Remittances Effects on Sending Country: An Asian Perspective

by Vatana Chea

Global population is on the move. International migration rate worldwide has increased rapidly since the beginning of this new millennium, due to better transportation infrastructure and communication technology, and in a foreseeable future, migration will continue to prevail. Based on recent United Nations Migration data, currently about 3.3% of the world population is migrant living outside of the country of origin. Most of these sojourners are seeking opportunities in a foreign country of better development due to various reasons including war (e.g. Syria and Sudan), social unrest (e.g. some countries in Latin America), environmental degradation and displacement (e.g. Rohingya crisis in Myanmar). But economic benefit, in terms of higher earnings and better working conditions at the destination country, is usually the major determinant that drives mass movement. Therefore labor migration generally comprises a very large proportion in the total migration episodes in most sending-country, and these migrants' main intention is to earn more income to improve their household livelihood. But bear in mind that it is not always the case.

Significance of migration usually lies within remittances which is the amount of money sent to left-behind family members, but many factors, including policies and governance, also determine to what extent the potential of remittances can be realized. It should be clarified that, in migration research, remittance is a just consequence of migration. There are many other kinds of consequence in term of benefits and drawbacks which can significantly affect both country of origin and country of destination, alike ranging from individual to national level. However, I will concentrate only on remittances rather than other consequences which have been constantly studied over the decades. The first wave of papers on remittances focused on the motivation to remit, which was more or less based on Oded Stark & David Bloom and Robert Lucas & Oded Stark researches, both published in 1985. Then studies on remittances are increasingly important to national policies and strategies corresponding to the growing migration rate and the amount of remittances itself. In some countries in South and Central Asia, remittances account for 30% of the country's GDP. It means that these countries' structural economy depends largely on their overseas working population, but it is entirely another story whether or not this is a good way to maintain national economy.

In a demographic perspective, it is, under general circumstance, better to have the adult population worked locally to optimize the economic growth, for a healthy economy is driven mainly by its working-age population who will consume and pay direct or indirect tax to the government to support other public policies and programs. Therefore, it is preferable to have them in the country rather than elsewhere, especially those with high education and skills hence high income and innovative capability. However, it is almost impossible to keep them, given the unfavorable situations usually faced in developing countries, so the best way is to try to make the most out of remittances, which also do not promise an economic development by themselves. In some countries in Southeast Asia, remittances even exacerbate the already-severe situation, confining them to a period of economic stagnation because those who are capable of breaking the countries free from middle-income trap through innovations and technological advancement are drained away. In addition, the government of these countries has no regard of solving social challenges or initiating reforms, as they tend to rely on migration to cope with low local wage, unemployment, and poverty. Thus, even with thousands of migrant workers who remit billions of dollars, still such money cannot be fully harnessed. On the contrary, it is sucked out of development agendas due to corruption and weak management.

To many people it might be tempting to ask if I am suggesting that remittances would compound problems rather than improving the current conditions. But why it is so, if migrants are able to earn higher income (sometimes much higher), a part of which will be sent back to the country of origin. It is a very good inquiry indeed. Regrettably, I cannot give a definite answer, since there has been a strong debate in research on the net effect of remittances on households in the sending country, but no conclusion can be reached so far. More importantly, I dare not to say that remittances are causing further problems, but rather suggest possible explanations and mechanisms through which remittances can do so. It is worth noting that not all migrants send remittances to their households. Even if most do marginally, remittances will only have positive effects on household welfare and the left-behind family members in long term if they are used properly, for example, to buy more arable land, improve agricultural activities, or invest in a larger business project. Similar to the general situation in our daily life, common sense suggests that only through high saving and investment household will be able to survive in long run and have the potentials to increase their future wealth. However, it is not uncommon to find that remittances are used by rural households to primarily improve food consumption, and it is even more detrimental if the increased consumption is alcohol.

It is also arguable if increase in household income through remittances might as well provide insurance and allow households to take risk to invest more in business or agricultural activities, which is otherwise impractical for poor family. The general idea, which derives from Stark and Bloom paper in 1985, is that international migration out of agrarian countries, especially those in Asia, is a result of household intention to diversify sources of income and minimize the risk of crop failure. Many households do so because the banking and insurance system in these developing countries typically impose a liquidity constraint (ability and amount that one can borrow), and their coverage is limited to certain areas. As a result, labor migration offers a backup plan and insurance for risk-averse household. However, it is also found that remittances might increase household’s dependence on them, hence they believe that they have no need to take risk and invest in business activities which is rather unwise. On the other hand, migration is a low-risk investment with high return. So why should they not invest in more migration of household member instead?

What’s more? Remittances might discourage remaining family members to participate in the local labor market by increasing their reservation wage, the minimum amount of wage that can ultimately motivate a person to participate in labor force. For example, a person without support might agree to work for 100 USD per month out of necessity, but if he is supported financially, he might wait until he is offered at least 150 USD. This is the similar idea that applies to unemployment insurance and some other types of social security that allow a person to afford to be unemployed. However, unemployment insurance only provides a temporary benefit to stay out of labor force participation, mostly due to the economic recession, but remittances might do so for a longer period making the left-behind adult members believe that they can just rely on remittances to live, so it is unnecessary to work.

Having said that, it will be absolutely desirable if remittances can keep certain household members away from joining the labor force, but only under the circumstances that the persons are school-age children. In developing countries, it is not uncommon that underage children are forced to help with family business or non-income activities to supplement their household’s meager earning. Through remittances, household might be able to withdraw children from labor market and send them to school. It should be highlighted that even though general education is virtually free of charge in many countries, many poor households cannot afford the associate cost of education, such as textbooks and uniforms. More importantly, they cannot afford to keep children in school. If remittances indeed increase children’ educational attainment, we can expect that remittances will have a positive effect on economic growth in the long-term. Unfortunately, this is not always the case. Some researches have found that children living in remittances-receiving households do not necessarily have higher education than those in normal households, as many households that receive remittances do not often have any plan to invest in children’ education. Why? Because they believe that high education is not always rewarded. In another word, even if they have high education, their salary might not be as handsome as that of the unskilled workers at the destination country. Therefore, for those who intend to follow their migrating household member once they are old enough, they will forgo education completely. In addition, destination country in Asia conventionally need blue-collar migrant workers rather than the white-collar labors.

Furthermore, unlike income from salary or business/agricultural activities which are more permanent, remittances are unstable, least reliable, and easily collided because most migrants are low-skilled populating mainly the bottom of the destination economic pyramid. During the 1997 Asian Financial Crisis and the 2008 Global Financial Crisis, some countries like Thailand and Malaysia, which received low-skilled migrants from neighboring countries but sent their own nationals to highly developed countries, had to make some spaces for their native workers that were dismissed and returned home. Situation like this is neither new nor rare in Asia during economic depression in which employers are instructed to lay off migrant workers first and hire their own population. Migrants will then be repatriated back and become cyclically unemployed until the destination country begin to recover. However, after a recession, an economy can generally take many months or even years to return to its normal healthy state from which they might be able to recruit foreign workers again. Unless they are aware of the fact that they cannot rely solely on remittances to maintain a stable consumption pattern, recurrent financial collapse will continue to breed catastrophe to remittances-receiving households and present a threat to national economy. As a result, under no circumstances remittances should viewed as an avenue to achieve sustainable economic development goals.