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The Expatriate Workforce: Boon or Bane?

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THE EXPATRIATE WORKFORCE: BOON OR BANE?

by: Ahmed Zayan Mohamed*

1. Introduction

The number of expatriate workers in the Maldives experienced a huge boom in recent years, increasing 188% between 2000 and 2011 to 79,777. This implies that an expatriate worker is present in the country for every 4 members of the local population¹. Although this large influx to the population contributes to economic growth by boosting consumer demand and by providing human capital to meet shortfalls in local (available and willing) labour, problems such as increased pressure on the already strained foreign exchange market and detrimental effects on local employment are likely to be exacerbated. This article looks at the characteristics of the expatriate workforce² (defined here as the official number of expatriate *workers* in the country) in the Maldives, and discusses the potential benefits and problems their large and growing numbers could pose for the economy.

2. The Expatriate Workforce

2.1 Trends in Expatriate Employment Since 2000

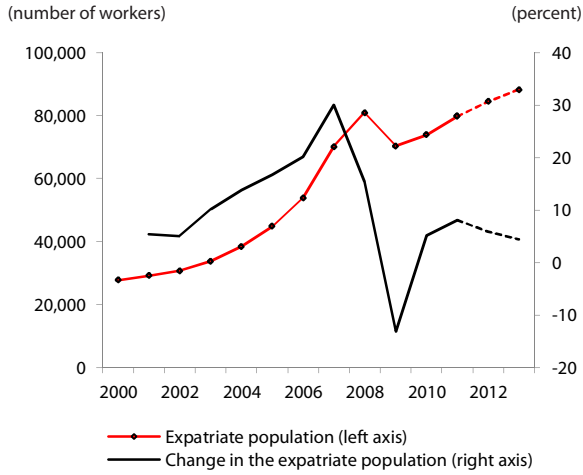
As Figure 1 shows, the expatriate workforce in the Maldives stood at less than 30,000 in year 2000. However, this number grew at an increasing rate till 2007, and peaked at 80,839 at the end of 2008. A significant portion of this increase is likely to have

1 Local population data was obtained from the Ministry of Planning and National Development (2006) and Department of National Planning (2013).

2 Expatriate employment numbers were based on data provided by the Ministry of Human Resources, Employment and Labour in 2011. The data for 2011 was obtained from the Department of National Planning (2012a).

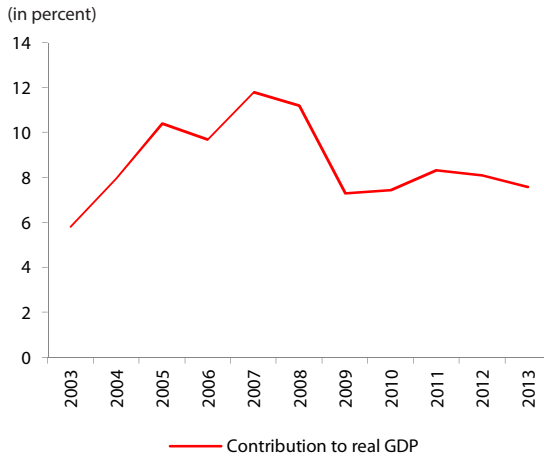
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Figure 1: The Expatriate Workforce, 2000–2013



Source: Department of National Planning; Ministry of Human Resources, Employment and Labour

Figure 2: Contribution of Construction Industry to GDP, 2003–2013



Source: Department of National Planning

stemmed³ from the construction boom witnessed after the Indian Ocean tsunami in December 2004. Numerous resort development projects initiated around this period further boosted construction sector activity, and thus also contributed to this spur in

³ The analysis done in this article is based on correlations throughout, and does not refer to causation. Therefore, further research (beyond the scope of this brief article) will be required for concrete proof of the exact relationships and their respective magnitudes.

expatriate employment numbers. This is indicative by the change in the contribution of the construction sector (which is labour intensive and largely dependent on expatriate workers), to GDP post-2004. Construction sector's share of real GDP rose from 6% in 2003 to 11% in 2008, before declining sharply with the close of the majority of reconstruction projects and reduced access to finance due to the global financial crisis. As expected, the eventual decline in construction is reflected in the total expatriate numbers, with the expatriate workforce diminishing markedly in 2009 before gradually increasing again. Overall, between 2001 and 2011, the number of expatriate workers increased at an average of 11% per year and by the end of the period reached 79,777, which is three times higher compared to its level in 2000. Although official expatriate employment data is unavailable after 2011, it is estimated that the number would have increased to 88,175 by the end of 2013⁴. However, the growth in the expatriate labour force is expected to decelerate over 2012 and 2013, to an estimated average of 5.1% over the two years.

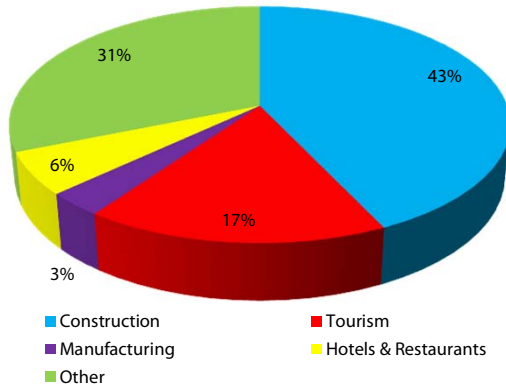
2.2 Key Features

Of the 79,777 expatriate employees in the country at the end of 2011, 78,097 were of Asian origin, with Bangladesh and India contributing a significant 57% and 24% respectively to total expatriate employment. It is possible to find expatriate labour by offering much less (in the range of US\$150.0 to US\$200.0 per month for unskilled labour) compared to what is usually demanded by locals to perform the same tasks due to the abundance of low paid (especially unskilled) workers in these neighbouring countries. For example, close to 45% of all employed workers in India earned less than US\$2.0 a day in 2005 (International Labour Organization, 2013, p.40). Therefore, the skew of the expatriate workforce towards other South Asian countries can largely be attributed to Maldivian employers trying to minimise labour costs. Other factors responsible for this could include anti blue collar sentiments among certain (usually the younger) factions of the local working age group, and a general skills mismatch between unemployed locals and available jobs.

Another key feature of the expatriate labour force is that a significant majority are unskilled workers. For example, 37,931 (48% of expatriate workers) were reported to have worked in elementary occupations in 2011. This figure is much higher once other

⁴ Estimates refer to extrapolations based on data from 2006 onwards. The methodology chosen assumes that the correlation between expatriate population numbers and the growth rates of real GDP and the construction sector do not significantly change over the period.

Figure 3: Expatriate Employment by Industry, 2011



Source: Department of National Planning

occupations that do not require much specialised knowledge or skills are added to the count. A key reason why this dominance of unskilled expatriate labour arises is because the gap in expected returns for unskilled labour between local and most other South Asian countries is larger than that for skilled labour. Models of migration such as Harris and Todaro (1970) suggest that workers maximise expected returns (wages would factor into this, and presumably play a major role), and that migration only occurs if the expected returns to working in a new host country is higher than at home⁵. In this case, the expected returns of migrating and working in the Maldives is higher for unskilled workers from neighbouring South Asian countries compared to that for skilled workers, mainly due to the greater wage gap for unskilled labour compared to that for skilled labour. Another reason which contributes to this dominance of unskilled expatriate labour is the mismatch of skills between local (mostly young and inexperienced) job seekers and the demands of employers. Coupled with the reluctance to take on blue collar jobs among some segments of the local population, employers are forced to meet their labour demands from abroad. The low supply of local unskilled labour together with the high and readily available supply from abroad thus leads to this relatively large influx of unskilled expatriate workers into the economy.

Looking at the distribution of expatriate workers across industries, the construction industry is by far the largest employer of expatriate labour, responsible for 43% of

⁵ The actual realised returns may be different from expected returns, but as potential migrants (expatriate workers) only have an idea of expected returns ex-ante, only this is used in making the decision to migrate. This could be a reason why migration still occurs even when a significant proportion of expatriate (mainly unskilled) workers end up in poor conditions or in informal jobs with lowly wages.

all expatriate employment in the country. This is followed by the tourism industry which accounts for another 17%. As a result, shocks to these industries are likely to have repercussions on expatriate employment as employers hire or lay off workers accordingly. This is also indicated by the data presented in the previous section regarding expatriate employment in the construction industry following the construction sector boom post-2004.

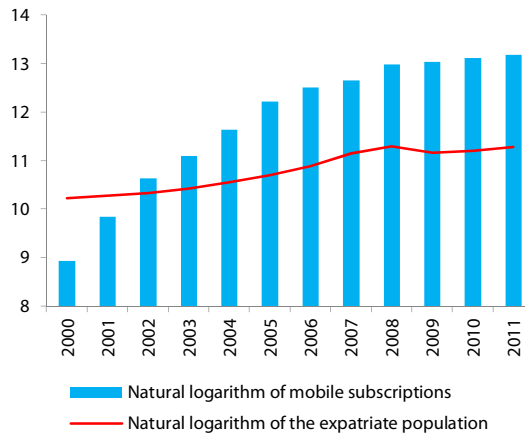
3. Potential Benefits from the Expatriate Workforce

3.1 Demand-side Benefits

A large and growing expatriate labour force means more consumers in the domestic economy, and thus can have potential benefits in the form of higher consumer demand. One industry which reaped the benefits of this and grew in tandem with the expatriate population is the communication industry. On average, the communication industry grew at 10% per annum between 2002 and 2011, while the expatriate population grew at 11% in the same period. A channel through which the inbound expatriate workers gave this boost to the industry can be seen by the effect on mobile phone subscriptions. As Figure 4 shows, the natural logarithm of the number of expatriate workers moves together with the natural logarithm of mobile phone subscriptions (the logarithm is taken for scaling purposes)⁶. Specifically, the expatriate labour force and the number of mobile phone subscriptions (levels of the variables referred to here) between 2000 and 2011 are highly positively correlated with a coefficient of 0.97, which is significant at the 1% level. The correlation between the expatriate workforce and telecommunication industry revenue between 2005 and 2011 is also significantly positive, although the magnitude is slightly lower in this case. This is because most newly arriving expatriate workers will want to and thus subscribe to use mobile phone services as this is the primary and most convenient mode of communication presently available. Therefore, it is highly likely that the communication industry's growth was in part due to the increasing expatriate population in the country. The period saw the entry of a second telecom operator into the market which brought down tariff rates due to competition, and this too is likely to have been a driving factor behind the growth of the communication industry.

⁶ The number of mobile phone subscriptions increased at a much faster rate because this was a period during which a significant part of the local population first started using mobile phones too.

Figure 4: Expatriate Population and Mobile Subscriptions, 2000–2011 (in logarithm)



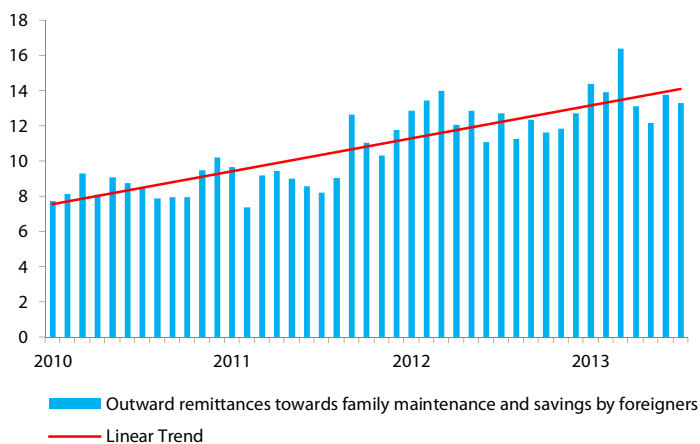
Source: Maldives Monetary Authority

3.2 Key Source of Human Capital

Expatriate workers contribute to the economy by meeting shortfalls in human capital which cannot be met locally due to skill mismatches or otherwise. This is especially true for unskilled labour, although it is necessary to rely on expatriates for some highly technical positions as well. According to the Department of National Planning (2012b), the unemployment count among the local population in 2010 was 13,033⁷. Meanwhile, the number of expatriate workers at the end of the same year totalled 73,840, which implies that even in the unlikely case of full employment, the local population alone would not be able to cater to the labour demands of the economy which is currently met by tapping into foreign labour markets. As such, it is unlikely that the current level of economic growth can be achieved without the contribution of the expatriate population. Evidence from the outside world indicates that this is country specific, for there are countries which exhibit strong growth both with and without much reliance on foreign labour. For example, the majority of countries in the Gulf region (who generally have respectable growth rates) have a very high dependence on expatriates, with the share of foreign labour even exceeding 75% in some cases like Qatar and the United Arab

⁷ The International Labour Organization’s (ILO) definition for (un)employment is used in this article, which counts as unemployed the people who were 15 years and over, had no employment during the reference period, were available for work except due to temporary illness, and made specific efforts to find employment sometime during the reference week. This definition excludes 25,460 discouraged workers from the unemployment count who are sometimes included under a broader definition.

Figure 5: Monthly Outward Remittances Towards Family Maintenance and Savings by Foreigners, 2010–2013
(in millions of US dollars)



Source: Maldives Monetary Authority

Emirates⁸. On the other hand, there are also countries which manage consistent growth with a relatively small expatriate contribution. One such example is Seychelles, which had an expatriate share of just 25% in 2011 (National Bureau of Statistics, 2013, p.26).

4. Potential Problems

4.1 Sizable Outward Remittances

Typically, expatriate workers remit a part of their earnings back to their home countries for purposes such as family maintenance, saving, donations, etc. Therefore, a direct consequence of a large and growing expatriate population is the outflow of foreign currency in sizable and increasing amounts from the domestic economy. Figure 5 shows monthly outward remittances by foreigners towards the sole purpose of family maintenance and saving⁹. It indicates that huge amounts of foreign currency are remitted out every month, and that these amounts are steadily and constantly on the rise. For

⁸ The corresponding share for the local economy in 2010 was 43%.

⁹ The data only includes remittances made via the commercial banks operating in the Maldives. Also, as the data for the month November 2011 contained an outlier and March 2012 was not available for one of the banks, an average of the preceding and following months was taken for this institution in these months. It should also be noted that family maintenance and saving is just one of the eight purposes for which outward remittances are made. The data is restricted to remittances made for this purpose to isolate as much as possible the transactions made by expatriate workers. Therefore, the data presented is an under-estimate.

example, the average amount of foreign currency remitted outwards (for the selected purpose) during the first six months of 2013 was US\$14.0 million, which is an increase of 64% compared to the average of US\$8.5 million remitted out during the first six months of 2010. The outflow of foreign currency in these large amounts will further exacerbate the pressure in the foreign exchange market.

It should be emphasised that the remittance data used in the analysis is that for a single purpose only and so should be viewed only as a lower bound of outward remittances by expatriate workers. Therefore, the actual magnitude of foreign currency outflows and the resulting negative impact will likely be more pronounced.

4.2 Crowding Out of Local Labour

According to the Department of National Planning (2012b), 98,393 out of 111,426 economically active people were employed in 2010 (the economically inactive count was 100,617). Furthermore, an unemployment rate of over 40% prevailed for those between 15 and 24 years of age in the same year. The low level of employment of locals in the country, and especially the high level of inactivity is very likely to be contributed to by the large and growing expatriate population. In particular, relatively less skilled or less educated locals can be easily displaced by incoming low skilled expatriates, as low skilled expatriate workers usually demand much lower wages compared to locals. The local-expatriate wage gap for skilled labour is narrower (meaning that displacement by foreigners among this group will likely be less), as skilled labour usually demands high wages regardless. Also, as discussed before, the majority of expatriate workers in the country find work in elementary occupations that require less specialised skills. For example, the construction industry, which contributed the third most to nominal GDP in 2010 (10%), only employed 4,459 locals or 5% of total employment in this year. However, in comparison, 31,866 expatriates were working in the industry in the same year (Department of National Planning, 2011). This is another reason why the relatively less skilled and less experienced of the local population are likely to suffer more in the job market. The economically inactive are likely to be from among the less skilled too, as withdrawal from the job market could occur if losing potential jobs to expatriate competition for too long lowers morale and the desire to find work. This could lead to the more severe problem of hysteresis, that is, the long term withdrawal from the labour force due to reduced employability from remaining inactive for an extended period of time. The economy's productive potential will suffer if this occurs.

4.3 Other Potential Problems

Other potential problems of a large and growing expatriate workforce include a rise in government expenditure. This could result from a need to increase monitoring by the immigration authorities or due to the additional law enforcement effort that will be required to cater for a larger population. Another indirect way the government expenditure could increase is via subsidies that envelope expatriates as well. For example, the subsidy on rice, flour and sugar imports is a blanket subsidy which does not differentiate between final consumers. The subsidised price, which is applicable to all buyers, is set lower compared to the market price using the contribution by the government. Therefore, a growing expatriate population will increase the number of people that have access to these types of universal amenities from the government.

A further consequence of such a rapidly growing expatriate population is the potential exacerbation of certain social problems. The gradual decline of cultural identity as foreign norms and values slowly get integrated into society may also be a reason why large inflows of expatriates may face opposition. In fact, Pritchett (2006, p.99) argues that “of all the ideas that limit migration, perhaps the most important is the idea that there is a national “culture” and that increased labour mobility threatens that culture”. Therefore, potential problems, or at least arguments that are not tied to economic rationales are also abound concerning the inflow of foreign labour.

5. Conclusion

The expatriate workforce in the Maldives has increased by leaps and bounds in the past decade or so, bringing along many changes to the economic and social landscape of the country. Although the potential problems of a large and growing expatriate population are usually discussed due to the nature of the subject, benefits are also being realised to some extent. It should be noted that although the trends and characteristics discussed above are likely to hold true in a general sense, the expatriate population numbers used in this study are very likely to be underestimated. This is because the Department of Immigration and Emigration estimates that a relatively large number of illegal expatriate workers that are off the records are in the country too. The magnitude of the benefits and problems discussed above are thus likely to be even higher in reality.

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