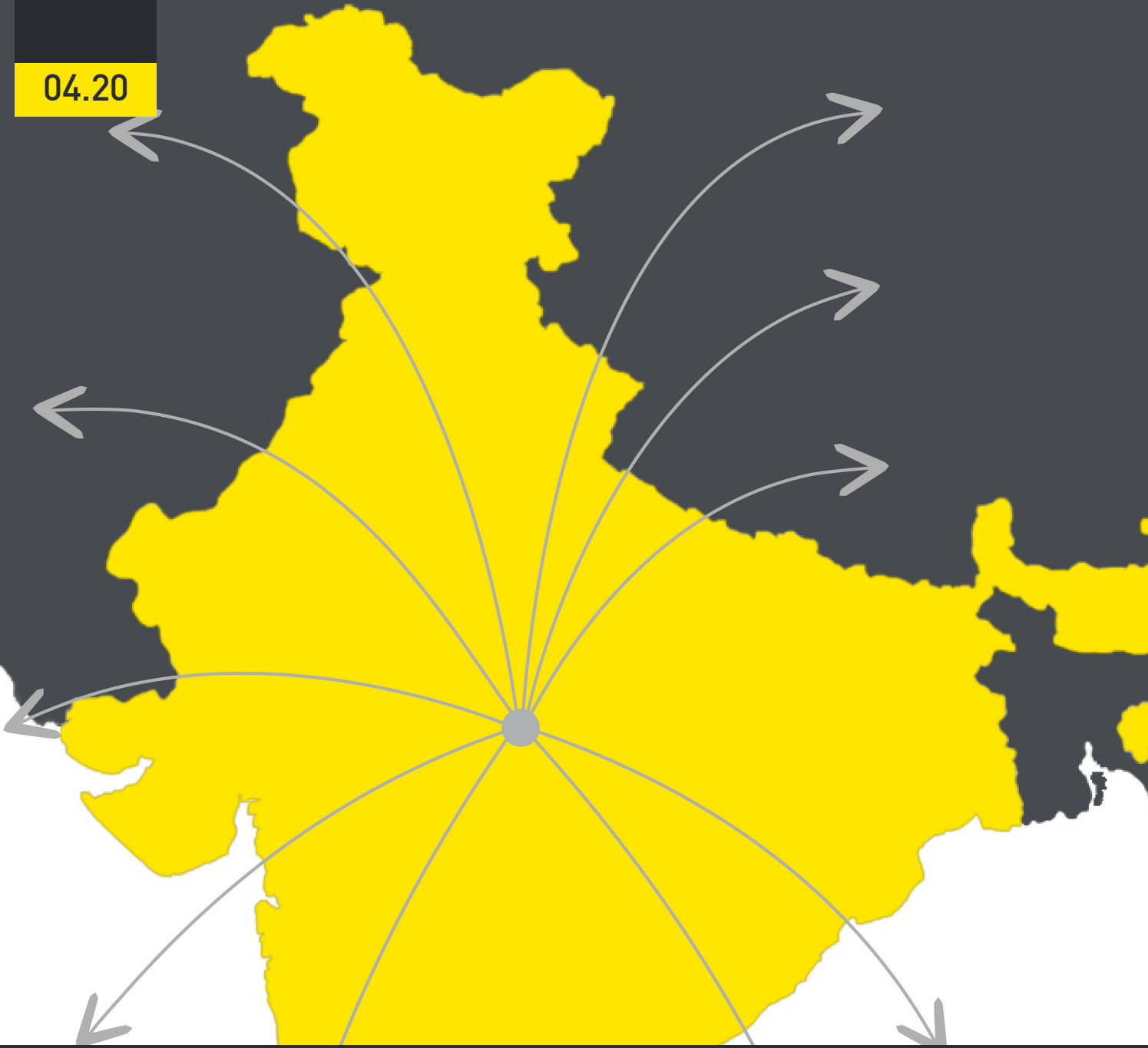




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# EXAMINING THE ECONOMIC CONSEQUENCES OF IMMIGRATION: THE INDIAN CONTEXT

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DISCUSSION PAPER



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## ABSTRACT

For millennia, people have migrated in search of better economic opportunities and quality of life across the world. While international migration has tended to generate positive social and economic outcomes for both source and destination nations, it has also led to a surge in anti-immigrant sentiments and violent contestations between communities. The recent surge in anti-immigrant rhetoric and policies across many countries, including India, is a continuation of this dialectic process. However, available evidence seems to suggest that arguments against immigrants and immigration are both surprising and unsubstantiated, particularly regarding its economic effect. This paper evaluates the economic impact of international immigration to develop a more nuanced understanding of the current situation of immigration/emigration, particularly in India.

## INTRODUCTION

Immigration is popularly understood as the international movement of people to a destination country of which they are not natives or where they do not possess citizenship, with an aim to settle or reside there. Although violent conflict, political persecution, and trafficking are important causes for international mobility, over 9 out of 10 international migrants move for economic reasons (World Bank 2011).

Globalisation<sup>1</sup> has led to a massive increase in both trade and immigration, but the economic, social, and political implications that accompany the movement of people vastly differ from the movement of goods or money. Consequently, the topic of international migration has prompted much political debate in the international community today. As the number of immigrants reached an all time high in 2019<sup>2</sup>, there has been a recent upsurge in anti-immigrant sentiment and policies in countries worldwide, from Latin America to European Union to India. Contrary to the nature of anti-immigrant beliefs, however, multiple studies and available data show that international migration has generated enormous improvements in people's lives. Immigrants have been recorded to enjoy higher wages, countries of destination tend to profit from increased supply of labor, and countries of origin experience ease in labour market pressures.

## ECONOMIC IMPACT OF IMMIGRATION ON DESTINATION COUNTRY

### • INCREASED COMPETITION

Policymakers and citizens in destination countries usually believe that immigration can become an economic burden, as it is feared to lead to loss of jobs, heavy burden on public services, social tension and increased criminality (UNDP 2009). The fear of increased unemployment comes from the classic

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<sup>1</sup> Globalization is described as the growing interdependence of the world's economies, cultures, and populations, brought about by cross-border trade in goods and services, technology, and flows of investment, people, and information (Peterson Institute of International Economics 2019).

<sup>2</sup> A record 272 million people lived outside their country of birth in 2019, as opposed to 153 million in 1990 (International Organization for Migration 2020).

supply and demand model in economics, wherein an increase in the supply of labour, while the demand for labour remains unchanged, leads to a fall in prices or in this case, decrease in wages (Figure 1). However, no strong evidence exists to show that immigrants take native citizens' jobs (Papademetriou et al. 2009; McMahon 2018). In fact, Ortega and Peri (2009) find that immigration increases employment in the destination countries one for one, implying that immigration increases the total GDP of the receiving country without affecting average wages or labour productivity. This increase in employment could be because the new influx of migrants lead to an increase in demand of both goods and services, which further creates new employment and demand for labour, keeping wages unchanged (Banerjee and Duflo, 2019). This is illustrated by Figure 2.

FIGURE 1: CLASSIC DEMAND AND SUPPLY OF LABOUR THEORY

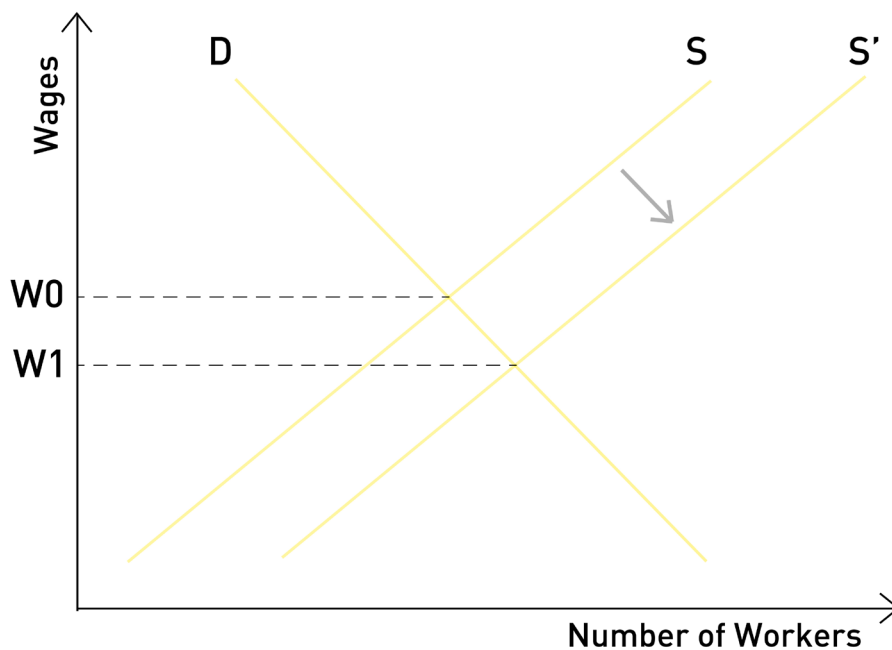
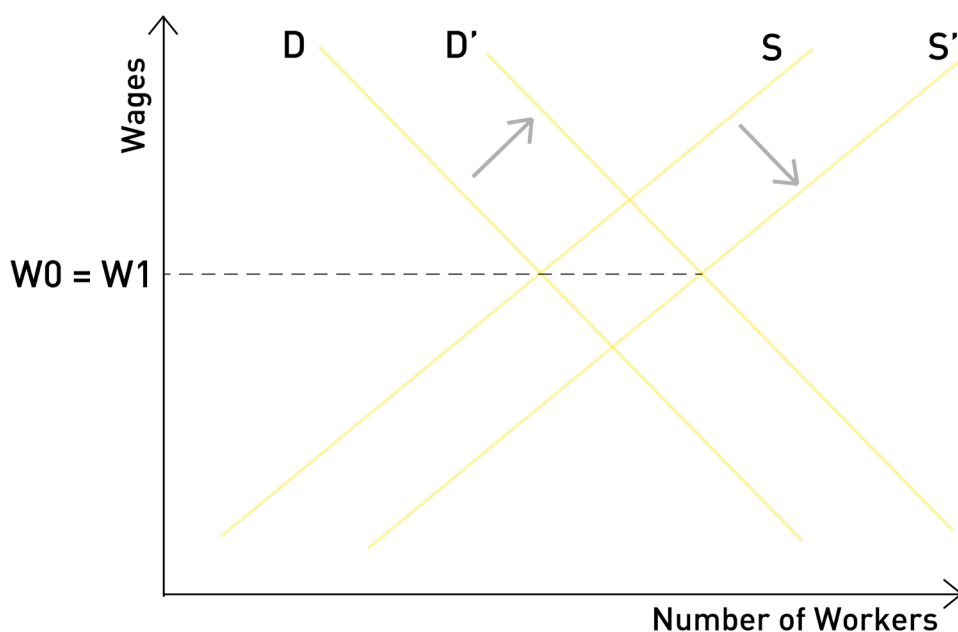


FIGURE 2: ACCOUNTING FOR INCREASED DEMANDS CAUSED BY IMMIGRANTS



- **INCREASED RETURNS TO CAPITAL**

As more people migrate, the increased availability of labour boosts returns to capital and reduces the cost of production in the host country. In addition, since a large proportion of people migrating from low-income countries to high-income countries are low-skilled (World Bank 2005), the host country also benefits from increased labour-market flexibility, a bigger labour force due to lower prices for services such as child care, in particular provided by the new immigrants, and thereby, an increase in the Gross Domestic Product (GDP) (Schiantarelli 2005; Ratha et al. 2011).

## **ECONOMIC IMPACT OF IMMIGRATION ON SOURCE COUNTRY**

- **REMITTANCES**

Remittances remain the most tangible and important economic benefit of migration for the country of origin. Remittances are now the largest source of foreign exchange earnings in Low and Middle Income Countries (LMIC)<sup>3</sup>; they are more than three times the size of Official Development Assistance (ODA) and have reached close to the level of Foreign Direct Investments (FDI) flows in 2018 (International Organisation of Migration 2019). The official recorded remittances are much lower than the actual remittances that take place through official and unofficial channels, and remittances through informal channels could add at least 50% to the globally recorded flows (World Bank 2005).

While the impact of remittances on economic growth is unclear, they do play an important role in reducing the incidence and severity of poverty (Adams and Page 2005). Remittances, usually sent by migrants to their families in the source country, directly increase the income of the recipient and can help in providing funds for household consumption, especially in response to adverse events such as crop failure or a health crisis, events commonly observed in developing countries. Furthermore, remittances help households diversify their sources of income, reducing their vulnerability to risks and at the same time providing a source of savings and capital for investment (Rapoport and Docquier 2006). Remittances appear to be associated with increased household investments in education, entrepreneurship, and health—all of which have a high social return in most circumstances. On a macroeconomic level, historically, remittances have tended to rise in times of economic downturns, financial crises and natural disasters as migrants living abroad send more money to help their families back home (World Bank 2005, Mohapatra et al. 2010).

- **BRAIN DRAIN/BRAIN GAIN**

High-skilled emigration or the phenomenon popularly known as “brain drain”, is often believed to cause a loss of the public resources invested in the education and skill development of the migrant, reducing the origin country’s productive capacity and possibly worsening the business environment. This is considered to be especially true in the case of small economies. Brain drain is believed to be particularly detrimental to the education and health sectors of small countries that face severe shortages of health workers and teachers (Docquier et al. 2010).

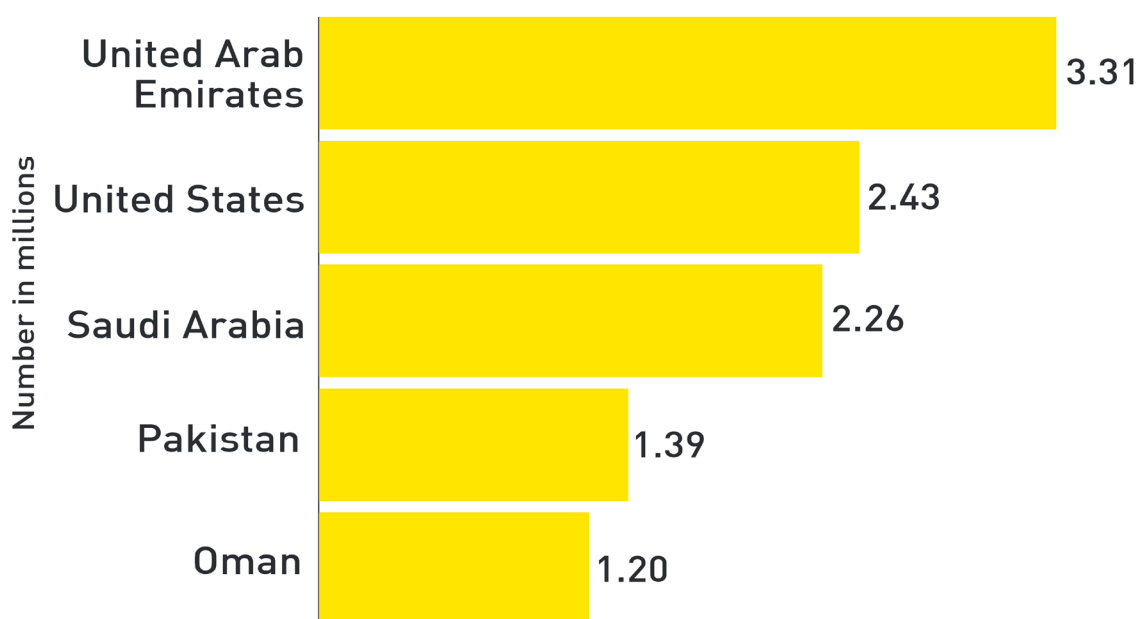
<sup>3</sup> Excluding China.

However, more recent studies have debunked the supposed negative impact of brain drain, by showing that returned migrants can use their newly acquired skills and networks to invest back in the origin country, thereby leading to a net “brain gain” instead (Dustmann et al. 2010). Several studies have demonstrated that returned migrants are more likely to start businesses than people who never left their countries (Demurger and Xu 2011; Naudé et al. 2015.)

## IMMIGRATION/EMIGRATION IN INDIA

India has a wide diaspora spread across all continents, supplying the highest number of migrants living abroad at 17.5 million people, followed by Mexico (11.88 million) and China (10.7 million) (International Organization for Migration 2020). The largest migration corridors are to larger economies such as the United Arab Emirates, United States, Saudi Arabia and the European Union (Figure 3), a trend observed in other developing countries such as Brazil and Philippines as well.

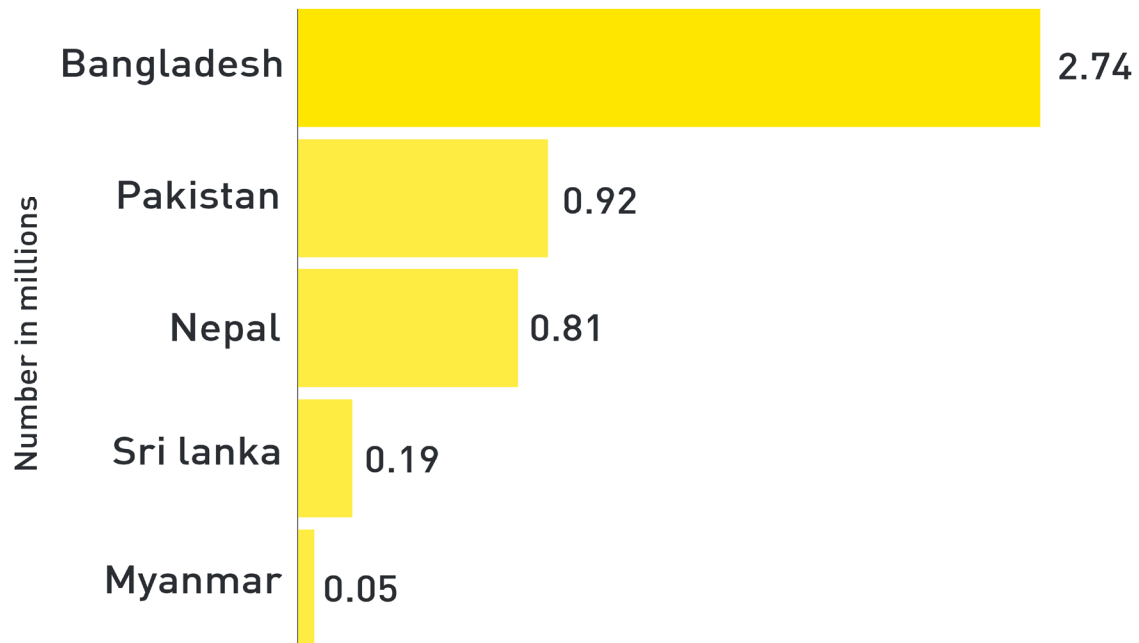
FIGURE 3: TOP DESTINATION COUNTRIES FOR MIGRANTS FROM INDIA



SOURCE: WORLD BANK, 2018

In terms of inflow of immigrants, the number of Indian residents who were born outside the country fell from 6.2 million in 2001 to 5.3 million in 2011 (Census 2001; 2011), taking the immigration rate down from 0.6% to 0.4%, which is considerably lower than the average global rate of 3.5% (International Organization for Migration 2020).

FIGURE 4: TOP SOURCE COUNTRIES FOR MIGRANTS COMING INTO INDIA



SOURCE: CENSUS 2011

India receives the highest number of migrants from Bangladesh, followed by Pakistan and Nepal respectively (Census 2011). Migrants from these countries tend to settle down mostly in the Indian states that share a border with the respective country, as observed in Table 1. For example, 81% of Bangladeshi migrants are settled in West Bengal, with which it shares a 2,217 km long border. Similarly, about 30% of migrants from Pakistan are currently living in Punjab. A trend seen for the top two source countries of Bangladesh and Pakistan is the reduction in the number of immigrants from these countries, both on the basis of birth and place of last residence (Census 2001 and 2011)<sup>4</sup>. One reason for this steady decline is the effect of mortality on aged migrants, most of whom settled in independent India during the Partition in 1947 and the Partition of Pakistan in 1971 (Tumbe 2019). This demographic makes up a large portion of the immigrants from these nations. This can also be seen in Figure 5, which shows that most migrants came to India prior to 1991. Additionally, the improvement in the economic and human development conditions in Bangladesh and the large influx of immigrants to Gulf nations and the European Union, could also potentially explain this decline.

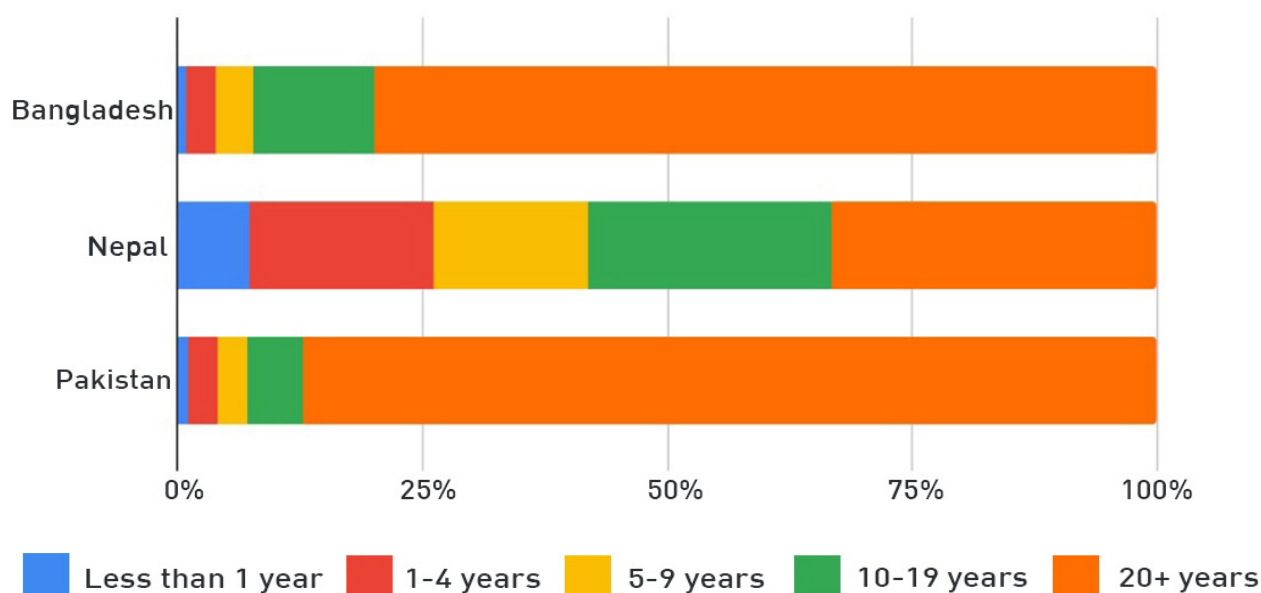
<sup>4</sup> In India, migration data is collected on the basis of two definitions- place of birth and place of last residence.

TABLE 1: TOP INDIAN STATES WHERE MIGRANTS SETTLE FROM BANGLADESH, NEPAL AND PAKISTAN

	Bangladesh	Pakistan	Nepal
1	West Bengal 2,222,091	Punjab 264,711	Bihar 254,249
2	Tripura 256,559	Haryana 158,844	Uttar Pradesh 124,085
3	Assam 88,192	Delhi NCT 136,268	Maharashtra 56,560
4	Odisha 38,879	Rajasthan 81,631	Himachal Pradesh 56,336
5	Chhattisgarh 27,222	Maharashtra 62,042	Uttarakhand 46,073
Total	2,747,062	918,982	810,158

SOURCE: CENSUS, 2011

FIGURE 5: DURATION OF RESIDENCE FOR MIGRANTS FROM BANGLADESH, NEPAL AND PAKISTAN



SOURCE: CENSUS, 2011

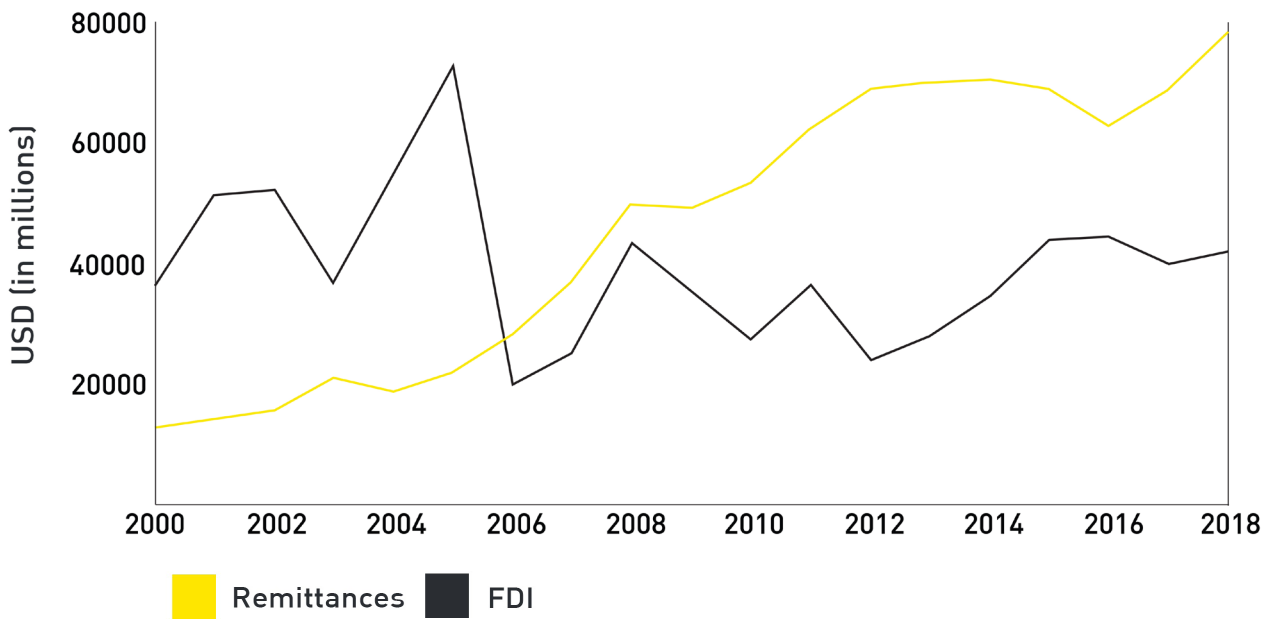
Concerns of under-reporting biases do exist as undocumented migrants might refuse to disclose truthful information about their residential status to enumerators or simply evade them during the collection process due to fear of deportation. Nevertheless, we cannot expect a change in the reasons for under-reporting biases between the 2001 and 2011 census, since no major policies on immigration were undertaken during this period.



• **REMITTANCES IN INDIA**

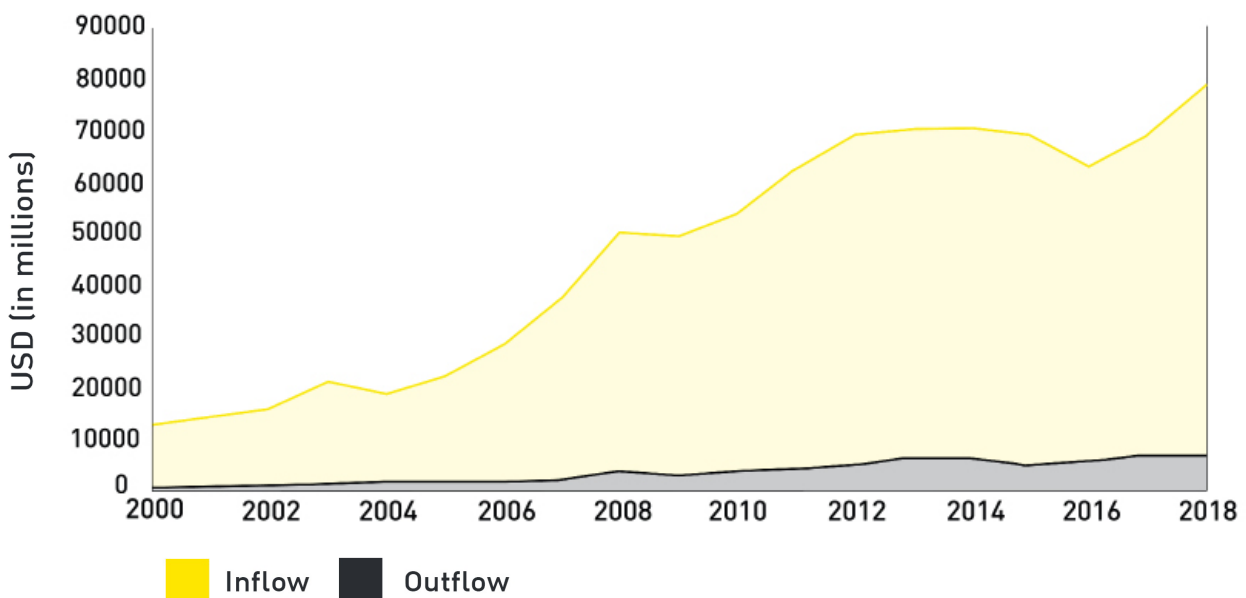
Remittance inflows in India have been greater than FDI inflows since 2006 (Figure 6). India has also consistently ranked as the top remittance recipient country since the last decade. Comparing the inflows vs outflows of remittances in India, the growth rate of remittance inflow has been rapidly increasing since the early 2000s, whereas one observes a more constant, and at times declining growth rate for outflows. In 2019, the share of inflow of remittances amounted to 2.8% of the GDP, whereas the outflows of remittances were a negligible 0.6% of the GDP (World Bank 2019).

FIGURE 6: INFLOW OF REMITTANCES VS FDI IN INDIA



SOURCE: WORLD BANK, 2019

FIGURE 7: INFLOW AND OUTFLOW OF REMITTANCES IN INDIA

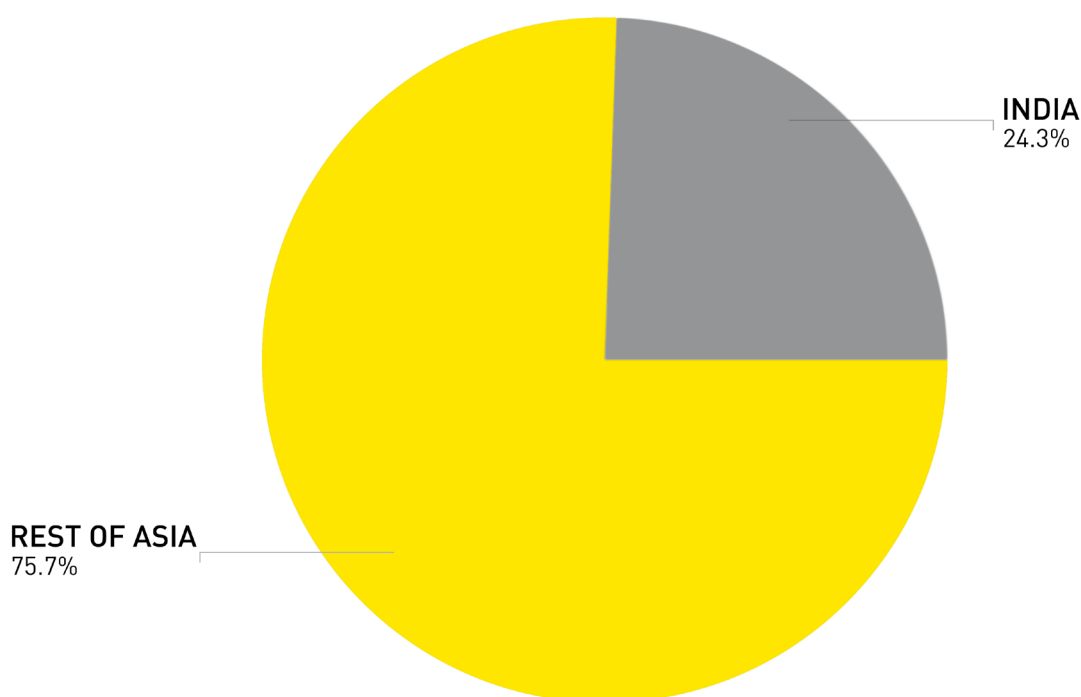


SOURCE: WORLD BANK, 2019

## • BRAIN DRAIN/GAIN IN INDIA

Among the Asian countries, India continued its trend of being the top country of birth for immigrant scientists and engineers in the USA, with 950,000 out of Asia's total 2.96 million in 2013, an 85% increase from 2003 (National Science Foundation, USA 2013). Additionally, 46.9% of highly-skilled workers admitted under the H-1B visa between 2000 and 2009 were born in India (US Government Accountability Office). However, India also happens to be one of the first countries where the phenomenon of brain gain occurred, particularly during the aftermath of the dotcom bubble<sup>5</sup>, which forced many Indian IT experts to return to the country and sparked the IT revolution in India<sup>6</sup> (Saxenian 2005; Chacko 2007).

FIGURE 8: IMMIGRANT SCIENTISTS AND ENGINEERS IN USA



SOURCE: NATIONAL SCIENCE FOUNDATION, 2013

## • THE BIAS AGAINST IMMIGRANTS

In a survey conducted by Pew Research Center in 2018, 45% of Indians said that fewer immigrants or no immigrants at all should be allowed to move to India, and 64% said outmigration, or people leaving for jobs elsewhere, is a big problem (Connor and Krogstad 2018). This comes at a time when the remittances received from migrants have been used to help build and stabilise the economy, particularly

<sup>5</sup> An economic bubble is a market phenomenon characterised by surges in asset prices to levels significantly above the fundamental value of that asset (Krugman 2013). The dotcom bubble, also referred to as the Internet bubble, refers to the period between 1995 and 2000 when investors pumped money into Internet-based startups in the hopes that these fledgling companies would soon turn a profit (Rouse n.d.).

<sup>6</sup> The dotcom crash caused large layoffs and forced a large number of IT professionals to return to India. These individuals, highly skilled and with the added exposure of living and working in the entrepreneurial environments of Silicon Valley, USA, were able to build on their experience and initiate the IT revolution in India.

after the Great Recession<sup>7</sup>. The huge disparity between the amount of inflow and outflow of remittances seems to suggest that most immigrants in India are investing back into the economy, implying that India is benefiting from both, the inflow of remittances and that of immigrants (Figure 7).

Immigrants are also facing very obvious discrimination today, with leaders likening them to “termites” and their eating habits being openly mocked (PTI 2009; Unnamed Author, The Telegraph 2020). Many politicians and newspapers have tried to paint a false imagery of India’s borders being overrun by immigrants. In fact, the figure of ‘20 million’ illegal Bangladeshi migrants has been making the rounds for about a decade, with this number even being mentioned in the Rajya Sabha in 2016 (PTI 2016). However, there is no methodological backing behind this estimate and data from the Census 2011 clearly shows a steady declining trend in migrants from Bangladesh and other countries as well.

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<sup>7</sup> The Great Recession was an economic recession that was precipitated in the United States by the financial crisis of 2007–08 and quickly spread to other countries. Beginning in late 2007 and lasting until mid-2009, it was the longest and deepest economic downturn in many countries since the Great Depression in 1929-39 (Duignan 2019).

## | CONCLUSION

Migration is a decision that impacts the welfare of the household, the home community, and in the end the whole economy in innumerable ways. The ever rising opposition to immigration globally has been backed by arguments of national identity, rising crime rates and loss of cultural unity. However, historically, international migration has generated large economic gains for both origin and destination regions, with numerous studies confirming the net positive impact of immigration. Factors such as increased competition and brain drain, which were previously seen as drawbacks, have in recent times been shown to induce a positive impact on the economy. India, with the largest diaspora of immigrants abroad and the largest inflow of remittances, has a declining immigration rate of 0.4%, much lower than the rate observed in countries with a similar GDP. Over the past few years, these immigrants have been facing immense backlash and hatred, with new legislation being put in place to curb their movement. An atmosphere of fear and suspicion has developed around immigrants, overlooking the many economic benefits this cohort contributes. Migration has been one of the most important drivers of human progress and dynamism (Goldin et al. 2012). In the era of globalization, for innovation to thrive, it is vital to remain open-minded and break down the barriers that hinder this process.

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