

# Remittance as a Driver for Growth and Poverty Reduction in Asia\*

Presentation by

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# Outline

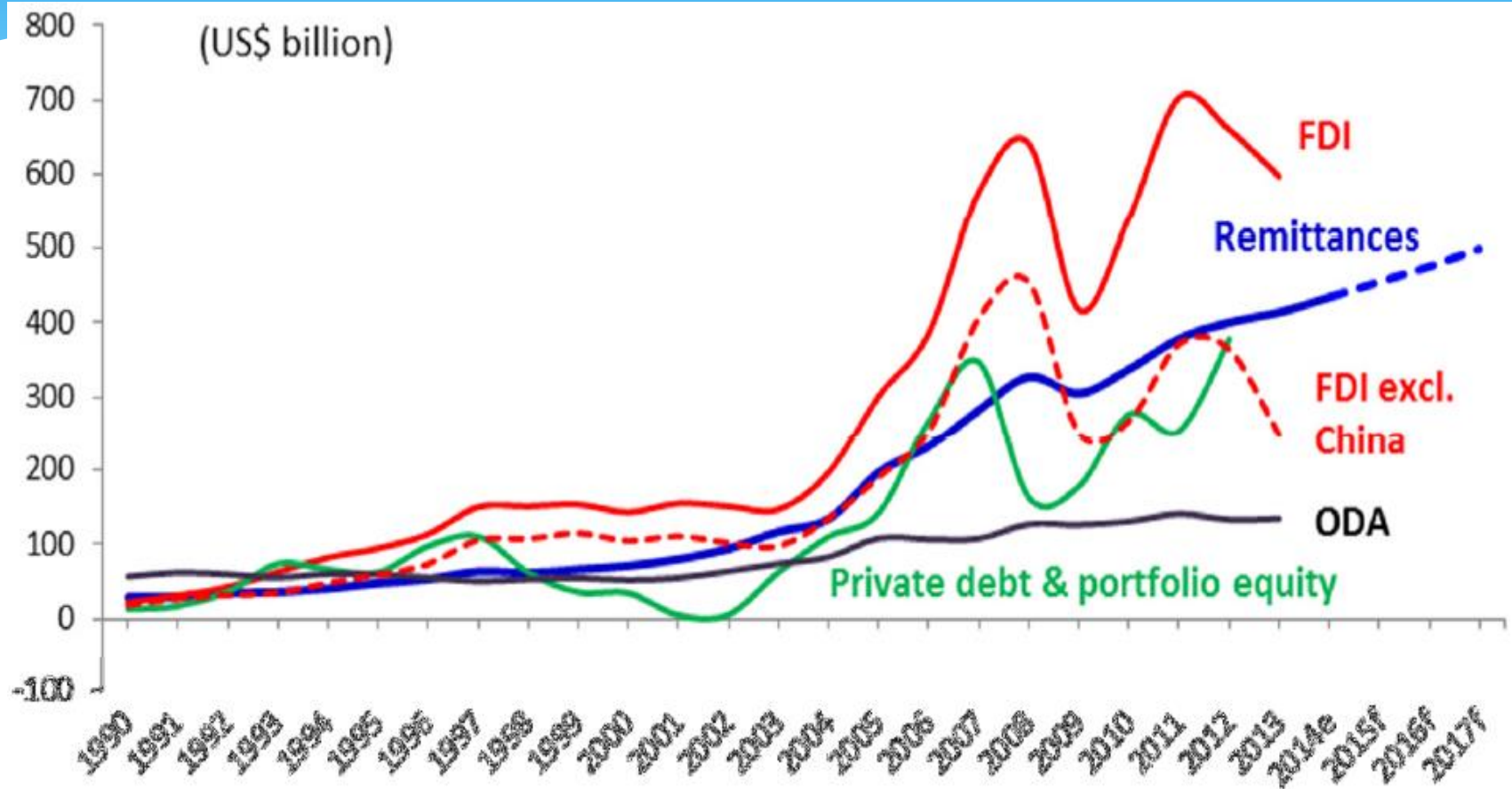
- \* Role of Remittances
- \* Trends and Outlook
- \* Effects on Growth and Poverty
- \* Policy Issues

# Remittance Potential

- \* In 2013: 232 million international migrants remitted \$435 billion
  - \* South-South migration is larger than South-North; 82.3 million vs 81.9 million migrants
  - \* Women accounted for 48%
- \* Asia: A net supply of migrants and major recipient of remittances

# Remittance Flows: Increasing and stable...

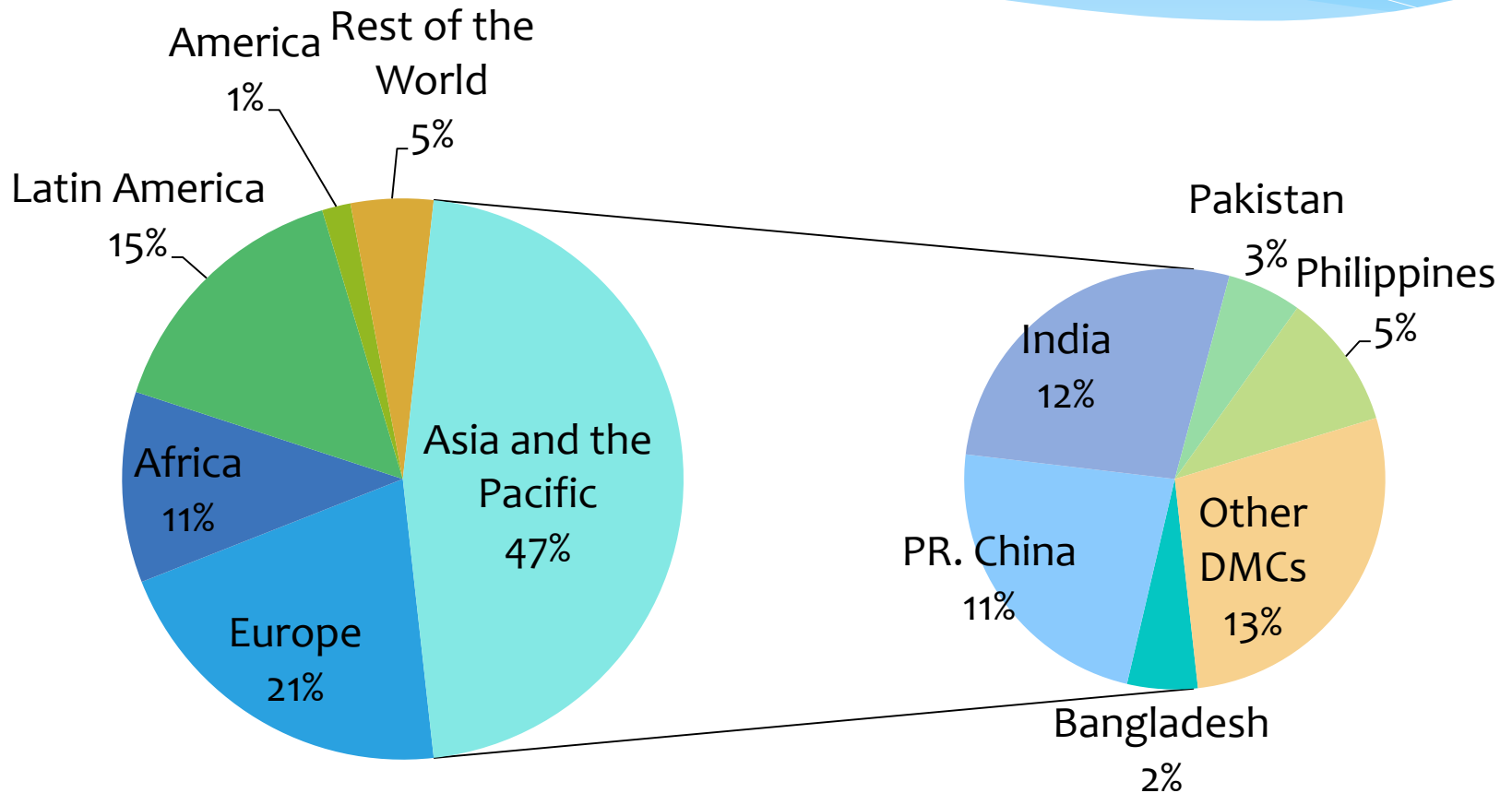
## Flows to developing countries



Sources: World Development Indicators and World Bank Development Prospects Group

# Top 5 remittance recipients in Asia (2013, Share %)

ADB



Remittance Flows, 2013

Source: World Bank, Outlook for Remittance Flows

Of the top 20 recipient countries, 8 are in Asia, accounting for 37% of the total remittances in 2013

|    | Country            | Remittances as % of GDP | Share to total remittances (%) |
|----|--------------------|-------------------------|--------------------------------|
| 1  | India              | 3.7                     | 12.2                           |
| 2  | China              | 0.6                     | 11.0                           |
| 3  | Philippines        | 9.8                     | 4.9                            |
| 4  | France             | 0.9                     | 4.2                            |
| 5  | Mexico             | 1.8                     | 4.2                            |
| 6  | Nigeria            | 4.0                     | 3.7                            |
| 7  | Egypt, Arab Rep.   | 6.6                     | 3.1                            |
| 8  | Pakistan           | 6.2                     | 2.9                            |
| 9  | Germany            | 0.4                     | 2.7                            |
| 10 | Bangladesh         | 10.7                    | 2.6                            |
| 11 | Belgium            | 2.2                     | 2.0                            |
| 12 | Vietnam            | 6.4                     | 2.0                            |
| 13 | Spain              | 0.7                     | 1.7                            |
| 14 | Ukraine            | 5.4                     | 1.5                            |
| 15 | Indonesia          | 0.9                     | 1.4                            |
| 16 | Italy              | 0.4                     | 1.4                            |
| 17 | Poland             | 1.3                     | 1.4                            |
| 18 | Lebanon            | 17.0                    | 1.3                            |
| 19 | Russian Federation | 0.3                     | 1.3                            |
| 20 | Sri Lanka          | 9.6                     | 1.2                            |

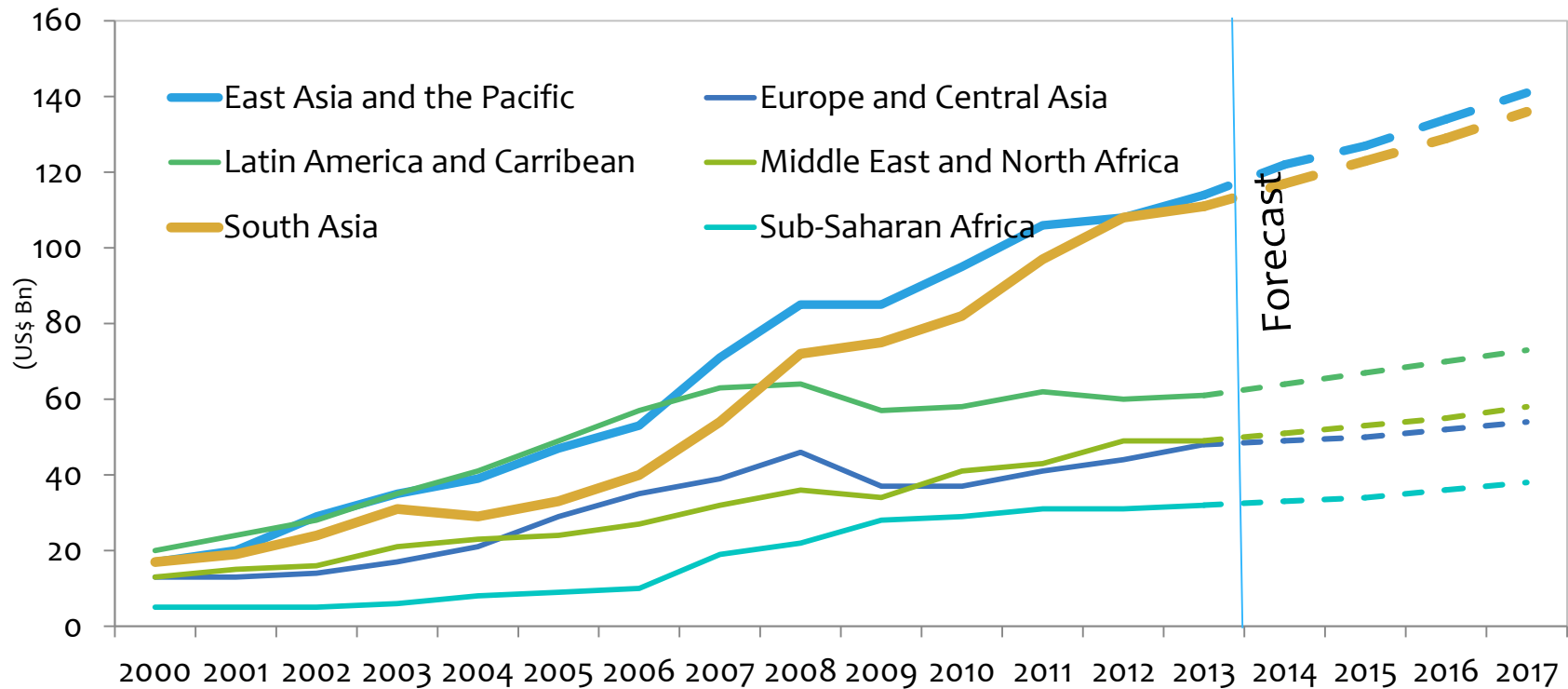
- India is the largest recipient (\$ 70 billion and 4% of GDP)
- Remittances as % of GDP reach about 10% for the Philippines, Bangladesh and Sri Lanka .

# Remittances Outlook

\$34 billion in 2000



\$225 in 2013 to rise further by 5% in 2015 and 23% in 2017



Source: World Bank, Outlook for Remittance Flows

# Key Drivers of Remittances to DCs

- \* Economic and demographic imbalances across countries.
- \* Increasing globalization and global production networks bringing migrant workers from different parts of the world.
- \* Adverse effect of climate changes that have forced some people to move across countries and regions.
- \* International migration has now become an integral part of development strategy in many developing countries.



# Migration in Asia: Some Characteristics

1. Will continue to grow.
2. Destination changes: following the dynamics in the destination countries.
3. Increasing temporary contract: on fixed and short term basis.
4. Mostly semi and unskilled workers: in casual jobs in construction, manufacturing, service and domestic workers.
5. Increasing number of women.
6. Irregularity: significant number of illegal migrants vulnerable to abuse and exploitation.
7. Commercialization: recruiters also acting as employer, causing malpractices and irregular migration (e.g. “fly now, pay later”, no formal/clear contract).
8. More complicated: involving diaspora and other networks.

**Stronger call for protection for the migrant workers.....**

# Roles of Remittances...

- \* Provide direct, immediate, and significant benefits to overseas workers, their families, and their countries of origin, impacting millions of households in developing countries (DCs).
- \* Key source of foreign exchange, amounting to a large share of GDP in many DCs.
- \* Second largest source of external funding for DCs, next only to FDI.
- \* More stable than official development assistance, FDI, and other private inflows.
- \* Inflows to South Asia, Southeast Asia, and the Pacific accounted for 34% of the global remittances.

# Economic Impacts of Remittances

## \* Positive

- \* Improving balance of payments
- \* Expanding domestic demand
- \* Stimulating investment in physical and human capitals
- \* Spurring entrepreneurship
- \* Promoting growth and reducing poverty

## \* Negative

- \* Dampening trade competitiveness
- \* Increasing inflation and worsening inequality (in some cases)
- \* Possibility of brain drain
- \* Disincentives to work among recipients and create social costs

# Impact on Growth

## **Cross-country Analysis :**

Growth rate of GDP per capita is a function of

- \* initial GDP per capita
- \* remittances as % of GDP
- \* human capital (primary school enrolment, %)
- \* investment (gross capital formation, % of GDP)
- \* inflation rate (GDP deflator, annual %)
- \* openness (export + imports as % of GDP)

# 10 percentage point increase in remittances as % of GDP leads to 1 percentage point increase in per capita GDP growth in receiving countries

| Variable                   | (1)               | (2)               | (3)              | (4)               | (5)                | (6)               |
|----------------------------|-------------------|-------------------|------------------|-------------------|--------------------|-------------------|
| Remittances                | 0.05<br>(1.58)    | 0.12<br>(2.14)**  | 0.09<br>(2.3)**  | 0.05<br>(1.57)    | 0.15<br>(2.7)***   | 0.10<br>(2.53)*** |
| (Remittances) <sup>2</sup> | -                 | -                 | -                | 0.00<br>(-0.33)   | -0.05<br>(-2.13)** | -0.03<br>(-1.44)  |
| Initial GDP                | 0.00<br>(0.05)    | -                 | -0.02<br>(-0.2)  | 0.00<br>(0.03)    | -                  | -0.02<br>(-0.16)  |
| Investment                 | 1.02<br>(5.93)*** | 1.17<br>(5.82)*** | 1.16<br>(6.4)*** | 1.02<br>(5.91)*** | 1.23<br>(6.12)***  | 1.18<br>(6.51)*** |
| Openness                   | 0.19<br>(1.96)**  | 0.59<br>(2.78)*** | 0.32<br>(2.22)** | 0.19<br>(1.96)**  | 0.48<br>(2.25)**   | 0.31<br>(2.12)**  |
| Inflation                  | 0.01<br>(2.33)**  | 0.00<br>(0.54)    | 0.00<br>(1.04)   | 0.01<br>(2.34)**  | 0.00<br>(0.43)     | 0.00<br>(0.97)    |
| Human Capital              | 0.00<br>(-0.69)   | 0.00<br>(-0.57)   | 0.00<br>(-0.42)  | 0.00<br>(-0.66)   | 0.00<br>(-0.14)    | 0.00<br>(-0.19)   |
| Obs.                       | 199               | 199               | 199              | 199               | 199                | 199               |
| Countries                  | -                 | 26                | 26               | -                 | 26                 | 26                |
| F / Wald Test              | 7.21              | 9.73              | 48.35            | 6.17              | 9.04               | 50.96             |

Note: Dependent variable, Annual GDP per-capita growth: (1) and (4) OLS; (2) and (5) Fixed effects; (3) and (6) Random effects

Source: G. Sugiyarto, S. Jha and C. Vargas-Silva. Remittances in Asia: Implications for the Fight against Poverty and the Pursuit of Economic Growth . ADB Working Paper No. 182, December 2009.

## Country Case Studies :

- \* **Bangladesh:** 1.7 of the 9 percentage points of poverty reduction during 2000-2005 was due to remittances; reduced the probability of households becoming poor by 6%.
- \* **Indonesia:** Remittances contributed to 31% of migrant household total income; reduced the probability of households becoming poor by 2%; reduced headcount ratio by 5%, poverty gap by 15%, and severity by 26%.
- \* **Pakistan:** remittances accounted for 5% of rural and 4% of urban incomes; 30% increase in remittance reduced headcount ratio by 2%.
- \* **The Philippines:** Remittances have increased income of lowest quintile (poor) household by 5 - 7%.
- \* **Viet Nam:** Migrant household average expenditure increased by 8% and headcount ratio declined by 2%.

# Policy issues

- \* Continue to attract remittance inflows; efforts should be directed toward maximizing the benefits and minimizing costs.
- \* Lower migration and remitting costs
- \* Facilitate the productive use of remittances
- \* Protect the rights of migrants during the migration cycle
- \* Adopt Migration for Development Framework, in which migration is temporary and circular.

- \* On the financial aspects, improvements are needed in areas such as:
  - Legal, banking, and regulatory environments.
  - Community-based financial institutions (e.g. rural banks, cooperatives and microfinance, and NGOs where remittance-leveraging initiatives could be based).
  - Access to investment programs, savings mobilization, credits, and enterprise development.
  - Reintegration programs in the financial sector to facilitate returning migrants.



**Thank You!**