

# International Labour Migration, Remittances and Income Inequality in a Developing Country: The Case of Sri Lanka\*

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## Abstract

*International labour migration and migrants' remittances have been tremendously increasing and diversifying during the past few decades. The reported number of Sri Lankan international migrants increased to 1.5 million persons or one out of every 19 persons in Sri Lanka by 2006. As a result, reported migrant workers remittances to Sri Lanka increased at an average annual rate of 10 percent over the past 30 year. Since the mid-1990s they constitute the largest source of foreign financing method. Meanwhile Sri Lanka has been experiencing growing income inequality trend since late 1970s. By using available macro-level and micro-level data, this paper attempted to explore relationships among international labour migration, remittances and income inequality in Sri Lanka. This paper argues that, under the present circumstances, increasing number of international migrants from Sri Lanka or increasing remittances to Sri Lanka generate higher income inequality in the country. Thus, policy makers should pay attention for these phenomena and attempts must be made to develop linkages between relatively developed regions*

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*and backward regions in the field of education, skill development, information availability, and utilization of remittances of return migrants in Sri Lanka.*

## **1. Introduction**

International labour migration has been tremendously increasing and diversifying during the past few decades. According to estimated statistics, economically active number of international migrants increased from 81 million persons in year 2000 to 191 million persons in 2005 (ILO, 2006). As a global aggregate, workers' remittances have become the largest source of foreign financing source after FDI, exceeding both official development assistance and portfolio investment by a slide margin. Needless to mention that majority of the international migrants are from developing countries and their remittances to home countries have grown in considerable rate during the past few decades. Asia and Pacific is the main destination region for remittances, accounting for 45 percent of the global total (Lueth, Erick and Marta Ruiz-Arranz, 2007). According to recorded statistics, worldwide remittances during 2005 had been approximately US\$ 250 billion and it is likely to increase further. In 2005, developing countries appear to have received US\$ 167 billion from about 175 migrants. It is also estimated that around 500 million of the world population is dependent on remittances. (Jayamaha, 2006). Together with Bangladesh (US \$ 3.4 billion), India (US \$ 23.0 Billion), and Pakistan (US \$ 2 billion), Sri Lanka was among the 20 largest recipients of remittances, collectively making the South Asia region the second largest regional recipient of remittances in the world after Latin America and the Caribbean (Lasagabaster, E, M.M.Samuel and S. Hulugalle, 2005).

The reported number of Sri Lankan international migrants increased to

1.5 million persons or one out of every 19 persons in Sri Lanka by 2006. It is commonly believed that the actual number of international migrants from Sri Lanka is far higher than the reported number. As a result, reported workers remittances to Sri Lanka increased at an average annual rate of 10 percent over the past 30 year. Since the mid-1990s they constitute the largest source of foreign financing method. In 2005, workers remittances amounted to 8.3 percent of GDP, compared to 2.5 percent of GDP in Official Development Assistance (ODA), 1 percent of GDP in FDI, and 0.5 percent of GDP in portfolio investment in Sri Lanka (Lueth, Erick and Marta Ruiz-Arranz, 2007). According to these statistics migrant labour remittances into Sri Lanka are significant and rising. Therefore, it is important to investigate impact of remittances on various macroeconomic variables. Remittances have both inequality reducing and increasing influences with respect to income distribution in any society. As Giuliano, Paola, and Marta Ruiz-Arranz (2005), pointed out remittances allow families to maintain or increase expenditure on basic consumption, housing, education, and small-business formation; they can also promote financial development in cash based developing economies. Research by Richard Adams suggests that if remittances are used mainly to finance basic consumption, they may have an effect on poverty even though their growth impact may be minimal: on average, a 2.5 percentage point increase in the remittances/GDP ratio is associated with less than a 0.5 percentage point decrease in the share of people living in poverty (IMF 2005). Further, Household Survey conducted by the Department of Census and Statistics of Sri Lanka in 2001/2002 indicates that about 28 percent of remittance recipient households stand within the top income quintile and around 27 percent stand within the lowest income quintiles. These ratios, however, change considerably in the pre-remittance scenario. When remittances are

deducted from total household expenditure, nearly 45 percent recipient households stand within the lowest two income quintiles in Sri Lanka (IMF 2005). On the other hand, premium charged by the international labour exporting firms and intermediate people, has been increasing at a rapid speed during the past two decades. For example, in order to migrate and find an employment opportunity in Japan some Sri Lankans pay around US \$ 10,000 for intermediate people. (See Karunaratne, 2007e) As a result migration has become only a dream to poor people and positive benefits if it goes middle class or rich people. Therefore, it is worth to investigate impacts of remittances on income inequality in a developing country like Sri Lanka. This paper attempts to explore relationships among international labour migration, remittances and income inequality in a developing country by using available macro-level and micro-level data in Sri Lanka. Sri Lanka has been a commonly cited good case study to investigate magnitude, growth and structural changes, dimensions, trends, causes and consequences of income inequality since mid 1970s. Sri Lanka introduced trade, financial and labour market liberalization policies in 1977. Since then income inequality of Sri Lanka has been studied in terms of various units (individual/income receiver/ family/ household/ per capita/adult equivalent), various socio-economic dimensions(age/gender/ethnicity/ religion/level of education/ region/sector), various techniques (decomposition/ regression/CGE analysis), for various periods and with respect to many macroeconomic variables.(see Karunaratne, 2000, 2001, 2007a, 2007b, 2007d, 2007g, 2007h, 2007i), Bhalla and Glewwe 1985, Jayasundara, 1986, Lakshman 1997, Sen 1981, Jayawrdene 1974 for more details). However, according to Author's understanding this paper is the first paper attempted to explore impacts of international labour migration and remittances on trends and structural changes in income inequality in

Sri Lanka.

The remaining part of the paper are organized as follows. Section 2 presents stylized facts on labour migration from Sri Lanka. Section 3 is devoted present analysis on current situation of the remittances to Sri Lanka. Section 4 is allocated to analyzes impacts of remittances on income inequality in Sri Lanka. Finally section 5 presents summary, conclusions and recommendations.

## **2. Labour Migration from Sri Lanka: Trends Structural Changes and Background factors**

Historically, migration from Sri Lanka emerged soon after the regaining political independence from United Kingdom in 1948 as repatriation of Indian Tamil plantation workers. In addition, small number of Europeans also had gone back to Europe or migrated to Australia from early 19 the century to 1950s.<sup>1</sup> The Srma-Shastri pact of 1964 and Indira-Sirimavo supplementary agreement of 1974 paved the way for the repatriation of 600,000 persons of Indian Tamils to India from 1948s to 1980s. Another 375,000 Inidan Tamils working in estate sector were accepted as citizens of Sri Lanka at the initial stage.<sup>2</sup> Thereafter citizenship was granted for the rest of the Indian Tamils associated with plantation estates in Sri Lanka in various years. With the generational changes and receiving of political power through labour unions, legal requirements for repatriation was stopped and living standards of the Inidan Tamils have been increasing gradually since late 1970s. However, according to World Bank (2003), the highest poverty level was recorded among Indian Tamil dominated estate

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1. See Sri Lankan migration and settlement in <http://www.miceastmelb.com.au/documents/NeedsAnalysisSriLanka>

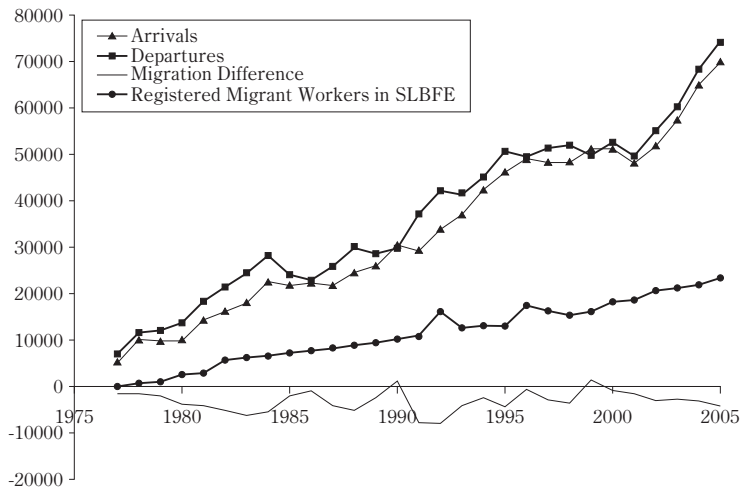
2. see [http://en.wikipedia.org/wiki/Sri\\_Lanka\\_Tamils\\_\(Indian\\_origin\)](http://en.wikipedia.org/wiki/Sri_Lanka_Tamils_(Indian_origin)) for more details.

sector as 30 percent. As a result, a significant proportion of females of Indian Tamils has also migrated as housemaids to other sectors in Sri Lanka or Middle-east Asian countries after late 1970s. Although migration from Sri Lanka had been dominated by repatriation of Indian Tamils in the initial years after obtaining political independence, ethnic balance of it was visible by late 1970s. Relaxation of legal requirements on migration for employment in 1976 led to take momentum in Sri Lankan migrant history. Mainly Sinhalese women migration as housemaids to Middle-east Asian countries started there after and it was to reached to 800,837 females by the end of 2005. Therefore, migration from Sri Lanka during 1977-1982 took place almost similar proportions to different ethnic communities in Sri Lanka. Private sector own recruitment agencies rapidly expanded during that period. Contrary “Black July”<sup>3</sup> occurred all over the Island in 1983 and subsequent ethnic war escalated in North and East provinces, caused to increase rapid migration of Sri Lankan Tamils as refugees, irregular migrants contract migrant workers, or permanent residents to India, Canada, United estate, Australia, New Zealand, Germany, Norway, and other Western Countries. Overall trends of Sri Lankan migrants can be explained by using various types of statistics. Even though departures were higher than arrivals in Sri Lanka, migration trend of early stage of political independence was very slow. For example this phenomenon was noted by Korale (2004) as “....This repatriation of Indian labour continued until the 1980s. In addition, a number not exceeding 2000 Sri Lankan citizens had also immigrated annually in the 1950s and 1960s. ....” (p.301). However,

3. Black July is the commonly used name of the pogroms starting in Sri Lanka on July 23, 1983. It is estimated that nearly 1,000 Tamils were killed, tens of thousands of houses were destroyed, and a wave of Sri Lankan Tamils sought refuge in other countries due to nationalism of Sinhalese on that day. The nearest reason for this incident was killing 13 Sinhalese soldiers at the first time by blasting a land mine by LTTE (see [http://en.wikipedia.org/wiki/Black\\_July](http://en.wikipedia.org/wiki/Black_July)).

actual momentum of migration from Sri Lanka for various purposes started in late 1970s and since then it has been tremendously growing year by year. Figure 2.1 shows trends of arrivals, departures, migrant difference and registered number of Sri Lankan migrant workers in abroad for 1977-2005 period. The registered number of contract migrant workers in SLBFE has been tremendously increasing since 1985. Net annual migration from Sri Lanka increased to the level of 45,000 people per year in 1980s. The highest number of migrants were recorded in 1983 due to communal violence occurred in all over the island. It was 64,226 people. Sri Lankan refugees entered into India, Canada, Australia, German, Norway, and many other European countries as new type of migrants from 1983. The majority of them were Sri Lankan Tamils. This trend was slowdown by 1986. However internal political crisis occurred during 1987-1989, caused

Figure 2.1 Arrivals, Departures, Migration Difference and Registered Number of People



Note: \*SLBFE: Sri Lanka Bureau of Foreign Employment  
 Source: Sri Lanka Bureau of Foreign Employment (SLBFE), 2005.

to increase migrants from all parts of the island again representing migrants of Sinhalese. Brain drain was very high during this period due to civil war occurred between government army and a young leftist group. As a result of communal violence, political instability and social unrest, the highest number of migrants appeared in 1992, as 81,000 people. Since then, it has come down and net migration was recorded as negative 43, 069 in 2005. By considering their purposes and activities, it is possible to classify all Sri Lankan migrants into five categories as follows:

### **2.1. Permanent Migrants**

The present type of permanent migration from Sri Lanka started in early 19th century, significantly increased from 1940s and got momentum in mid 1960s to later 1970s and escalated after 1983. The first wave of it occurred as repatriation of Europeans, and second wave was dominated by elite educated people in Sri Lanka belonging to Sinhalese and Sri Lankan Tamils. Second wave occurred due to adaptation of strict government policies in terms import substitution trade policies, nationalization programs of private businesses, limitation of land ownership, financial regulations and high personal income taxes introduced by the socialist oriented government during the 1970-1977. It was promoted by the contemporary high educated unemployment rate existed in the country. Brain-drain was especially visible in the early part of this period. The third wave of permanent migration started after intensifying ethnic conflict in 1983. Part of the migrants included in the third wave can be considered initially as refugees. Black July incident occurred in 1983 led to increase Sri Lankan Tamils as permanent migrant and refugees to India and developed countries. As a result of ethnic conflict and long-term war, a substantial number of educated people also migrated to developed countries since



1983.

However, accurate number of Sri Lankan permanent migrants in other countries is difficult to obtain due to people migrating initially as refugees, irregular workers, contract workers and or educational purposes and then receive permanent status in migration preferred destinations. In fact, some of them have migrated into several countries, before they obtained permanent migrant status. Main destinations of the Sri Lankan permanent migrants have been the developed countries in North America, Europe, and Australia, and New Zealand. Table 2.1 summarizes data on permanent migrants accepted by United States America by region or country of birth during the 2000-2006 period.

As indicated by the data given in Table 2.1, the total number of people obtained permanent resident status in United State of America has been more than 1.5 times during the past six years. However, permanent migrants from Sri Lanka have been growing more than two folds during the same period. The number of annual Sri Lankan permanent migrants to

**Table 2.1 Annul Number of Persons Obtaining Legal Permanent Resident Status in United Estate of America by Region/Country of Birth**

Region/Country	2000	2001	2002	2003	2004	2005	2006
Africa	44,534	53,731	60,101	48,642	66,422	85,102	117,430
Asia	264,413	348,256	340,494	243,918	334,540	400,135	422,333
China	45,585	56,267	61,082	40,568	55,494	69,967	87,345
India	41,903	70,032	70,823	50,228	70,151	84,681	61,369
<b>Sri Lanka</b>	<b>1,118</b>	<b>1,505</b>	<b>1,529</b>	<b>1,246</b>	<b>1,431</b>	<b>1,894</b>	<b>2,192</b>
Europe	130,996	174,411	173,524	100,434	133,181	176,569	164,285
North America	338,959	405,638	402,949	249,968	342,468	345,575	414,096
Oceania	5,105	6,071	5,515	4,351	5,985	6,546	7,385
South America	55,823	68,484	74,151	55,028	72,060	103,143	138,001
Unknown	1,172	2,311	2,622	1,201	3,227	5,303	2,734
Tota	1841,002	1,058,902	1,059,356	703,542	957,883	1,122,373	1,266,264

Source: <http://www.dhs.gov/xlibrary/assets/statistics/yearbook/2006/table03d.xls>

other countries has also been increasing during this period. For example number of Sri Lankans in Australia has increased from 1,951 in 1995 to 2,361 in 2006. The situation is more or less similar in all other OECD countries as well. However, Sri Lankan permanent migrant flows to Japan and recently developed Asian countries such as South Korea, Singapore, Hong Kong and other South East Asian countries has emerged since early 1980s. Even today, Sri Lankan permanent migrants in these countries are only a limited number and insignificant in comparison to Sri Lankan migrants in other parts of the world. For instance, according to Immigration Bureau of the Ministry of Justice in Japan, there were only 649 Sri Lankan permanent migrants in Japan by 2004. It was accounted only 5.3 percent to the total number of Sri Lankans in Japan (12,847) and 0.2 percent to the total number of foreigners (2.1 million) in Japan in 2004.

## **2.2. Contract Migrant Workers**

Migration history of Sri Lanka has dramatically changed after starting contract migrant workers in mid 1970s. The total stock of Sri Lankan contract migrant workers in other countries has increased from 0.7 million to 1.2 million by 71 percent during the 1997-2005 period. The average annual growth rate of contact migrant workers from Sri Lanka has been 23.5 percent during 1986-2005 period. As a result, contract migrant workers share in the total labour force in Sri Lanka has increased from 11.3 percent to 15 percent during the same period. Especially, share of them as a percentage of total employment in Sri Lanka has increased from 12.7 percent in 1997 to 16.6 percent in 2004. labour shortage emerged in newly developed East and Southeast Asian countries since 1980s. In broader sense, Sri Lankan contract migrant workers can be classified into three subgroups as: (i). female workers migrating as housemaids, (ii).unskilled

male workers migrating to mainly work in construction sites, factories and domestic activities, and (iii).skilled workers.<sup>4</sup> However, this classification does not consider people who have earned higher qualifications or developed professional skills after migrating to other countries. They are continuously working as skilled contract migrant workers in abroad and time to time returning back to Sri Lanka.

### **2.3. Irregular Migrant Workers**

Fourth type of Sri Lankan migrants can be identified as irregular migrant workers. They enter through formal and informal networks (documented workers or undocumented) as regular or irregular workers to mainly countries like Italy, Japan, Republic of Korea, Australia and New Zealand, Germany etc. This group of migrants has been operating under highly organized networks in demand side of those countries and pay considerable amount of premium for brokers. Either organized informal groups including involvement of native people from migrant receiving

countries or their Sri Lankan relatives or friends engage in designing and implementing these activities. All aspects of their activities involve cost and benefits in financial terms. Although premium has been different across the countries and migration stage they pay, the majority of them have paid high premium (varying from US \$ 2,000 to 12,000). They pay premium in different stages like before starting journey, at the entrance of the migrant receiving country, after getting employment opportunities in host country or installment basis from monthly earnings in the host country. Majority of them have earned money by selling their properties, or taking loans from informal sector by mortgaging their assets like house, land, or other fixed

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4. Those who have acquired higher education and professional qualifications before they leave from Sri Lanka

assets. Contrary to the formal sector employees in Sri Lanka irregular migrants are risk takers.

As Iwasaki (1992) categorized, “undocumented migrants come by legal and illegal ways to Japan”. Legal way means that those who had traveled under student visa, tourist visa, business visa or training visa for certain period of time and became as overstayers. Majority of Sri Lankan irregular workers in Japan belong to this group. Illegal entry means particularly those who had migrated using forged identities, or outside through the normal immigration procedures (by boats and ships). Table 2.5 presents data on changes in estimated number of overstayers and Sri Lankan overstayers in Japan by gender. There has been a very slow growth in both male and female irregular workers from Sri Lanka during the concerning period. Sri Lankan overstayers as a percentage of total overstayers in

**Table 2.2 Changes in Estimated Number of Overstayers and Sri Lankan Overstayers in Japan by Gender**

Year	All countries			Sri Lankans			Sri Lankans as % of all		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
1990	66851	39646	106497	1594	74	1668	2.4	0.2	1.6
1991	106518	53310	159828	2143	138	2281	2.0	0.3	1.4
1992	190996	87896	278892	2932	284	3216	1.5	0.3	1.2
1993	192114	106532	298646	3360	403	3763	1.7	0.4	1.3
1994	180060	113740	293800	3043	352	3395	1.7	0.3	1.2
1995	168532	118172	286704	2663	317	2980	1.6	0.3	1.0
1996	160836	123664	284500	2468	315	2783	1.5	0.3	1.0
1997	155939	127047	282986	2410	341	2751	1.5	0.3	1.0
1998	149828	126982	276810	2654	417	3071	1.8	0.3	1.1
1999	145225	125823	271048	3228	506	3734	2.2	0.4	1.4
2000	134082	117615	251697	3377	530	3907	2.5	0.5	1.6
2001	123825	108296	232121	3022	467	3489	2.4	0.4	1.5
2002	118122	105945	224067	3242	488	3730	2.7	0.5	1.7
2003	115114	113066	228180	3402	507	3909	3.0	0.4	1.7
2004	113066	106352	219418	3684	558	4242	3.3	0.5	1.9

Source: Ministry of Justice, <http://www.moj.go.jp/PRESS/040326-0/040326-2-1.html>

Japan, has increased from 1.6 percent in 1990 to 1.9 percent in 2004 marginally only by 0.3 percent. As shown in statistics given in Table 2.2, Sri Lankan female migration as irregular migrants has been very negligible ratio. This situation can be explained by using two types of factors. First is relatively high education level of Sri Lankan females in Japan in comparison to migrant females from other developing countries. As it is widely known female education participation ratio is high in Sri Lanka.

Sri Lanka has been facing a high educated female unemployment problem since early 1970s. This is because, educated females in Sri Lanka willing to work as government servants due to permanent nature, less work load and retirement benefits. They are mostly risk averters. However, relatively poor less educated mostly married women's are migrating into Middle-east Asian countries as housemaids. Their ability to catch up new language is relatively low. Access to migration net works operated in countries like Japan and South Korea has also been not closer to them. Further, premium charged to offer migration opportunity in Japan is not easy to satisfy for poor middle aged less educated females in Sri Lanka. As a result of these reasons, Sri Lankan female representation in irregular migrant category in Japan has been very low and negligible. Second reason influenced to have low Sri Lankan female share in irregular migrant workers in Japan has been arising from the types of jobs available in Japanese labour market for female migrant workers. Majority of irregular female workers in Japan employee in hotels as hostess or sex workers<sup>5</sup>, Another substantial number of irregular female migrant works in 3 D jobs (difficult, dangerous, and dirty), such as helpers in construction work sights, factory workers, farms, or less paid services industries like restaurant industry (See, Komai, 1995, p,102

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5. However, few cases have recorded among females migrating to Middle-east Asian countries, or after going back to Sri Lanka (See, Silva, K. T, 1999 for more details).

for more details). Due to cultural adaptation and education expansion, Sri Lankan females have not been seeking these types of employment opportunities both inside and outside of the country. In addition, physical appearance and language differences of Sri Lankan females in comparison to Philippines, Thailand, Chinese, Koreans, Taiwanese, Hong Kong and migrants receiving from other Southeast Asian Countries have also contributed to less attraction of Sri Lankan irregular female workers to these industries. Therefore, both demand and supply factors relevant to female migrant workers from Sri Lanka and Japanese labour market were different during the past two decades.

#### 2.4. Migrating as Refugees

Fourth type of migration from Sri Lanka, has been taking place mainly to India and Western oriented developed countries as refugees. This type of migration started in communal riots occurred in 1956 in Sri Lanka. Further, as discussed earlier, “The Black July” occurred in 1983, caused to increase refugees from Sri Lanka in massive scale. Thereafter, continuation of civil war between one of Tamil group called the Liberation Tigers of Tamil Elam (LTTE) and government forces in time to time caused to increase the internally displaced people in Northern and Eastern

**Table 2.3 Sri Lankan Refugee Population in Selected European Countries in Thousands, 1994-2003**

Residence	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Canada*	21.5	18.0	14.9	11.8	10.2	9.7	10.6	13.2	12.9	12.6
France	15.5	15.8	16.0	15.9	15.6	15.2	15.8	15.9	15.1	
Germany	-	-	-	-	-	-	-	-	17.4	15.1
India	73.5	55.1	62.2	66.5	70.3	66.4	64.7	64.1	63.8	60.9
Switzerland	0.3	0.3	0.3	10.1	0.4	7.0	13.7	9.4	5.8	3.7
United Kingdom	12.1	11.5	10.0	9.4	9.2	8.4	10.6	11.8	8.1	8.0

Source: <http://www.unhcr.org/home/STATISTICS/42b0195c2.pdf>

provinces of Sri Lanka. Table 2.3 presents statistics on Sri Lankan refugee migrants in some selected European countries during the 1994-2003 period.

The highest number of Sri Lankan refugees recorded from South India. Especially in Tamil Nadu the number has been over 60,000 during the concerning period. All most 100 percent of these refugees were Sri Lankan Tamils. Factors like Black July occurred in 1983, civil war in Northern and Eastern provinces in Sri Lanka, closeness to Indian sub-continent, easy access to India, language and cultural similarity in South India, has been influential to migrate large number of Sri Lankan refugees to South India. Even in other countries, majority of the Sri Lankan refugees have been Tamils. Contrary, very limited number of Sinhalese migrated as refugees during the period of 1987-1989, due to political violence occurred in southern part of Sri Lanka. However, majority of those people have received permanent resident status or returned to Sri Lanka after political change occurred in 1994. Therefore, at present, there is a positive correlation between civil war in Northern and Eastern provinces in Sri Lanka or number of internally displaced people and number of Sri Lankan refugees in other countries.

## **2.5. Migration for Education**

The majority of Sri Lankans have been migration for higher education opportunities. Sri Lanka has only 14 state-own universities, which allows enrolling only less than 2 percent of total population of the country to universities. As a result many Sri Lankans are sending their children to foreign countries for their higher education. At present, there are considerable number of Sri Lankan university students in Australia, India, Malaysia, Thailand, Singapore, New Zealand, United Kingdom and other European countries. After receiving higher education in these countries

spending huge amount of money, it is hard to find employment opportunities in Sri Lanka to recover at least cost of education. As understood in the last chapter, high educated unemployment rate has been prevailing in Sri Lanka during the past two decades. Even if they found employment opportunities in Sri Lankan, wages have been at very low level in comparison to those countries. Therefore, at present, majority of students migrating for education opportunities in other countries enter into labour force in those countries, rather than going back to Sri Lanka. This trend has supported by the on-going war, worsening security and uncertainty situation in the country.

Apart from the growth and structural changes of above types of migrant workers from Sri Lanka, the following special characteristics of Sri Lankan migrant workers are also important to understand magnitude, trends and structural changes in remittances to Sri Lanka.

(i). There has been a significant difference between male and female contract workers migration growth rate during this period. Male migration as contract workers annually increased by 19.3 percent, while female growth rate was 33.6 percent during 1986-2005 period.

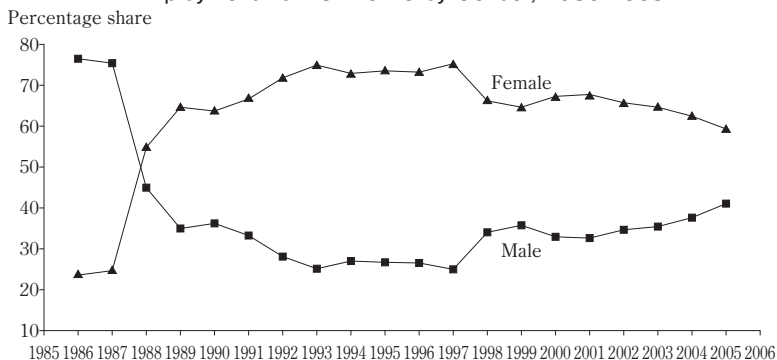
(ii). The structure of annual contract migrant workers has undergone a significant change in terms of gender during the past two decades. Male share of contract workers has been higher than the female share but declining until 1988. From 1988, it was continuously declining and lower than the female share up to 1997. From 1997, Female share in the contract workers has been declining while male share was increasing during 2001-2005 period. Figure 2.2, depicts patterns of male and female shares of Sri Lankan contract workers during the concerning period.

(iii). It is worth to investigate regional differences of male-female shares of migrant workers to understand their influences on regional income



inequality levels. This is because there is a widely accepted hypothesis that the regional income inequality levels have been widening in Sri Lanka during the past three decades (See Karunaratne. 2007a, 2007f, 2007i, for more details). For this purpose, statistics on departure of Sri Lankan contract migrants by gender and province is given below in Table 2.4. Since many researchers have paid attention to analyze widening regional disparities in Sri Lanka during the past three decades, these data are very useful in understanding contract workers contribution to regional inequalities. It is possible to understand several special characteristics by using data given in the Table 2.4. First, the lowest share of contract migrants recorded from war affected provinces. Second, male share has been higher than the female share in the contract migration from Northern and Eastern provinces. These first and second characteristics emerged due to long-term operation of war, inadequate infrastructure, and lack of access to information in those two provinces. The most influential factor has been the highest number of refugees migrating from these two provinces. Third, with respect to regional differences in the female share in total contract migrant workers, North Western province has shown the significant higher ratio. North Western province has been one of the agricultural based, high poverty rate recorded provinces in Sri Lanka. Poverty rate of that province in 2002 was (27 percent) higher than the national poverty rate (23 percent) and all other social development indices pertaining to that province were indicated lower value than the national average figure. As a result of these reasons, females share in the contract migration in North Western Province of Sri Lanka has been substantially high. Majority of these females were migrated as housemaids to Middle-east Asian oil exporting countries. Fourth, female share of contract migrants has been higher than the male share in all provinces apart from war affected provinces during the

Figure 2.2 Percentage share of Annual Departure for Foreign Employment from Sri Lanka by Gender, 1986-2005



Source: Based on data obtained from [http:// www. slbfe. lk/](http://www.slbfe.lk/)

Table 2.4 Departure for Foreign Employment from Sri Lanka by Gender and Province

	1997	1998	1999	2000	2001	2002	2003	2004
<b>Male Departures</b>	<b>25.0</b>	<b>33.7</b>	<b>35.4</b>	<b>33.0</b>	<b>32.5</b>	<b>34.7</b>	<b>35.5</b>	<b>37.5</b>
1. Western	10.5	13.7	14.2	12.6	12.0	12.3	12.4	12.7
2. Central	2.5	3.4	3.6	3.5	3.4	3.6	3.4	3.6
3. Southern	2.4	3.0	2.8	2.8	2.6	2.8	2.7	3.0
4. Northern	0.5	0.5	0.5	0.6	0.7	0.9	1.0	1.3
5. Eastern	3.7	4.9	4.5	5.1	5.2	5.4	5.8	7.0
6. North Western	2.6	3.4	3.5	3.5	3.3	3.6	3.5	4.7
7. North central	0.8	1.1	1.2	1.2	1.3	1.2	1.4	1.6
8. Uva	0.5	0.7	0.7	0.7	0.7	0.7	0.8	0.9
9. Sabaragamuwa	1.3	1.9	2.0	1.9	1.8	1.9	2.0	2.1
10. Not Identified Area	0.2	1.1	2.3	1.2	1.5	2.3	2.6	0.4
<b>Female Departures</b>	<b>75.0</b>	<b>66.3</b>	<b>64.6</b>	<b>67.0</b>	<b>67.5</b>	<b>65.3</b>	<b>64.5</b>	<b>62.5</b>
1. Western	21.7	19.1	17.7	17.1	16.4	15.3	14.4	13.9
2. Central	9.4	8.0	7.5	8.1	7.9	7.1	7.0	7.3
3. Southern	8.5	7.4	6.2	7.0	6.7	6.3	5.7	6.1
4. Northern	0.2	0.3	0.4	0.4	0.6	0.7	0.8	0.8
5. Eastern	4.2	3.6	4.8	4.9	5.8	5.7	6.1	5.7
6. North Western	14.0	11.4	9.4	10.9	10.9	10.3	9.7	12.5
7. North central	6.9	6.2	5.4	7.0	7.1	6.1	6.4	7.2
8. Uva	2.9	2.5	2.4	2.8	2.8	2.6	2.5	2.8
9. Sabaragamuwa	6.4	6.0	5.4	6.2	5.4	5.2	5.0	5.3
10. Not Identified Area	0.8	1.8	5.4	2.6	4.0	5.9	7.0	0.8

Source: <http://www.slbfe.lk/>

entire period. Even in the most developed province (Western Province) female share (13.9 percent) of the total contract migrant workers from Sri Lanka was marginally higher than that of the male share (12.7 percent) in 2005. Relatively less developed provinces such as Uva and Sabaragamuwa have also indicated higher female share than the male share in contract migrant workers from Sri Lanka during the concerning period. Agricultural biasness of production, large rural population share, high poverty rates and high female unemployment rates have been contributing to this situation. Fifth, contrary to the North Western province, female share of the in the most developed province (Western Province) in total contract workers migration has been continuously declining from 21.7 percent in 1997 to 13.9 percent in 2004. Meanwhile male share in the contract migrants from the Western Province marginally increased during the concerning period. As a result male-female gap of the contract migrant workers from the Western Province has been declining in considerable rate from 11.2 percent in 1997 to 0.8 percent in 2004. According to World Bank, “growth and poverty outcomes among regions have been sharply uneven. For instance, during 1997-2003, GDP in the Western province grew by an average of 6.2 annually, while the rest of country grew on average by only 2.3 percent. With population growth of about 2 percent annually in the Western Province, this translated into a significant increase in per capita incomes and consumption, averaging 4 percent annually over the period. As a result, the per-capita income of the Western province by 2002 was two to three times higher than in the rest of the country” (2007, p.14). The main implication of this behavior has been the, positive correlation between development level and declining female migration as unskilled workers or housemaids to Middle-east countries.

(iv). The estimated stock of Sri Lankan overseas contract workers by their

skill level is depicted in Table 2.5. The cumulated number of skilled migrant workers rose from zero in 1975 to 254 in 1994 and to 9581 in 2005. The number of skilled workers represented the lowest growth rate among various levels of skill migrants. In 2005, 2,678 Sri Lankans were migrated under the skilled migration category and majority of them (1086 migrants or 41 percent) were migrated to South Korea. In addition, 197 females migrated into Middle-east countries as skilled workers mainly for garment industries located in Qatar, UAE and Saudi Arabia. The number of unskilled workers showed a tremendous increase from 1975 when no unskilled migrant workers were recorded, to 9,024 worker in 1985, 96,129 workers in 1995, and 223,594 workers in 2005. However, the highest growth of contract migrants in different skilled levels, was recorded among the unskilled workers.

The total number of Sri Lankans migrated as housemaids has increased from 7, 373 in 1988 to 83,512 in 1995 and then to the level of 660,420 in 2005. Sri Lankan migrant workers structure by level of their skills has not changed sizably from the very beginning. Even in 2005, 72.4 percent of contract migrants were belong to unskilled and housemaid categories. On the other hand, both professional and managerial level skilled migrant

**Table 2.5 Estimated Stocks of Sri Lankan Overseas Contract Workers by Manpower Level 2005**

Manpower Level	Male		Female		Total	
	Number	% of total	Number	% of total	Number	% of total
1. Professional level	7445	0.6	2136	0.2	9581	0.8
2. Middle level	22380	1.8	5628	0.5	28008	2.3
3. Clerical & Related	34833	2.9	7870	0.6	42703	3.5
4. Skilled	184768	15.1	72689	5.9	257457	21.1
5. Unskilled	171500	14.0	52094	4.3	223594	18.3
6. Housemaid	0	0.0	660420	54.1	660420	54.1
Total	420926	34.5	800837	65.5	1221763	100

Source: <http://www.slbfe.lk>

groups represented only 3.2 percent of the total migrant workers in 2005. This situation is slightly different in other Asian labour exporting countries. Countries like Philippines, India and Pakistan have paid sever attention to export more professionals than unskilled workers or housemaids during the recent past. Especially in the Philippines various programs implemented to establish training centers, language schools, and professional schools to increase more trained workers in recent past. Further, Indians entering into universities and higher education institutions in United States of America overtook the Chinese enrolment number in year 2005. India has been excessively using their human capital in international labour market, with the expansion of information and communication industry since mid 1990s. It has estimated that over 1000 Indians have been migrating to teach English language in the United Kingdom in recent years. Therefore, it is time to focus on skilled labour exportation by changing education system and establishing training centers to improve more developed human capital from Sri Lanka.

(v). Direction of Sri Lankan contract migrants has been diversified during the past 30 years. Statistics on Sri Lankan contract workers destinations in 1992 and 2005 is given in Table 2.6. In 1992, 124,494 persons left for employment opportunities in ten major countries while in 2005 the number of destinations increased significantly to more than 32 countries taking 1.2 million workers. All these number recorded in Table 2.6, are people migrated through official records. Undocumented workers or people migrated for other than working purposes are not included. As shown in Table 2.6, proportion of Sri Lankan migrant workers has been declining in Kuwait and UAE, while remarkable progress has been seen in Qatar, and Lebanon. On the other hand Italy has been emerged as new direction of Sri Lankan migrant workers Since late 1990s. According to statistics given in

**Table 2.6 Destinations of Sri Lankans Leaving for  
Employment Opportunities by country**

Country	1992		2005	
	Total number	% share	Total number	% share
Saudi Arabia	41,083	33.0	380,786	31.2
Kuwait	32,368	26.0	202,127	16.5
UAE	22,409	18.0	171,558	14.0
Qatar	1,655	1.3	118,769	9.7
Lebanon	3,145	2.5	93,376	7.6
Italy	0	0.0	60,219	4.9
Jordan	3,511	2.8	50,927	4.2
Oman	8,715	7.0	40,026	3.3
Bahrain	6,225	5.0	31,387	2.6
Cyprus	0	0.0	17,445	1.4
Maldives	2,490	2.0	16,911	1.4
Singapore	1,775	1.4	15,891	1.3
South Korea			7,894	0.6
Hong Kong			2,953	0.2
Malaysia			3,556	0.3
Mauritius			1,322	0.1
Others	1,118	0.9	6616	0.5
Total	124,494	100.0	1,221,763	100.0

Source: Sri Lanka Bureau of Foreign Employment.

Table 2.6, more than 1 percent of total Sri Lankan migrants there were representing only by 10 countries in 1992. It was increased to 12 countries in 2005. As a migration destination, all other countries did not represent significant proportion even in 2005. This means in terms of contract migration, Sri Lankans were concentrated only into Middle-eastern countries.

(vi). Statistics on Sri Lankan migrant workers by age and gender for 1994, and 2005 is presented in Table 2.7. In 1994, the highest share was recorded by females in 30-34 age group as 23 percent of total migrants and that has declined to the rank of fourth in 2005 as 10 percent of total number of migrants. Contrary, females were in age category of 25-29 years, recorded

**Table 2.7 Age Composition of Sri Lankan Migrant Workers by Gender 1994-2005**

Age group	1994			2005		
	Male	Female	Total	Male	Female	Total
20-24	4.2	18.9	23.1	9.5	11.5	21.1
25-29	4.2	17.1	21.3	10.1	12.2	22.3
30-34	3.3	23.0	26.3	6.9	10.0	16.8
35-39	2.6	17.0	19.6	5.2	11.2	16.4
40-44	1.5	6.5	8.0	3.7	9.5	13.2
45-49	0.6	1.1	1.7	2.4	4.9	7.3
50&above	0.1	0.1	0.1	1.4	1.5	2.9
Total	16.4	83.6	100.0	39.2	60.8	100.0

Source: Sri Lanka Bureau of Foreign Employment

the highest proportion of migrants in 2005. This means age composition of Sri Lankan migrant workers has been shifting towards the relatively younger age people during 1994-2005 period.

This has happened irrespective of gender during the concerning period. The portion of old aged people in total migration has been insignificant. The lowest proportion of Sri Lankan migrants was recorded among the 50 years and older age group. This implies nature of the contract migration. Since main sources of demand for migrant workers were housemaids and unskilled labour, there has been a positive relationship with number of migrant workers and their lower age levels. Therefore, the highest proportion of both male and female Sri Lankan migrants was associated with 25-29 age group in 2005. Contract migrants from Philippines and India are more or less similar to age distribution of Sri Lankan migrant workers.

As a result of massive growth and diversification of migration flows and stocks of migrants, many studies have been focusing both theoretical and empirical factors influencing on international migration at country, regional, and global levels during the past few decades. For example, Wickramasekera (2002), provided an analysis on factors that influencing on labour migration in global context. Further, Athukorala and Manning (1999)

and Athukorala (2006), provided a comprehensive explanation on factors influencing on international labour migration in North-east and South-east Asia. In addition, Korale (2004) provided, a list of factors influencing on labour migration from Sri Lanka. This section is allocated to provide summary of these studies.

The question of “why do workers migrate?”, was addressed by Wickramasekera (2002), as (1) to earn higher incomes, (2) lures by friends and relatives and social networks, (3) In search of adventure, exploration, curiosity, (4) fleeing form persecution and armed conflict. According to him on the other hand, labour migrant-sending countries promote migration due to three factors namely, (1) as a safety valve for domestic unemployment and aspirations of educated workers for higher wages, (2) contribution of worker remittances to foreign exchange earnings, (3) Skills acquisition by worker while overseas working is useful for developing countries. On the hand, domestic economic and structural factors such as (1) demographic changes, (2) serious labour shortages in fast growing economies, and (2) globalization, have also been influencing to have sizable international labour migration flows at present. Among these globalization is taking place due to advancement in natural sciences and their ripen benefits such as lowing transport, communication, and services costs as well as linking remote areas within shorter time periods. Further, economic policy changes in terms of liberalization, deregulation and privatization of trade, financial and labour flows have also been highly influencing on present trends of the globalization and thereby international migration. However, some countries have been promoting non-labour force citizens (women, elderly people, and handicapped people) to be in labour force, foreign direct investment, automation or use of robotics in domestic economic activities, to limit massive migration flows to their countries. On this line Japan and



Singapore are good examples. However, over the long-run they have realized that there are limitations of those alternative mechanisms also in respect to international labour migration flows. On the other hand, benefits like increasing domestic output, efficient use of world resources, stimulation of SMEs, increasing savings, investment, and human capital formation, acceleration of innovations, fulfilling labour shortages in agricultural and elderly care activities and 3D (dirty, difficult and dangerous) jobs are not going to take place in advanced countries, if they severely control migration flows. Further, as De Haas (2005) and Sakanaka (2005) emphasized, strict migration policies leads to more permanent migrants while discouraging short-term migrants. Short-term migrants are more shock absorbers, less social cost generator in developed countries in comparison to permanent migrants. Especially, in case of permanent migrants, education, health, housing, and social insurance costs are very high for host country. In addition, direct cost of migration control under the strict migration policies have also been increasing at a rapid speed in countries following strict migration policies. Furthermore, premium charges by brokers and networks operating in such a country are very high and as a result of illegal networks have been widening.

In order to minimize these disadvantages some countries have been adopting discriminatory migration policies such as promotion of some ethnic groups, employment categories, industries or professionals. For example Japan started promotion of return migration of Japanese descents in South American countries after the new migration law adopted in 1990.(Mori, 2001) Further, Singapore has a policy of encouraging skilled and professional workers to obtain permanent residence and subsequently citizenship (Athukorala, 2006). Furthermore, Taiwan and Malaysia are examples of countries that try to control the migrant inflows on socio-

cultural grounds. Taiwan aims to discourage the entry of workers from mainland China and encourages manufacturing workers from Thailand. The Malaysian recruitment policy favors the migration of workers from Muslim countries, in particular Indonesia and Bangladesh. (Athukorala, 2006).

Nevertheless, according to Athukorala (2006), three main types of factors are jointly determined the size and direction of labour flows across countries, namely, (1) Supply (push) side factors, (2) Demand (pull) factors and (3) Government policies. As the supply side factors, (as indicated in the Harris-Todaro model) expected earnings from migration destination become the most powerful factor and it is ultimately determined by wage differentials between sending and receiving countries, costs of movements, and differences in costs of living as well as probability of being employed in the host country. In this regard information availability and role of brokers are also import factors. Operation of migration networks is wider among countries showing ethnic and cultural similarities, geographically close and closer economic ties. According to Athukorala (2004), the network aspect of migration also means that trade and foreign direct investment may serve to provide conducts for increased migration. However, in addition to these factors structural factors such as ethnic conflicts, political violence' s, terrorism activities, and problems associated with social and economic systems are also matters to determine the magnitude of international migration flows.

Majority of these cited factors can be identified by understanding overall behavior of economies in migrant sending countries and migrant receiving countries as well as deeply analyzing labour markets in countries in those two sides. There are several sets of macroeconomic reasons for escalation and diversification of Sri Lankan migrants. First, slow growth in employment creation due to growth and expansion of employment-lack

services sector, mismatch in labour market, gender biased unemployment gap, high female underemployment rate, higher underemployment rates irrespective of the gender differences, low and declining real wages, increasing nominal wages for limited number of government employees associated with strong labour unions, high domestic inflation rate, labour market discriminations in terms of age, gender, ethnicity, location, and level of education can be considered as one set of variables influencing on growing number of migrant workers from Sri Lanka. Second, growing access for information flows, expansion of migration related networks through human relations such as family, friends and colleagues, changes in consumption pattern, rising income inequality level due to declining labour income share in the total income and widening regional disparities in terms of investment, production, income, expenditure, wealth, and poverty are also working as push factors for labour migration from Sri Lanka. Third, factors such as substantial and widening earning gap between local and foreign employment opportunities, labour shortage emerged in Middle-east countries since first oil shock occurred in 1973, expanded employment opportunities in East Asian countries since 1980s, devaluation of value of Sri Lankan Rupee, significant decline in world wide transportation, communication, and information cost, can be considered as several types of pull factors of labour migration from Sri Lanka. Fourth, growing number of private sector employment agencies, increasing government promotion programs and facilities for migrant workers through Ministry of Foreign Workers and Foreign Employment Bureau, promotion of temporary migration as short term solution for unemployment problem in Sri Lanka, can be considered as growing institutional facilities for foreign jobseekers. Fourth, problems associated with education sector in Sri Lanka such as reducing government expenses while discouraging private sector

investment on education, limited number of higher education opportunities, unequal distribution of education facilities, poor quality of facilities in domestic education institutions, lack of demand for educated people in private sector, high educated unemployment ratio, low wages for university graduates in government sector, inappropriate existing curriculum particularly at high school and university levels, and government policy weaknesses on education sector have been influencing to promote more and more Sri Lankans to go abroad for education. Sixth, ethnic conflict, political instability and uncertainty occurred in Sri Lanka promoted more international migrants. As a result of these types of political reasons, in one hand, professionals and educated people irrespective of the ethnicity migrated as contract workers or mostly as permanent migrant to advanced countries. For example according to statistics recorded in SLBFE, number of professionals and middle level executives migrated from Sri Lanka increased from 64 persons in 1994 to 1090 persons in 2005. Majority of the people in this category finds employment opportunities through their own net works and hence they are not included in SLBFE statistics. Fourth another impact of growing number of migrant workers from Sri Lanka has been the increasing income inequality trends in various dimensions. Especially growing regional income inequality has been one of the crucial development problems of Sri Lanka during the past three decades. At the initial stage of female migration as housemaids to Middle-east countries, there has been a Dutch disease in the Sri Lankan economy. Some males did not work hard due to money sending by the migrant females. In other words voluntary unemployment rate increased in some periods. Apart from that they were accustomed to spend remittances for consumption purposes. Further, urban biasness of migrants generated rural-urban gap of remittances in Sri Lanka. Especially, skill

levels of migrants have been different between urban and rural migrants. As a result, level of their salaries and remittances were different. Availability of foreign job information has also been different across the region and sector in Sri Lanka.

### **3. Growth and Structural Changes in Remittances to Sri Lanka**

One of the important aspects of growing international migrants from Sri Lanka has been the unprecedented growth of foreign currency earnings as remittances since later 1970s. According to statistics available from annual report of the Central Bank of Sri Lanka, in 2005, remittances were 19.4 percent of total current inflows, 76 percent of the trade balance, 197.3 percent of loans and grants, 21.5 percent of total import bill of the country and 8.1 percent of the Gross Domestic Product. However, out of total, private remittances from the Middle-east Countries represented 56.8 percent in the same year. Therefore, it is important to study about trends and structural changes in migrant remittances in Sri Lanka. Table 3.1 summarizes statistics on private remittances to Sri Lanka during 1990-2004 period. According to statistics given in Table 3.1, the total amount of private remittances to Sri Lanka in terms of US Dollars has increased from 400 million in 1990 to 1,565 million in 2004 by 291 percent. In terms of Sri Lankan Rupees remittances increased from 18,311 million in 1991 to 191,800 in 2005 by 1047 percent. The growth rate of remittances in terms of Sri Lankan rupees has been remarkably high due to devalue of the value of Rupee against foreign currencies. For example one US \$ was equal to 8 rupees in 1977 and continuous devaluation of Rupee let to devalue nominal exchange rate as one US \$ equals to 110 Rupees in 2006. However, even if it is dollar terms, the growth of remittances was

Table 3.1 Private Remittances to Sri Lanka from Abroad 1990-2005

Origin	US Dollar Million				Average Annual Growth Rate in %				Rupee Million				Percentage Share			
	1990	1995	2000	2004	1990-1995	1995-2000	2000-2004		1990	1995	2000	2004	1990	1995	2000	2004
Middle-east	217	423	730	868	19	15	4		8,712	23,567	55,252	87,871	54.3	58.2	63.00	55.5
European Union	46	108	156	286	27	9	17		1,832	5,991	11,782	28,987	11.4	14.8	13.4	18.3
North America	79	58	78	105	-5	7	7		3,166	3,233	5,893	10,643	19.7	8.0	6.7	6.7
Far East Asia	20	55	68	76	35	5	2		782	3,086	5,118	7,696	4.9	7.6	5.8	4.9
Europe Other	10	37	59	122	54	12	21		411	2,065	4,458	12,301	2.6	5.1	5.1	7.8
South East Asia	23	15	20	32	-7	7	12		903	810	1,655	3,204	5.6	2.0	1.9	2.0
South & Central America	0	7	11	15		11	7			405	834	1,501	0.0	1.0	1.0	0.9
Australasia	2	7	12	23	50	14	18		90	400	894	2,319	0.6	1.0	1.0	1.5
South Asia	3	5	8	13	13	12	13		133	262	606	1,294	0.8	0.6	0.7	0.8
Eastern Europe	0	4	4	7			15		3	202	333	702	0.0	0.5	0.4	0.4
Other	0	8	12	18		10	10			446	872	1,772	0.0	1.1	1.0	1.1
Total	400	727	1158	1565	16	12	7		16,054	40,482	87,697	158,290	100	100	100	100

Source: Central Bank of Sri Lanka, (1987 &amp; 2005) Economic and Social Statistics of Sri Lanka

remarkable and reached to the level of second source of foreign currency earnings in Sri Lanka in later 1990s. Today it is second only to the value of export income received from garment sector in Sri Lanka. Remittances as a percentage of GDP have increased from 5.4 percent in 1991 to 6.7 percent in 2005. This means remittances have grown faster than the GDP growth rate during that period. According to national income statistics GDP has increased around 5 percent annual during that period. Therefore, remittances have grown higher than that growth rate in Sri Lanka during the concerning period. One of the main reasons behind this situation has been escalating of Sri Lankans motivation to work in abroad due to devaluation of exchange rate in Sri Lanka. The highest, average annual growth rate of the remittances was recorded during the 1990-1994 period as 16 percent and it has shown declining trend during the consecutive two to five year periods as 12 percent and 5 percent in respectively. The main reason for this declining trend of the growth rate of total remittances was declining trend occurred in remittances from workers in Middle-east Asian countries.

As indicated in data given in Table 3.1 there has been a significant change in the remittances structure also during the post 1977 period. In 1990, 53 percent of remittances came to Sri Lanka from Middle-east Asian countries. That ratio has increased to 63 percent in 2000. However, as a result of substantial growth in remittances from North America and Europe, share of remittances from Middle-east countries in the total remittances has again declined to the 55 percent in 2004. One of the main reasons behind the high growth of remittances from developed countries in Europe and North America has been the growing number of Sri Lankan refugees and asylum seekers in those countries during the recent past. Worsening security situation in Northern and Eastern provinces has highly

influenced to increase refugees from Sri Lanka. It is widely believed that some proportion of migrant remittances is going to terrorist organizations as well. Statistics on those remittances are not recorded in official figures. In addition, growing number of skilled migrants to advanced countries and settled down of people migrated for education also caused to increase remittances from developed countries to Sri Lanka.

One of the important characteristics associated with the growing number of migration as housemaids, has been the high proportion of sending their remittances in official ways to Sri Lanka. For example Middle-east share in the total remittances increased from 58.1 percent in 1998 to 63 percent in 2000, and then gradually declined to the level of 57 percent in 2005. There are several reasons to have high remittances share from housemaids. First, since their main objective is to get rid of poverty or support family members to make or buy a house, purchase essential durable goods, provide education facilities to kids or help to day-today living expenses, they send foreign currencies to Sri Lanka in official ways. Second, they do not have abilities, education, or wider net work connections to save money for future purposes. Third, remittances maid by migrants other than housemaids mostly send through unofficial ways due to higher exchange rate in black market in Sri Lanka. However, as Athukorala (1995), emphasized remittances have not been directed to savings or investment activities in Sri Lanka due to institutional problems and lack of education, technical know-how, and business management techniques of returned migrants. Therefore, remittances have been using for consumption at micro-level and to finance imports at macro-level. There has been a criticism whether remittances will lead create a Dutch disease in Sri Lanka. Since migration is a short-term phenomena, it is essential to develop policy framework to maximize benefits of remittances both at micro-level and



macro-level in Sri Lanka.

#### **4. Impact of Remittances Income on Inequality in Sri Lanka**

In order to investigate impacts of remittances on income inequality in Sri Lanka, this part of the paper is divided into two sections. Section 4.1 presents information on income inequality trends of Sri Lanka during the 1953-2004 period, while Section 4.2 analyzes impacts of remittances on income inequality trends in Sri Lanka.

##### **4.1 Overall Trend of Income Inequality in Sri Lanka**

Figure 4.1 plots the behavior of the four main indices of income inequality in Sri Lanka for 1953-2004 period, namely, (i) Income share of Top 20 %/Bottom 20 % income receivers, (ii) Income share of Top 40 %/Bottom 20% income receivers, (iii) Gini coefficient for spending Unit, and (iv). Gini coefficient for Income receivers. According to these data it is possible to identify five main phases of income inequality trends in Sri Lanka as follows.

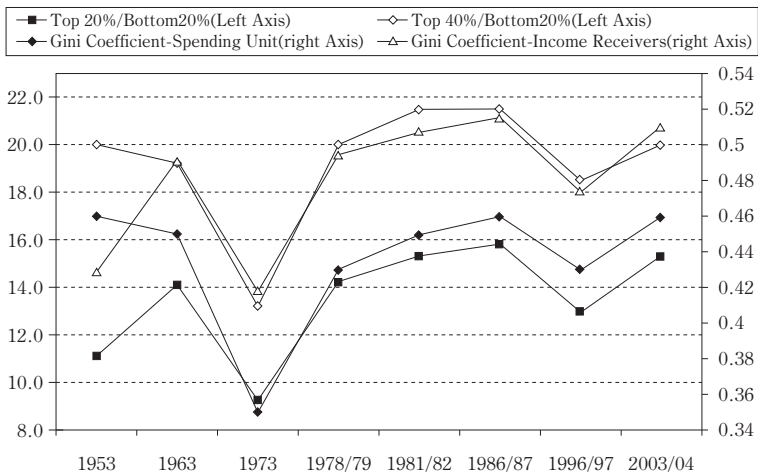
(1). Even though income inequality has been declining according to the behavior of Gini coefficient, income shares of rich 20% and 40% have been increasing during the 1953-1973 period. Therefore, it is a contradictory period in Sri Lanka.

(2). According to behavior of all four indices income inequality had been decreasing during the 1963-73 period in Sri Lanka. The Gini coefficient declined from 0.51 to 0.41 (or by 16 per cent) at the national level, 0.54 to 0.40 in the urban sector, 0.46 to 0.37 in the rural sector. The income share of the bottom 40 per cent of income receivers increased from 12 to 15 per cent while that of the top 20 per cent declined by 10 per cent.

(3) Income inequality had been increasing during the 1973-87 period in Sri Lanka. During this period, the Gini coefficient increased from 0.41 to 0.52 (by 21 per cent) at the national level, 0.40 to 0.53 in the urban sector, 0.37 to 0.50 in the rural sector. However, in considering government economic policies, this period can be divided into two subphases of inequality: (a) inward-looking development policy period (1973-77), and (b) outward-looking development policy period (1978-87). The former subphase represented 82 per cent of the inequality growth of the 1973-87 period.

(4) Income inequality had been decreasing during the 1987-97 period in Sri Lanka. During this period, the Gini coefficient decreased from 0.52 to 0.48 (by 8 per cent) at the national level. Family income data (spending unit based) also showed declining inequality in urban and rural sectors. The income share of the bottom 40 per cent of income receivers increased from 11.4 to 13 per cent while that of the top 20 per cent declined from 57.3 to 53.3, or by 4 per cent. This reduction in income inequality appeared during

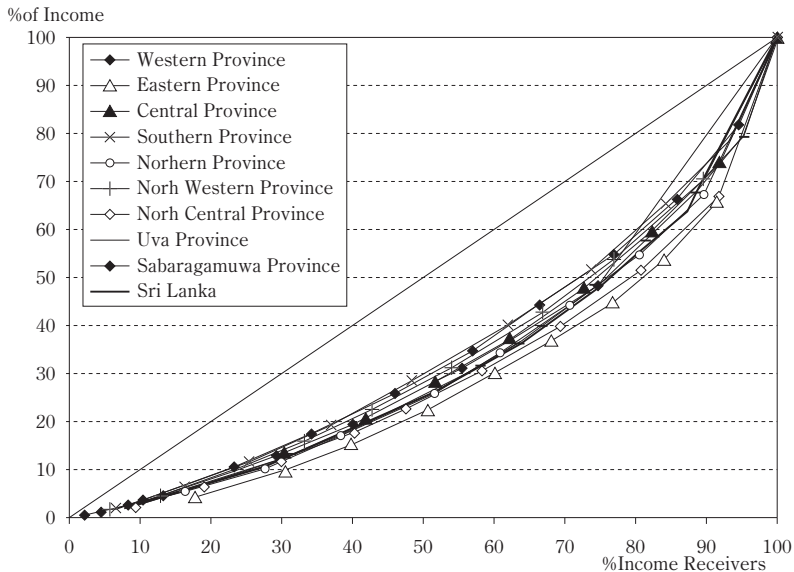
Figure 4.1 Behavior of Major Income Inequality Measures of Sri Lanka, 1953-2004



a period when privatization and deregulation programs were implemented under a policy of continuing economic liberalization. However it was not sustainable.

(5). Income inequality had been increasing during the 1997-2004 period in Sri Lanka. During this period, the Gini coefficient increased from 0.46 to 0.50 (by 8.7 percent) at national level. Ratio of income share belongs to top 20% and bottom 20% increased 13% to 15%. Even though data has not yet published after 2004 in Sri Lanka, it is widely believe that this trend has been continuing during the past few years as well. One of the main reasons behind this expectation was the widening regional disparity in Sri Lanka. As Pointed out Karunaratne(1997a and 1997b), widening income gap between Western Province and other provinces in Sri Lanka has been influencing to increase overall income inequality trend in Sri Lanka during past two decades. Figure 4.2 present Lorenz Curves for all nine provinces

Figure 4.2 Provincial Level Lorenz Curves for Sri Lanka in 2003/2004



of Sri Lanka. The income gap between the Western Province and other Provinces are substantial in Sri Lanka.

However, the main objective of this paper is to investigate impacts of labour migration and remittances on above mentioned income inequality trends in Sri Lanka. Since labour migration became as important variable after introduction of trade, financial, and labour market liberalization policies in 1977 and recorded data on migrant workers and their remittances are also available since late 1970s, our analysis is limiting for recent time period and regional inequality context. For this purpose first, statistics on recent trend in foreign employment of Sri Lanka is given in Table 4.1.

As shown in above Table female share in the total migrants has declined from 62.4% to 55.9% during the past three years. Main reasons behind this situation are (i) increasing premium changed by the labour exporting firms, (ii) the war situation in Middle-east countries, (iii). growing female

**Table 4.1 Recent Trends in Foreign Employment of Sri Lanka**

Employment	Number of People			Percentage		
	2004	2005	2006	2004	2005	2006
Total Placements	214,709	231,290	201,143	100	100	100
1. By Gender						
Male	80,699	93,896	88,747	37.6	40.6	44.1
Female	134,010	137,394	112,396	62.4	59.4	55.9
2. By Manpower Category						
Housemaid	110,512	125,493	100,326	51.5	54.3	49.9
Other						
Skilled Labour	45,946	46,688	44,464	21.4	20.2	22.1
Unskilled Labour	43,204	41,904	40,518	20.1	18.1	20.1
Other	15,047	17,205	15,835	7.0	7.4	7.9
3. By Source						
Licensed Agents	156,146	165,707	142,883	72.7	71.6	71.0
Other	58,563	65,583	58,260	27.3	28.4	29.0

Source: Central Bank of Sri Lanka (2006) Annual Report-SBFE

participation in higher education in Sri Lanka (iv). increasing marriage age, (v) information availability on risk and uncertainty in Middle-east countries, (vi) declining employment opportunities in Middle-east countries, (vii). Government policy of discouraging mothers of small child(ren). As a result of this trend, remittances receiving by poorest poor have gone down while remittances receiving by people in middle class and rich families have been increasing. As a result remittances have become an inequality augmenting source of income in Sri Lanka. For example, data recorded by Consumer Finance and Socio-economic Survey of the Central Bank of Sri Lanka, shows the share of remittances (which from relatives and friends from abroad) in the Estate plantation workers has declined from 3.1 percent to 1.9 percent in 1997 to 2004. (see CBSL, P 110). The Estate plantation sector has been recording high and substantially growing poverty rate in Sri Lanka. Therefore, concentration of remittances into urban sector or relatively developed provinces such as Western Province, or North Western Province leads to increase income inequality in Sri Lanka. As shown in Table 2.4 male share of the migrants in these relatively developed Provinces has been increasing during the past several years. Usually male migrants earn more money than the female migrants and as a result also remittances were unequally distributing among different provinces in Sri Lanka. Unequal distribution of labour exporting firms and information availability also matters to have unequal distribution of remittances in Sri Lanka

#### **4.2 Impacts of Remittances on Income Inequality Trends in Sri Lanka.**

In this section uses micro data on sources of income collected by the Consumer Finances and Socio-economic Survey of the Central bank of Sri Lanka in 2003/2004. This survey has been conducted by the Central Bank

of Sri Lanka in four rounds. Sample size was 11,768 households including all provinces except few districts due to on-going war situation in North and Eastern provinces of Sri Lanka. If reader wishes to get more information on this survey please refer CBSL 2005 given in the reference list.

Table 4.2 presents sources of income receivers income in Sri Lanka in 2003/2004. When sources of income were analyzed by income deciles, income from occupation (labour income) was the most important source in all income categories. Sri Lanka is not an exception in this regard. However, with the increase in income level, the relative importance of occupation income declines. For example, occupation income accounts around 49.6 % of the poorest 10 % income receivers but only 27.2 % contribution is made for income of the Top 10 % income receivers. Conversely the share of property income increased with level of income, reflecting the importance of accumulated assets of the higher income earners. This character is reflected in the Transfer income from abroad also.

As depicted in the data given in fourth column of the Table 4.2, remittances are positively related with the level of income of the income receivers in Sri Lanka. For example, income receivers belonging to lowest 10 percent receives 1.3 percent of their income as remittances while 10 percent of the income receivers getting 4.6 percent of their income from remittances. There are two main implications of this positive relationship, namely (i) when income receivers are getting more income, they have affordability for premium required for migration, wider access to information and networks relevant to international migration than the poor people (ii). When income receivers are getting higher income they have affordability for better education facilities and to develop their skills than the poor people. It is obvious that due to these two reasons number of

**Table 4.2 Sources of Income Receivers' Income by Income Deciles in Sri Lanka, 2003/2004**

One month	Source of Income					Total
Income receivers	Occupation	Property	Transfers	Transfers Abroad	Other	
Income Decile			Domestic	(Remittances)		
1	49.6	25.4	22.9	1.3	0.8	100
2	37.2	38.7	22.0	1.1	0.9	100
3	35.9	40.5	21.4	1.0	1.2	100
4	29.8	43.9	24.2	1.0	1.0	100
5	28.1	46.1	23.1	1.2	1.5	100
6	28.8	46.6	21.5	1.4	1.7	100
7	27.4	48.3	21.1	1.5	1.7	100
8	25.4	50.6	19.9	2.2	1.9	100
9	26.2	51.5	17.4	2.9	2.0	100
10	27.2	52.6	13.5	4.6	2.1	100
All	30.2	46.0	20.3	2.0	1.6	100

international migrants from relatively developed provinces, areas and sectors in Sri Lanka has been higher than the number of international migrants from poorest areas. Therefore remittances act as inequality augmenting factor in developing countries than the inequality reducing factors. Sri Lanka has not been exception in this regard. Therefore, under present circumstances increasing number of international migrants or remittances to Sri Lanka generate higher income inequality in the country. Hence, policy makers should pay attention for these phenomena and attempts must be made to develop linkages between relatively developed regions and backward regions in the field of education, skill development, information availability, and utilization of remittances of return migrants in Sri Lanka.

## 5. Summary and Conclusion

This paper attempted to explore relationship among international migration, remittances and income inequality by using macro-level and micro-level available data in Sri Lanka. The rapid growth of international migration in the 1990s, along with the changes in the nature of international migration, has made it an increasingly important and often politically sensitive in many parts of the world. Majority of the international migrants are from developing countries and their remittances to home countries have grown in considerable rate during the past few decades. Asia and Pacific is the main destination region for remittances, accounting for 45 percent of the global total. Sri Lanka has not been an exception in this regard. After introduction of trade, financial and labour market liberalization policies in Sri Lanka in 1977, international migration became growing source of employment opportunities, foreign currencies, and poverty reducing instrument in Sri Lanka. Growth and expansion of labour migration flows and remittances have analyzed by using available macro-level data. Further, trends of income inequality in Sri Lanka under different policy regimes were also analyzed by using data from consumer Finance and Socio-economic data for 1953-2004 period. Finally, impact of international labour migration and remittances on income inequality in Sri Lanka was analyzed by using micro-level data obtained from the same survey. This paper argues that, under the present circumstances, increasing number of international migrants from Sri Lanka or increasing remittances to Sri Lanka generate higher income inequality in the country. Thus, policy makers should pay attention for these phenomena and attempts must be made to develop linkages between relatively developed



regions and backward regions in the field of education, skill development, information availability, and utilization of remittances of return migrants in Sri Lanka.

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