

**Center for  
International  
Development**  
*at Harvard University*

# **Immigration and Economic Transformation**

*A Concept Note*

**Ljubica Nedelkoska, Tim O'Brien, Ermal Frasherri, Daniel Stock**

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## ***A Concept Note***

### **Table of Contents**

<b>Immigration, the big picture .....</b>	<b>2</b>
<b>It is easier to move brains than it is to move knowhow into brains .....</b>	<b>2</b>
<b>Immigration as a mechanism of knowhow transfer .....</b>	<b>3</b>
<b>How to encourage the inflow of knowhow-rich immigrants .....</b>	<b>4</b>
<b>Learning from immigrants.....</b>	<b>5</b>
<b>New knowhow is a critical need for strong and sustainable growth in Sri Lanka .....</b>	<b>5</b>
<b>The current state of immigration in Sri Lanka .....</b>	<b>6</b>
<b>Immigration policy in Sri Lanka versus elsewhere.....</b>	<b>8</b>
<b>Is there scope for immigration policy change in Sri Lanka? .....</b>	<b>10</b>

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## **Immigration, the big picture**

Immigration is always and in all places an evocative subject. For individuals and groups within a host country, the topic of immigration inspires varying reactions ranging from fear and risk (over things like security, the depression of wages, and the loss of culture) to optimism and opportunity (around the possibility for addressing labor shortages, the process of cultural enrichment, and pride in that one's country is a place that others are drawn to for a better life). For immigrants themselves, who are also emigrants from somewhere, the process of migration is profoundly life changing and marked by deep uncertainties, which can be difficult for non-immigrants to imagine. How one views the subject of immigration—and the fears or opportunities that one associates with immigration—depends on a number of factors. These include a person's past experiences, what he or she has been told about the effects of immigration, his or her occupation and material interests, and a deep sense of how one thinks about who belongs in his or her home, in other words, who is "us" and who is "them".

This all makes immigration a complex area of policymaking, where many personal views are valid and different interest groups lobby to make sure that their views are heard and respected. This means that some arguments and interests are often drowned out because they lack an organized interest group or lack a voice altogether. This note focuses on an aspect of immigration that, by definition, lacks a constituency—the ability of immigrants to spur economic transformation, creating new job opportunities and more sustainable and inclusive economic growth. This note describes this opportunity, with a focus on how this concept applies to Sri Lanka in particular.

## **It is easier to move brains than it is to move knowhow into brains**

The economic progress of now developed economies has been tightly linked to the accumulation and invention of productive knowhow. Knowhow goes beyond the kind of knowledge that you learn in school, read in books, manuals or on Wikipedia, and gain from online courses. It is embodied knowledge that comes from intense learning-by-doing at the job and is transferred from one person to another through constant interaction, demonstration and repetition. Industry and service-specific knowhow diffuses only with great difficulties through codified materials such as books and manuals. This is because much of what we know is tacit, that is, difficult to articulate and transfer to others although we know very well how to apply it when needed. Moreover, the more complex the knowhow about a product or service is, the more important face-to-face interaction and imitation becomes.

These simple realities have long been underappreciated when it comes to thinking about the development of countries, regions and cities. But for a place to develop has always involved the transformation of what people in that place do from primarily simple agricultural work to increasingly complex and diversified economic activities. However, people cannot learn to do new, higher productivity things in the abstract. Development entails a large-scale and long-term process of learning-by-doing by people and firms. But this is a "chicken and egg" problem. How can you learn-by-doing if no one else is doing that thing? This is where countries often need a spark in the form of new ideas or new expertise from the outside. Immigration often provides one such spark. This is because it is easier to move brains than it is to move knowhow into brains.

## Immigration as a mechanism of knowhow transfer

Several countries that were once rather poor, both in terms of wealth and in terms of knowhow just a few decades ago, grew rapidly while allowing large numbers of foreign firms and foreign labor to participate in their economies. One of these countries is Singapore. Starting in the 1960s, Singapore welcomed knowhow-rich multinationals, and pioneered the one-stop shop concept to service foreign investors as efficiently as possible. Today, 46% of Singapore's population is foreign-born, and 80% of these people come from knowhow-rich (economically complex) countries.<sup>1,2</sup> Singapore's leadership often points to its openness to foreign investors as a key factor to its economic success.<sup>3</sup> Another example is Hong Kong. Hong Kong benefited greatly from the inflow of skilled and entrepreneurial Chinese immigrants, who fled the Chinese Civil War (1946-1950) and Communist rule in China. The roots of many companies in Hong Kong can be traced back to these immigrants. Today, almost 40% of the population in Hong Kong is foreign-born.

In cases such as these, immigrants bring invaluable sources of knowhow into their host countries. Individual immigrants bring different strengths, and as a pool they bring things like new ideas, product specific knowhow (of how to make something or perform some service), managerial knowhow, knowledge of foreign markets, and connections to international supply chains. The spark happens when these new capabilities complement the existing or latent capabilities in the host country.

In general, the share of migrants is higher in richer countries and in countries with higher economic complexity (Figure 1). Together with Vietnam, Indonesia and the Philippines, Sri Lanka has very low levels of immigration and modest levels of GDP per capita. Sri Lanka, Vietnam and Indonesia also have low levels of productive knowhow, as captured by their low economic complexity index values. Of the three countries, Sri Lanka's economic complexity is the lowest. At the other end of the spectrum are Singapore and Hong Kong. They have high rates of immigration, high GDP per capita and high economic complexity.

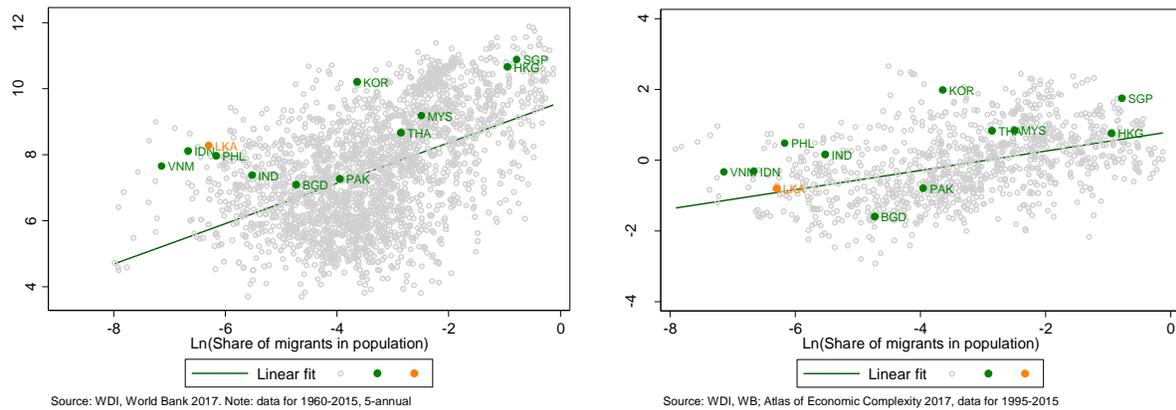
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<sup>1</sup> Where knowhow-rich countries are taken to be the top 36 countries on Harvard CID's economic complexity [rankings](#), 2010-2014 average.

<sup>2</sup> Economic complexity refers to the level of technological sophistication of industrial production, which is a measure based on how many products a country is able to produce (its product diversity) and how many other countries are able to produce that product (how ubiquitous its these products are). Countries with low economic complexity produce very few products that tend to be products that many other countries produce, while countries with high economic complexity produce many different products, with some products produced by very few other countries.

<sup>3</sup> Under the leadership of Lee Kuan Yew (1959-1990), Singapore launched an economic development model based on radical deregulation and transparent policies and legislation, aiming at attracting foreign capital and in particular multinational enterprises (MNEs). Over time, the policies attracted companies such as Texas Instruments, Hewlett-Packard and General Electric, and Singapore became a world hub for MNEs' headquarters.

Figure 1: Share of migrants versus GDP per capita (left) and versus economic complexity (right)



## How to encourage the inflow of knowhow-rich immigrants

One main driver of skilled immigration is investment by multinational enterprises (MNEs). When MNEs invest in new locations, they often need to bring in a substantial amount of tacit knowhow in order to start operations. The ease of hiring skilled immigrants is therefore one factor that companies take into consideration when evaluating new locations for investment. To facilitate their operations, they need speedy processing of work visas and often the ability to relocate not only immediate employees but also their family members. Beyond policy and administrative concerns, less obvious quality of life considerations will also factor in. For example, Korean investment may also mean the need for Korean schools. In the longer run, workers of MNEs care about possibilities of becoming permanent residents or even citizens as means for full societal integration.

Another channel through which international migration delivers knowhow is through entrepreneurship. For a number of reasons, which are beyond the scope of this note, immigrants tend to be much more entrepreneurial than non-immigrants. For instance, recent research shows that around 25% of U.S. entrepreneurs are immigrants while the foreign-born account for only 13% of the U.S. population, and 35-40% of new firms in the U.S. have at least one immigrant co-founder.<sup>4</sup> This likely has much to do with immigrants being more willing to take risks and with immigrants pairing knowhow they acquired in their home countries with untapped potential in the host country. Recognizing this, many developed economies offer investor and start-up visas. The investor visas are linked to a minimum investment amount in the host country and sometimes to a minimum number of jobs created. For instance, immigrants from non-EU countries are eligible for an immigrant investor visa in Belgium if they can guarantee a minimum of €200,000 business investment, maintain a minimum annual operating cost of €100,000, and stay for a minimum of five years. In the U.S., one can apply for an immigrant investor green card with a minimum business investment of \$1 million (\$500,000 in rural areas) that creates at least 10 jobs. Similarly, start-up visas are not linked to a personal investment, but are granted to promising foreign entrepreneurs that manage to raise capital from qualified investors in the host

<sup>4</sup> See "Immigrants Play a Disproportionate Role in American Entrepreneurship" in the Harvard Business Review: <https://hbr.org/2016/10/immigrants-play-a-disproportionate-role-in-american-entrepreneurship>

country. The U.S., Canada, U.K., Italy, Australia, Denmark and many other countries offer various forms of start-up visas. Some countries also operate highly flexible visa systems that allow visitors who may come to the country for one reason to easily switch to another type of visa in order to pursue employment or investment opportunities.

## **Learning from immigrants**

While immigration is a catalyst for knowhow inflows into a country, the transfer of that knowhow is not automatic. The Government of Sri Lanka could design policies that would facilitate the direct transfer of knowhow from arriving foreign investors and entrepreneurs to domestic workers and entrepreneurs. For instance, in an investor attraction package, the government could offer incentives for companies to provide technical training to large numbers of domestic workers. Domestically provided vocational training could also be used to train the labor force as new industries emerge through foreign investment or entrepreneurship, increasing the employability and the learning capacity of domestic workers, and professionals and technicians from the arriving FDI could be encouraged to provide training as part of the vocational training system. Government-sponsored internship programs could also increase the exposure of young Sri Lankans to the daily business of foreign companies.

It is also important to recognize the substantial effect that is possible through the indirect transfer of knowhow through supply chain spillovers. When a significant new industry develops domestically (without the spark of immigration or FDI), it is often the result of a large number of related industries already existing in the country, making the jump to this new industry more feasible to begin with. There are often already strong forward and backward supply chain linkages to other industries in the country. But when a new industry emerges through the inflow of foreign knowhow, it is less likely that there is an existing industrial “ecosystem” built around it. This means that the new industry will likely need to import many inputs and supporting services to start, but that the country now has new opportunities to develop related industries domestically to meet that demand. Government policy can play some role in promoting this development. But perhaps more importantly, a government that is unaware of this opportunity can do much to get in the way.<sup>5</sup> Thus, reforms that encourage more immigration to bring in new knowhow must be complemented by policies that incentivize this knowhow to spread.

## **New knowhow is a critical need for strong and sustainable growth in Sri Lanka**

Harvard CID’s growth diagnostic work in Sri Lanka has found that economic growth in Sri Lanka has been limited by the growth of exports and that the country is acutely knowhow-constrained. As the Sri Lankan economy has expanded over the last two decades, export growth has consistently fell short of import growth, leading to recurring macroeconomic imbalances and a repeated need for IMF support to respond to balance of payments crises. Sri Lanka’s lagging export growth is the result of a lack of export diversification over time, which is, in turn, the result of a shortage of new sources of knowhow to

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<sup>5</sup> Sri Lanka’s current trade policy, which is highly distortionary and complex, is one such example. In addition to maintaining a bias against new exports, it creates an artificial wall between exporters and companies that serve the domestic market, which reduces the chances for newly developed industries to have a multiplied effect through the development of related supply chains.

competitively produce new things. Sri Lanka has struggled to attract foreign direct investment in new export-oriented activities; it has not gained significant new knowhow through immigration; and it has not leveraged the knowhow of its diaspora. At the same time, traditional export industries, like tea, rubber products and garments (all of which were supported to some extent through immigration in the past!), are now competing with lower income countries.

These industries find themselves being squeezed as they must pay lower wages than most jobs in Sri Lanka to remain internationally competitive, but they struggle to attract and retain labor at the wages they pay. While Sri Lanka's garment companies have responded to the challenge through innovation, increasing quality and focusing on niche products, they have also had to invest abroad in lower-cost locations for labor-intensive production and continue to look for efficiency gains through automation. Any path forward to long-term development in Sri Lanka must therefore include diversification into new, high-productivity export industries that can afford higher wages. To spark this kind of diversification, Sri Lanka needs new and diverse sources of knowhow inflows from abroad.

### *Low-skill immigration matters too*

While skilled immigration is key for the diffusion of knowhow, one should not underestimate the economic importance of low-skilled migration either. As countries develop, some lower-wage jobs become hard to fill as people find that they can shift into better and higher-paying work. Sometimes this includes a large amount of internal migration from rural areas to cities. This is the case with the labor shortage problem described above for the garment industry as well as several other traditional industries in Sri Lanka. One tool for addressing this problem is allowing in more immigrant workers who are willing to work for competitive wages that Sri Lankans are not willing to accept anymore. This would also mean that higher-end jobs in the traditional industries and supplier jobs can remain in Sri Lanka as companies that would have otherwise moved operations abroad are able to re-invest instead. In this way, low-skilled immigration does not serve as a tool for job creation, but rather as a mechanism of job retention.

## **The current state of immigration in Sri Lanka**

Currently, the scale of emigration from Sri Lanka vastly exceeds immigration into the country. The last large, foreign-born population that came to Sri Lanka were Indian Tamils, who arrived during the 19<sup>th</sup> and 20<sup>th</sup> centuries to work on tea, coffee and rubber plantations (a lasting example of low-skill immigration). Many of them returned to India in the 1960s. By the 1990s most of those who remained in Sri Lanka became Sri Lankan citizens.

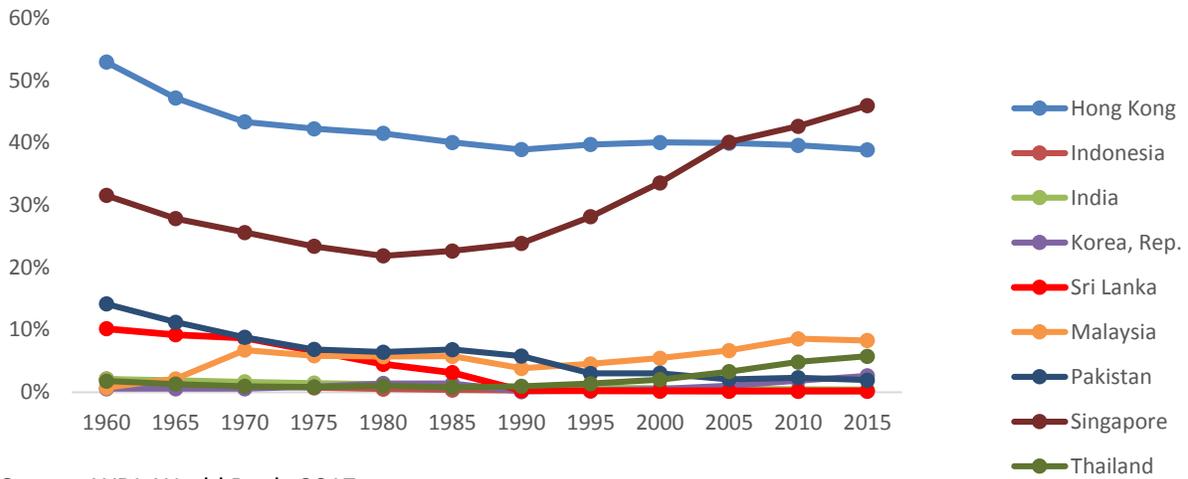
Figure 2 shows that the share of foreign-born in Sri Lanka has sharply declining since the 1960s and is low compared to many other countries in the region. According to the World Development Indicators of the World Bank, only about 39,000 foreign-born residents lived in Sri Lanka in 2014.<sup>6</sup> Data from the Board of Investment (BOI) show that less than 5,000 work visas are being issued annually to skilled

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<sup>6</sup> UN estimates differ from those of the World Bank. For 2013, UN estimates that about 325,000 (1.6% of Sri Lanka's population) are foreign-born. Among these, 99% originate from India according to the UN.

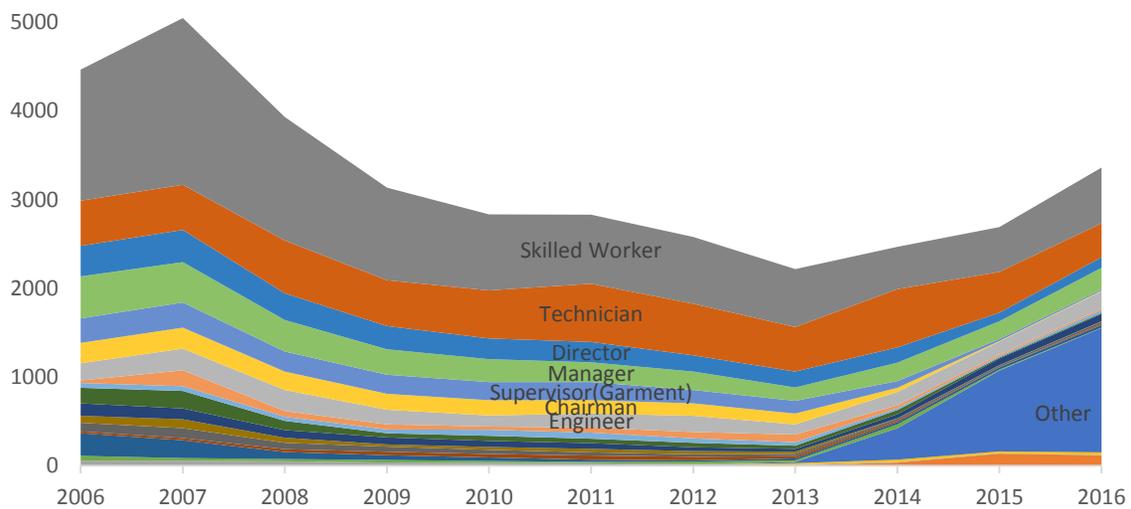
foreign workers in Sri Lanka, which is an extraordinarily small number compared to Sri Lanka's total labor force (Figure 3). Meanwhile, throughout Harvard CID's research work and collaboration with the BOI and Export Development Board (EDB), firms from across sectors have repeatedly emphasized that they face difficulties in attracting and hiring foreign workers to fill unique skilled positions within the current policy and administrative environment.

Figure 2: Migrants stock as a share of country's population



Source: WDI, World Bank, 2017

Figure 3: Annual work visa approvals by the Board of Investment



Note: Data for 2016 as of 11 August 2016.

Source: Board of Investment of Sri Lanka Visa Recommendation System

Since Sri Lanka has very low levels of immigration but very high levels of emigration, the country can be thought of as a net exporter of human capital—and a very big one. So while Sri Lanka faces a problematic trade deficit in goods and services, it maintains an enormous trade surplus in terms of people. The majority of Sri Lankans abroad emigrate for low-skill work, but the country also “exports” many more skilled workers than it “imports”. For example, a back of the envelope calculation suggests that there are at least two orders of magnitude more Sri Lankan science and engineering professionals and technicians abroad than there are foreign engineers in Sri Lanka.<sup>7</sup>

The data paint a simple picture that the channel of knowhow accumulation through immigration is almost entirely closed off in Sri Lanka. While the experiences of other countries show that knowhow can come through immigration in many forms—investors looking for a place to invest; potential entrepreneurs that may not have a specific plan but bring new knowhow and an appetite for risk; skilled workers; students; and even retirees—Sri Lanka is receiving a very limited pool of such immigrants. At the same time, labor shortages in low-skill jobs, especially in large exporting industries, suggest that the pool of low-skill immigrants in Sri Lanka is also too small. The numbers indicate that policy changes to make the immigration regime more open and flexible may be an important step to help address Sri Lanka’s binding constraints to stronger and more sustainable economic growth.

## **Immigration policy in Sri Lanka versus elsewhere**

A country’s immigration policies must balance various needs and interests of the public, and there tend to be wide differences in policy across countries. Fairly or not, a country’s immigration policies are often seen as an expression of national values. Singapore, as discussed earlier, has a very open and flexible immigration policy. According to a World Bank benchmarking report from 2013,<sup>8</sup> Singapore has no quotas on skilled immigration, offers paths to both permanent residency and citizenship, and the average amount of time it takes to get a temporary work permit is only 10 days. Australia and Canada are similarly flexible and also make spousal work permits available, which is rare across countries. On the opposite extreme is a country like Saudi Arabia, which applies company-level quotas on immigrants, has no path to permanent residency or citizenship, and where the average time to get a temporary work permit was calculated to be 24 weeks. As benchmarked, Sri Lanka’s immigration policy is a mix of flexible and inflexible. Sri Lanka does not place quotas on foreign workers but offers path to permanent residency or citizenship. The average time to get a temporary work permit was assessed to be 5 weeks, which is 3 weeks faster than the global average.

The following sections provide a brief summary of some key aspects of Sri Lanka’s immigration regime:

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<sup>7</sup> This is based on Sri Lankan Bureau of Foreign Employment estimates that science and engineering professionals make up 0.5% of Sri Lankans working abroad and science and engineering technicians make up 3.5% of Sri Lankans working abroad. Since about 2 million Sri Lankans are believed to be working abroad, this amounts to about 80,000 Sri Lankan science and engineering professionals and technicians working abroad, which dwarfs the BOI’s reported number of foreign engineers in Sri Lanka (around 200).

<sup>8</sup> De Smet, Dieter. "Employing Skilled Expatriates: Benchmarking skilled immigration regimes across economies." (2013).

### *Legislative framework: Immigrants and Emigrants Act*

The Immigrants and Emigrants Act (No. 20) of 1948 is the main instrument that governs the immigration and emigration rights and duties of individuals in relation with the Government of Sri Lanka. It is a broad statute that delineates the process of admission, residence and departure of foreigners and establishes the organizational architecture tasked with enforcing the legislation. It also provides for a number of exemptions. The act includes provisions that aim to prevent from entry persons who represent a threat to the public peace, could burden public finances, or could subvert the government of Sri Lanka, while also providing for rules to deter individuals from overstaying their visas. Specific regulations regarding the issuance of visas are left to the respective authorities. So while broad in laying out processes and authorities, the Act enables the government to adopt specific regulations regarding the terms of admissions and residence of individuals. Hence, there is a built-in degree of flexibility for changes over time to the regulations governing immigration and emigration.

### *Visas*

When it comes to the ability of individuals to enter or reside in Sri Lanka in order to pursue business activities or take up employment, Sri Lanka grants short-term (usually 30-day) business visas to potential investors, with more long-term residence visas for current investors and employees. Visas for employment cover professional services for projects approved by the Board of Investment, personnel employed in banks and other private sector organizations, and volunteers, as well as their dependents.

However, within the existing visa regulations, there are a number of limitations that affect the ability of workers (and to a lesser extent investors) to move to or reside in Sri Lanka. Transfers between companies are not allowed (unless it is a subsidiary or sister company); visas for dependents of workers are recommended on a case-by-case basis as opposed to a categorical treatment; and dependents have no right to take up employment. More generally, the length of the residence visa is linked to the duration of the employment contract, which can make it difficult for workers who are interested in exploring other opportunities to remain in the country (in some countries, there are grace periods that allow individuals to remain for a short period after an employment relationship has been terminated). There are also prohibitions on changing status from visitor to worker. If an individual visits Sri Lanka as a tourist and wants to pursue an economic activity, it is not impossible to do so under the current regulations. This is not a transition that occurs frequently in most countries, but in the midst of a tourism boom it may be an area of opportunity. For example, Australia has a flexible visa program that allows for both work and travel, which allows visitors to find work opportunities as they contribute to the economy through tourism.

### *Citizenship*

Sri Lanka has redefined the concept of citizenship several times in order to include non-Sri Lankan individuals residing in the island, most of them of Indian origin but also stateless persons, as well as Chinese. Sri Lanka grants citizenship based on descent (regardless of whether it is of paternal or maternal origin) and based on registration, which refers to the process of acquiring citizenship after satisfying a number of conditions. Currently there is no path toward permanent citizenship for

immigrants that are not of Sri Lankan descent. The most recent statute that affected citizenship was in 2008, when Sri Lanka granted citizenship to persons of Chinese origin. Sri Lanka considers that, with the promulgation of the said statute, it has resolved the problem of stateless persons residing in Sri Lanka.

### *Organizational authority*

The Department of Immigration and Emigration, Ministry of Foreign Affairs (through its consular services abroad), and Board of Investment are key actors that relate directly to the ability of foreigners to enter and reside in Sri Lanka in order to pursue employment or investment. On the other hand, the Sri Lanka Bureau of Foreign Employment deals with the overseas employment of Sri Lankan citizens.

The Board of Investment occupies an important position in this architecture, because under sections 16 and 17 of the Board of Investment Act, it facilitates the visa process for foreign workers, self-employed individuals and investors that seek to come to Sri Lanka. However, it has only the power to recommend the issuance of visas and is not the ultimate decision-maker regarding the residence rights of foreign workers. The Department of Immigration and Emigration has the final say regarding the entry of individuals, issuance of residence permits, keeping records of foreigners in the country, departure, removals and deportations.

### **Is there scope for immigration policy change in Sri Lanka?**

This note describes an important area of opportunity for Sri Lanka. Immigration into Sri Lanka is very low across all types of people that could bring new sources of knowhow and help to catalyze diversification into new economic activities. This is a very important gap because a lack of this diversification, especially in export-oriented activities, currently limits economic growth in Sri Lanka. At the same time, there is policy space for change to the immigration regime, although change will require strong coordination across several parts of government as well as with civil society and the private sector.

This is a policy area where many different ideas have been tried internationally and where there exist many ideas for improvement within Sri Lanka. There is a large design space for policy change, meaning that this is a problem where the best solutions are not supplied by an outside institution like Harvard CID, but by a cross-government policy team in Sri Lanka that is empowered to find and fit policy solutions. Harvard CID encourages the Government of Sri Lanka to consider the formation of such a team and is willing to assist in whatever way possible.