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LABOUR MIGRATION FROM PAKISTAN TO THE MIDDLE
EAST AND ITS IMPACT ON THE DOMESTIC ECONOMY:
PART II (Cost-Benefit Analysis)

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INTRODUCTION

This is the second part of the report of the International Migration Project. In the first part (PIDE Research Report No. 126) we estimated the total number of Pakistani emigrants in the Middle East, determined their occupational profile and analysed the impact of labour migration on various sectors of the economy. We also estimated the annual flow of remittances, identified the channels through which they are transmitted and determined the way they are utilized by the households of the migrants.

In this part we bring all that information together into a cost-benefit framework to determine the net cost or benefit of labour migration to the economy. It is important to point out that the migration of workers from a country on such a scale as from Pakistan affects the domestic economy in many ways and it is not always possible to quantify all of these effects. In this report, we have attempted to quantify only the direct effects of major importance. For indirect effects only a qualitative account is given. The figures arrived at are tentative since the data are being further refined through suitable weighting adjustments and the analytical framework is being further developed to take account of finer details. The estimates should, therefore, be treated with caution.

Chapter 1 sets out the analytical framework pursued in this report for the cost-benefit calculations. Chapter 2 gives the estimates of net costs or benefits for an average migrant (representing the overall mix of migrant workers) as well as for various occupations separately. Chapter 3 gives a summary of findings and the final chapter points out some policy implications.

CHAPTER 1

FRAMEWORK FOR THE COST-BENEFIT ANALYSIS

INTRODUCTION

The exodus of Pakistani workers to the Middle East during the 1970s implies various consequences for the country. The literature on international migration¹ has discussed a number of profound and complex economic consequences which require that the costs and benefits of international migration be studied in a systematic framework to provide a guide-line for the policy-makers.

Since the emigration of the Pakistanis to the Middle East is only temporary in the sense that an emigrant leaves for work abroad without severing his contacts with the country, while evaluating the consequences of international migration, the cost and benefits of both emigrants and those left behind by them need to be considered. The present framework will consider the cost and benefits of only those who are left behind so as to confine the welfare impact within the political boundaries of the country.

Broadly speaking, the costs and benefits of emigration will depend on

- (1) the occupational profile of emigrants, and
- (2) the volume and uses of home remittances.

The occupational profile of emigrants determines the contribution they were making to the economy of the home country before emigration. Whether migration takes place from the pool of the employed or the unemployed labour in the country is, in fact, a major factor in calculating the cost of emigration.

¹See Grubel and Scott (1966), Berry and Soligo (1969), Hamada (1974), Paine (1974), Bhagwati & Roderguez (1975), Lucer (1979), W.E. Guisinger (1978), and Squire, Little and Durdag (1978).

In a situation of full employment in a country, the cost of emigration of an employed person can be explained with reference to Fig. 1.

DD is the demand curve derived from the marginal product curve of labour in the country. In the absence of any market distortions, a marginal emigrant will cause no loss to the economy. He simply takes away what he earned as a marginal product (Grubel and Scott 1969). For a finite change, however, the economy loses the surplus, shown by the shaded area in Fig. 1 (Barry and Soligo, 1969 and Tobin 1974). However, if he was a tax payer, his emigration may cause some loss of resources that the emigrant used to contribute to the government. Similarly, if the emigrant had been saving some part of his wages, the economy would lose the externalities of these savings if the incoming remittances do not generate the same amount of savings.

In the case of countries where rural-urban migration is a significant phenomenon, emigration from the urban areas will increase urban employment opportunities and if one urban employment opportunity attracts more than one migrant from the rural areas, the welfare gain/loss will be different from what has been discussed above. The output loss will depend on the marginal product of the labour migrating from the rural to the urban areas.

In the case of unemployment in the economy, the emigration of even finite magnitude is not supposed to cause any loss to those left behind so long as all the unemployed labour is not absorbed. It does not matter whether the emigrating labourer was himself employed or unemployed. As long as there is a pool of the unemployed ready to take the place of an employed migrant, the conclusion will remain the same, i.e. no loss will occur to the economy.

Figure 1

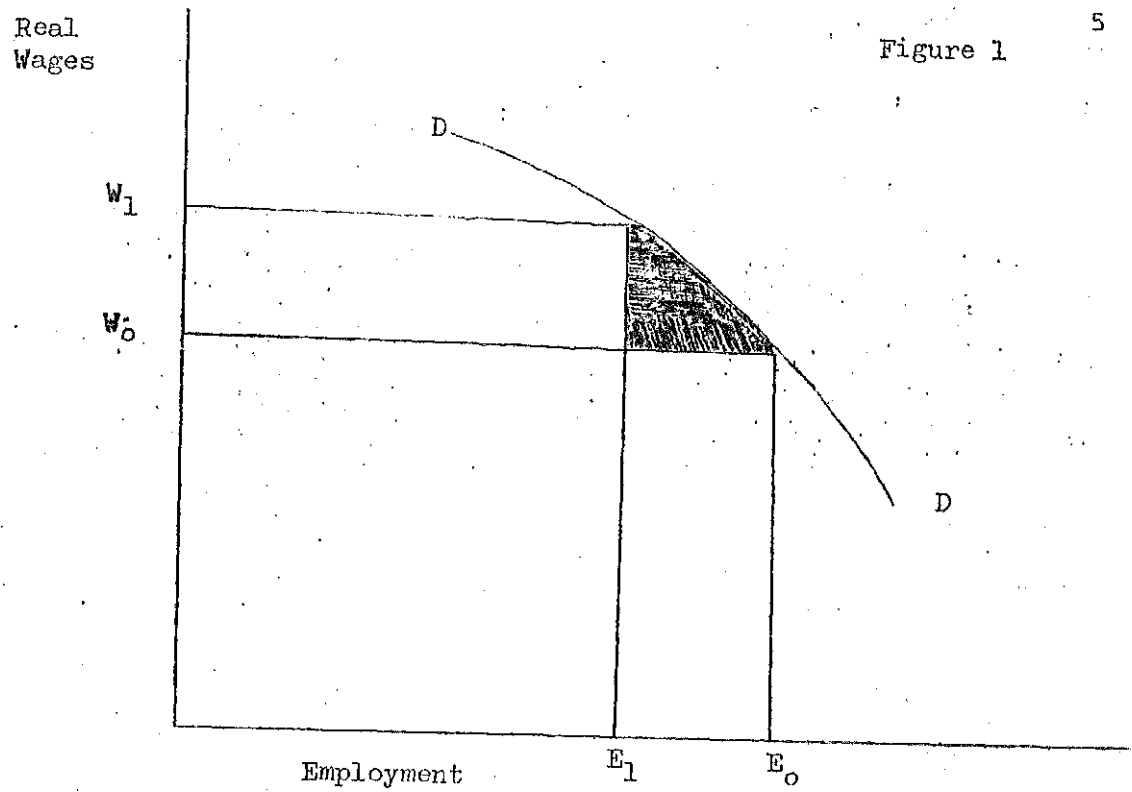
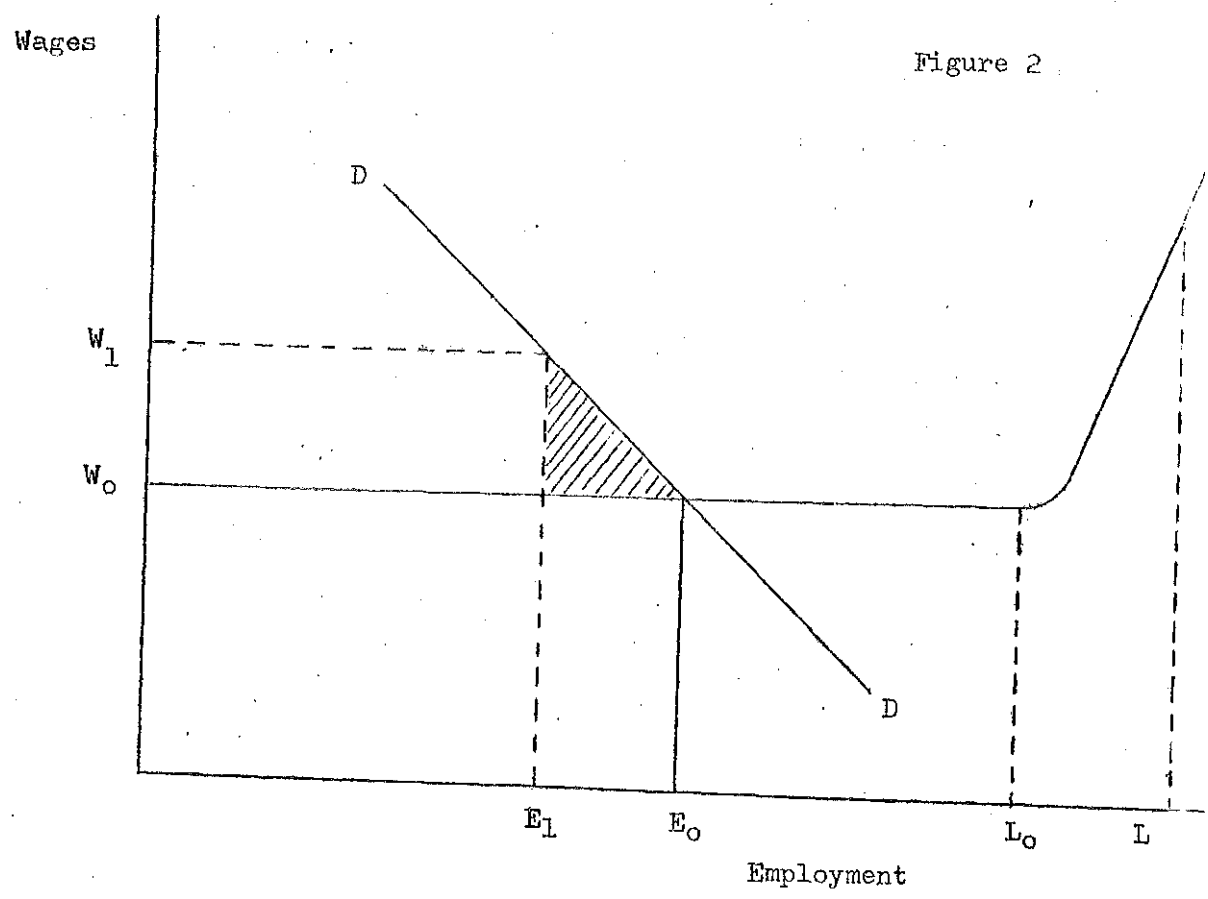


Figure 2



However, there may be a number of practical considerations that may not allow an emigrant, even in the situation of unemployment, to migrate without any cost to the economy.

Firstly, there may be a number of restrictions/limitations in filling a position vacated by the migrant which will result in a loss of output to the economy. This is what was experienced by Bangladesh as a result of the emigration of her electricity workers (Siddiqui 1980).

Secondly, in an economy with surplus labour, where wages are determined by the per capita income in rural areas (Khan, 1978), the emigration even from the pool of the unemployed may lead to further unemployment in the modern sector. This is manifest from Fig. 2.

Unlimited supply of labour (LO) is available for the modern sector at a constant wage w_0 which is determined by per capita rural income. The employment level in the modern sector is E_0 . When emigration takes place, the migration will cause per capita income to rise² which will raise the reservation wage of the labour moving the labour supply curve to W_1 and causing a decline in employment level in the modern sector³. The economy loses the whole shaded area.

In the above discussion, labour has been treated as a homogeneous entity with respect to the occupational status. Different considerations may arise if labour is heterogeneous and has varying implications for the loss of output. For example, with respect to employment status, it is possible that unemployment is only of unskilled labour whereas the skilled

²This will further be raised by the resulting home remittances.

³For further discussion, see Khan (4).

and professional labour is fully employed. This not only demands that the welfare loss/gain be calculated separately for different occupations, but also leads to the following considerations:

The LDCs have a certain programme of industrial development. If the emigrating labour is mostly of skills which are crucial for the industrial sector, and are also in short supply, development projects may be affected. Similarly, these countries lack qualified personnel for the social sectors like health and education. Emigration of professionals from these sectors imposes extra costs because of their linkages with other sectors of the economy.

Certain unskilled/semi-skilled labourers work only to complement certain skilled/professional workers. With the migration of skilled workers, the complementary unskilled and semi-skilled labourers lose their jobs and, hence, the loss to the economy is more than what is implied in the wages of the employed labour. All these considerations, however, cannot be quantified to be included in a cost-benefit analysis. The attention is, therefore, focussed on the main question, whether or not there is excess supply of labour in the occupations from which migration is taking place.⁴

The calculations, however, will be different in the long-run perspective. In the long-run, the labour can move from the relatively less scarce occupations to more scarce occupations by acquiring the required skills. For example, emigration of skilled/professional labour in labour-abundant countries will attract unskilled labour to get necessary training

⁴For a discussion of this issue see chapter 2 of Part I of this Report, i.e. Research Report No. 126.

to fill the opportunities created by emigration. After successful replacement, the cost will depend on the marginal productivity of unskilled labour that has replaced the outgoing labour (which will be zero where unskilled labour is surplus) plus the costs of training to acquire the necessary skills. This necessitates the identification of the costs of education and training which would be necessary for those who replace migrant workers. The cost of training/education plus the output foregone in the profession, that he otherwise would have been working in, will be the long-run cost of emigration over and above the short-run costs already discussed.

The second element in the cost-benefit analysis is the magnitude of home remittances and their use. The remittances from migrants abroad add to the resources of the country. The way these remittances are distributed between consumption and saving determines the precise nature of the benefits derived from them. Moreover, the foreign exchange may have additional value for countries which are faced with a scarcity of foreign exchange for their developmental programme.

Apart from these direct effects, a number of indirect effects on growth and income distribution may follow. For example, the use of remittances may become inflationary. The unemployment of complementary unskilled labour not emigrating with skilled migrants is another possible indirect cost. The generated exports resulting from the demand of overseas workers for home goods or the industrial development resulting from the increased demand for industrial goods out of increased income from remittances are further possible indirect benefits.

Emigration also generates income distribution effects which may go either way. Emigration from the lower income classes improves income distribution as these low income groups enter higher income groups on account of remittances from abroad. On the other hand, if only the well-off part of the population can get the opportunity to go abroad, the income distribution will worsen as was witnessed in Bangladesh (Siddiqui 1969).

A FRAMEWORK FOR COST-BENEFIT ANALYSIS

Migration of workers from a country affects the domestic economy in many ways. Since it is not always possible to quantify all of the effects of migration, the following framework attempts to quantify only direct effects. For indirect effects only a qualitative account will be given.

In our analysis, the primary decision-making unit is taken to be the family left behind by the migrant worker and the numeraire used to measure the costs and benefits is savings. The following assumptions underly the analysis.

- (i) Prior to migration, the migrant worker was earning a wage (W) equal to the value of his marginal product.
- (ii) All of his wages (earned prior to migration) were consumed by him and his family. The relative shares of the migrant and his family in total consumption are bW and $(1-b)W$, respectively.
- (iii) After migration, the worker sends home remittances equal to R .
- (iv) The worker's family consumes a fraction (a) out of remittances.
- (v) There is no change in the domestic wage rate.

- (vi) Savings have a higher social value than consumption.
- (vii) Public savings carry the same premium as private savings.

The costs and benefits have been quantified under the following headings:

- (a) Change in the consumption of those left behind
- (b) Change in the savings of those left behind
- (c) Change in the foreign exchange receipts of the government

The measurement of these costs/benefits with respect to the emigration from Pakistan has been made as follows:

Change in Consumption of those Left Behind

When a person migrates, the consumption of the family left behind declines to the extent to which they had been consuming out of the migrant's income. If we assume that the migrant was consuming a proportion (b) of his wage, then the family loses its consumption to the extent of $(1-b)W$ which is a consumption loss of migration. The migrant, however, remits money from abroad, a part of which is consumed by the family left behind. If 'R' is the amount of remittances and if 'a' is the proportion consumed by the family, then aR is the consumption benefit of the migration. Thus the change in the consumption of the household would be equal to $aR - (1-b)W$.

Change in the Savings of the Household

If a migrant was contributing to the family savings from his income, or in other words all the wages were not consumed, then the migration will cause a decline in the domestic savings to the extent to which the migrant

was contributing to their savings. In the case of Pakistan, the propensity to save at lower levels of income is almost negligible and it is not unreasonable to assume, as we do here, that all wages are consumed. Thus there may not be any substantial saving cost from migration.

A substantial part of remittances from abroad is, however, saved which is a saving benefit of the migration. In the above notations, this would amount to $(1-a)R$.

Foreign Exchange Savings of the Government

The imposition of duties and taxes on imports and exports helps government to earn foreign exchange. Thus when 'R' remittances are received by the household they are worth only $R.CCF$ to the household. The difference $R-R.CCF$ is what government has netted.

Conversion Factors

The above-mentioned costs and benefits are at market prices and need to be converted into economic prices to eliminate the effect of market distortions and into the common numeraire to enable the addition of the benefits and costs.

The following factors will be used:

1. Conversion factors for consumption/savings into their economic prices (CCF);
2. Conversion factor for converting consumption into the numeraire, i.e. savings $(\frac{1}{S})$; and
3. Conversion factor to incorporate the distribution into the valuation of consumption (d)

A summary of the framework for the cost-benefit analysis of emigration is presented in Table 1.

Table 1
 Framework of Cost-Benefit Analysis
 of International Migration

Costs/Benefits	Nominal Value	Conversion Factor	Adjusted Value
<u>Costs (C)</u>			
Consumption cost	$W(1-b)$	$CCF \cdot \frac{d}{S}$	$W(1-b) \frac{CCFd}{S}$
Saving Cost	Nil	CCFd	Nil
Foreign Exchange Cost	R	CCF	$R \cdot CCF$
<u>Benefits (B)</u>			
Consumption Benefit	aR	$CCF \cdot \frac{d}{S}$	$aR \frac{CCF \cdot d}{S}$
Saving Benefit	$(1-a)R$	CCF.d	$(1-a)R \cdot CCFd$
Foreign Exchange Benefit for Remittances			
i) Sent through official channels	R_0	1	R_0
ii) Sent otherwise	$R - R_0$	CCF	$(R - R_0) \cdot CCF$

The above framework, however, assumes that there are no costs except the loss of consumption faced by the family left behind. If there are any social-psychological and other costs of separation, it is assumed that they are offset by such qualitative benefit as enhanced prestige and social position.

At the other extreme, it can be argued that the increase in saving and consumption is just sufficient to compensate the migrant and his family for the costs of separation. This is what might be called the

equilibrium position where a family is indifferent at the margin to sending or not sending a member abroad. In this case, the net benefits of consumption will be zero and the only benefit of migration will be $R(1-CCF)$.

CHAPTER 2

**ESTIMATES OF THE NET COST-BENEFIT
OF EMIGRATION TO THE MIDDLE EAST**

I. COSTS-BENEFITS CALCULATION FOR AN AVERAGE MIGRANT

The calculations in this section have been confined only to an average migrant representing the overall mix of occupations of the migrants. The cost-benefit calculations by occupations will be made in the next section of this chapter. These calculations have been made according to the framework discussed in Chapter 1.

For an average migrant these calculations are discussed below:

COSTS

(1) Consumption Cost

This is that part of the family consumption which was financed from migrant's income before his migration to the Middle East. It has been estimated on the basis of following assumptions:

1. Average household income without remittances amounts to Rs. 11,338 per year.
2. The average pre-migration wage of a migrant amounts to Rs. 10,246 per year.
3. Thus the household income would have been Rs. 21,584 per year had the number of the household not migrated.
4. It is assumed that all the household income would have been consumed. (It is obviously a restrictive assumption but it is not expected to affect the calculations significantly as the bulk of the migrants belong to the low-paid labour and the propensity to consume at lower income levels is extremely high). This assumption, however, has been dropped while calculating consumption cost by occupations.
5. It is also assumed that the migrant, before migration, had been consuming equal to the per capita consumption of the household.

6. With the average family size of 8.8 persons including the migrant), the per capita household consumption is estimated to be Rs. 2453.
7. Thus, with an annual wage of Rs. 10,246, a migrant had been contributing (Rs. 10,246 - Rs. 2,453 =) Rs. 7,793 to the family consumption per year.

(ii) Saving Cost

On the assumption that all wages (and all household income) before the departure of the migrants were consumed, no saving cost is involved. For calculations by occupation, saving cost has, however, been taken into account.

(iii) Foreign Exchange Cost

Those remittances that households receive through banking channels represent foreign exchange cost, as this foreign exchange will be spent by the households. (This cost, however, will have to be discounted by the standard conversion factor to determine the values, at border prices, of the goods and services purchased from these remittances).

A household on the average receives Rs. 21,273 a year. About 85 percent of this is transmitted through regular banking channels. Thus the foreign exchange cost amounts to about Rs. 18,082 (before adjustment for the standard conversion factor). The remaining Rs. 13,521 are sent through unofficial channels or in kind. If this is to be included, this will appear at both costs and benefits sides after correction by the CCF. Thus the inclusion or exclusion of these Rs. 12,279 remittances does not affect cost-benefit calculations.

(i) Consumption Benefit

This benefit accrues from increased consumption out of remittances. The estimation of consumption out of remittances involves a number of problems which were discussed in Chapter 7 of Part I of this Report (Research Report No. 126). For the purpose of present calculation the estimation has been made as follows:

As mentioned in Chapter 7, we estimate that out of remittances of Rs. 28,966, Rs. 16,512 are spent on recurring consumption items like food, clothing, housing, transport, health and education; Rs. 680 per year on marriages; and Rs. 820 per year on consumer durables. In addition to these, Rs. 658 are spent on improvements in residential house which we are treating as a consumption expenditure. This gives us a total figure of Rs. 18,670. To this value we have to add Rs. 2,637, the amount of remittances sent in kind which are all assumed to be consumed. The increase in consumption due to remittances thus works out to be Rs. 21,307. This value has to be discounted by the appropriate factors to arrive at the social value of this consumption. The following factors will be applied for the adjustment:

- (a) A factor to express the value in terms of the numeraire. (This has been described earlier as $\frac{1}{S}$). Following Squire-Little (1979), we assume the value of S to be equal to 1.2.
- (b) A factor to incorporate the effects of change in utility due to the change in the income group. This has been described as d and for the migrant group it has been estimated to be 0.7.

(ii) Saving Benefits

These benefits stem from the savings generated by the households out of the remittances received by them. This amounts to (Rs. 28,966 -

Rs. 18,670 =) Rs. 10,296. This is the saving out of the remittances sent in cash or brought by the migrant while visiting home. The saving benefits thus amount to Rs. 10,296 which will be discounted by the consumption conversion factor.

Foreign Exchange Benefits

These benefits are represented by all the remittances received through regular official channels. These amount to Rs. 18,082. No conversion/adjustment in this case is needed. For the sum of Rs. 13,521 received through unofficial channels and in kind, the CCF is to be applied.

The following conversion factors have been used for the various adjustments mentioned above.

- a) Consumption Conversion Factor, which has been estimated to be Rs. 0.86;
- b) Standard Conversion Factor, which has been assumed to be equal to the Consumption Conversion Factor; and
- c) The factor $(\frac{d}{s})$ that converts the nominal value into the social value and has been estimated to be 0.58.

The cost-benefit calculations have been shown in the Table 1, which indicates a net benefit of Rs. 18,143 per migrant per year of his stay abroad.

Table 1
Cost-Benefit Calculations

Costs/Benefits	Nominal Value (Rs.)	Conversion Factor	Adjusted Value (Rs.)
<u>COSTS (C)</u>			
Consumption Cost	7,793	0.50	3,896
Saving Cost	-	-	-
Foreign Exchange Cost	31,603	0.86	27,178
<i>Total Costs</i>			<i>31,074</i>
<u>BENEFITS (B)</u>			
Consumption Benefit	21,307	0.50	10,653
Saving Benefit	10,296	0.86	8,854
Foreign Exchange Benefit out of Remittances			
i) Sent through official channels	18,082	1	18,082
ii) Sent otherwise	13,521	0.86	11,628
<i>Total Benefits</i>			<i>49,217</i>
<i>Net Benefits</i>			<i>18,143</i>

II. COST-BENEFIT CALCULATIONS BY MAJOR OCCUPATIONAL GROUPS

In this section calculations have been made for the following groups of occupations:

- a) Unskilled Labour
- b) Skilled Labour
- c) Service Workers
- d) Clerical Workers
- e) Professional Workers

The framework for the calculations remains the same given in the previous section. Calculations of various components of costs and benefits by the occupation groups are discussed below:

Consumption and Saving Costs

The calculations of nominal consumption and saving costs have been shown in Table 2. The values have to be adjusted by appropriate conversion factor to measure them in accounting prices.

Consumption and Savings Benefits

The calculations of nominal consumption and savings benefits have been shown in Table 3. These will also have to be converted into the value at accounting prices by using appropriate conversion factor.

Foreign Exchange Cost

The foreign exchange cost, in the framework described earlier, is the total remittances in all forms after adjustment for the difference between border prices and domestic prices. This cost is shown in Table 4 by the occupation groups.

Foreign Exchange Benefits

This is the nominal value of all remittances sent through official channels plus the value of other remittances (in cash or kind) after making adjustment for the difference between domestic and border prices. The remittances sent through official channels (Bank) and those sent through other channels are shown in Table 5.

Table - 2

Calculation, of Consumption And Saving Costs of
Emigration by Occupation

Occupation Group	Household Size	Household Incomes Without Remittances (Rs)	Wages/ Salaries of the Migrant had he not migrated (Rs)	Household Income had there been no Migration (Rs)	Propensity*to Consume	Household Consumption had there been no migration (Rs)	Per Capita consumption had there been migration (Rs)	Consumption cost due to Migration (Rs)	Propensity to save out of Wages	Saving cost (Rs)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Unskilled Labour	8.8	7275	4700	11975	1.1	13172.5	1496.9	3201.1	0.0	0.0
Skilled Labour	8.2	11454	8000	19454	1.2	23344.8	2846.9	5153.1	0.0	0.0
Service Worker	8.1	11868	6500	18368	1.1	20204.8	1494.4	4005.6	0.0	0.0
Clerical Workers	9.3	17405	6300	23705	0.9	21334.5	2294.0	4006.0	0.0	0.0
Professional Workers	9.0	15127	14500	29627	0.8	23701.6	2576.3	11923.7	0.10	1450

* For the relevant income group in the same occupation. These propensities to consume have been taken from the income and consumption distribution of the emigrants' households classified according to the occupation of emigrant.

Table - 3

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Calculation of Consumption And Saving Benefits of
Emigration by Occupation Group

Occupation Group	Remittances sent from abroad (Rs)	Remittances brought at the time of home visit (Rs)	Total Cash Remittances (Rs) (2+3)	Propensity*to consume out of Remittances	Consumption benefit out of cash Remittances (4+5)	Savings benefit out of cash Remittances (4-6)	Remittances in kind (Rs)	Total Consumption benefit. (6+8)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Unskilled Labour	15035	8700	23735	0.8	18988	4747	1353	20341
Skilled Labour	18301	10000	28301	0.7	19811	8490	1647	21458
Service Workers	21978	6088	28066	0.6	16840	11226	1978	18818
Clerical Workers	20000	19618	39618	0.6	23771	15847	1800	25571
Professional	38014	15675	53687	0.5	26844	26843	3421	30265

Table 4
Remittances by Occupation (Rs.)

Occupation Group	Cash Remittances sent from abroad	Cash Remittances brought by the migrant while visiting home	Remittances sent in kind (@ 9% of cash remittances)	Total Remittances
(1)	(2)	(3)	(4)	(5)
Unskilled Labours	15,035	8,700	1,353	25,088
Skilled Labour	18,301	10,000	1,647	29,948
Service Workers	21,978	6,088	1,978	30,044
Clerical Workers	20,000	19,618	1,800	41,418
Professional Workers	38,014	15,673	3,421	57,108

Table - 2

Remittances Through Official and Non-Official
Channels

Occupation Group	Remittances sent in cash (Rs)	Proportion sent through official channels	Remittances through official channels (Rs)	Cash Remittances through Non-official Channels (Rs)	Other Remittances including those in kind (Rs)	Total Remittances through non-official Channels. (Rs)
(1)	(2)	(3)	4=(2)x(3)	5=(2-4)	(6)	7=5+6
Unskilled	15035	0.73	10976	4059	10053	14112
Skilled	18301	0.86	15739	2562	11647	14209
Service	21978	0.93	20440	1538	8066	9604
Clerical	20000	0.86	17200	2800	21418	24218
Professional	38014	0.96	36493	1521	19094	20615

Replacement or Training Cost

Unskilled labour and service workers have been assumed to have no replacement costs in view of the abundant labour supplies in the country and of the fact that this labour does not need any substantial training. For the rest of the occupations, the social cost of training as mentioned in Chapter 4 of Part I of this Report (Research Report No. 126) have been used. Assuming that the costs shown in Chapter 4 are the present value of the training cost, this has been converted with a 10 percent discount rate, into an annual cost of replacement. The costs of replacement for different occupations are shown in Table 6. The cost of replacing engineer has been used to represent the average cost of the whole group of professional workers including doctors, nurses, teachers, etc. This seems reasonable, as engineers accounted for more than 60 percent of the total emigrated professional workers.

Table 6
Replacement/Cost (Rs.)

Occupation Group	Percent Value of Total Cost	Annual Cost
Unskilled Labour Service Worker	Nil	Nil
Skilled Labour	62225	6223
Salesman	38589	3859
Engineer	159885	15989
Clerical Workers	27645	2765

Table 6 shows nominal cost of replacement. This will have to be adjusted by appropriate conversion factor to represent the cost in accounting prices.

All the nominal costs and benefits by occupation groups are summarized in Table 7.

Table 7
Nominal Cost/Benefit Calculation (Rs.)

Occupation Groups	Unskilled	Skilled	Service	Clerical	Professional
(1)	(2)	(3)	(4)	(5)	(6)
<u>Costs</u>					
Consumption	3203	5153	4006	4006	11924
Saving	0	0	0	0	1450
Foreign Exchange	25088	29948	30044	41418	57108
Replacement	0	6223	0	2765	15989
<i>Total Costs</i>	<i>28291</i>	<i>41324</i>	<i>34050</i>	<i>48189</i>	<i>86471</i>
<u>Benefits</u>					
Consumption	20341	21458	18818	25571	30265
Savings	4747	8490	11226	15847	26843
Foreign Exchange					
change					
i) official channels	10976	15739	20440	17200	36493
ii) other	14112	14209	9604	24218	20615
<i>Total Benefits</i>	<i>50176</i>	<i>59896</i>	<i>60088</i>	<i>82836</i>	<i>114216</i>
Net Benefit	21885	18572	26038	34647	27745

Conversion Factor for Adjusting
Nominal Costs and Benefits

The conversion factors CCF and $\frac{1}{S}$ remain 0.86 and 0.83 respectively.

The income distribution parameter 'd', however, will be different as

incomes differ with occupations. The estimate of distribution for different occupation groups is shown in Table 8. This distribution parameter has been calculated on the basis of household income including remittances.

Table 8
Distribution Weights

Occupation Groups	Household Income (Rs.)	Distribution Weight
Unskilled	22310	0.99
Skilled	29755	0.74
Service	33846	0.65
Clerical	37405	0.59
Professional	52984	0.42
All Migrants	32611	0.7

The conversion factors by occupation groups are shown in Table 9. On the basis of the application of these conversion factors to the nominal values of Table 8, the cost-benefit calculations at accounting prices are as shown in Table 10.

Table - 2

Conversion Factors.

Conversion Factor	Unskilled Labour	Skilled Labour	Service Workers	Clerical Workers	Professional Workers
CCF	0.86	0.86	0.86	0.86	0.86
1/s	0.83	0.83	0.83	0.83	0.83
1	0.99	0.74	0.65	0.59	0.42
Factor for consumption					
CCF $\frac{d}{s}$	0.71	0.53	0.46	0.42	
Factor for saving CCF d	0.85	0.64	0.56	0.51	0.36
Factor for Replacement cost	0.86	0.86	0.86	0.86	0.86
Factor for sent Remittance through official channels	1.00	1.00	1.00	1.00	1.00
Factor for Remittances through unofficial channels	0.86	0.86	0.86	0.86	0.86

Table - 10

Cost/Benefit At Accounting Prices (Accounting Rs.)

	Unskilled	Skilled	Service	Clerical	Professional
<u>Costs</u>					
Consumption	2274	2731	1843	1683	3577
Saving	-	-	-	-	522
Foreign Exchange	21576	25755	25838	35619	49113
Replacement	-	5352	-	2378	13751
Total Cost	<u>23850</u>	<u>33838</u>	<u>27681</u>	<u>39680</u>	<u>66963</u>
<u>Benefits</u>					
Consumption	14442	11373	8656	10740	9080
Saving	4035	5434	6287	3082	9663
Foreign Exchange					
i) Official	10976	15739	20440	17200	36493
ii) Channels	12136	12220	8259	20287	17729
Total Benefit	<u>41589</u>	<u>44766</u>	<u>43642</u>	<u>56309</u>	<u>72965</u>
Net Benefits	17739	10928	15961	16629	6002

The net benefit calculations by occupations are summarized in Table 11.

Table 11
Net Benefit of Emigration by Occupation

Occupations	Net Benefit (Rs.)	Benefit Cost Ratio
Unskilled Labour	17,739	1.74
Skilled Labour	10,928	1.32
Service Workers	15,961	1.58
Clerical Workers	16,629	1.42
Professional Workers	6,002	1.09

CHAPTER 3

SUMMARY AND CONCLUSIONS

This study has estimated that at present there are approximately 1.25 million Pakistanis working in the Middle East. Half of them are skilled and trained and the other half are unskilled. On balance, the economy gains approximately Rs. 18,000 per migrant per year of a migrant's stay abroad.¹ This is considerably lower than his annual remittances (in cash and kind) which average Rupees 31,603 a year. A large part of the gain from remittances is offset by the various costs including the loss of output due to migration of labour. This calculation is, however, based on direct cost-benefit analysis. The indirect effects have been discussed only qualitatively.

The study bases itself on primary data generated by five different surveys during which 15000 migrants and their households were interviewed. The migrants were interviewed at the three international airports of Pakistan and a sub-sample of their families was traced to approximately 250 villages and 50 towns and cities. The five surveys were carefully designed as part of a sampling plan whose details are provided in an Appendix to this volume. Two of the surveys covered the migrants themselves. Of the remaining three surveys one was based on interviews of such erstwhile migrants as had returned to Pakistan for good, another on interview of members of the household left behind by the migrant worker and yet another on interview of households none of whose members had migrated abroad. The households covered by the last-mentioned survey served as a control group for purposes of comparison between the behaviours of migrant and non-migrant households.

¹Details of the estimate can be seen in Chapter 2.

The information collected by the five surveys was supplemented by in-depth observations and data from secondary sources.

The following is a quick resume of the areas which this Report has covered and the conclusions it has reached.

Occupational Backgrounds

Forty-three percent of Pakistani migrant workers in the Middle East are unskilled, 41% are skilled, 4% are professionals and 12% are clerical, business, sales and other miscellaneous workers. Amongst skilled workers, the highest number comes from the construction sector (masons, carpenters, electricians, plumbers, etc.) with the workers from the manufacturing sector (machine operators, mechanics, etc.) forming the second largest group. Amongst professionals, the overwhelming number (60%) is that of engineers.

There are certain regional variations in skill composition. The majority of workers from the North-West Frontier Province (60%) are unskilled, whereas only one-third of the workers (34%) from the Punjab and Sind are unskilled. Skill composition appears to have changed over time. The data show that since 1973 the share of unskilled workers compared with that of skilled workers has been constantly increasing.

Marital Status and Family Situation

A large majority (70%) of migrant workers are married, but only 4% are accompanied abroad by their families. Thus, approximately 3 million women and children remain separated from their husbands and fathers.²

²The details of these figures can be seen in a separate paper prepared by the project for UNICEF, Islamabad.

Age and Employment Status

The data show that 75% of the migrants are less than 30 years old. Only 7% were reported as unemployed when they migrated. Another 10% were reported as students at the time of migration.

Mode of Migration

The majority of the migrants (75%) landed their jobs abroad with their own efforts or with the assistance of friends and relatives abroad. The remaining 25% said they obtained their job through recruiting agents.

On an average a migrant spends Rs. 7,000 to go abroad. Forty per cent of the migrant workers raised the necessary amount of money for going abroad through loans. About half of the migrants (54%) reported having signed work agreements. A moderate number of migrants (13%) reported that they remained unemployed abroad for three to six months before they found their first job.

Detailed information on this subject is, however, not included in this Report, but will be made available in a separate paper.

Income and Consumption Abroad

Our data show that the average income of a Pakistani migrant working in the Middle East amounts to Rs. 58,500 a year. There are variations amongst various groups. The average income is reported to be Rs. 1,15,000 for professionals, Rs. 54,000 for skilled workers, and Rs. 43,000 for unskilled workers. The migrant workers consume from 20 to 30% of their income abroad. The balance is saved.

Remittances

The data show that all workers except professionals remit most of their savings, either in cash or in kind.

The professionals, however, appear to retain abroad as much as one-third of their savings. The data show that the total income of professionals constitutes approximately 17% of the total income earned by all Pakistanis in the Middle East. Thus, if they retain one-third of their savings abroad, it would be a substantial, though not disturbingly high, amount. We suggest in this study that efforts should be made to attract to Pakistan the current and the cumulative savings of Pakistani professionals in the Middle East.

The average remittances of a Pakistani migrant worker in the Middle East amount to approximately Rs. 31,603 a year. An average of Rs. 21,273 is sent in cash, Rs. 7,693 are brought home by migrants on their visits, and Rs. 2,637 are remitted in kind.

Channels of Remittances

A large majority of migrant workers (85%) send cash remittances through regular banking channels. The only exceptions are migrants from the North-West Province, 48% of whom use non-banking channels.

The data also show that, on an average, a migrant brings Rupees 7,693 with him on home visits. In what form does he bring them? We do not know yet. It could be in the form of either bank drafts or foreign exchange bills. Since the amount remitted in this manner is a major component of annual remittances (24%), the subject needs further investigation.

Use of Remittances

The data show that 62% of the remittance money was consumed for household expenditure, including food, clothing and accommodation (57%), household durables (3%) and marriage ceremonies (2.4%).

Almost one-quarter of the remittances received (22%) were spent on real estate, including house for personal accommodation (12%), improvement in existing house (2%), real estate for commercial purposes (6%), and agricultural land (2%).

Approximately 13% of the remittances were used for direct investment purposes, including investment in agricultural machinery, land improvement and use of modern inputs (3%), industrial and commercial investment (8%), and financial investment (2%). It appears that the remaining 3% of the remittances are retained as cash balances or gold, etc.

Effects on Output and Wages

The data show that 83% of all migrant workers are production workers. Their loss to the economy has resulted in a declining output.

In the long run the shortages created by migrant workers can be overcome by providing training to the unskilled or less skilled workers. This study provides an estimate of what it would cost to replace migrant workers. The costs are not very high in terms of both monetary outlay and the training time, except for professionals whose training requires substantial investment of money and time. It also appears that output has declined not because the required workers are not available but because the quality of their work is below acceptable standards..

There is some evidence in the data to show that as skilled workers depart, their jobs are taken up by hurriedly trained unskilled workers. The shortage of suitably qualified workers is most pronounced in the manufacturing sector. The next highest shortage is experienced by the construction sector.

The data show that the large-scale emigration of both skilled and unskilled workers has resulted in a general increase of wages.

Effects on Income Distribution³

Despite the fact that two-thirds of migrant workers originate from rural areas and approximately half of all migrants are unskilled labour, they still seem to come disproportionately from the above-average income groups. As a result, migration has worsened income distribution in the country. However, our knowledge on this point is still incomplete, and a subsequent analysis may provide some further and more definitive information on the subject. Nevertheless, it appears that within the group of approximately one million migrant households income is more equally distributed, showing a relatively equitable distribution of the benefits of emigration. Furthermore, the increased income from remittances does have an egalitarian aspect, for no other net inflow of resources to the public at large has historically been as equally distributed over the national population as remittances.

³A detailed analysis of this subject is awaiting further data. The following observations can however, be made on the basis of existing information.

Returnee Migrant

The data show that approximately 40% of the returnees are jobless, but only 25% are looking for jobs or hope to start a business; the remaining 15% are keen to go back for work abroad. Of the remaining 60% who are on jobs, half are engaged in agriculture and the other half are doing other jobs.

Regarding reasons for migrants' return to Pakistan, approximately 40% returned because their contract was completed, another 5% because of Visa problems. About one-quarter (24%) returned because of family problems and 8% said they had earned enough money abroad.

The returnees were asked if they were keen to go back to the Middle East. Half of them said they were keen and another quarter gave a conditional answer, saying that they would return if the circumstances permitted.

Detailed information on the subject is, however, not included in this Report, but will be available in a separate paper.

The Net Costs and Benefits of Migration to the Economy

According to the rather crude and tentative estimates made in this Report, the net benefit per migrant to the economy is approximately Rs. 18,213 per year of a migrant's stay abroad. However, these estimates should be treated with caution for several reasons. *Firstly*, the data are being further processed and the analytical framework is being refined for finer details. Moreover, rural-urban and other suitable weighting adjustments are pending, which may result in some changes. *Secondly*, the estimates give the net benefit of an additional migrant and do not account

for the costs and benefits of the total number of migrants currently working in the Middle East. *Thirdly*, the estimates largely ignore the social costs and benefits in terms of family and related matters. *Finally*, and perhaps most importantly, this analysis does not take into account the indirect costs and benefits, such as export effects, inflation effects and human capital formation effects. A subsequent analysis of the data in this study will take care of the above qualifications, which will enable us to compute more refined figures for the net cost-benefit of emigration.

CHAPTER 4
POLICY IMPLICATIONS

The information and analysis presented in this study lead to policy implications in several areas. In the following pages we take up two of them: Manpower Training and Remittances.

MANPOWER TRAINING

The study shows that the economy is facing shortages of suitably trained workers in the manufacturing sector and to a lesser extent in the construction sector. The shortage does not refer to the shortage of working hands, but to the absence of appropriate training of unskilled or the less skilled workers, who pass for skilled workers. Their period of training, the data show, has been minimal. The study concludes that extensive arrangements need to be made to upgrade the quality of workers through in service apprenticeship or formal training to enable them to become such skilled workers as mechanics, machine operators, electricians, masons and carpenters. Crash programmes for training have become particularly imperative in view of the following:

- a. The relative demand for construction labour will decline in the Middle East during the next five years. This has been indicated by the projections of EMENA-DED study. It would mean that in future declining percentages of the unskilled workers will be absorbed abroad.
- b. The EMENA-DED study also indicates that the demand for labour in the manufacturing sector abroad will progressively increase in the coming years. If

suitable arrangements are not made soon enough for Pakistani workers to acquire necessary skills for the manufacturing sector, the flow of Pakistani workers to the Middle East is bound to decline in the years to come.

It is recommended that extensive training arrangements should be made to ensure that future manpower requirement in the Middle East is fulfilled without jeopardizing domestic production, and the unskilled returning migrants are easily absorbed in the domestic market.

We also recommend that further research should be done regarding institutional framework for training. Our study shows that there is a high premium for skill acquisition and its cost is low. This should create a substantial supply of training institutions in the private sector. The proposed research should investigate the extent to which private sector is responding to this need, and look into the nature of the privately managed training centres. If it appears that the private sector is not sufficiently responding, the study should investigate its causes. The study should also look into the functioning of the publicly managed training centres.

It is recommended that measures should be taken to increase the productivity of labour either by raising their human capital or by improving management so that industrial development, particularly the development of export industries, is not adversely affected by the rising real wages. In a separate paper dealing with the social impact

of migration (IMP monograph)¹, there are some recommendations regarding the improvement of education, health and nutritional levels in the high-migration communities, the implementation of which may well contribute to the improvement of human capital.

Regarding proposals on framing a policy towards permission to migrate, it is recommended that some groups may be restricted to remain below a certain migration level, others may be left to choose their own migration level and still others may be positively aided to migrate.

¹ One of the important policy proposals emerging from this paper concerns educational facilities. It appears that very soon the high-migration communities will be faced with a serious shortage of schools for children. At present there is no reported crisis because of the peculiar demographic profile of migrants: 75% of them are less than 30 years old and 30% are single. But in a few years the singles may get married and younger couples will have school-going children. It is shown by survey results that all migrants are keen to educate their children, almost universally in the case of boys and 80% for girls. They also have the resources to back up their desires. Consequently, either they will wish to move to nearby towns with schools or demand schools in their own communities.

The social impact paper also presents an interesting proposal for funding of schools in such communities. It shows on the basis of another anthropological study of migrant families that migrant families in the rural areas indulge in conspicuous consumption because they generally come from socially lower caste groups (manual castes). By showing off their newly acquired prosperity they attempt to be admitted to higher social groups. This explains their expenditure on social gatherings, feasts, etc. The paper suggests that the channelling some of this money into contributions for schools and dispensaries in the local communities is perhaps possible. It would give the donors a social prestige and at the same time channel remittances into a socially productive cause.

The professionals would fall in the first category. Among professional occupations, engineering and medical professions appear to be faced with shortages. There are already certain restrictions on the emigration of doctors who have been in short supply for quite some time. The engineers were however not in short supply until quite recently, when sizeable migration, coupled with growing domestic demand, is beginning to show certain problems. Therefore, as long as there are not enough colleges to meet the domestic and foreign demand, selective restrictions on the emigration of engineers, as in the case of doctors, may be advisable.

Workers in such occupations as those of teachers, businessmen, and sales workers and clerical workers as well as workers with no skills are not in short supply and therefore their emigration is not likely to have any considerable effect on the output of the economy.

It is recommended that unskilled workers may be positively aided with training and even small financial support for seeking jobs abroad. Such positive support to the unskilled will mean that the very bottom income groups, who, as this study shows, have not benefited from emigration will be able to do so.

Finally, in order to formulate migration policy according to the supply and demand situation of various occupations, the government must carefully monitor and analyze the occupational background of emigrating workers.

REMITTANCES

Policy-makers generally refer to two goals in this area: (a) increasing the total volume of remittances and (b) channelling remittances into socially productive uses.

With regard to the first objective, the study shows that almost all the savings of unskilled, skilled and service workers are being already remitted. Only professionals withhold a part of their savings abroad. In our subsequent analysis we will make estimates of their current and accumulated unremitted savings. In the light of that information, appropriate policies could be devised to attract increased home remittances.

This study finds that the total volume of remittances per migrant are not likely to increase dramatically. On the other hand, migrants can be persuaded to minimise their remittances through channels other than banks. To the extent that this diversion can be achieved, the foreign exchange earnings will increase from the point of view of the national economy. If suitable arrangements are made, it may be possible to redirect a major part of the money, which migrants bring with them on home visits, from non-banking to banking channels.

There are three possible reasons for the use of non-banking channels: credibility, convenience and premium. A small difference between official and black-market exchange rate will not be a sufficient reason for the use of non-banking channels. Perhaps convenience is the dominant factor. A future study should determine the reasons why the users of unofficial channels prefer them to official

channels for both the money which they send from abroad and that which they bring with them on home visits. This investigation could not be included in the household survey for fear of creating apprehensions among respondents, which would have biased their responses on other questions.

If, as is likely, convenience turns out to be the major motive for using non-banking channels, it would be advisable that banks or investment agencies should develop a readily cashable instrument by which the migrants can bring their money on home visits. The migrants' visits to their homes are generally brief and they need cash for expenses during their stay. They cannot brook delays connected with any financial instrument which is either not readily cashable or cannot be cashed in the geographical vicinity of their residence.

The volume of remittances can also be increased by raising the skill level of emigrant workers through training, and thus enabling them to increase their average earnings abroad, which will lead to higher remittances.

With regard to the second objective, regarding the use of remittances, the study offers the following general proposals on how to channel remittances into socially productive uses. More specific proposals, based on an in depth analysis of the use of remittances, will be presented subsequently.

- 1) Investment incentives need to be provided to the emigrants. For example, some of the incentives already been announced in the 1979-80 budget pertaining

to importing certain equipment without import duty, are general, whereas to attract the foreign savings of professionals in the Middle East, a specific investment programme is needed. A study is needed to investigate the investment opportunities/incentives that these professionals would like to avail themselves of.

- 2) The majority of the emigrants are from rural areas. These areas lack banks/post offices, where they could deposit their savings. The high-migration areas in Pakistan should be provided necessary facilities for depositing of savings.
- 3) The financial intermediation network needs to be made more efficient and broad-based. There is need for policy intervention aimed at encouraging such efficiency and sophistication. Migrant workers' Investment Houses/Companies should be established (on the lines of Overseas Workers' Foundation) which would invest workers' savings.

Special care should be taken that such schemes are established in the geographical vicinity of the migrants and are so designed as to be easily communicated to the migrants and their families whose education level is generally quite low.

The policy proposals in this Report are rather general in nature because they are based on the overall national picture which emerges from the findings. A subsequent analysis will go

beyond the gross data and analyze breakdowns by different groups. In particular, the subsequent analysis will give cost-benefit estimates of the various occupations which may be helpful for devising a migration policy. Also, in the subsequent analysis we will construct two ideal-type migrants: the consumption-oriented migrant and the investment-oriented migrant. Based on an analysis of their social and economic backgrounds, education, life-style, geographical location and access to investment opportunities, we will determine the various strategies which may be necessary to make socially productive use of remittances.

The subsequent analysis of our findings can, therefore, be very helpful in formulating specific policy proposals, going beyond the ones mentioned in this Report.

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