Are International Migrants Conspicuous Consumers?
Evidence from Pakistan Gulf Migration

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Are International Migrants Conspicuous Consumers? Evidence from Pakistan-Gulf Migration[1]

Nadeem Illahi[2]

Abstract

International migrant outlays on consumer goods are usually seen as excessive and conspicuous. This paper argues that a part of the expenditures is payment for services arranged through informal contracts. It is shown that migrants bring consumer goods to compensate extended relatives for credit and other non-financial services they provide to the migrant and his immediate family.

Introduction

Remittances and savings have attracted considerable attention in the literature on international migration. At the macro level, remittances are transfers from the host country of large sums of foreign currency that help the balance of payments deficits of source countries. They are also seen as potentially providing some capital formation at the micro level. In reality, contract migrants bring home a part of their overseas savings in the form of consumer goods, as gifts for relatives. Migrant expenditures on consumer goods are usually seen as a loss to the home country. They are said to reduce local income linkages and the foreign-exchange effects of migration. Most commentators see migrant outlays on consumer items as excessive and conspicuous. Ali et al (1981) observe that in Bangladesh remittances of foreign workers are used for the import of non-essential and luxury goods. Go and Postrado (1986) term non-monetary forms of remittances of Filipino workers as "non-essential". ESCAP (1987) sees Thai migrants' preference for electrical appliances as a desire to accumulate luxury goods.

This paper explains the motivations behind contract migrant expenditures on consumer goods by focusing on Pakistani migrants in the Persian Gulf. It is argued that migrant outlays on consumer items are a form of compensation for the financial and non-financial services rendered by relatives. Gifts are one way of repaying relatives for the loan taken to finance the initial costs of migration. They are also used to recompense them for their help in looking after the migrant's family and his assets while he is abroad.[3]

Background

Compared to other theatres of international labour migration in the world, Asian migration to the Gulf states of the Middle East is largely formal and tightly monitored. Workers are hired on contract in their home countries by recruiting agencies working on behalf of employers in the Middle East. The terms and conditions of employment, such as wages, duration of work and annual leave are explicitly specified in

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the migration contract. The initial costs of migration are high. Workers are expected to pay for their air travel as well as cover the costs of obtaining visa and other legal documents such as a No-objection certificate (NOC). In all, aspiring migrants are expected to put up front the equivalent of 2.5 months of their projected overseas income in order to be recruited.[4] As local capital markets do not lend for such enterprises, many migrants have to resort to informal sources, primarily relatives, to finance migration.

Gulf states also put restrictions on migrant stay. Only those in the upper income categories (mostly professional and technical workers) are allowed to bring dependants; the vast majority are expected to leave their dependants and families behind.[5] While workers are able to extend their stay in host countries by renewing their contracts or switching employment, they are not allowed to settle permanently or acquire property and other immovable wealth in host countries. The restrictions on family migration and the inability to settle permanently in host countries imply that the migrant has to entrust his immediate family and assets to extended relatives while he is away.

There is widespread evidence from the Asian emigration countries that the migrant's extended family plays a significant role in both financing the initial costs of migration as well as caring for his immediate family while he is away. Gulati (1986) goes so far as to observe that in India,

One of the most noticeable effects of Middle East migration is that, on the whole, it has increased the interdependence among family members. Kinship networks have become stronger and have been reinforced. This effect has come about largely for two reasons: (1) the need for family support to meet the initial cost of migration, and (2) the dependence on the family to provide necessary support and protection for the wife, children and other dependants of the migrant who is absent. (p. 202).

Korale (1986) observes that in Sri Lanka, when an immediate relative is not available, migrants seek the assistance of distant relatives. He concludes that migration has strengthened the extended family system in Sri Lanka.

Relatives also help the migrant finance the initial cost of migration. Go and Postrado (1986) find that in the Philippines, loans from relatives account for 38% of the migration expenses. In Pakistan, such loans account for 45% of the initial outlays on migration.[6]

Theoretical Considerations

The theoretical basis of this paper is the ingenious framework of Lucas and Stark (1985) and Stark and Lucas (1988), referred to hereinafter as the Lucas and Stark framework. Whilst the Lucas and Stark model is developed in the context of rural-urban migration, it can be extended to international contract migration with some modifications.

Lucas and Stark posit that rural-urban migration is a response to the non-existence of, and/or imperfections in, capital and insurance markets in rural areas. The migrant and his family are able to overcome the failure of these markets by striking an informal agreement whereby the family finances the migration costs, and is compensated by remittances. For the family, the returns to farming are risky and

4. ILO-ARTEPand Federal Bureau of Statistics field survey (1987).
5. Weiner (1982) notes that under a Kuwaiti law, only migrants earning at least US$ 1,500 a month are allowed to bring along their families. He observes that other Gulf states have similar regulations.
6. ILO-ARTEP field survey (1987).

few good hedging options exist. For the migrant, the move to the city is costly in terms of transport costs and maintenance during periods of unemployment. Further, education which is complementary with urban migration (as returns to education are higher in urban than in rural areas), is too costly for the individual migrant to bear. The migrant and his family thus enter into a contract that is mutually beneficial and informal. The family pays an early premium for insurance against risky farm earnings by investing in the human capital and financial costs of migration. It is compensated, in the form of remittances, in times of financial distress. The migrant on the other hand, borrows for investment in migration-specific human capital, such as education, and for the cost of living during the time he is searching for employment. He repays the loan from the returns to his investment -- his city earnings. As argued by Lucas and Stark, such a contract is Pareto optimal because both the migrant and his family hope to be better off once it is executed.

The Lucas and Stark framework is a good basis for explaining the consumption and remittance behaviour of international contract migrants. International contract migration between Asia and the Gulf states differs from the rural-urban migration discussed by Lucas and Stark in terms of magnitudes of costs and remittances and regulations that dictate migrant mobility.

Consider first the costs and pay-offs. Typically, the direct expenditures involved in the move from the village to town are small compared to those required for an overseas stint. First rural-urban migrants may spend on schooling. But schooling costs do not appear in lump sum; they are spread over the duration of education. Second, the finances needed for maintenance during spells of unemployment in urban areas do not appear in lump sum either. International contract migration, on the other hand, requires large lump sum outlays for recruitment. Recruiting agencies in most Asian countries charge for the visa and airfare up front. Further, private recruiters are known to charge premiums over and above the direct costs, primarily because of the glut of applicants. Migrants pay the exorbitant amounts because they expect to recover the costs and save during their stint abroad. Of course the lump sum amount required for migration is beyond the reach of many, not surprising then that many borrow from informal sources such as the extended family.

The second difference between internal and international contract migration is the restriction on the mobility of the migrant under the latter. International contract migrants are restricted from visiting their families frequently by the terms of contract which allows one visit every one or two years, and by the costs of international travel. Although most contracts stipulate annual visits, it is unclear from the empirical evidence how frequently workers are allowed to visit home. A predetermined period of leave also implies that workers are unable to synchronise their visits with times when they are needed most, such as during harvest. Under rural-urban migration, the relatively lower transportation costs compared to those incurred by international migrants imply that migrants are able to visit home more frequently. They are also able to time their visits home when they are needed the most. The restrictions on mobility and the inability to bring the immediate family along suggest that contract migrants must enlist the help of relatives in the extended family to watch their interests at home.

Under international contract migration, the migrant and his relatives enter into an informal contract whereby the migrant borrows in order to pay for the costs of migration. He also enlists the help of his relatives in taking care of his immediate family and assets in his absence. In return, he repays them for the loan and services through remittances and gifts which he brings back during his visits home. In addition to receiving compensation for their services and loans, the relatives gain access to the migration network which allows members of their immediate families to emigrate. In the case of Gulf migration, the migration network provides information about the availability of jobs, but also overcomes the restrictions that regulate worker entry.[7]

In addition to sending remittances regularly, migrants also hand-carry a sizeable amount of their savings in cash and gifts. From the standpoint of the individual migrant, there may be little difference between cash savings (remittances and retained savings) and gifts brought home in person. Such transfers of wealth, as Lucas and Stark have argued, may be motivated by altruism -- to support the family -- and by self-interest -- to preserve the migrant's interests (such as inheritance or access to credit) for the future. Similarly, gifts, in the form of consumer durables and non-durables, may also have altruistic and self-interest motivations. Gifts for the immediate family are an alternate way (other than remittances) of altruistic transfer between the migrant and his family. They may also be used for self-interest, i.e. to recompense relatives in the extended family for the financial and non-financial services they render in the migrant's absence.

The compensation for non-financial services rendered by the relatives is not solely in the form of cash. Two factors may explain this. First, the prevalent culture in most poor emigration countries of Asia puts strong emphasis on ties between extended relatives. The contract between the migrant and his relatives for financial and non-financial services is therefore largely informal. Relatives may not like an all cash compensation because they may not like to give a "market flavour" to the contract. They may thus expect some of the compensation in non-cash form. Second, tariffs on imported consumer goods raise the domestic prices of such goods over their international level, thus making it rational for the returning migrant to lock his purchase of such goods overseas.

The credit contract differs from the contract for non-financial services. We hypothesise that due to the monetary nature of the loan arrangement, most of the compensation (repayment of principal and payment of interest) will be in cash. It is possible due to reasons discussed earlier that some may also be in the form of gifts, either mutually agreed upon between the two parties or brought in by the migrant on his own. Both kinds of non-financial services -- looking after the migrant's immediate family and his physical assets -- on the other hand, are likely to require the physical presence of the extended relative with the migrant's immediate family or vice versa. This means that the migrant may have to pay for sustenance of the relative in addition to the compensations for his services. We hypothesise that the migrant will use remittances to pay for the extended relative's sustenance while he will compensate for services in the form of gifts.

The two contracts differ in terms of enforcement also. The credit contract is between the migrant and his extended relative whilst that for non-financial services also involves the immediate family of the migrant. Payment to the relative can be in three forms: through remittances, retained savings or gifts brought home in person. In the contract for non-financial services, the immediate family is a beneficiary and is as a consequence not likely to renege. We hypothesise that the migrant transmits the compensation for such services through remittances he sends to the immediate family, with the expectation that it will not suffer from moral hazard problems. As the agreement for migration loans is likely to be between the migrant and the extended relative only, the repayment is likely to suffer from enforcement problems if it is made

7. Labour importing countries in the Middle East require foreign workers to have authenticated documents from a host-country employer along with a "No-Objection Certificate" or NOC, issued by the host government. Relatives and friends already employed in the Middle East can be of immense help in arranging for employment and obtaining NOCs. Matthew and Nair (1978) find that 37% of the migrants in their survey obtained NOCs through close relatives such as brothers, fathers and brothers-in-law. Another 24% obtained them through other relatives and friends.

through remittances to the immediate family. We hypothesise that the repayment for migration loans will be through direct transfer between the migrant and the extended relative -- i.e. through gifts and savings retained abroad and brought home in person.

Data and Specification of Variables

The data used in this paper is obtained from a survey of Pakistani return migrants conducted by the Asian Regional Team for Employment Promotion, International Labour Organisation (ILO-ARTEP) in 1986. The survey covered all the emigration regions in Pakistan, and is in terms of its scope an improvement on regional (village-level) surveys usually available on the subject. Information was collected on the three phases of migration: the premigration phase, the period spent abroad and the period since return. Information on the level of wealth and socio-economic variables before migration includes ownership of land, housing and the level of skills and education. Migrants were also asked about how much they borrowed to finance migration, and whether relatives were left in charge of taking care of assets and the immediate family. For the period spent abroad, information was gathered about the levels of remittances and expenditure. Migrants were asked to document their expenditures on gifts for friends and relatives.

In order to analyse expenditure and saving behaviour of international contract migrants, three equations are specified -- remittances, retained savings and gifts. The specification of the remittance and retained savings equations follows the specification used in the remittance literature. As gifts may be another form of intertemporal saving for the migrant, we specify the form of the gifts function in a similar fashion. Savings and gifts are hypothesised to be functions of overseas income. Kumcu argues for testing for non-linearity in the relationship between income and remittances, as marginal propensity to save may change over different levels of income. We explicitly account for non-linearities in the relationship between income and savings by including a quadratic income term as an explanatory variable. Kumcu also shows that migrants of rural and urban origin differ significantly in their savings and consumption behaviour, and they may in fact belong to two separate groups.[8] While we do not separate the sample along rural/urban lines, we do include intercept and slope (interactive with income) dummies to account for any differences in remittance and expenditure behaviour of migrants of urban and rural origin. The savings-demography literature finds strong associations between marital status and number of dependants and savings. In the context of international migration, these relationships are confirmed by Kumcu (1989) and Merkle and Zimmermann (1992). To this end, we include marital status (if ever married) and number of children in the equations. Age is included to account for the different stages in the migrant's life cycle and length of time horizon. Two wealth variables -- land and home ownership -- are included to control for permanent wealth in migrant saving and gifts functions. Lastly, the role of migration credit taken from relatives is explicitly assessed by including this variable. A dummy variable for whether extended relatives took care of the family in the migrant's absence is also included in the functions.

Results

Table 1 provides summary statistics of the variables used in econometric estimation. Remittances account for 44% of overseas income, while migrants bring home 27% of their overseas income in the form of cash. Gifts brought home during visits are as much as 10% of repatriated cash savings. A third of the

8. This leads him to separate the sample along rural and urban origin lines.

migrants take their immediate families abroad, while 35% entrust extended relatives to take care of them at home. The average size of the migration loan is Rs 5,320.

Results of econometric estimation are provided in table 2. As all the migrants reported non-zero level of remittances, the remittance equation is estimated by OLS. Tobit was used for the estimation of retained savings and gifts functions because 108 (9%) reported no retained savings while 321 reported zero expenditure on gifts.

The rate of intertemporal saving of contract migrants is extremely high, suggesting that migrants perceive their high overseas incomes as temporary in a life-cycle sense. The marginal propensity to save (remittances and retained savings) ranges from 0.87 for migrants from rural areas to 0.80 for those of urban origin. After controlling for dependency, wealth and age, there appears to be a concave relationship between both retained savings and gifts and income.[9] The concave relationship implies that there is satiation at high levels of income of both, confirming the observation of Russell (1986) that for Middle East migrants, the propensity to consume is higher at high levels of foreign income.

Migrants repay migration loans taken from relatives in the form of gifts, and not through remittances sent to the family. A rupee of loan increases gifts by Rs 0.47, but reduces remittances by almost Rs 0.6. Contrary to our hypothesis, the cash repayment for loan does not show up in retained savings either. It appears that in their responses, the migrants did not include repayment of loans in remittances or retained savings. Parallel information on such transfers was not collected either. Thus the econometric estimation only picks up the non-cash portion of repayment.[10] The results indirectly confirm our hypothesis that credit contracts are between the migrant and his extended relatives, and in order to ensure repayment, the migrant repays directly instead of involving the family. It ought to be noted that the data on another form of repayment -- providing the extended relative or his immediate kin access to the migration network -- was not collected either.

Non-financial services of the relatives are repaid through both cash remittances and non-cash gifts. In this case, since the extended relative delivers a service to both the migrant and his immediate family, the latter does not have an incentive to renege on the informal contract.

Conclusion

This paper provides one explanation for the expenditures of international contract migrants on consumer goods. It is argued that these outlays can be explained by the absence of formal credit markets for migration as well as by non-financial services rendered by relatives in the extended family.

The results raise interesting issues for researchers and policy makers. As a portion of migrant expenditures on consumer goods is for compensation of services rendered, it ought to be seen as savings rather than consumption. Furthermore, an analysis of migrant expenditures on consumer

9. A log transformation of the income variable was also used. The results did not differ much from a quadratic specification.
10. Many consumer items, especially imported appliances, are expensive in Pakistan because they are taxed as luxury goods at the border. In the Middle East, in most cases, such goods are not subject to tariffs. In the data, the migrants' expenditures on these items are valued at overseas prices. Thus the value of repayment in the form of consumer items is likely to be understated in the survey.

items ought to take account of familial arrangements. This is difficult in most surveys because information on such arrangements is not collected. However, the results in this paper should serve as a caution to those who lament the high expenditure on consumer goods by contract migrants as wasteful and conspicuous.

The results also establish a link between cost of migration and migrant outlay on consumer goods. If policy makers wish to reduce the latter, they should devise policies that lower the former. Policies that regulate private recruiters, should reduce the margin between their costs and revenues, thus lowering the exorbitant recruitment fees. This in turn would reduce the need for loans to cover migration costs, hence decreasing the repayment to extended relatives through gifts. Of course, whether such a switch from non-cash to cash savings would result in productive uses in the end needs to be investigated.

Fluctuating or steadily devaluing exchange rates may also make international migrants averse to repatriating in cash that part of their savings that are earmarked for consumer goods. This aspect is not addressed in the paper. It may be rational for migrants to hedge against exchange risks by purchasing the consumer items overseas and bringing them home in person. When hard currency is exchanged overseas instead of at the border, the home country loses foreign exchange, particularly when similar consumer goods are produced domestically. Further, tariffs on consumer items in source countries, and their absence in host countries create a value differential that makes it rational for international contract migrants to purchase consumer goods overseas rather than at home. The results of this paper should be used as an input in designing trade and tariff policies for consumer items.

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Table 1: Summary Statistics

Variable	%	Mean	Standard deviation
Savings (000 Rs.)			
Remittances		106.65	160.71
Retained Saving		66.07	138.04
Gifts (000 Rs.)		6.43	11.90
Overseas income (000 Rs.)		243.91	311.88
Age (at migration; in years)		30.18	8.74
If ever married	66.4%		
Never married	33.6%		
Number of children		2.00	3.57
Family accompanied migrant abroad	33.6%		
Family stayed back with relative	35.0%		
Family stayed back on its own	31.4%		
Home owner	88.6%		
Land (acres)		13.32	235.27
Urban origin	38.8%		
Rural origin	61.2%		
Migration loan from relatives (000 Rs.)		5.32	7.71
Sample size = 1,263			

Table 2: Remittance, Retained Savings and Gifts Functions

	Remittances[1]	Retained Savings[2]	Gifts[3]
Overseas income	0.549**	0.3254**	0.0261**
	(10.05)	*(15.29)*	*(11.13)*
Income squared (×1.0E-04)	- 0.4850	- 0.4458**	- 0.0401**
	(1.30)	*(5.83)*	*(4.83)*
Income × urban-origin	- 0.1664*	0.0890**	- 0.0024
	(2.19)	*(3.48)*	*(0.85)*
Age	0.3083	0.1128	- 0.1019**
	(0.70)	*(0.24)*	*(1.93)*
Ever married (dummy)	- 11.9890	22.5720**	- 2.7156**
	(1.30)	*(2.02)*	*(2.21)*
Number of children	- 0.3704	- 0.5773	0.6414**
	(0.40)	*(0.59)*	*(6.10)*
Family accompanied migrant abroad (dummy)	1.3118	- 4.6656	1.3585
	(0.12)	*(0.42)*	*(1.10)*
Family stayed back with relative (dummy)	17.603**	- 14.9900	3.3826**
	(1.94)	*(1.31)*	*(2.69)*
Home owner (dummy)	32.2060**	- 31.8370**	1.9864*
	(2.03)	*(3.08)*	*(1.72)*
Land (×1.0E-02)	- 0.0198	0.1212	0.7042**
	(0.05)	*(0.09)*	*(4.76)*
Urban origin (dummy)	29.8160*	- 27.3640**	1.9349*
	(1.82)	*(2.93)*	*(1.88)*
Migration loan from relatives (000 Rs.)	- 0.5906	0.1816	0.4701**
	(1.63)	*(0.42)*	*(9.99)*
Intercept	- 45.7000**	3.1704	- 5.0166**
	(2.99)	*(0.18)*	*(2.57)*
R^2	0.45		
Squared correlation between observed and expected values		0.42	0.34
Sample size = 1,263			

Note:
1 Ordinary Least Squares Estimation.
2 Tobit Estimation with 1,155 non-zero observations.
3 Tobit Estimation with 942 non-zero observations.
Absolute values of t-ratios in parentheses.
** (*) significant at the 5% (10%) level.