA but with a greater balance among skill categories
- the share of dependents was about a third of total Indian immigration, building in expansionary potential for Indian communities overseas

The Second Phase

In the aftermath of the first oil shock of 1973 began a massive cross-border movement of capital and labour, a common epicenter. Just as the recycling of petro-dollars started off, the phenomenon of private capital flows, a surge of economic activity in the oil-rich countries triggered off a labour migration boom that spread eastwards into Asia. India's labour exports to the Middle East beginning in the mid-1970s, was characterised by low to intermediate skill content, an average minimum period of stay of two years, strong home bias and return migration

Features of this phase are:

- more than 95 per cent of labour exports was absorbed by oil-exporting countries but a sharp decline in flows to Libya and Iraq is discernible from the beginning of the 1980s

- Saudi Arabia was the principal destination, attributable to high labour absorptive capacity, followed by UAE and Oman where historically, labour exports from India have found a preferred habitat

Table 4 : Distribution of India's Labour Exports to Middle East

Country	1982	1985	1990	Stocks		
				End-1975	End-1991	End-1999
1	2	3	4	5	6	7
Bahrain	17,069	11,246	6,782	1,725	100,000	150,000
Iraq	35,268	5,855	1,650	7,500	NA	NA
Kuwait	9,764	5,512	1,077	32,105	88,000	200,000
Libya	10,433	2,449	305	1,100	12,000	20,000
Oman	39,792	37,806	34,267	38,500	220,000	450,000
Qatar	14,357	5,214	3,704	27,800	75,000	100,000
Saudi Arabia	78,297	68,938	79,473	34,500	600,000	1,200,000
UAE	19,277	21,286	11,962	10,750	400,000	750,000
Others	15,288	4,729	4,345	NA	10,000	130,000
Total	**239,543**	**163,034**	**143,565**	**266,255**	**1,505,000**	**3,000,000**

- Low skilled labour constituted 40 per cent of flows up to the early 1980s but in recent years, exports of high-skilled labour is rising rapidly, especially to service sectors

Table 5 : Skill Composition of Indian Immigrants to the Middle East

(Per cent to total)

Occupation	1984	1986
1	2	3
Unskilled Workers	43.0	40.1
Construction	41.7	34.6
Farms and Households	1.3	5.5
Skilled Workers	41.8	47.0
Construction	22.3	21.5
Other	19.5	25.5
White Collar Workers	3.6	6.5
High-skilled workers	3.2	5.2
Medical	1.3	1.0
Technical and supervisory	1.9	4.2
Other	8.4	1.2
Total (in numbers)	2,05,922	1,13,649

- Return migration was heaviest in the mid-1980s but dropped thereafter; out migration also slowed down considerably since the late 1980s
- The average duration of stay varied between workers and across countries, the latter reflecting the nature of job contracts, including depositing of passports with employers over the period of stay. Sample surveys of migrant households conducted in labour-sending provinces of India show that less than 6 per cent of labour locating to the Middle East stays less than one year. The preferred duration of stay lies between 2-4 years and between 6-8 years and more.

Table 6 : Duration of Stay in the Gulf Countries

Length of Stay (in years)	Percentage of Migrants in the Sample
1	2
Less than 1	5.7
1-2	9.6
2-3	11.9
3-4	12.2
4-5	12.3
5-6	10.4
6-8	14.5
8 or more	23.4

Source: Nayyar, 1994.

Sources of Data and their Limitations

For the period up to 1990, data on immigration to the United States are available in statistical publications of the US Immigration and Naturalisation Service, the Canadian Employment and Immigration Centre, Ottawa for Canada and the Research and Statistics Department, Home Office, London for the UK. The data are reported by country of birth for the US, by country of last permanent residence for Canada and by country of nationality for the UK. For Western Europe and Australia, no systematic database is available. Independent estimates suggest that they constituted one-eighth of the Indian labour migration in the early 1980s (Jain, 1982; Kaye, 1987). Information on labour outflows to the Gulf region is available from the Ministry of Labour, Government of India based on Indian workers who obtained emigration clearance from the Protector General of Emigrants. A useful survey of the sources of data for the period up to 1990 is given in Nayyar (1994).

These data suffer from several shortcomings and it is important to take note of them while drawing meaningful inferences therefrom. For the US and UK, the data include not only immigrants accepted on arrival, but also those granted immigrant status after the statutory period of residence. Accordingly, the data may not accurately reflect annual labour outflows but do provide a measure of emigration over a longer period. For the UK, data on immigration is incomplete for the 1950s and 1960s since commonwealth citisens were not subject to immigration control up to 1962. This would affect estimation of Indian labour stocks. There is little or no information on labour exports to other industrial countries in Western Europe and Australia. A major issue is the high proportion of Indian labour overseas for which type of occupation is not reported. Stylised evidence from surveys conducted in remittance receiving provinces of India indicates that this category is mainly composed of spouses, children and dependents.

For labour exports to the Middle East, the statistics on emigration clearances understates the number of actual migrants since professionals with post-graduate educational qualifications are exempted from seeking clearance. From 1988 onwards, even graduates and diploma holders have been exempted. Moreover, for persons who have obtained emigration clearance and gone abroad and returned after completing the first two-year stint do not require clearance to return overseas for employment again. Finally, illegal immigrants who leave India on a visitor visa and succeed in staying on are not covered in the data on emigration clearances. It is widely believed that migrants who evade or are exempt from emigration clearances number several times the recorded migrants. In the statistics on occupational characteristics, there are three limitations. First, the categories of skilled workers in the construction sector may include electricians and plumbers who are used for construction activities just as carpenters and painters can be used for maintenance work, Secondly, the category of skilled workers is not sufficiently disaggregated in terms of skill levels which can range from semi-skilled to the highly skilled. Finally, the data miss out completely on engineers, doctors, architects, bankers, chartered accountants, lawyers and management executives who are exempted from emigration clearance.

The New Wave

Since the 1990s, even as databases have deteriorated, labour exports from India have undergone a quiet transformation. The low/intermediate skill migration to the Gulf and back has been dwarfed by a significant volume of brain-drain from Indian universities and educational institutions, the migration of highly skilled personnel to the industrial countries in particular, and the leading role played by Indians in the IT revolution worldwide. Associated with these factors is the substantial support received in terms of strong and sustained flows from Indians working abroad through a wide variety of channels quite distinct from the traditional workers' remittances recorded under current transfers in the balance of payments. The labour export profile is marked by an upward movement of skill content, per capita incomes and therefore, in remittance sending capacity. Indeed, this has led to an upgrading of the standard treatment of the subject as a temporary phenomenon into a broader approach which focuses on the dynamic and vibrant Indian diaspora, comparable to the prominent ones in the world. There is a growing recognition of the need to create viable structures, including legislative and financial, to build abiding links with the diaspora, *a la* Israel, Poland, Greece, the Philippines and Lebanon. The Government of India constituted a High Level Committee on the Indian Diaspora with these specific objectives. The Report of the High Level Committee (GOI, 2002) provides useful insights into the pattern and profile of Indian labour outflows in the recent years.

Today, the Indian diaspora exhibits a wide diversity in terms of ethnic and religious identities, occupational and income patterns, and is visible in a number of countries, besides the destinations which were preferred in the period 1950-90 (Table 7).

Table 7 : Indian Diaspora in 2001: Select Hosts

Country	Overseas Indian Community (including persons of Indian origin and Indian citizens)
1	2
Australia	190,000
Canada	851,000
Fiji	336,829
Guyana	395,350
Kuwait	295, 000
Malaysia	1,665,000
Mauritius	715,756
Myanmar	2,902,000
Netherlands	217,000
Oman	312,000
Qatar	131,000
Saudi Arabia	1,500,000
Singapore	307,000
South Africa	1,000,000
Suriname	150,456
Trinidad & Tobago	500,600
UAE	950,000
UK	1,200,000
USA	1,678,765
Yemen	100,900

Source: Government of India, 2002

In the US, the 1990 Census placed the Indian community at 815, 447. Juxtaposing with data given earlier suggests that about half of this stock was built up through migration flows while the other half represents the growth of the community rooted in the US. By 2001, the Indian community had more than doubled over 1990. Annual immigration during 1990-2000 ranged between 30,000-40,000, consisting of highly skilled persons. The average per capita income of the Indian community is estimated at US $ 60,093 which is higher than the US average (US $ 38,885). The majority acquired educational qualifications in India. About 43.6 per cent occupy managerial and professional positions, 33.2 per cent are in technical, sales and service sectors and the remaining 23.3 per cent are skilled labourers. It is estimated that 35 per cent of Boeing's technical staff are Indian. About 300,000 Indians work in technology firms in California's Silicon Valley, accounting for more than 15 per cent of start-ups and around 700 companies. The number of visas has gone up from an average of 65,000 in the 1990s to 200,000 in 2002.

Information on Indian migration flows to Canada is scanty. It is estimated that Indians/persons of Indian origin numbered 850,000 in 2001, constituting 2.8 per cent of the population of Canada. Information on the economic profile of Indians in Canada is even more patchy. Roughly 30 per cent hold jobs in professional and managerial positions, both within the government and the private sector, and 23 per cent work in manufacturing. The remaining are preponderantly in farming and agriculture-related activities, which reflects a continuation of the pattern set in the first phase of migration. Indians are more likely than other immigrant groups to possess a university degree and have an average annual income at least 20 per cent higher than the national average. The Indian community is also more likely to have more non-matriculates than other groups, reflecting the family sponsorship scheme of Canadian immigration policy

In the UK, the Indian community has a unique place, having built substantially on colonial connections. In recent years, the traditional pattern of labour exports to the UK has altered significantly. The number of British work permits has risen steadily from around 2000 in 1995 to over 5,600 in 2000. Of the total number of work permits, more than half were for work in the computer industry and at least two-thirds of all software professionals now entering Britain (18,257) are from India. Many of the professionals entering Britain from the US, South Africa and Australia are of Indian origin. Nearly 100 Indian companies are resident in the UK with an investment of more than 250 million pounds and 65 of them are in the IT sector. India has emerged as a leading investor in the UK – Indian FDI into the UK is equal to the UK FDI into India over the last five years. The Indian community also accounts for 40 per cent of the retail sector A majority of the second generation Indian emigrants are professionals working as doctors, engineers, solicitors, chartered accountants, academics and IT experts. The per capita income of the community at 15,680 pounds is among the highest in the UK. Innovative visa schemes introduced in 2000 are expected to enable the Indian diaspora to grow and acquire greater diversity in the coming years. Currently, Indian immigrants constitute about 2.1 per cent of UK's population.

At 3 million, the Indian diaspora in the Gulf region accounts for between 7 per cent of the population of Saudi Arabia and 32 per cent of the population of Oman. There is a shifting socio-economic profile since the 1990s with an upward movement in the share of professionals and white-collar groups which has reached 10 per cent and 20 per cent, respectively, of the total labour outflow from India to the region. Nearly 70 per cent is recorded as semi-skilled and unskilled workers, mainly due to infirmities in the data on emigration clearance referred to earlier. It is important to take note of the specific rigidities in conditions of employment to appreciate why classification of worker remittances under private transfers because of the period of stay exceeding one year is a gross travesty in the Gulf region. Social interactions are extremely limited and of a formal/impersonal nature. Professionals and white-collar groups are the only ones qualified by basic income norms (4,000 Dirhams or 3, 000 Dirhams plus accommodation) to have their families with them. This category prefers to remit money to India through foreign currency/local currency accounts available in Indian banks to non-resident Indians (NRIs). The bulk of inward remittances (recorded as workers' remittances in India's balance of payments) from the region are effected by the so-called unskilled and semi-skilled workers. Living and working conditions of this category are extremely harsh. On their arrival, they are usually fed and housed in barrack-like tenements. Recruitment is for fixed periods with a preference for 2-3 year contracts and there is a high turnover, relative to other skill categories. The employee is required to hand over travel documents to the employer on arrival which allows the latter to exercise undue control over the employee and even to ignore or alter the terms of employment. This sometimes results in skilled workers being forced to work as unskilled persons. No change of jobs is permitted without local official sanction and this is normally given only with the approval of the employer. The employee cannot return home without an exit permit of the local government. While a return passage after two years is expected to be a standard clause in job contracts, this is often refused or postponed.

III. FINANCIAL FLOWS

Financial flows generated by India's exports of labour impact the balance of payments in various forms. Workers' remittances are recorded under current transfers by the thumb rule associated with labour which stays, or is expected to stay, in the host economy for more than one year. In India, workers' remittances comprise remittances towards family maintenance, repatriation of savings, and migrants' transfers (which are distinguished from capital transfers which involve transfer of ownership of fixed assets, and forgiveness of liabilities by creditors). Since 1997-98, the official statistics have clubbed these disaggregated entries in to a generic head 'inward remittances from Indian workers abroad for family maintenance, *etc*.'. A substantial portion of workers' remittances of small value is estimated on the basis of quarterly surveys.

In the Indian context, it is widely known that a significant volume of workers' remittances transit through informal channels, goods and precious metals, and cash brought in by returning Indians. With the institution of the market-determined exchange rate regime and current account convertibility in the early 1990s, workers' remittances recovered from the stagnation of the second half of the 1980s to cross US $ 8 billion by the mid-1990s. As the premium commanded by the unofficial exchange rate declined significantly and trade and payment restrictions eased, workers' remittances were channelled through new routes other than the traditional categories described earlier. For instance, with the liberalisation of bullion imports by allowing them to be brought in as baggage by returning Indians under a nominal customs duty, remittances took the form of gold and silver which rose from US $ 1 billion in 1992-93 (the year of liberalisation) to nearly US $ 3 billion before being completely extinguished by the full relaxation of bullion imports under open general license. Another route of inward remittance from workers' has traditionally been through local withdrawals from deposit accounts offered to

NRIs. In recent years, this route had gathered importance enough to warrant separate classification. Furthermore, India was denied access to international financial markets by the downgrading of sovereign credit ratings throughout the 1990s. During this difficult period, India issued foreign currency bonds directed specifically at the Indian diaspora abroad with attractive interest rate differentials, exchange guarantees, fiscal concessions, and facilities for local transfer. In retrospect, these issuances turned out to be effective avenues for the securitisation of workers' remittances as the bulk of these bonds were redeemed locally. The changing profile of workers' remittances under private transfers clearly shows that transfers in the form of unrequited one-way flows not involving quid pro quo (gifts and donations) are a miniscule portion of India's private transfers (Table 8).

Table 8 : Composition of India's Private Transfer Receipts

(US $ million)

	1990-91	1992-93	1996-97	2001-02
1	2	3	4	5
1. Workers' Remittances (a to f)	1,655	3,410	11,626	11,533
(a) Family Maintenance	626	730	2,518	
(b) Repatriation of savings	1,027	1,604	1,935	
(c) Migrants transfers	2	0	11	
(d) Gold and silver	0	1,076	2,718	13
(e) Foreign currency bonds transferred to residents	0	0	1,017	0
(f) Local withdrawals/ redemptions of NRI deposits	NA	NA	3,427	3,444
2. Gifts and donations, *etc*.	429	454	809	659
Total (1 and 2)	**2,083**	**3,864**	**12,435**	**12,192**

N.A. Not Available.
Source: Reserve Bank of India Bulletin (April 1999 and July 2003).

India's balance of payments statistics have traditionally been compiled on the basis of currency areas of the post-war period. The dollar area relates to remittances mainly from the US and Canada. Since 1990-91, the dollar area has emerged as the most important source of workers' remittances, eclipsing the principal host region, *i.e.*, the sterling area. In the sterling area, remittances from the UK formed the dominant component up to the end of the 1960s.

Thereafter, remittances from the Persian Gulf region became important. The sterling area as a whole lost importance after 1990-91. In the rest of the non-sterling area, it was the share of oil exporting countries of West Asia and North Africa which dominated. Remittances from the OECD countries were mainly from Western Europe.

Table 9 : Source Regions of Workers' Remittances to India : 1950-1997

(Shares in per cent)

Year	Sterling Area	Dollar Area	OECD	Rest of Non-Sterling Area
1	2	3	4	5
1950-51	87.0	11.8	-	1.2
1970-71	45.1	37.7	13.4	3.8
1980-81	63.4	12.0	11.1	13.5
1985-86	53.4	17.7	9.5	19.4
1990-91	46.6	24.4	13.9	15.1
1996-97	34.6	51.3	7.1	7.0

Since 1997-98, regional statistics on workers' remittances are compiled on a geographical/continental basis, replacing the old currency areas. These data suggest that there has been a structural shift in the regional sources during the 1990s. Remittances from the Middle East countries have slowed down considerably. The principal sources of labour earnings are America and Europe during 1997-2003.

Table 10 : Source Regions of Workers' Remittances to India : 1997-2003

(Shares in per cent)

Year	Africa	America	Asia	Europe	Total (US $ Million)
1	2	3	4	5	6
1997-98	2.3	37.1	31.3	26.0	11,875
1998-99	1.7	36.7	37.1	23.6	10,341
1999-2000	1.0	45.5	31.9	20.6	12,290
2000-01	1.3	44.9	34.3	19.0	12,873
2001-02	4.5	48.2	23.0	23.2	12,192
2002-03	0.6	51.1	22.0	25.8	15,174

The 1970s ushered in sweeping changes in the economic environment – the collapse of the Bretton Woods pegs, the first oil shock and starting up of massive private capital flows. In India, the move to an adjustable pegged exchange rate regime, based on a trade-weighted basket of currencies, corrected for the overvaluation in the exchange rate. Coupled with a rise in international prices of gold, this brought about a sharp decline in the premium commanded by the unofficial exchange rate and a disincentive for routing workers' earnings through informal channels. Simultaneously, the national authorities undertook measures to provide financial incentives to draw earnings from Indian labour in to banking channels. These policy measures took the form of introduction of foreign- and local-currency denominated deposit schemes with significant interest rates *vis-à-vis* international and domestic interest rates. Foreign-currency deposits were provided exchange rate guarantees and both kinds of deposits were provided tax benefits and full repatriability.

Explicit in these policy measures was a clear understanding that earnings from Indian labour deployed abroad are sent home through a variety of channels and that there were policy instruments which could garner these flows to overcome the foreign exchange constraint. For the authorities, the definitional restrictiveness of workers' remittances in current account was by no means an impediment to tapping the legitimate rewards of the successful and time-tested capability of locating domestic labour internationally. Indeed, a similar approach characterised a number of recipients of labour earnings – foreign exchange bearer certificates in Pakistan, dual exchange rates in Bangladesh, foreign currency deposits in Turkey, *matriculas consulares* in Mexico to name a few. Over the years, net inflows into NRI deposit accounts in India have grown significantly in terms of magnitude even as the deposit schemes have been restructured to narrow interest differentials and eschew exchange guarantees.

Table 11 : Net Inflows under NRI Deposits

(US $ Million)

Deposit Scheme	1990-91	1992-93	1996-97	2002-03	Stocks of end-March 2003
1	2	3	4	5	6
NRERA	384	255	1,244	6,195	14,923
FCNR(A)	1,465	825	-1,949	0	0
FCNR(B)	0	0	1,773	526	10,199
NR(NR)RD	0	637	2,246	-3,745	3,407
FCON	0	0	-9	0	0
FCBOD	287	446	0	0	0
Total	**2,136**	**2,163**	**3,305**	**2,976**	28,529

Encouraged by the success in mobilising labour earnings through the financial account of the BoP, especially in difficult times, the authorities have employed foreign currency bonds as well as direct and portfolio investment channels specifically designed for Indians working abroad. Foreign currency bonds have brought in US $ 11.3 billion since 1991 and have helped the economy to tide over the crisis of 1991, the sanctions imposed by the US (1998) and the adverse global environment (2000). As mentioned earlier, a predominant portion of these bonds re-entered the country on redemption either as current transfers or as inflows into the deposit schemes, clearly identifying the centre of economic interest. Importantly, inflows of labour earnings in to the financial account have occurred without diminishing inflows in to the current account. This suggests that there has been a switching of funds from illegal to legal channels. For the recorded BoP statistics, therefore, there has been as additionality rather than substitution of workers' remittances as conventionally defined.

IV. MACROECONOMIC AND MULTILATERAL ISSUES

The practice of recording workers' remittances under current transfers in the BoP is clearly a misrepresentation of the underlying economic and social conditions relating to labour exports. The entire premise of this practice hinges around the thumb rule that migrant labour resides in the host country for more than one year. If, for instance, the period of residence is 11 months and 29 days, earnings associated with the same migrant labour enter the income account under 'compensation of employees'. By the same convoluted logic, labour earnings associated with a 13 month stay cannot find place under labour income and have to be relegated to unrequited transfers! Available evidence clearly shows that the job contracts for the Indian labour in the Gulf region are drawn up for a minimum of two years and even longer periods of stay are preferred/enforced. Labour migration to the industrial countries also involves periods of stay exceeding one year. A compelling reason is the need to recover the initial investments required for outward mobility. Differentiating labour migration between 'less than one year' and 'more than one year' reflects a lack of understanding of the ground realities of employment conditions in the host countries which render such distinctions amorphous. Migrant labour is simply a price taker. Yet, labour exhibits a strong home bias, particularly in the repatriation of earnings. This emerges as the key determinant of the centre of economic interest and BoP statistics.

The classification of invisibles under factor incomes, non-factor services and transfers has itself been overtaken by both theory and reality. These nomenclatures are suitable in the context of merchandise trade where factors of production are assumed to be immobile and only their products cross borders. For trade in services, the movement of factors across borders is often a necessary condition for trade to occur. In recognition of this characteristic, the General Agreement on Trade in Services (GATS) includes a specific annex on the movement of natural persons as a mode of delivery of services across borders. Indeed, competitive efficiency requires service providers to combine cross-border flows with movement of factors and commercial presence. In the process, the period of stay criterion has become so blurred that "in practice … the distinction between labour income and worker's remittances is quite arbitrary" (UNCTAD and the World Bank, 1994). Given the difficulties in defining the borders between these transactions, it is suggested that all categories of the BoP which reflect the earnings of labour should be combined (Noyelle and Redfield, 1991). In fact, the burgeoning growth in international trade in services reflects the growing importance of knowledge and human capital as an independent factor of production rendering the conventional classification obsolete. There is a growing acceptance of the need for an ‘ownership’ rather than a ‘location’ definition of trade in services. This has strengthened the case for re-classification of earnings from labour in the balance of payments by type of economic activity performed by labour, *i.e.,* as producer-related services, consumer-related services, intermediate services, distributive services and so on.

Earnings from labour have significant macroeconomic implications. They contribute to consumption and constitute around 10 per cent of gross domestic saving in India. Evidence from the major labour exporting province of India – Kerala – indicates that these remittances constituted 25 per cent of domestic product and were as high as 42-50 per cent in some districts. If, for instance, workers remittances were treated as labour income, India’s GNP would be higher than the recorded data by 2-3 per cent annually. On the other hand, if labour remittances could be classified as services by type of economic activity, GDP would go up by a similar magnitude. Workers’ remittances are used in the accounting of India’s debt service ratio by national, multilateral and independent agencies. In fact, shortfalls in remittances were a critical factor in designing the Fund’s program for India under the Contingency and Compensatory Financing facility in 1991.

The ambit of international negotiations on the future of international trade currently excludes private transfers, and, therefore, workers’ remittances. Consequently, restrictions on market access and national treatment have proliferated in the host countries even as financial services involving the movement of capital are being freed. This is emerging as a contentious issue in the negotiations under WTO and is exacerbating the North-South divide.

Labour exports from India are likely to be sustained and to become even more stronger. In general, countries pass through three stages of demographic transition – (i) high youth dependency (large proportion of population in the 0-14 years group), (ii) rise in working age population (15-59 years) relative to youth dependency and (iii) rise in elderly dependency (60+ years) relative to working age population. In Europe, population ageing is most advanced and projected to accelerate. Japan is currently the country with the oldest population and is likely to remain so until 2050. Between 2010 and 2030, the European Union, North America and Japan will experience a substantial decline in work force, forcing them to switch to importing labour on an expanding scale. Most of East Asia as well as China are in the second stage of the demographic cycle and could become an important supplier of global employment up to 2025; thereafter, rapid ageing would turn the tide. India is entering the second stage of demographic transition and over the next half-century, a significant increase in both saving rates and share of working age population is expected. The share of the labour force in population is expected to overtake the rest of Asia, including China, by 2030. In this sense, the current phenomenon of large workers' remittances in to the current and financial accounts of India's balance of payments is expected to be sustained over the next 50 years.

V. CONCLUSION

The present treatment of international earnings of labour in the BoP statistics is unacceptable from the users point of view. Labour outflows from India, as in several other countries, are an expression of sustained comparative advantage in a static sense and dynamic competitiveness in more recent years. In the major exporting countries, the BoP treatment is leading to an understatement of key macroeconomic aggregates. In the international arena, developing countries as a group face an asymmetry in exploiting their core competencies for achieving gains from trade. The BoP itself suffers from the effects of this asymmetry since, on the one hand, labour delivers a variety of services abroad which are getting disembodied by technological progress and are being traded on their own rights; on the other, the earnings of labour are treated as a single undifferentiated flow for which there has been no exchange of value (transfers). In the final analysis, the BoP statistics are as good as the users find them to be. In this context, most labour exporting countries focus on all types of financial flows generated by these exports for policy purposes and for macroeconomic assessment. In the recent period, these countries have shifted their attention from the simplistic examination of migration and remittances to the more comprehensive assessment of non-resident diaspora. Several of them are actively engaged in creating a financial environment for attracting for these flows and for utilising them for developmental goals.

How should the BoP statistics keep pace with reality? First, the category 'current transfers' should be rigidly defined to include only gifts, donations and other transfers which are strictly of an unrequited nature. Second, compilation should defer to country-specific characteristics regarding period of stay and the application of the one-year thumb rule as a one size fits all criterion should be done away with. Countries which are able to identify elements of labour income in workers remittances should be allowed to reclassify them under 'compensation of employees', irrespective of period of stay. In this proposal, studies on employment conditions in host country have a key role to play in the form of technical assistance. Third, labour exporting countries need to be encouraged to invest resources in to collecting information on the types of economic activity performed by their labour in the host countries. This should enable the reclassification of workers' remittances in to more economically meaningful categories of traded services in the balance of payments. Finally, more attention needs to be devoted to the labour earnings which take the guise of financial flows but exhibit a 'homing' instinct that is independent of the movement of financial asset prices.

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