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Making Remittances Work in Southeast Asia

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In recent times, remittances have been gaining serious attention from governments, development planners and international development organizations. This was to be expected, given the sustained surge in people migrating for wage work abroad.

According to the World Bank report *Migration and Remittances during the Global Financial Crisis and Beyond*, remittance income now exceeds foreign aid from the West in some developing countries. Other studies claim that not only are remittances now triple the size of official aid flows; they are much more stable than other financial sources. It has also been established that remittances constitute a more constant source of income for developing countries than official development assistance, foreign direct investment, and private flows.¹

Remittances are a highly significant source of income, and holds great political, social and developmental significance for poorer countries.

In Asia Pacific, inward remittance flows, according to the World Bank database in 2010, were estimated at USD \$95 billion.² The top ten countries in the country receiving the largest amounts that year were China (\$51.0 billion), the Philippines (\$21.3 billion), Vietnam (\$7.2 billion), Indonesia (\$7.1 billion), Thailand, (\$1.8 billion), Malaysia (\$1.6 billion), Cambodia (\$0.4 billion), Mongolia (\$0.2 billion), Myanmar (\$0.2 billion), and Samoa

¹ Asian Development Bank (n.d.) "Enhancing the Efficiency of Overseas Workers Remittances Technical Assistance Report": <http://www2.adb.org/Documents/TARs/PHI/tar-phi-4185.asp>; and Ratha, D. et al. (2007) "Remittance Trends 2007". *Migration and Development Brief 3, Development Prospects Group, Migration and Remittances Team*. Washington DC: World Bank.

² Dilip R. and A. Silwal (2012) "Remittance flows in 2011 – an update". *Migration and Development Brief 18, 23 April*. <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/MigrationandDevelopmentBrief18.pdf>.

(\$0.1 billion).³ According to a 2011 analysis from the Economic and Social Commission for Asia and the Pacific (ESCAP), as much as 9.4% of the GDP of The Philippines came from remittances.⁴ In fact that country is the top remittance receiving country in Southeast Asia, both in nominal terms and in relation to GDP (at 23 billion that year). That same year, Vietnam made it into the top-ten list, with \$9 billion.⁵

Remittance flows have taken on a distinct pattern in the region. For the most part, the less affluent countries are source countries of migrant labour while the more affluent ones provide employment. Remittances thus flow from richer to poorer economies. Specifically, migrant labour comes mainly from Cambodia, Indonesia, Myanmar, the Philippines, and Vietnam while employer countries include Brunei, Malaysia, Singapore, and Thailand. Southeast Asian labourers do travel in search of employment to places that are as far away as Hong Kong, Japan, the Republic of Korea, as well as the Middle East.⁶ Interestingly, the largest numbers of migrants from the Philippines travel to the US while those from Indonesia end up in Malaysia.⁷

BENEFITTING FROM MIGRATION

In Southeast Asia, the less affluent countries have gained immensely from remittance flows, both where governments and where individual households are concerned. By and large, migrant workers move without their families, and rely on the remittances they send to sustain those left behind. That source of income may be channelled by the family into investments such as houses, health, education, land, and small enterprises. In the Philippines, it has been ascertained that much of the remittances are used to improve child schooling, increase educational spending, and enable higher ownership of durable goods.⁸ In addition, poor households receiving remittances have been able to improve their creditworthiness. Particularly among poorer rural households, remittances have lightened economic burdens tremendously. Moreover, in times of crisis and natural disaster, remittances also serve as externally based insurance.⁹

3 World Bank (2011) *Migration and Remittances Factbook 2011*. 2nd edition. Washington D.C.: World Bank.

4 It must be noted, however, that actual remittances may be much larger since the figures given here may not include remittances sent back by undocumented migrants.

5 Dilip R. and A. Silwal (2012) "Remittance flows in 2011 – an update". *Migration and Development Brief 18*, 23 April. <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/MigrationandDevelopmentBrief18.pdf>.

6 Economic and Social Commission for Asia and the Pacific (2011) *Statistical Yearbook for Asia and the Pacific 2011*. Bangkok: United Nations: <http://www.unescap.org/stat/data/syb2011/I-People/International-migration.asp>.

7 World Bank (2011) *Migration and Remittances Factbook 2011*. Second Edition. Washington D.C.: World Bank.

8 Yang, D. (2005) "International Migration, Human Capital, and Entrepreneurship: Evidence from Philippine Migrants' Exchange Rate Shocks". *World Bank Policy Research Working Paper No. 3578*, Washington, DC.

9 Vargas-Silva, C., Jha, S. and G. Sugiyarto (2009) "Remittances in Asia: Implications for the Fight against Poverty and the Pursuit of Economic Growth". *ADB Economics Working Paper Series, No. 182*, December. Manila: Asian Development Bank.

It must also be noted that the majority of Southeast Asian migrant workers engage in low-skilled work. These often secure overseas employment through recruitment agencies and are employed mostly on temporary work contracts subject to renewal. It is not unusual that these agencies charge exorbitant fees, pushing these workers into debt for considerable lengths of time. For this reason, many migrant workers have found that especially in their first months overseas, they were unable to send money home.

While historically more men migrated compared with women, since the 1980s, the gender balance has now shifted. The bulk of women come from Indonesia, Myanmar, and the Philippines to take up employment mostly in low-skilled jobs due to their relatively limited skills, lower education, and weaker social networks. Moreover, they enter employment sectors that afford lower wages – such as domestic work, nursing and other care-giving jobs, sex work, the entertainment industry, and factory work – when compared to jobs taken by male migrants.¹⁰

DO REMITTANCES LEAD TO DEVELOPMENT?

The literature on migrant remittances reveals two broad strands.

The optimistic position is that large-scale migration benefits developing countries through remittance incomes. Giuliano and Ruiz-Arranz (2009) discovered after studying data from 100 developing countries that remittances did have such a positive impact. The money flow eases credit constraints among the poor who, in turn, invest more productively and thereby stimulate growth.¹¹ Cattaneo (2005) highlights the fact that the higher the migration levels are, the lower the level of poverty will be.¹² Another study found that remittances lift households out of poverty despite not having a positive outcome on rebalancing general growth in the long run. The same study also confirmed that expenditure on education and health in a remittance-receiving household was almost twice that of a non-remittance household, showing that remittance-receiving households spend more on human resource development than non-remittance receiving households.¹³

Female migrants in contrast to males are more inclined to use their remittances on consumable goods and healthcare, in addition to education. They also remit less than their male counterparts, though more frequently. Moreover, migrant households have also been found to channel remittances into entrepreneurial activities, with a greater likelihood that male migrants expend their savings on larger investments related to businesses and land purchases. These, it is generally assumed, contribute to general development.¹⁴

¹⁰ Brooks, A. and T. Devasahayam (2011) *Gender, Emotions and Labour Markets: Asian and Western Perspectives*. London: Routledge.

¹¹ Giuliano, P. and M. Ruiz-Arranz (2005) "Remittances, Financial Development, and Growth." *IMF Working Paper*, WPI/05/234: <http://www.imf.org/external/pubs/ft/wpi/2005/wp05234.pdf>.

¹² Cattaneo C. (2005a) "International Migration and Poverty: Cross-Country Analysis": http://www.dagliano.unimi.it/media/Cattaneo_Cristina.pdf.

¹³ Ang, A.P., Sugiyarto, G. and S. Jha (2009) "Remittances and Household Behavior in the Philippines". *ADB Economics Working Paper Series*, No. 188, December. Manila: Asian Development Bank.

¹⁴ VanWey, L. K. (2004) "Altruistic and Contractual Remittances between Male and Female Migrants and Households in Rural Thailand." *Demography* 41(4):739–56.

Bettin and Zazzaro (2009) argue that to ensure positive economic growth, there needs to be high bank efficiency; conversely, negative economic growth implies low bank efficiency.¹⁵ Some arguments in the same vein state that remittances may not contribute to long-term macroeconomic growth unless they are linked to sound economic policies and institutions.¹⁶ Others assert that the positive impact of remittances on GDP per capita is largely temporary. More stable and long-term effects, it is claimed, are not missing or are not significant.¹⁷

But do remittances really reduce poverty? Findings have been far more nuanced than expected. Research has shown that a 10-percent increase in remittances (as a percentage of GDP) is able to decrease the poverty gap by about 0.7–1.4 percent.¹⁸ But while remittances may help to lift households out of poverty, they are not likely to rebalance growth in the long run.¹⁹ Others have argued that since many migrants are not from the poorest classes, and that immigration policies of many labour-receiving countries actually favour migrants with a higher socioeconomic background and with higher levels of education, the actual effects of remittances on poverty reduction are unclear.

Pessimistic analysts of remittances, such as Barajas et al. (2009), conclude after studying more than 80 countries that remittances had no growth effects.²⁰ Another research project covering 101 countries found no direct link between remittances and economic growth.²¹

Others have taken a more extreme position by describing remittances in effect to be an “illness” that weakens the economy.²²

More moderate views claim that since migrant remittances are primarily private monetary transfers, taxing and channelling these flows towards physical infrastructures such as schools, health centers, roads, and other community projects, have been difficult.²³ Positive

15 Bettin, G. and A. Zazzaro (2009) “Remittances and Financial Development: Substitutes or Complements in Economic Growth?” *Mo.Fi.R. Working Papers No 28, Money and Finance Research Group (Mo.Fi.R.), University Politecnica Marche, Department of Economics, Ancona.*

16 Catrinescu, N., Leon-Ledesma, M., Piracha, M. and B. Quillin (2006) “Remittances, Institutions, and Economic Growth.” *World Development* 37(1):81–92.

17 Vargas-Silva, C., Jha, S. and G. Sugiyarto (2009) “Remittances in Asia: Implications for the Fight against Poverty and the Pursuit of Economic Growth”. *ADB Economics Working Paper Series, No. 182, December. Manila: Asian Development Bank.*

18 Vargas-Silva, C., Jha, S. and G. Sugiyarto (2009) “Remittances in Asia: Implications for the Fight against Poverty and the Pursuit of Economic Growth”. *ADB Economics Working Paper Series, No. 182, December. Manila: Asian Development Bank.*

19 Ang, A.P., Sugiyarto, G. and S. Jha (2009) “Remittances and Household Behavior in the Philippines”. *ADB Economics Working Paper Series, No. 188, December. Manila: Asian Development Bank.*

20 Barajas, A., Chami, R., Fullenkamp, C., Gapen, M. and P. Montiel. (2009) “Do Workers’ Remittances Promote Economic Growth?” *IMF Working Paper No. 09/153, International Monetary Fund, Washington, DC.*

21 Spatafora, N. (2005) “Worker remittances and economic development”, *World Economic Outlook, April, 69-84.*

22 Cattaneo C. (2005b) “International Migration and Poverty: Cross-Country Analysis.” *Centro Studi Luca d’Agliano, Torino., as cited in Capistrano, L.O. and M.L. Sta Maria (n.d.) “The Impact of International Labor Migration and OFW Remittances on Poverty in the Philippines”: <http://sesc.econ.upd.edu.ph/dp/index.php/dp/article/viewFile/68/60>.*

23 Ghosh, B. (2006) *Migrants’ Remittances and Development: Myths, Rhetoric and Realities.* Geneva: International Organization for Migration: http://www.ssrc.org/workspace/images/crm/new_publication_31/%7Bd2915556-f851-de11-afac-001cc477ec70%7D.pdf; and Sorensen Nyberg, N., van Hear, N. and P. Engberg-Pedersen (2002) “The Migration and Development Nexus: Evidence and Policy Options.”

spill-over effects may therefore be more limited than supposed. Moreover, remittances also tend to be used for consumption or non-productive assets rather than as productive investments. Apparently, migrants will only engage in productive investments once the initial material and financial goals of their family are met.

HARNESSING REMITTANCES FOR DEVELOPMENT

Remittances can be transferred either through formal or informal channels. Formal ones include transfers through banks, money transfer operators, and post offices, while informal ones refer to transfers made through private and unrecorded channels such as friends, relatives, and the migrant himself/herself. In most cases, informal channels are preferred since the costs for transferring are decidedly lower.²⁴

Reducing transfer costs for formal channels, it is often argued, will help promote the development of the financial sector.²⁵ National economies can therefore benefit from several positive spill-over effects if they encourage migrants to use formal channels for remittances, instead of the informal and more personal ones. For one thing, commercial banks in remittance-receiving countries may use the remittances they handle as leverage to raise capital from international bond markets.²⁶ Proceeds from the sale of international bonds can then be used by the banks to finance infrastructure and other income-generating development projects. These banks can also use the remittances to increase creditworthiness to raise low-cost funds from international capital markets.²⁷ Also, since much of the remittances are deposited in commercial banks, these banks actually have a ready pool of resources to lend out as loans to microfinance institutions that can use them to finance community development projects or poverty-alleviating projects. Moreover, transfers through formal channels leave commercial banks with a reliable historical record of remittances that will enhance their credit rating among international rating agencies.

The ways in which migrants seek out wage work should also be considered when we analyze the developmental role of remittances. As developing countries are increasingly absorbed into the global economy, seeking wage work overseas has become the norm,

International Migration, 40(5): 49-73.

24 De Haas, H. (2007) "Remittances, Migration and Social Development: A Conceptual Review of the Literature". *Social Policy and Development Programme, Paper Number 34*, Geneva: United Nations Research Institute for Social Development; and Ghosh, B. (2006) *Migrant Remittances and Development: Myths, Rhetoric and Realities*. Geneva: International Organization for Migration: http://www.ssrc.org/workspace/images/crm/new_publication_3/7Bd2915556-f851-de11-afac-001cc477ec70%7D.pdf.

25 Ratha, D. (2003) "Workers' Remittances: An Important and Stable Source of External Development Finance." *Global Development Finance*, pp. 157-175: <http://siteresources.worldbank.org/INTRGDF/Resources/GDF2003-Chapter7.pdf>.

26 Ratha, D. and S. Mohapatra (2007) "Increasing the Macroeconomic Impact of Remittances on Development". Note Prepared for the G8 Outreach Event on Remittances, Berlin, November 28-30; and Global Forum on Migration and Development and The World Bank (2007) *Background Paper Presented at Roundtable 2: Remittances and other diaspora resources: increasing their net volume and development value, Session 2.3.: Increasing the Macro-impact of Remittances on Development*, Brussels, 9-11 July.

27 Ghosh, B. (2006) *Migrants' Remittances and Development: Myths, Rhetoric and Realities*. Geneva: International Organization for Migration: http://www.ssrc.org/workspace/images/crm/new_publication_3/7Bd2915556-f851-de11-afac-001cc477ec70%7D.pdf.

replacing domestic migration from rural to urban areas as the normal path in the search for social mobility. In Southeast Asia, the majority of low-skilled migrants come from rural areas, and since they usually lack social networks, depend heavily on recruitment agencies to secure employment. Recruitment agencies, in their turn, charge exorbitant fees for their services.²⁸ Being indebted to these agencies means that the saving capacity of workers is reduced significantly, and they are left with little surplus to send home, or to invest in their families and in their own future.

Harnessing remittances for development is highly complicated for another reason. On return to their home countries, the majority of low-skilled migrants are often unable to make their savings grow through investments and business enterprises. This is hardly a skill that they would have acquired by being low-skill labourers overseas. As such, the fate for returnee migrants is that many end up having to migrate again once new financial needs arise in the family.

How returnee migrants are able to use their savings thus affects the level of productive investing done on the whole. While healthcare may be considered an investment especially in the case of children, the same argument may not be as compelling in the case of the elderly. Migrant women more than migrant men have been found to shoulder the healthcare costs of their family members, including that of elderly parents. This leaves these women with little money to expend on more productive activities such as education, the purchase of land or establishing a business.

CONCLUSIONS

Since remittances now constitute a resilient source of revenue for labour-sending countries, periods of global economic slowdown can be more damaging for the country as a whole than before. During the 2008/2009 crisis, for example, remittances sent back to labour-sending countries took a dip for a short period. Presently, there is concern that the sluggish economies of the US and Europe will lead to the loss of jobs for migrant worker in Southeast Asia as well. And once unemployment begins rising in labour-receiving countries in the region, a tightening of immigration quotas can be expected to follow, leading to reductions of remittances to labour-sending countries, at a time when they are most needed.

In order to stimulate the flow of remittances, governments of labour-sending countries should ensure that transfer costs exacted by formal channels are kept as low as possible. Furthermore, governments should work to reduce the dependence of workers on recruitment agencies, for example, by encouraging migrants to secure work independently. At the same time, fees requested by recruitment agencies should be regulated and kept low as well, so that migrants do not end up in debt for unacceptably long periods of time.

²⁸ Cheng, S.-J.A. (2006) *Serving the Household and the Nation: Filipina Domestic Workers and the Politics of Identity in Taiwan*. Lanham, Maryland: Lexington Books.

The role of government is critical in another respect to the harnessing of remittances for development: in labour-sending countries, governments need to establish investment opportunities such as micro enterprises for returnee migrants. For maximum effect, such opportunities should be established as part of local development projects at the community level.

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