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Overseas Employment, Savings Rate and
Income Distribution: The Philippine Case

by

Edita A. Tan

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ABSTRACT

The first part of the paper gives a brief history of labor emigration; it also explains the Filipino's relatively high propensity to migrate by the country's colonial experience and the flexibility of its labor market. It then applies the life cycle consumption theory to families who receive income from abroad. Foreign employment is generally of short duration and results in a bulge in the overseas workers' income path. A higher saving rate from overseas income is expected. This hypothesis is tested using the 1988 Family Income and Expenditure Survey. It is further found that overseas employment has improved income distribution since the large majority of the migrant workers come from the lower income groups.

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Income Distribution: The Philippine Case

by Edita A. Tan*

This paper looks at the intra-East Asian labor movement which is playing an increasingly important role in sustaining the dynamism of the region. The flow of labor within the region is seen in the broader context of factor flows within a highly interdependent region. We have two groups of economies - the labor-short economies of Japan and the NICS (Singapore, Hongkong, Taiwan and South Korea), and the industrializing but labor-surplus and generally resource-rich economies of Indonesia, Malaysia, Thailand and the Philippines. Japan and Taiwan are the two largest capital-surplus countries in the world and an increasing percentage of their capital has moved to the region.

Labor movement within the region is already fairly substantial though much of the flows are as yet not recorded. Malaysia exports labor to Singapore and imports labor from the border areas of Indonesia and the Philippines. Thailand exports labor to Singapore, Malaysia, the NICs and Japan while it employs labor from its Northeastern neighbors. While Indonesian farmers and fishermen are reported to freely move across the Malaysian-Indonesian borders, Indonesia imports accountants and

*Professor of Economics, University of the Philippines, Diliman Quezon City. The author would like to acknowledge the support of the International Labor Organization and the United Nations University. The assistance of the following are very gratefully acknowledge: Joseph Capuno for the programming work, Olive Zinampan for overall research assistance and Fely Galaites for typing the final draft.

business managers from the Philippines. The Philippines is mainly a labor exporter and its workers are found in all East Asian countries and in many other places in the world. There is clearly a movement of labor to Japan and the NICs but it is not clear whether Malaysia and Thailand are net importers or exporters. With their pace of industrialization proceeding as rapidly as in the past two decades, they will soon reach full employment. They are now experiencing labor shortages in some skills. Indonesia has never been a major labor exporter for its labor force appears to have a relatively low propensity to migrate for better wages. Its labor outflow has been confined to the neighboring areas where the culture and the physical environment are not distinguishable from its own. Filipino labor, in contrast, exhibits a rather high propensity to migrate. The historical basis of this propensity is discussed below. The attractiveness of foreign employment increased as the economy failed to grow rapidly and generate enough jobs for the increasing labor force. Growth rate has been the lowest in the region and unemployment rate worsened through the whole of the 1980s. It is expected that the Philippines will be the only source of surplus labor for the region in the coming decade or two.

The Philippines has the option of attracting direct foreign investment or exporting its excess labor, or both. However, the climate for foreign investment has not been encouraging, and even worsened further by the instability experienced from 1983 to 1989. Implicitly, it has therefore chosen to export labor. The paper focuses on this option which the country has encouraged. It analyzes the differing implications on growth and income

distribution of direct foreign investment and labor exports. Foreign investment directly adds to the investment resources of a country while labor outflows directly increase national income and hence, savings. It is further argued that overseas employment improves income distribution. The theoretical underpinnings of these arguments are discussed in the analytical framework presented in section 2. Section 3 discusses the trend of capital flow in the region. Section 4 explains the Filipinos' high propensity to migrate. Section 5 gives the dimension, trends and distribution of labor outflows by destination and occupation. Section 6 looks at the immigration policy of capital-rich countries. Section 7 tests the saving hypotheses and section 8 presents data on the impact on income distribution. The data are obtained from the most recent (1988) Family Income and Expenditures (FIES). Section 9 situates the labor outflow in the context of the excess supply condition in the labor market. Section 10 concludes the paper.

2. Factor Flows: An Analytical Framework

The relative marginal rates of return and riskiness determine the direction of capital flow while the relative wage rates determine the direction of labor flow between countries. Capital-rich economies where the likely marginal rate of return to investment is relatively low will tend to export their capital. There are competing destinations where the marginal rate of return and riskiness differ. Capital will tend to go first to the best alternative destination and then to other places until the trade-off between the marginal rate of return and marginal risk is optimal in all places. Firms relocating in labor-cheap economies are able to lower production cost and

become more competitive in the domestic and world markets. Alternatively, or simultaneously, a capital-rich economy may import labor. By increasing the supply of labor, the marginal return to capital increases, the equilibrium wage falls and domestic output rises.

In the capital-poor labor-rich economy, an inflow of capital increases the productivity of labor and its demand. The effect on the wage rate would depend on the condition of the labor market, i.e., whether or not unemployment exists. If the economy is at full employment, the wage rate increases; if with unemployment, the wage rate may remain the same. Domestic output increases. An outflow of labor would have a similar effect on the labor market as a capital inflow. But the two flows are likely to have different impacts on growth and income distribution.

There are other reasons for capital movement. Some exporters relocate production, bringing in capital, in order to break through trade barriers in importing countries or as a way of avoiding the anti-pollution law. Political insecurity is another reason like what might be happening in Hongkong and what happened in the Philippines in the early 1980s. We see positive and negative reasons for capital flows.

Generally, foreign investment increases GDP and employment, directly and indirectly. The foreign-financed projects generate value added and employment. It may also have forward and backward linkages. Foreign investment which intends to take advantage of incentives for import substitute production may, however, have a negative impact on the economy. The import

substitution policy has long been discredited and the foreign investments in import substituting industries would tend to exacerbate the allocative problem since more resources will be devoted to the undesirable projects. Foreign companies have fairly large resources to use for obtaining favorable government decisions. Also, they can take advantage of the host country's ignorance about the negative externalities of their projects or the host country's high time preference, in order to obtain favorable decision on environmental costly projects such as mining and lumbering.

The impact of overseas employment is via the savings rate and income distribution. It is argued here that much of the overseas employment obtained by Filipinos over the last two and a half decades is not permanent. The duration of employment depends on the occupation and destination. Singapore, for example, limits the duration to two years. The seamen in contrast, are usually permanently employed as seamen. Workers in the Middle East go for a definite contract period but some return once or several times. About one half of the workers who left in recent years were return migrants. Unfortunately there is no information on how many of the workers voluntarily cut short their overseas employment and how many have excess supply of labor for overseas jobs. In any case, it is reasonable to assume that most overseas workers stay for just a portion of their working life. They tend to go back to their old occupation and earn the prevailing low wage. Their earning path exhibits a bulge for the duration of their foreign employment. Following the life cycle hypothesis, we argue that the overseas workers would tend to have a higher saving rate as they try to

smooth out over the family's life the bulge in income from overseas work (Tan and Canlas, 1989). The extra savings becomes available for investment. The investment alternatives faced by the overseas workers' families appear to be different from the investment alternatives faced by foreign investors. The studies of migrant families' investment conducted under the ILO-ARTEP sponsorship (Amjad, ed., 1989) do show their propensity to invest in familiar small-scale local enterprises such as passenger vehicles and small shops. In the Philippines education is a popular investment especially since college education is easily accessible. There are a little over a thousand colleges and universities which are spread out throughout the regions and which provide generally low-cost education. The modal tuition in private provincial colleges is P3,000 per year.

Overseas employment has had a more equalizing impact on income distribution than capital inflow. Foreign investment tends to go into large-scale formal enterprises and in joint ventures with local entrepreneurs. While they are found to pay higher wage rates and provide better working conditions than domestic firms (Tan, 1979), the wage gain is relatively small and by no means comparable to the wage differential between overseas and domestic employment. Majority of overseas workers are in low-wage blue-collar occupations such as construction and transport jobs. Overseas employment improves income distribution by increasing the income of the families in the lower income groups. This is supported by data and discussed in Section 6.

Thus we argue that foreign investment of the right kind possibly exerts a stronger effect on long-run growth than labor

flows. The latter, however, improves income distribution.

3. Direct Foreign Investment

The political and economic environment of the country has not been very encouraging to foreign investment. There were serious political upheavals following the assassination of Benigno Aquino in 1983 and the revolutionary change in government in February 1986. Several attempts to unseat the government were launched in the last five years creating a strong sense of political instability in the minds of investors especially foreign. Neither was the economic environment conducive. Foreign equity was limited to 40 per cent of the total; the import-substituting protectionist policies imposed restrictions on imports of intermediate products and were biased against industries with large export markets; the supply of energy and the communications and transport infrastructures were seriously inadequate. The conditions for investments, including foreign, were such that factor flows favored labor exports rather than investment inflows. It is as if government policy was against the latter flow. The results of the policy are evident in the small share of the Philippines in the foreign investment flowing to the ASEAN region.

Table 1 gives the trend from 1970 to 1988 of direct foreign investment to the members of the ASEAN, excepting Brunei. Singapore, the most industrialized country of the Association absorbed the bulk of the investment, 36.0 per cent in 1970 to 1980, and 47.5 per cent in 1981-1988. Malaysia, the smallest member of the Association is a good second to Singapore in its share, 34.5 per cent and 24.9 per cent for the same periods. The

Philippine share is the smallest - only 3.6 per cent and 6.0 per cent for the respective periods. Note, however, that despite the instability that has damaged the investment environment of the country, the Philippines under the administration of Aquino attracted relatively more foreign investment. Its share in 1986 to 1989 shot up to 8.7 per cent from 3.6 per cent in 1970-1980.

There are pluses and minuses in the future prospects of the country in attracting foreign investment. The Congress recently passed a new foreign investment law (July 1991) allowing 100 per cent foreign equity (60 per cent before) excepting those in a negative list.¹ Having lagged behind its neighbors, Philippine labor and real estate for factory sites are cheaper. Skilled labor of all types is in excess. Since the last attempted coup in December 1989, the government has been able to diminish the power of both the communist insurgents and the rightists. At this time the President has been able to change the whole leadership of the military. The minuses take the form of the still sluggish construction of infrastructures in the communications, transport and energy sectors. Possibly a more effective leadership will be elected in May 1992 which can improve the implementation of projects.

4. The Propensity to Migrate: A Historical Perspective

The low rate of economic growth and the persistently high unemployment have pushed many Filipinos to search for jobs in

¹It is important to note that the negative list is to be decided by the National Economic and Development Authority (NEDA), a more rational and liberal agency than the Department of Trade and Industry which until the new law was passed had the responsibility for licensing foreign investment. The latter's policy had been protectionist especially of import-substituting industries.

foreign lands. Aside from the expected benefits from migration, other equally important factors to acknowledge here are their greater willingness to leave their homes and ability to find jobs abroad. They definitely have a greater propensity to migrate than many of their ASEAN neighbors. In the 1970s when the country's economic performance was at par with Thailand and Indonesia and all three countries suffered from high unemployment, many more Filipinos worked abroad than Thais and Indonesians. This high migration propensity may be explained by several factors. One is historical, the other is the flexibility of the labor market.

The American colonization of the country though resisted militarily for about five years, left positive impressions on the Filipino masses. America succeeded in pacifying the people through education. The colonial government established a mass public primary school system, a fairly large public high school system, and key tertiary institutions. It allowed the establishment of private educational institutions of various types. Many scholars were sent to the United States, some to its best universities. McArthur was popularly seen as a liberator of the country against the Japanese occupation. There were other reasons for the positive feeling about America, propaganda not excluded. The positive feeling that had developed reduced the risk perceived by the first migrants to America. Communications between the first migrants and their relatives further reduced the risk of migration to America. This first wave of migration was soon followed by skilled workers who helped construct the bases in Guam and other places immediately after World War II. The liberalization of the immigration law in 1963 which replaced

the very limited racial quotas for Orientals with occupation-based rules opened up new opportunities. This caused the second wave of emigration to America, with majority of the migrants consisting of professionals. On the whole, Filipinos succeeded in vastly improving their lives in America and their stories were made known to their relatives and friends who were left behind. These experiences have engendered in the average Filipino a very positive attitude toward overseas employment. This explains his greater willingness to take the risk of difficult adjustments in places of very alien culture and physical environment. In fact the Philippines has had the largest recorded labor outflow in Asia in recent years, even exceeding that of India.

The presence of fellow countrymen in many destination points reinforces the Filipinos' propensity to migrate since it provides them with information about conditions in strange lands, thus lowering the risk. It also lowers the financial and psychological costs of settling down. The first wave of migrants provide some form of social security to the newcomers. They help each other find lodging, financial and other forms of assistance when ill or unemployed, and protection from physical threat of any kind.

Labor market flexibility is another important explanation of the large and continuous outflow of labor. The country has a relatively large educational system that is highly sensitive to the changing demand for skills in the domestic and foreign markets. The public and private educational institutions are of varying importance depending on the level of schooling. The public primary school system enrolls virtually all the children

of school age in the first four grades and about 65 per cent in the next two grades. The enrollment rate (the number enrolled as a proportion of the relevant aged population) at secondary schools is 40 per cent and at the tertiary level, 25 per cent. The private schools enroll about 40 per cent of high school students and 83 per cent of tertiary students. Being totally dependent on student fees, private schools have become quite responsive to the types of education (fields, level, quality) that are demanded by students, and ultimately the labor market. This is evident in the changing mix of the graduates. In the immediate post-independence period when the government was expanding the public elementary school system and developing the bureaucracy, there was a large demand for teachers, clerks and administrators. New colleges and universities were established and those in existence expanded their enrollment, offering programs in teacher training, commerce (accounting, secretarial and business management courses), and law. About 80 per cent of students were then enrolled in these fields. Soon enough, the supply of trained manpower for these jobs exceeded demand and unemployment resulted. As the country developed and industrialized, the demand for engineers grew more rapidly than those of the other professions. Enrollment in engineering schools followed the demand so that their present enrollment share is 20 per cent as compared to 8 per cent in the 1960s. The demand for seamen and medical manpower stimulated the opening of maritime institutes and medical schools. A large proportion of students in these institutions are supposed to be aiming for jobs abroad.

5. Dimension, Trends and Distribution of Labor Outflows

Table 2 gives the comparative trends of labor outflows from the major labor-exporting countries of Asia. All experienced very rapid increases in outflow mainly to the Middle East from the mid-70s to 1981 after which the flow declined for all countries excepting the Philippines. In this year, India sent 276,000, South Korea 175,100, Pakistan 168,000 and the Philippines 266,000. The outflow from Bangladesh, Sri Lanka and Thailand was much fewer - 55,000, 47,400 and 27,000, respectively. The migrants were destined mainly for the Middle East market. As the region's construction boom ended construction jobs decreased. The countries which were heavily dependent on the Middle East's construction jobs suffered overseas employment losses. The downtrend in labor outflows for all the countries possibly resulted from their dependence on one destination and one sector.

The Philippines has had a generally upward trend from 1970 to the present though there were temporary drops that occurred in 1983-1985. The processed workers in 1990 numbered 597,000. The outflow to the Middle East continued to increase up to 1983, after which it began to decline gradually. New jobs in new occupations and new destinations were found, replacing the job losses in the Middle East. Additionally, seamen continued to increase through the 1975-1990 period with only few intermittent declines in outflow. Table 3 shows how much the composition of overseas workers has changed over this period. The share of the Middle East first rose from 12.4 per cent in 1975 to its peak of 67.0 per cent in 1981 and then gradually fell to 72 per cent in 1987. Asia is the second most important destination. Its share

varied inversely with that of the Middle East, falling from 33.7 per cent in 1975, bottoming at 9.6 per cent in 1981, and rising to 22.5 per cent in 1987. Its share of deployed workers (those counted as having left) is 27 per cent while that of the Middle East is 65 per cent.

The emigration of labor has not been confined to the blue-collar workers and entertainers. Table 4 shows that 21.6 per cent of land-based workers are in the professional, managerial and clerical occupations. Not included in the statistics are scientists who have been lost to international organizations like the World Bank, FAO, ESCAP and IFPRI and to American universities. Recruits to these institutions do not go through the same immigration process as the regular contract workers. Some of these were trained in Western universities but many of the younger ones were trained here. A number of local universities which have the facilities and faculty for advanced instruction and research supply the replacement for the migrating scientists and the job openings in the domestic market.

Likewise, the supply of blue collar skilled labor for construction, transport and other jobs is responsive to demand. It is observed that during the construction boom in the Middle East and when the outflow of construction workers was largest and rising most rapidly, the domestic labor market did not suffer any shortage. In fact the unemployment rate in the construction sector remained high. The writer found from a small survey (1979) that on-the-job training was fairly short. It took less than two years to move from unskilled to middle level carpenter, mason and tinsmith, and another two to three years to achieve

master-level expertise. In transport the training period is even shorter. At any one time, there is a stock of workers at various levels of expertise such that the more skilled workers who migrate can easily be replaced by those in the next lower position. Presumably, the training process can be accelerated depending on demand. This flexibility is enhanced by the absence of social barriers to occupational mobility. Informal interviews of overseas workers encountered in airports and airplanes tell of job shifts from seamen to transport operators, or carpenters to poultry production workers. There are extreme cases where school teachers resigned to take on domestic service jobs.

The skills demanded are country-specific. The Middle East has imported a very varied mix of skills from professionals down to the lowest level. Recorded overseas workers in Europe, Japan and the Asian NICs are largely domestic helpers and entertainers. Illegal migrants to Japan and Taiwan are supposedly industrial workers. Migrants to the United States are mainly professionals. There are untraced workers employed in Taiwanese fishing boats and farm labor moving across the nearby borders of Indonesia and Malaysia. Informal talks with SGV, the largest accounting/consulting firm in the Philippines, point to a significant number of Filipino accountants which the company helps place in banks and other enterprises in Indonesia. The Philippines follows the same accounting system as the United States and American firms in Indonesia find Filipino accountants very suitable to their needs.

6. Immigration Policy in Capital-Rich Countries

The country specificity of the skills imported is partly a reflection of the immigration policy of the labor-importing country. Immigration is a politically and socially sensitive issue in most countries. A mainly economic issue is the conflicting interests of firms and labor. Increasing the supply of labor is favorable to firms but not to domestic labor whose wage rate would likely suffer. Domestic workers do not want competition against migrants who tend to be more ambitious and hardworking. Competition is keener in the more prestigious, comfortable, safe and high-paying jobs. Domestic labor may allow migrants in jobs they do not want to do. Thus we find that many countries have selectively consented to the immigration of household help - the least prestigious and lowest paying job. The availability of low-wage foreign maids allow housewives to substitute market jobs for housework giving them much monetary and non-monetary gains. In Japan the decline in the supply of geisha and those in related services let the government import entertainers from the Philippines and Thailand. It is reported that in Malaysia, farmers' children now move to the cities to be educated and to enter the professional and industrial labor market leaving the agricultural work to migrant labor from the neighboring countries. It is possible that the industrial production workers who are illegally imported to Japan and Taiwan are employed in the more hazardous and tedious jobs which the natives have left for better employment elsewhere. The loneliness and physical alienation of maritime employment has attracted mostly LDC workers. And now, the fear of AIDS contagion in America is driving away native nurses from the

profession and allowing for the immigration of nurses.

The increasing labor shortage in Japan and the NICs may lead to some relaxation in the immigration policy. However, socio-political considerations will likely limit the number and the skills to be allowed entry. At the same time economic development in the exporting countries will tend to reduce supply.

7. Overseas Employment and Savings

In an earlier paper Tan and Canlas (1989) argued that families who derive their income from overseas employment are likely to show a higher current savings rate than other families. This is because of the temporary nature of foreign employment. Following the life cycle hypothesis, a higher proportion of the temporarily high income will be saved as a way of smoothing out consumption over a family's lifetime than those with the same permanently high current income. Moreover, the families of new migrants may save more since they may not have adjusted yet to their new income level. These two effects may be captured by the duration of work abroad, i.e., the longer the duration of work abroad, the lower the savings rate out of a given level of overseas income. Some evidence to this effect is obtained from a small sample of overseas worker (Tan, 1987). For this study, we use the 1988 national survey of household income and expenditures which reports for the first time income from abroad. We expect that families receiving income from abroad would have a higher savings rate from their current income assuming that on average their income is temporarily high. In other words, the permanent income of families without overseas income is closer to their

current income than for the migrants. Their current income from abroad exceeds their permanent income.

As much as 15.5 per cent of families receive income from abroad, 63 per cent of which are in urban centers. This income contributes about 30 per cent to the total income of families with members employed abroad. The share of this income tends to be higher the higher the income in both rural and urban areas. (Table 5). The average consumption or APC of these families is as follows:

	With Income from Abroad		Without Income from Abroad	
	Urban	Rural	Urban	Rural
APC	.84	.86	.89	.93

We estimated the income elasticity of consumption for the two groups of families, those with income from abroad and those without. The results are as follows:

a) for families with income from abroad:

$$\text{LCONS} = 1.586 + .829 \text{ LTOTIN} + .092 \text{ URBAN}$$

(20.15) (110.9) (7.7) $R^2 = .86$

b) for families without income from abroad:

$$\text{LCONS} = 1.482 + .839 \text{ LTOTIN} + .061 \text{ URBAN}$$

(50.8) (287.4) (12.9) $R^2 = .86$

LCONS = ln Consumption in pesos

LTOTIN = ln Total income in pesos

URBAN/RURAL dummy, 1 if urban household, 0 otherwise

The results are significant and as expected. The income elasticity of consumption is lower for families with income from abroad. However the difference is only one percentage point.

It is possible that the effect of income from overseas employment is not fully captured by the classification of families into families with and without income from abroad. By grouping families this way much of the variance in consumption due to the presence of income from abroad is lost. We tried estimating the relationship between the average propensity to consume and the proportion of income obtained from abroad across all families. Note that in all cases, individual household data were used. The following was obtained:

$$c) \text{ APC} = .923 - .159 \text{ YCATOT} - .030 \text{ URBAN} \\ (300.6) \quad (-10.9) \quad (-6.7) \quad p^2 = .009$$

where APC = share of total consumption to total income;

YCATOT = share of income from abroad to total income;

URBAN/RURAL dummy, 1 if urban household, 0 otherwise.

The coefficient of the proportion of income from abroad is of the expected sign, fairly large and highly significant even if the explanatory power of the regression is rather low as reflected in a low R^2 . A one percentage point increase in the proportion of income from abroad reduces the average consumption by .156 percentage point. Equivalently, the average propensity to save increases as the proportion of income from abroad increases. Note that the definition of consumption includes expenditure in education which is really an investment. Education is a very popular investment alternative among Filipinos and explains the rather high enrollment ratio of the Philippines.

8. Effect on Income Distribution

As mentioned earlier, overseas employment has an equalizing effect on family income. Eighty-nine per cent of overseas workers are in sub-professional categories consisting of production and transport workers, domestic helpers and entertainers who would have earned relatively low incomes if they stayed in the country. The professionals who work abroad are likely to come from the lower income strata of the professional. The children of the rich would have a weaker motivation to work abroad. For them the marginal utility of extra income is smaller while the marginal cost - financial and psychological - is higher. Their opportunity cost in the domestic market is likely to be better than for the poor. Their families tend to have more contacts with employers whether in private or in public offices, and for those with their own businesses, the children are given preferential access to executive positions. For all these reasons, we expect that the main gainers from overseas employment are generally the workers in the lower rung of the occupational and earnings distribution.

The improvement in income distribution is seen in Table 6 which gives the size distribution of income for the two groups of families, i.e., those with and those without income from abroad. Definitely the distribution is much better for the former group. Much fewer families with income from abroad belong to the category 'poor' (taking the poverty income to be approximately P3000): 15.1 per cent versus 39.4 per cent in urban areas, and 41.1 per cent versus 73.4 per cent in rural areas. Only 5.7 per cent of urban families with income from abroad have incomes of P2000 and below versus 18.8 per cent for the second group. The

corresponding figures for the rural families are 20.8 and 49.4 per cent. Overseas income has definitely pushed up overseas workers' families up the income ladder.

Note however that the great majority (63 per cent) of overseas workers' families come from urban centers. This is to be expected considering that the skills demanded abroad are those largely employed in urban centers - industrial and transport, construction, maritime, professional. Also, foreign employers generally require their blue collar workers, including maids, a high school education - something which fewer rural workers have achieved. Another reason is the larger transactions cost to be shouldered by rural labor, for searching and applying for an overseas job. Placement offices are usually located in urban centers and information via the media and other sources is not as amply available in rural areas. For many overseas workers migration is probably undertaken in a sequential fashion. They first migrate to some urban center where they acquire familiarity with the more modern capital-intensive techniques. For the maids, they first learn to operate electrical appliances and get acquainted with cosmopolitan lifestyles.

The survey shows that families receive income and gifts not just from their overseas members but from other sources. As much as 84.5 per cent of families have benefited from such transfers. Some of the gifts are also from relatives and friends who have settled permanently abroad since it is customary to send gifts to ones kin. Family members who work in urban centers also send money home. The total value of all incomes and gifts from abroad and from relatives in a foreign country amount to as much as 12

per cent of total income for urban families and 8 per cent for rural families. The share of this source differs across income levels: it is highest for the two ends of the distribution. (See Table 7.) The income sharing must have helped the lower income groups in alleviating their poverty.

The contribution of the overseas workers to foreign exchange earnings is more substantial than to national saving. The official share of remittances is about 12 per cent of export earnings. It is reasonable to argue that this amount understates the total foreign exchange earnings that flow in each year by at least 100 per cent. Informal channels are popularly used for they are more accessible and cost less. Banks have a very slow clearing process lasting 45 days while a personal courier can deliver in a week's time. Couriers reach the countryside while banks service foreign exchange transactions in their city offices only. The remittances are sold to the black market or Central Bank-registered money changers, who in turn resell them to importers or investors in foreign assets.

The underestimation of remittances may be in the range of \$1 billion to \$3 billion yearly. A conservative estimate is to assume 1 million workers sending \$2,000 per year or \$2 billion worth of remittances instead of the \$.926 billion (1990) sent through official channels (Table 7). The lowest wage is earned by maids in Singapore at \$150 per month or \$1,800 per year. The rest of the workers earn \$3,600 or more. Maids earn \$3,600, in Hongkong and even higher in Europe: seamen receive at least \$6,000, and most production workers in the Middle east about this much. A conservative estimate is an average remittance of \$3,500

from a million stock or \$3.5 billion. This would be about 40 per cent of export earnings in 1990.

9. Overseas Employment and the Labor Market

There is no data on the stock of labor in overseas markets. The writer made an estimate of the stock based on the time series of outflows and the average duration of employment abroad (1984). The estimation is rather crude and based on the assumption that on average each worker stays abroad for two years. The stock would be approximately equal to the number that left plus 1/2 of those who left a year ago. For 1990 this would be 866,000. This does not include those who left clandestinely, without having passed through the processing at the Philippine Overseas Employment Administration. The underestimation is seen by comparing the official flow from the POEA and the separate estimates made including those done for this conference. The POEA records 90,768 of total departures for Asia. The estimates of stocks of Filipino workers in various countries are as follows:

	Stock	Deployed
Japan (Mori)	98,616	41,558
Taiwan (Tsay)	10,138	54
Singapore (Abella)	30,000	4,698
Malaysia (Abella)	250,000	4,397
Hongkong	60,000	34,412
Total	440,754	85,119

The recorded outflow for Europe is only about 7,000 per year. Yet newspaper reports give figures of tens of thousands of Filipino domestics and nurses in Italy, England, Spain and even

Germany. It may be conservative to assume that from 1 to 1.5 million workers are abroad at any one time in recent years.

The Philippine labor force in 1989 was 24.5 million. The total overseas workers (stock) is a fairly large proportion of the labor force or 4.1 to 6.1 per cent using the above estimate. The impact of this large outflow appears not to have wrought much dislocations in the labor market, firstly because of the high unemployment that prevailed during the whole period of rapid outflow, and secondly because of labor market flexibility. The unemployment rate throughout the period of large labor migration was high. In 1975, the open unemployment rate (u) was 4.2 per cent. The economy was then growing at about 6.0 per cent. Starting 1980, as economic growth decelerated and dipped to negative levels in the crisis years of 1983 to 1985, u rapidly rose from 5 per cent in 1980 to 11.1 per cent in 1986. The recovery following the toppling of the Marcos regime led to a gradual reduction in u to 8.3 in 1988. The political instability created by the series of coup attempts followed by the July 1990 earthquake and the June 1991 volcanic eruption drastically slowed down economic growth and the growth of employment. The unemployment rate once again inched up, though not so rapidly. In 1990, u was 8.5 per cent. Added to the open unemployed are the underemployed who are estimated to be about 25 per cent of the labor force. The outflow of workers was well within the number of openly unemployed. (See Table 8.)

Unemployment has prevailed in all occupations including among the professionals. (Note that Table 9 gives the disaggregated figures for the experienced work force. The total

unemployment rate was 5.0 per cent but the disaggregated figure was lower for all occupations. Unemployment among the inexperienced or new entrants is much higher than for the experienced.) Unemployment persisted in all occupations including those where much labor outflow took place, namely production and related occupations: service workers; and the professional, technical and related occupations. Table 11 gives the unemployment rate by level of education. Most jobs abroad require some high school education and here we see that the unemployment rate of labor with this educational attainment was quite high at 7.0 per cent. Among the college-educated, it was even higher at 7.8 per cent. The unemployment rate among the high school- and college-educated has not abated.

The unemployment problem is expected to persist for the coming decade or two, considering the large initial stock of unemployed labor, the relatively high growth of the labor force and the expected slow growth of employment. The government has set modest growth rates of GNP at 6.0 per cent in this decade. This is much lower than the growth rates being enjoyed by its East Asian neighbors. The labor force has been growing at 2.9 per cent per year due largely to the relatively rapid increase in population at 2.3 per cent per annum and the increase in the female labor force participation rate.

10. Concluding Remarks

The Philippines is expected to be the only important source of foreign labor for the East Asian region in the coming two decades. All its neighbors are rapidly industrializing, some having achieved full employment, and a few not far behind. As

its growth rate lags behind those of its neighbors', its wage rate will fall behind at a widening rate. The attraction of foreign jobs will therefore remain. Filipino workers have shown a high propensity to migrate and many of them will respond positively to overseas jobs if these become available. Overseas employment will earn the country foreign exchange, raise the workers' wage rate, increase the savings rate, and improve income distribution. However, these benefits must be weighed against the benefits of attracting foreign capital and achieving a growth target at par with those of other countries in the region. The developmental impact of foreign investment is likely to be greater than that of labor outflow. Moreover, the social cost of labor outflow is not small. The government must consider this option.

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TABLE 1. DIRECT FOREIGN INVESTMENT TO ASEAN, 1970-1989 (in Bn US \$)

YEAR	PHILIPPINES	SINGAPORE	THAILAND	INDONESIA	MALAYSIA	ASEAN
1970	-0.002	0.093	0.043	0.083	0.094	0.311
1971	-0.006	0.116	0.039	0.139	0.100	0.388
1972	-0.021	0.191	0.069	0.207	0.114	0.560
1973	0.053	0.389	0.079	0.015	0.172	0.708
1974	0.004	0.597	0.192	-0.049	0.571	1.315
1975	0.097	0.611	0.087	0.476	0.349	1.620
1976	0.128	0.186	0.081	0.344	0.381	1.120
1977	0.210	0.206	0.108	0.235	0.406	1.165
1978	0.101	0.187	0.050	0.279	0.500	1.117
1979	0.007	0.669	0.051	0.226	0.573	1.526
1980	-0.106	1.138	0.187	0.183	0.934	2.336
1981	0.172	1.675	0.287	0.133	1.265	3.532
1982	0.016	1.298	0.189	0.225	1.397	3.125
1983	0.105	1.085	0.348	0.292	1.261	3.091
1984	0.009	1.210	0.400	0.222	0.797	2.638
1985	0.012	0.809	0.162	0.310	0.695	1.988
1986	0.127	1.533	0.261	0.258	0.489	2.668
1987	0.307	2.696	0.182	0.446	0.423	4.054
1988	0.936	2.710	1.082	0.542	0.719	5.989
1989	0.482	3.963	1.650	0.755	1.846	8.696
% SHARE TO TOTAL						
1970-80	3.6	36.0	8.2	17.6	34.5	100.0
1981-85	2.2	42.3	9.6	6.2	37.6	100.0
1986-89	8.7	50.9	14.8	9.3	16.2	100.0
1981-89	6.0	47.5	12.7	8.9	24.9	100.0

SOURCE:

IMF, International Financial Statistics, 1990

TABLE 2. GROSS LABOUR OUTFLOW FROM ASIAN COUNTRIES, 1976-87 ('000)

YEAR	Bangladesh	India*	Pakistan	Philippines	Sri Lanka*	Thailand**	South Korea
1976	6.1	4.2	4.7	47.8	1.2	1.3	47.7
1977	15.7	22.9	140.4	70.4	12.5	3.8	69.4
1978	22.8	69.0	129.5	88.2	17.7	11.3	101.9
1979	24.5	171.0	118.3	137.3	21.0	8.9	120.9
1980	30.6	236.2	133.4	214.6	24.1	20.9	116.4
1981	55.8	276.0	168.4	266.2	47.4	26.7	175.1
1982	62.8	239.5	142.9	314.3	63.5	108.5	146.9
1983	59.2	225.0	128.2	434.2	68.9	68.5	184.3
1984	56.8	205.9	100.4	425.1		75.0	152.7
1985		163.0	79.1	389.2		69.7	
1986		113.6		414.5		85.7	
1987				496.9			
1988				477.8			
1989				523.0			
1990				598.8			

Notes:

*- The outflow is likely to be underestimated.

** - Data for 1976-81 are outflow to the Middle East. From 1981 onwards the outflow has been better monitored and the report is therefore more reliable.

SOURCES:

ADB Key Indicators of Member Countries, 1987

POEA Annual Report, 1987

TABLE 3. PHILIPPINE LABOR MIGRATION TO MAJOR WORLD REGIONS, 1975-87

Region	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Africa	342	473	515	1,305	1,134	1,611	2,144	1,098	2,333	2,146	2,053	2,072	2,125
Asia	4,217	5,399	5,290	9,994	12,604	17,708	20,322	31,011	40,814	43,385	54,411	76,650	96,018
Europe	3,160	2,902	2,482	1,268	675	846	1,126	1,465	2,878	3,724	3,679	4,225	6,810
Middle East	1,552	7,813	25,721	34,441	73,210	132,044	183,582	211,003	323,414	311,517	266,617	262,758	306,757
Oceania	994	466	402	582	1,154	1,651	1,661	1,831	5,158	4,388	4,097	5,290	6,797
Western Hemisphere	2,286	2,168	2,266	3,371	3,744	3,534	2,101	3,707	5,646	5,905	6,897	6,692	7,574
Total Land-based	12,501	19,221	36,676	50,961	92,519	157,304	210,936	250,115	380,263	371,065	337,754	357,687	425,881
Seamen	23,534	28,614	33,699	37,280	44,818	57,196	55,307	64,169	53,944	54,016	51,446	56,774	70,973
All Workers	36,035	47,835	70,375	88,241	137,337	214,500	266,243	314,284	434,207	425,081	389,200	414,461	496,854

ANNUAL GROWTH RATE (in percent)													
Region	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	
Africa	38.30	8.88	153.40	-13.10	42.06	33.09	-48.79	112.48	-8.02	-4.33	0.93	2.56	
Asia	28.03	-2.02	88.92	26.12	40.50	14.76	52.60	31.61	6.30	25.41	40.87	25.27	
Europe	-8.16	-14.47	-48.91	-46.77	25.33	33.10	30.11	96.45	29.40	-1.21	14.84	56.45	
Middle East	403.41	229.21	33.90	112.57	80.36	39.03	14.94	53.27	-3.68	-14.41	-1.45	16.75	
Oceania	-53.12	-13.73	44.78	98.28	43.07	0.61	10.23	181.70	-14.93	-6.63	29.12	28.49	
Western Hemisphere	-5.16	4.52	49.76	11.06	-5.61	-40.55	76.44	52.31	4.59	16.80	-2.97	13.18	
Total Land-based	53.76	90.81	38.95	81.55	70.12	34.02	18.57	52.04	-2.42	-8.98	5.90	19.07	
Seamen	21.58	17.77	10.63	20.22	27.62	-3.30	16.02	-15.93	0.13	-4.76	10.36	25.01	
All Workers	32.75	47.12	25.39	55.64	56.25	24.07	18.04	38.16	-2.10	-8.44	6.49	19.88	

PERCENTAGE DISTRIBUTION													
Region	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Africa	2.7	2.5	1.4	2.6	1.2	1.0	1.0	0.4	0.6	0.6	0.6	0.6	0.5
Asia	33.7	28.1	14.4	19.6	13.6	11.3	9.6	12.4	10.7	11.7	16.1	21.4	22.5
Europe	25.3	15.1	8.8	2.5	0.7	0.5	0.5	0.6	0.8	1.0	1.1	1.2	1.6
Middle East	12.4	49.6	70.1	67.6	79.1	83.9	87.0	84.4	85.1	84.0	78.9	73.5	72.0
Oceania	8.0	2.4	1.1	1.1	1.2	1.0	0.8	0.7	1.4	1.2	1.2	1.5	1.6
Western Hemisphere	18.3	11.3	6.2	6.6	4.0	2.2	1.0	1.5	1.5	1.6	2.0	1.9	1.8
Total Land-base	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE:

Philippine Overseas Employment Administration Annual Report, 1975-87

	AFRICA		ASIA		EUROPE		MIDDLE EAST		OCEANIA		AMERICAS		TRUST TERR.		TOTAL		X INC./ DEC.		
	1986	1987	1986	1987	1986	1987	1986	1987	1986	1987	1986	1987	1986	1987	1986	%	1987	%	
Professional, Technical and Related Workers	584	484	27787	37634	522	554	54746	68637	314	391	3194	3977	422	559	87569	24.48	112236	26.35	28.17
Entertainers*	-3	-5	-26440	-36184	-194	-232	-108	-1427	n.a	n.a	-5	-5	-66	-35	-26816	-7.5	-37888	-8.9	-41.29
Managerial, Executive and Administrative Workers	35	30	87	131	3	2	972	1185	147	185	8	19	65	113	1317	0.37	1675	0.4	27.18
Clerical worker	40	43	153	183	46	58	14540	15283	36	24	273	169	173	139	16281	4.27	15929	3.74	4.38
Sales Workers	1	0	43	126	4	3	3485	4015	4	6	14	104	11	14	3562	1	4268	1	19.82
Service workers	83	79	46285	55674	3436	5678	64252	79516	52	46	1595	2360	1424	1189	117127	32.74	144542	33.94	23.41
Agricultural, Animal husbandry, forestry workers and fishermen	1	3	4	7	1	63	1301	2216	1	2	5	4	244	395	1557	0.43	2690	0.63	72.77
Production, process workers, transport eqpt. operators and laborers	1328	1486	2291	2263	213	252	123462	135895	575	680	1506	909	1919	3056	131294	38.71	144541	33.94	10.09
Total	2072	2125	76650	96018	4225	6610	262758	306757	1129	1344	6595	7562	4258	5465	357687	100	425881	100	19.07
Percentage	0.58	0.5	21.43	22.54	1.18	1.55	73.46	72.03	0.32	0.32	1.87	1.78	1.16	1.28					
Inc/(Dec)	2.56	25.67	56.45	16.75	19.04	13.17	31.05	19.07											

* Included in the total of Professional, Technical and Related Workers group

SOURCE:

POEA Annual Report, 1987

TABLE 5
PERCENTAGE SHARE OF INCOME FROM ABROAD

TOTAL INCOME RANGE	%Share of Income Received fr Abroad to Total Income (in %)	
	URBAN	RURAL
TOTAL FAMILIES	31.0	29.0
Under 6000	30.0	31.0
6000-9999	14.0	18.0
10000-14000	28.0	21.0
15000-19999	24.0	20.0
20000-29999	24.0	25.0
30000-39999	28.0	29.0
40000-59999	31.0	33.0
60000-99999	35.0	37.0
100000 & over	32.0	38.0

*Income from abroad refers to cash receipts, gifts and other forms of assistance from abroad (CONAB)

SOURCE: FIES, 1988

TABLE 6
SIZE DISTRIBUTION OF FAMILIES WITH AND WITHOUT INCOME* FROM ABROAD

TOTAL INCOME RANGE	% of Families with Income from abroad (in percent)		% of Families without Income from abroad	
	URBAN	RURAL	URBAN	RURAL
TOTAL FAMILIES (%)	100.00	100.00	100.00	100.00
Under 6000	0.27	0.84	0.78	2.59
6000-9999	0.38	1.96	2.47	9.24
10000-14000	1.94	8.29	6.18	19.76
15000-19999	3.13	9.68	9.40	17.83
20000-29999	9.38	20.30	20.54	23.96
30000-39999	11.97	16.67	15.68	11.52
40000-59999	22.48	20.11	18.70	9.25
60000-99999	27.87	15.55	15.40	4.32
100000 & over	22.59	6.61	10.85	1.52
Families with Income from Abroad	9.80	5.70	37.00	47.50
Income from abroad and other Sources	36.90	45.80	9.90	7.30

* Income from abroad refers to cash receipts, gifts and other forms of assistance from abroad (CONAB)

SOURCE: FIES, 1986

TABLE 7

REMITTANCES OF OVERSEAS CONTRACT WORKERS AND EXPORT EARNINGS
(in million US \$), 1982-1990

YEAR	LANDBASED	SEABASED	TOTAL REMITTANCES	EXPORT EARNINGS	% of EXPORT/ REMITTANCES
1982	642.34	166.14	810.48	5,020.59	16.1
1983	660.08	284.31	944.45	5,005.29	18.9
1984	472.52	186.31	658.89	5,390.65	12.2
1985	597.89	89.31	687.20	4,626.95	14.85
1986	571.75	108.69	680.44	4,841.78	14.05
1987	671.43	120.48	791.91	5,720.24	13.84
1988	683.31	173.5	856.81	7,074.20	12.11
1989	755.19	217.83	973.02	7,820.71	12.44
1990	N.A.	N.A.	926.39*	N.A.	-

* As of September 1990; breakdown not available

SOURCES:

PORA Annual Report, 1986-89

DOLE, Employment Report

Philippine Statistical Yearbook, 1990

TABLE 8. LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT RATE,
1970-1990

YEAR	TOTAL LABOR FORCE ('000)	NO. OF PERSONS EMPLOYED ('000)	UNEMPLOYMENT RATE (percent)
1970	12,297	11,358	7.7
1975	15,161	14,520	4.2
1980	17,308	16,434	5.0
1981	18,238	16,652	8.7
1982	18,467	16,734	9.4
1983	20,130	18,543	7.9
1984	20,756	18,550	10.6
1985	21,329	18,967	11.1
1986	22,072	19,631	11.1
1987	22,880	20,795	9.1
1988	23,452	21,498	8.3
1989	23,859	21,849	8.4
1990*	24,491	22,558	7.9

* - As of October, 1990

SOURCE:

PHILIPPINE STATISTICAL YEARBOOK, various years

TABLE 8B. EXPERIENCED UNEMPLOYMENT RATE BY MAJOR OCCUPATION GROUP,
1970-85 (in '000 except for those in percent)

YEAR d/	1970	1975	1980	1985
EXPERIENCED LABOR FORCE e/	11,775	14,892	16,880	20,801
TOTAL PERSONS EMPLOYED	11,358	14,520	16,434	19,801
EXPERIENCED UNEMPLOYED	417	272	446	800
EXPERIENCED UNEMPLOYMENT RATE a/	3.54	2.50	2.60	3.80
Professional, Technical & Related Workers	2.69	0.80	1.50	4.07
Administrative, Executive & Managerial workers	1.49	0.30	5.30	1.06
Clerical workers	3.17	5.90	4.10	9.30
Sales workers	2.87	2.20	4.40	4.70
Service Workers	3.69	3.60	3.60	6.00
Agri., animal husbandry, forestry workers; fishermen & hunters b/	3.72	10.80	1.48	1.40
Prod'n. & related workers, trans- port eqpt. operators & laborers c/	3.68	18.00	4.20	7.10
Occupation not adequately defined	3.11	3.20	-	28.60

a/ Experienced Unemployment Rate = $\frac{\text{Experienced Unemployed}}{\text{Experienced Labor force}}$

b/ Includes Farmers, farm laborers, fishermen, hunters, loggers and related workers; Miners, quarrymen & related workers

c/ Includes workers in transportation and communication, craftsmen, production, process workers & related workers : Manual workers and laborers.

d/ Figures for 1970 is taken from the census, 1975 (August) while 1980-85 are third quarter results.

e/ Experienced Labor Force consists of the employed workers plus the unemployed who worked before for at least 2 consecutive weeks on full-time basis.

SOURCES:

Yearbook of Labor Statistics for 1970

Labor Force, Integrated Survey of Households Bulletin for 1975-85

Philippine Statistical Yearbook, 1990

TABLE 10. LABOR FORCE AND UNEMPLOYMENT RATE BY HIGHEST GRADE COMPLETED,
1965 AND 1980

	LABOR FORCE ('000)*		UNEMPLOYMENT RATE (%)	
	1965	1980	1965	1980
Total	10,764	17,308	6.18	5.0
No Grade Completed	1,518	1,084	2.8	3.0
Elementary	6,663	8,889	5.5	3.4
1st to 5th grade	4,402	4,750	4.2	3.1
Graduate	2,261	4,140	7.9	3.8
High School	1,688	4,249	10.3	7.0
1st to 3rd year	926	2,138	9.5	6.4
Graduate	742	2,181	11.3	7.4
College	915	2,956	9.2	7.6
Undergraduate	377	1,335	14.0	10.5
Graduate	538	1,621	5.8	5.6
Not Reported	-	60	-	11.7

*1965 labor force is 10 years old and above while 1980 includes only 15 years old and above.

SOURCES:

BCS Survey of Households for 1965
Yearbook of Labor Statistics, 1983

APPENDIX TABLE 1
DEPLOYED OVERSEAS CONTRACT WORKERS TO ASIA, 1990-91

Country	1990	1991 First Quarter
Afghanistan	1	-
Bangladesh	13	4
Brunei	4,206	2,050
Burma	1	3
China	264	103
Hongkong	34,412	12,012
India	277	51
Indonesia	332	133
Japan	41,558	11,958
Kampuchea	2	3
Korea	119	29
Macao	99	43
Malaysia	4,397	1,224
Maldives	116	12
Nepal	1	-
Pakistan	9	-
Singapore	4,698	1,479
Sri Lanka	27	12
Taiwan	54	14
Thailand	33	18
Vietnam	148	80
ASIA	90,768	29,228

SOURCE:

FOEA, Unpublished Tables

APPENDIX TABLE 2

NUMBER OF PROCESSED AND DEPLOYED OVERSEAS CONTRACT WORKERS,
1986-1990

PROCESSED	1986	1987	1988	1989	1990
LANDBASED	355,687	425,881	381,892	407,974	468,591
SEABASED	56,774	70,973	95,872	115,010	130,178
TOTAL	414,461	496,854	477,764	522,984	598,769
DEPLOYED					
LANDBASED	323,517	382,229	385,117	355,346	334,883
SEABASED	54,607	67,042	85,913	103,280	111,212
TOTAL	378,214	449,271	471,030	458,626	446,095
DEPLOYED/ PROCESSED	91.25%	90.42%	98.59%	97.69%	74.50%

SOURCE:

POKA Annual Report, 1986-89
Unpublished Table for 1990

APPENDIX TABLE 3
 PERCENTAGE SHARE OF INCOME RECEIVED FROM ALL OTHER
 SOURCES TO TOTAL INCOME

TOTAL INCOME RANGE	URBAN	RURAL
TOTAL FAMILIES	12.0	8.0
Under 6000	20.0	15.0
6000-9999	11.0	8.0
10000-14000	9.0	7.0
15000-19999	8.0	6.0
20000-29999	8.0	7.0
30000-39999	10.0	9.0
40000-59999	13.0	12.0
60000-99999	17.0	16.0
100000 & over	18.0	18.0

SOURCE: FIES, 1988