

## ADB Economics Working Paper Series



### The Global Crisis and the Impact on Remittances to Developing Asia

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Shikha Jha, Guntur Sugiyarto, and Carlos Vargas-Silva  
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**Shikha Jha, Guntur Sugiyarto, and Carlos Vargas-Silva**

December 2009

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## **Abstract**

Remittances to Asia plunged during the 1997 Asian financial crisis, but the drop was temporary as the flows were increasing once again after just 1 year. The current crisis, however, is fundamentally different in that even the countries that send remittances have been adversely affected. The global nature of this crisis raises several questions such as whether it will also last for a short time or developing Asia should prepare for a long period of remittance stagnation. This study examines remittances data to several Asian countries to shed light on such issues. The results suggest that while remittance flows to key recipients in the region have slowed down in the current year, there has not been a sharp drop. Furthermore, there is no indication that the remittance flows will slow down further, suggesting that the flows should be back on a higher growth path in a few years. It is unlikely, however, to see the same growth rates of the past, given that an important share of that growth during the last two decades was due to better recording of remittances and an increased use of wire transfers on the part of migrants.





## I. Introduction

Asian countries are well known for exporting labor. In total, the six main emigration countries in the region have over 100 million of their citizens residing abroad. These migrants usually maintain ties with their families in home countries manifested in the substantial streams of workers' remittances sent back home every year. One of the principal consequences for developing countries of the ongoing global economic turmoil has been a substantial downtrend in the flow of these transfers since the third quarter of 2008. This could be a cause for concern since remittances have not only become a significant and the most stable source of development finance to developing economies, they have also been shown to contribute to welfare and reduce poverty among recipient households. The 1997/1998 Asian financial crisis resulted in a 10 percentage-point increase in poverty rates in the Republic of Korea (Korea) and 8 percentage points in Indonesia. It took almost a decade for poverty headcounts to recover to their pre-crisis levels (World Bank 2009). Similarly, slowing economic growth in the current crisis will hinder the pace of poverty reduction in developing Asia (Hasan et al. 2009), which will be further accentuated by the slowdown in remittances.

Remittances to Asia plunged during the 1997/1998 Asian financial crisis too, but the drop was temporary and the flows were increasing once again after just 1 year. One of the reasons for the relatively quick recovery was the significant internal migration within the region. Migrants in the region were not sending as much money home, but migrants elsewhere continued to remit to compensate for the decline in regional transfers. The current crisis, however, is fundamentally different in that even the countries that send remittances have been adversely affected. The global nature of this crisis raises several questions: Will the current financial crisis also have just a short-term impact on remittances or is growth in remittances to Asia going to dry up in the next few years? Should developing Asia prepare for a long period of remittance stagnation? These questions are very relevant for all developing countries, especially for those that are large remittances receivers such as the majority of Asian countries.

This study looks at remittances data from several Asian countries to shed light on these questions and to provide some indications about the possible future outlook of remittances in the region along with policy options to deal with them. Finally, we recognize that to discuss the future of remittances, we have to discuss the present and future migration dynamics of countries in the region.

The rest of the paper is structured as follows. The second section discusses the past trends of remittances in Asia, followed by examples of specific countries within the region and a summary of their main migration dynamics in the third section. The fourth section discusses the impact of the current crisis on the remittance inflow to the region and provides guidance about what to expect in the future. The last section summarizes the results and provides some policy recommendations.

## II. Migration and Remittances in Asia: Major Trends

Falling employment emanating from the economic slowdown in major industrial economies—as well as the Middle East and the Russian Federation—is tempering the demand for foreign workers and transmitting the contagion through a downtrend of remittance flows to developing Asia. Unlike in the 1997/1998 Asian financial crisis, the current crisis has affected both sending and receiving countries. The recession has lifted international migration high on the agenda of governments in destination countries that are protecting employment opportunities for their own nationals. Migrant workers are facing increasing discrimination and rising hostility since they are seen as depriving local workers of jobs. Their problems are compounded by the tightening of immigration rules in some destination countries in response to increasing unemployment due to the global crisis. According to a recent report from the Migration Policy Institute, some countries are restricting immigrants' access to the labor market (Australia; Kazakhstan; Korea; Malaysia; Russian Federation; Taipei, China; Thailand; United Kingdom [UK]; United States [US] ) while others are offering incentives for migrants to return home including one-way tickets and lump-sum payments (Czech Republic, Japan, Spain, UK).<sup>1</sup>

Unskilled and semi-skilled workers in highly cyclical occupations are particularly hard hit. Worsened economic conditions back home and the financial and social costs of going home and returning back may force many migrants to stay put in the destination countries. Moreover, migrant workers cannot simply shift to alternative destinations, which too are facing the crisis and other job-related adverse conditions. According to United Nations estimates, about three quarters of migrant workers are vulnerable because they are young, undereducated, or have little work experience. Current policies toward immigration are inflexible and remain rather restrictive in most Asian economies. These restrictions limit opportunities for developing Asia to benefit from increased labor mobility and deepening integration of labor markets. Indeed, there has been a decline in the new deployment of migrants from most Asian countries.

Migrants adopt several strategies to cope with the recession such as lowering spending, looking for a new or second job, moving to a cheaper house, refinancing mortgage,

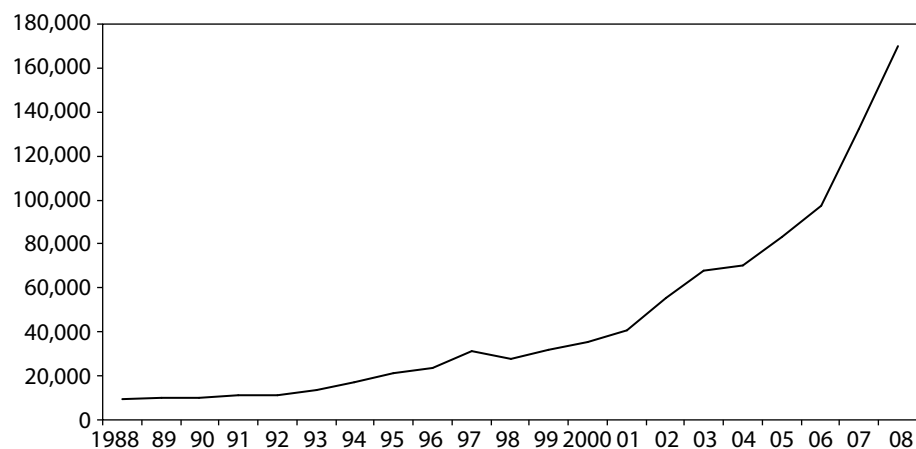
<sup>1</sup> [news.bbc.co.uk/2/shared/bsp/hi/pdfs/08\\_09\\_09\\_migration.pdf?bcsi\\_scan\\_D4A612CF62FE9576=/wolmjc13OhSpRwzBaYEzTEAAADafKQv&bcsi\\_scan\\_filename=08\\_09\\_09\\_migration.pdf](https://www.bbc.co.uk/2/shared/bsp/hi/pdfs/08_09_09_migration.pdf?bcsi_scan_D4A612CF62FE9576=/wolmjc13OhSpRwzBaYEzTEAAADafKQv&bcsi_scan_filename=08_09_09_migration.pdf)

drawing down savings, selling possessions, mortgaging property, or declaring bankruptcy. For their home countries, the most significant repercussion of these tendencies is a sharp drop in remittances as large segments of migrants lost their jobs. In some cases, there is a sudden spurt in remittances as the laid-off workers repatriate all their savings and prepare to return to their home countries. For example, remittances to Tajikistan, the world's largest recipient in terms of gross domestic product (GDP), are projected to fall by 29% in 2009, equivalent to a whopping 14% of GDP. In contrast, average growth of remittances to Pakistan during the first half of 2009 increased to 23% compared with 17% during the same period last year. A similar trend is seen in Bangladesh. The reason for this large growth rate remains uncertain, but it can be a combination of migrants compensating their families for the tough economic situation back home and the transfer of lifelong savings of migrants who may return home without a job. Likewise, the number of overseas Filipino worker returnees increased by over 50% from April to May 2009.

The first step in a paper with aggregate remittances data is to decide which series of remittances to use. There are a collection of reasons for having concerns about the quality of remittances aggregate data, which range from inconsistencies in reporting formats by central banks in different countries to difficulties in measuring informal flows. In some instances, central banks do not separate remittances and compensation of employees and report these two in just one category. In other cases, remittances and compensation of employees are reported individually. Acknowledging these differences in the reporting of remittance data, we use a broad measure of remittances recommended by the World Bank's (2008) *Migration and Remittances Factbook 2008*. This measure defines remittances as the sum of workers' remittances, compensation of employees, and migrants' transfers. The World Bank (2008) argues that to get a complete picture of remittances one has to look at these three items together.

Worldwide remittances transfers have increased dramatically in recent years and Asia has been at the center of this increase, with three of the four main remittances recipients in the world located in the region. From 1997 to 2007, remittance flows to developing countries registered an average annual growth rate of about 15%. These flows increased from US\$70 billion in 1997 to US\$289 billion in 2007. However, the growth rate was just 17% for 2008 (compared to 23% for 2007) and the World Bank expects remittances to fall by about 6% in 2009 (Ratha et al. 2009).

As Figure 1 shows, official estimates of remittances to Asian countries have been increasing steadily during the last two decades, going from about US\$9 billion in 1988 to about US\$170 billion during 2008. The only noticeable period of sluggish growth is during the aftermath of the 1997/1998 financial crisis. Nonetheless, remittances were quick to recover and returned to their long-term growth path in 1 year. Since 1997, there has not been a single year in which aggregate remittances to the region have decreased in comparison with the previous year.

**Figure 1: Aggregate Remittances to Asian Countries (million US\$)**

Source: *Migration and Remittances Factbook 2008* (World Bank 2008).

Several reasons have been put forward to explain the continuous increase in remittance transfers to Asia. First, migration flows have remained consistently high with some countries such as India reporting 10 million of their nationals living abroad, or about 1% of the country's large population (the Population Reference Bureau 2008). Second, the recent drive in the growth of remittances can be partially ascribed to the increased use of official channels for sending money abroad and to the increased ability of central banks to record these flows. In the past, central banks paid little attention to remittance flows. It was believed that these flows were not significant enough to deserve special attention, and that migrants were simply sending money home occasionally for special events (e.g. weddings, funerals) and for family survival. However, the evidence on the large volume of remittances worldwide and the relevant impact of these flows on receiving countries has encouraged many governments to closely follow the patterns of these transfers. This increased supervision of remittance flows (particularly since 11 September 2001) is also partly a reaction to concerns expressed by governments in developed countries concerning money laundering and the financing of terrorism activities (Maimbo 2004). Therefore, there has been somewhat stricter enforcement of laws against informal channels like the *hundi* system, which are supposedly used for transfer of funds among terrorist groups.<sup>2</sup>

There has also been a change in the way migrants prefer to send money to their countries of origin. In the past, it was often the case that meaningful shares of these transfers were sent with family and friends visiting the host country or through other unofficial channels. However, there has been a decrease in the cost of remitting through formal channels (Freund and Spatafora 2008) and, as a consequence, currently, a larger share of these flows are now sent through wire transfers. Compared to the flows carried

<sup>2</sup> The *hundi* or *hawala* system is an informal remittances transfer system. This is probably the most common informal remittances transfer system in many parts of the world such as the Middle East and Asia.

by individuals, these wire transfers are much easily recorded by central banks.

The reasons for the reduction in the cost of remitting include increased efficiency and a larger network of formal channels that involve both state-owned and private banks. In the past, official channels for remitting in Asia were not really meeting the needs of many migrants and households (Barua et al. 2007). Unofficial channels typically have the advantage in terms of accessibility for the migrant in the host country and can also reach remote areas of the home country, whereas official channels are mostly concentrated in large metropolitan areas. Nonetheless, the growth in the remittance market has caught the attention of many private banks, not merely for the prospect of profits in this sector, but also by recognizing that by offering remittance-related products, they can appeal to migrants and their families to use other banking services such as personal loans and saving accounts. As a consequence, currently, many banks offer services that are better suited for the needs of Asian migrants. However, even accounting for all these facts, the increase in remittances to Asia during the past decades has been quite impressive and just too striking to be explained solely by improvements in data recording.

### III. Country-Specific Examples

To elaborate more on the recent growth of remittances in Asia, we report in Table 1 the volume of remittances received and the growth rate of these flows during 1988–1998 and 1999–2008, for all Asian countries for which data is available for at least 1 year from 1988 to 2008. The countries in Table 1 are arranged in a descending order of volume of remittances in 2008.

**Table 1a: Remittances in Asia (in million US\$, percent year-on-year)**

Economy		1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
India	Level	2,315	2,614	2,384	3,289	2,897	3,523	5,857	6,223	8,766	10,331	9,479
	Growth Rate		12.9	–8.8	38.0	–11.9	21.6	66.3	6.2	40.9	17.9	–8.2
China	Level	321	185	175	363	616	676	821	878	1,492	3,912	3,456
	Growth Rate		–42.3	–5.7	107.7	69.6	9.7	21.5	6.8	70.0	162.2	–11.7
Philippines	Level	1,262	1,362	1,465	1,850	2,538	2,587	3,452	5,360	4,875	6,799	5,130
	Growth Rate		7.9	7.6	26.3	37.2	1.9	33.4	55.3	–9.0	39.5	–24.5
Bangladesh	Level	764	758	779	769	912	1,007	1,151	1,202	1,345	1,526	1,606
	Growth Rate		–0.8	2.8	–1.3	18.6	10.4	14.3	4.4	11.9	13.5	5.2
Pakistan	Level	1,872	2,017	2,006	1,549	1,574	1,446	1,749	1,712	1,284	1,707	1,172
	Growth Rate		7.7	–0.5	–22.8	1.6	–8.1	21.0	–2.1	–25.0	32.9	–31.3
Indonesia	Level	99	167	166	130	229	346	449	651	796	725	958
	Growth Rate		68.7	–0.6	–21.7	76.2	51.1	29.8	45.0	22.3	–8.9	32.1
Viet Nam	Level											
	Growth Rate											
Sri Lanka	Level	358	358	401	442	548	632	715	809	852	942	1,023
	Growth Rate		0.0	12.0	10.2	24.0	15.3	13.1	13.1	5.3	10.6	8.6

*Continued.*

**Table 1a: Continued.**

<b>Economy</b>		<b>1988</b>	<b>1989</b>	<b>1990</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>
Nepal	Level				0	0	55	50	57	44	49	68
	Growth Rate							-9.1	14.0	-22.8	11.4	38.8
Malaysia	Level	281	239	325	309	358	564	455	716	857	1,074	856
	Growth Rate		-14.9	36.0	-4.9	15.9	57.5	-19.3	57.4	19.7	25.3	-20.3
Thailand	Level	927	943	973	1,019	445	1,112	1,281	1,695	1,806	1,658	1,424
	Growth Rate		1.7	3.2	4.7	-56.3	149.9	15.2	32.3	6.5	-8.2	-14.1
Tajikistan	Level											
	Growth Rate											
Azerbaijan	Level								3			6
	Growth Rate											
Korea, Rep. of	Level	945	1,091	1,037	1,172	1,114	1,112	1,038	1,080	946	852	542
	Growth Rate		15.4	-4.9	13.0	-4.9	-0.2	-6.7	4.0	-12.4	-9.9	-36.4
Armenia	Level								65	84	136	92
	Growth Rate									29.2	61.9	-32.4
Georgia	Level										284	373
	Growth Rate											31.3
Hong Kong, China	Level											154
	Growth Rate											
Cambodia	Level					9	10	11	12	12	12	120
	Growth Rate						11.1	10.0	9.1	0.0	0.0	900.0
Kazakhstan	Level								116	89	60	72
	Growth Rate									-23.3	-32.6	20.0
Mongolia	Level											6
	Growth Rate											
Fiji	Level	23	23	22	19	23	26	30	33	33	35	26
	Growth Rate		0.0	-4.3	-13.6	21.1	13.0	15.4	10.0	0.0	6.1	-25.7
Myanmar	Level	7	9	6	2	2	29	42	81	124	149	137
	Growth Rate		28.6	-33.3	-66.7	0.0	1350.0	44.8	92.9	53.1	20.2	-8.1
Samoa	Level	38	41	43	35	40	32	37	41	44	47	42
	Growth Rate		7.9	4.9	-18.6	14.3	-20.0	15.6	10.8	7.3	6.8	-10.6
Tonga	Level	17	15	24	19	21	21					
	Growth Rate		-11.8	60.0	-20.8	10.5	0.0					
Solomon Islands	Level											
	Growth Rate											
Papua New Guinea	Level	10	7	5	21	21	20	20	16	15	14	10
	Growth Rate		-30.0	-28.6	320.0	0.0	-4.8	0.0	-20.0	-6.3	-6.7	-28.6
Kiribati	Level	4	4	5	6	6	6	7	7	7	7	7
	Growth Rate		0.0	25.0	20.0	0.0	0.0	16.7	0.0	0.0	0.0	0.0
Vanuatu	Level	8	7	8	9	14	12	18	14	36	16	22
	Growth Rate		-12.5	14.3	12.5	55.6	-14.3	50.0	-22.2	157.1	-55.6	37.5
Maldives	Level	1	1	2	2	2	1	2	2	3	2	2
	Growth Rate		0.0	100.0	0.0	0.0	-50.0	100.0	0.0	50.0	-33.3	0.0
Lao PDR	Level	7	8	11	10	11	12	10	22	45	41	50
	Growth Rate	14.29	14.3	37.5	-9.1	10.0	9.1	-16.7	120.0	104.5	-8.9	22.0
Turkmenistan	Level									4		
	Growth Rate											

Notes: The table includes all the countries for which data was available for at least one year between 1988 and 2008.

Source: World Bank, Migration and Remittance data, November 2009, available: [www.worldbank.org](http://www.worldbank.org), downloaded 5 November 2009

**Table 1b. Remittances in Asia (million US\$, percent year-on-year)**

<b>Economy</b>		<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
India	Level	11,124	12,890	14,273	15,736	20,999	18,750	22,125	28,334	37,217	51,581
	Growth Rate	17.4	15.9	10.7	10.3	33.4	-10.7	18.0	28.1	31.4	38.6
China	Level	4,021	5,237	7,037	10,955	15,059	20,186	24,102	27,954	38,791	48,524
	Growth Rate	16.4	30.2	34.4	55.7	37.5	34.0	19.4	16.0	38.8	25.1
Philippines	Level	6,918	6,212	6,164	9,735	10,243	11,471	13,566	15,251	16,302	18,643
	Growth Rate	34.9	-10.2	-0.8	57.9	5.2	12.0	18.3	12.4	6.9	14.4
Bangladesh	Level	1,807	1,968	2,105	2,858	3,192	3,584	4,314	5,428	6,562	8,995
	Growth Rate	12.5	8.9	7.0	35.8	11.7	12.3	20.4	25.8	20.9	37.1
Pakistan	Level	996	1,075	1,461	3,554	3,964	3,945	4,280	5,121	5,998	7,039
	Growth Rate	-15.0	7.9	35.9	143.3	11.5	-0.5	8.5	19.6	17.1	17.4
Indonesia	Level	1,109	1,190	1,046	1,259	1,489	1,866	5,420	5,722	6,174	6,795
	Growth Rate	15.8	7.3	-12.1	20.4	18.3	25.3	190.4	5.6	7.9	10.1
Viet Nam	Level			2,000	2,714	2,700	3,200	4,000	4,800	5,500	7,200
	Growth Rate				35.7	-0.5	18.5	25.0	20.0	14.6	30.9
Sri Lanka	Level	1,072	1,166	1,185	1,309	1,438	1,590	1,991	2,185	2,527	2,947
	Growth Rate	4.8	8.8	1.6	10.5	9.9	10.5	25.2	9.7	15.7	16.7
Nepal	Level	83	111	147	678	771	823	1,212	1,453	1,734	2,727
	Growth Rate	22.1	33.7	32.4	361.2	13.7	6.7	47.3	19.9	19.3	57.3
Malaysia	Level	1,042	981	792	959	987	1,128	1,281	1,550	1,803	1,920
	Growth Rate	21.7	-5.9	-19.3	21.1	2.9	14.3	13.6	21.0	16.3	6.5
Thailand	Level	1,460	1,697	1,252	1,380	1,607	1,622	1,187	1,333	1,635	1,898
	Growth Rate	2.5	16.2	-26.2	10.2	16.4	0.9	-26.8	12.3	22.6	16.1
Tajikistan	Level				79	146	252	467	1,019	1,691	2,544
	Growth Rate					84.8	72.6	85.2	118.3	65.9	50.5
Azerbaijan	Level	54	57	104	181	171	228	693	813	1,287	1,554
	Growth Rate	800.0	5.6	82.5	74.0	-5.5	33.1	204.7	17.2	58.4	20.7
Korea, Rep.	Level	666	735	652	662	827	800	848	994	1,128	3,062
	Growth Rate	22.9	10.4	-11.3	1.5	24.9	-3.3	6.0	17.2	13.5	171.6
Armenia	Level	95	87	94	131	162	435	498	658	846	1,062
	Growth Rate	3.3	-8.4	8.0	39.4	23.8	167.9	14.6	32.1	28.5	25.6
Georgia	Level	361	274	181	231	235	303	346	485	695	732
	Growth Rate	-3.2	-24.1	-33.9	27.6	1.7	29.0	14.1	40.2	43.3	5.3
Hong Kong. China	Level	130	136	153	121	120	240	297	294	317	355
	Growth Rate	-15.6	4.6	12.5	-20.9	-0.8	99.9	23.7	-0.9	7.8	12.1
Cambodia	Level	106	121	133	140	138	177	200	297	353	325
	Growth Rate	-11.7	14.2	9.9	5.3	-1.4	28.6	12.6	48.9	18.5	-7.8
Kazakhstan	Level	64	122	171	205	147	166	178	187	223	192
	Growth Rate	-11.1	90.6	40.2	19.9	-28.3	12.8	7.6	5.1	19.0	-14.1
Mongolia	Level	7	12	25	56	129	203	180	181	194	200
	Growth Rate	16.7	71.4	108.3	124.0	130.4	57.0	-10.9	0.6	7.0	3.1
Fiji	Level	24	24	24	24	123	172	184	165	165	175
	Growth Rate	-7.7	0.0	0.0	0.0	412.5	39.8	7.2	-10.2	0.0	5.7
Myanmar	Level	136	104	117	106	85	118	131	116	125	150
	Growth Rate	-0.7	-23.5	12.5	-9.4	-19.5	38.1	11.0	-11.0	7.4	20.0
Samoa	Level	45	45	45	45	45	88	110	108	120	135
	Growth Rate	7.1	0.0	0.0	0.0	0.0	95.4	25.0	-1.7	10.8	12.7
Tonga	Level			53	66	56	68	66	72	100	100
	Growth Rate				24.5	-15.4	21.1	-2.4	9.1	38.3	0.0

*Continued.*

**Table 1b: Continued.**

<b>Economy</b>		<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Solomon Islands	Level	2	2	2	2	4	9	7	20	20	20
	Growth Rate		0.0	0.0	0.0	100.0	117.5	-17.2	183.8	0.0	0.0
Papua New Guinea	Level	8	7	6	11	13	16	13	13	13	13
	Growth Rate	-20.0	-12.5	-14.3	83.3	18.2	20.8	-15.2	0.0	0.0	0.0
Kiribati	Level	7	7	7	7	7	7	7	7	7	9
	Growth Rate	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	28.6
Vanuatu	Level	26	35	53	8	9	5	5	5	6	7
	Growth Rate	18.2	34.6	51.4	-84.9	12.5	-45.2	3.4	-2.1	11.1	26.3
Maldives	Level	2	2	2	2	2	3	2	3	3	3
	Growth Rate	0.0	0.0	0.0	0.0	0.0	45.0	-20.7	21.7	6.5	5.0
Lao PDR	Level	1	1	1	1	1	1	1	1	1	1
	Growth Rate	-98.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Turkmenistan	Level										
	Growth Rate										

Notes: The table includes all the countries for which data was available for at least one year between 1988 and 2008.

Source: World Bank, Migration and Remittance data, November 2009, available: [www.worldbank.org](http://www.worldbank.org), downloaded 5 November 2009.

## A. India

India stands at the top among Asian economies with about US\$52 billion received during 2008. India is not just the country with largest inflow of migrant's remittances in Asia—it is also the world leader in remittances received (see Chishti 2007 for more details). It is also interesting to note that remittances to India have been growing considerably during the last 4 years, averaging a growth rate of about 29%.

Migrants from India can be divided into two distinct categories: those with technical skills and professional expertise and unskilled or semi-skilled workers. The former are typically permanent migrants that have settled in countries such as US, UK, and Canada. They send almost half of India's incoming remittance flows. The unskilled or semi-skilled workers are mainly temporary migrants working in oil exporting countries of the Middle East and send about one third of the total remittance flows (Working Group on Cost of Non-Resident Indian Remittances 2006).

The increase in remittances to India can also be explained by the existence of Non-Resident Indian (NRI) deposit accounts.<sup>3</sup> NRIs have the choice of holding deposits in these accounts in Indian rupees or foreign currency. These deposit accounts date back to the 1970s, and have been used by the Government of India to attract foreign exchange to the country. In fact, regular remittances and deposits maintained by NRI are estimated to be about 23% of the country's external reserves (Working Group on Cost of NRI Remittances, 2006). Funds withdrawn from these accounts in India are counted as remittances (Reserve Bank of India 2006). Therefore, a significant chunk of the large volume of remittances reported by India is due to actual withdrawals from these NRI accounts.

<sup>3</sup> NRI refers to Indian nationals living abroad.



Other possible reasons for the large volume of remittances received by India in recent years (in addition to a large wave of high skill migration to the US during the mid-1990s to fill positions in the technology sector) include the change in exchange rate policy in the 1990s from a rigid exchange rate policy with multiple exchange rate controls to a mostly flexible exchange rate (Reserve Bank of India 2006). Remittance transfers typically require a foreign exchange transaction (e.g., from US dollars to Indian rupees) and a more flexible exchange rate decreases the incentive of remitting through informal channels like the hawala system, where migrants could obtain a “premium” exchange rate. In this regard, a recent document from the EPW Research Foundation (EPWRF) states that “the logic for the hawala transactions in the differential value of the rupee as between the official and unofficial markets has ceased to exist” (EPWRF 2008).

## **B. People’s Republic of China**

The People’s Republic of China (PRC) occupies the second place in terms of volume of remittances in Asia with about US\$49 billion received during 2008. However, contrary to the case of India, remittances to the PRC have reported growth rates as low as 16% during the last 4 years (although the average growth rate during these 4 years is 25% due to an unusual 39% growth rate during 2007). Still, India and PRC share some similar characteristics such as a large volume of migrants.

Since 1979, the Government of the PRC has pursued an open door policy with regard to migration. It is argued that the Government of the PRC sees emigration as enhancing the PRC’s integration to the globe and it is careful in avoiding conflicts with other countries over migration issues (Biao 2003). When it comes to migration, the PRC occupies the fourth place at the world level, with a total of 7.3 million migrants. In fact, just in the US alone there are almost 1.5 million nationals from the PRC, making PRC immigrants the second largest migrant group in the country, just behind Mexicans (US Census Bureau 2003). Although the number of immigrants from the PRC in the US is notorious, migrants from the PRC are truly spread around the globe. The bulk of the rest of migrants from the PRC are mainly located in other places in North America and in Europe (Australia, Canada, Germany, and Italy) and in other Asian countries (Japan, Korea, Malaysia, Singapore, and Thailand) (World Bank 2008). While international immigration and remittances in the PRC have reached huge dimensions, most of the actual academic research on migration and remittances for this country has been dedicated to internal migration issues (e.g., Giles and Yoo 2007). It is still the case that rural to urban migration plays a prominent role in the lives of thousands of PRC’s inhabitants.

## **C. Philippines**

The third place in remittances received in Asia belongs to the Philippines, with about US\$17 billion received during 2008. The Filipinos are also the third largest migrant group in the US, just behind migrants from Mexico and the PRC (US Census Bureau

2003). The Philippine case is interesting given that it has one of the most sophisticated systems of temporary migration in the world. Just in 2007, over 1 million temporary workers left the country to work in a different country with job contracts that were certified by the Philippines' government (Agunias 2008). The Philippine Overseas Employment Administration (POEA) is in charge of the logistics of the migration process in the Philippines and has been successful in placing Filipinos abroad while protecting their elemental human rights. The Philippines has been traditionally an exporter of low-skilled labor, but this role has changed recently as a larger share of the migrants comes from the high-skill labor sector. There has also been a change in the gender composition of migrants. Previously, males composed the great majority of migrants from the Philippines, but with the increased demand to fill jobs in professions such as nursing, the share of female migrants has increased significantly (Burgess and Haksar, 2005).<sup>4</sup>

As shown in Table 2 about 11% of the remittance flows to the Philippines comes from other Asian countries, with important shares from Japan; Hong Kong, China; Taipei, China; and Singapore, in that order. Meanwhile, more than half of the remittance flows to the Philippines come from North America. As expected, the US stands as the front-runner in remittances sent from that region to the Philippines, with about US\$7.8 billion sent during 2008 (Figure 2). In Europe, a region that sends about 16% of the total flows, UK and Germany stand out as the main sources of remittances. Lastly, the Middle East provides about 15% of the flows with special importance of flows from Saudi Arabia and the United Arab Emirates. The Philippine remittances market is in general recognized as a highly competitive market and it is argued that it has become even more efficient with the increase in competition among banks to serve migrants (Federal Reserve Bank of San Francisco 2008).

Nonetheless, as monumental as the remitted amounts to these countries appear to be, with the exception of the Philippines, for which remittances are vital in every sense, in reality remittances as percentage of GDP are not that consequential for these countries as they are for many other Asian countries. This is not to say that remittances are not prime foreign exchange sources for India and the PRC, but that in relative terms, remittances may have more far-reaching effects in other Asian countries.

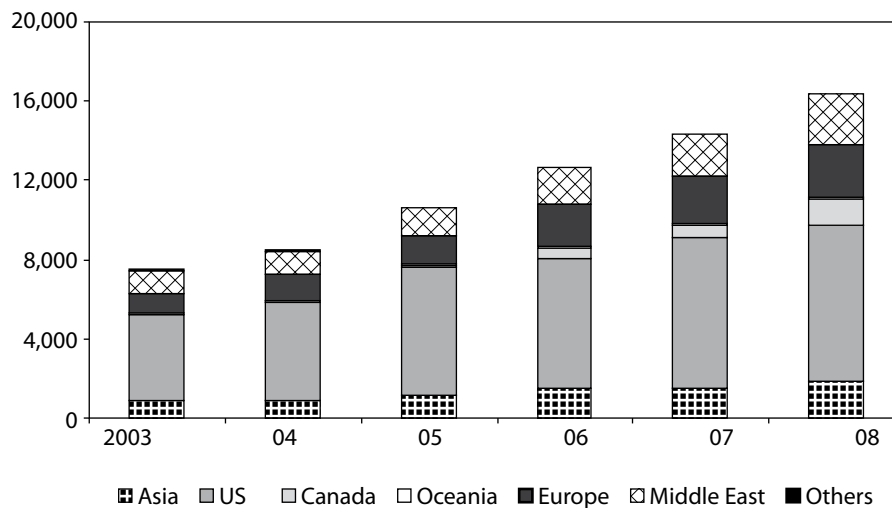
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<sup>4</sup> This recent feminization of migration in the Philippines is also the rule in most other countries. In the past, migration was male-dominated and women were just included under the category of family reunion (Castles and Miller, 2009). At present, however, women account for almost half of migrants around the globe (International Organization for Migration, 2009). There is also plenty of evidence that females are more likely to remit than males (VanWey, 2004).

**Table 2: Remittances to the Philippines by Economy of Origin (million US\$)**

Region	Economy	2003	2004	2005	2006	2007	2008
Asia		894.31	918.33	1,172.37	1,496.12	1,543.17	1,884.00
Percent of total		12	11	11	12	11	11
	Hong Kong, China	238.20	273.81	338.90	413.72	383.16	406.13
	Japan	346.06	308.13	356.66	453.40	401.61	575.18
	Singapore	137.17	182.57	240.15	285.13	386.41	523.95
	Taipei,China	66.71	72.71	86.55	169.00	183.36	194.07
Americas		4,370.71	5,023.80	6,605.23	7,198.21	8,244.34	9,213.37
Percent of total		58	59	62	56	57	56
	Canada	27.07	67.34	117.06	590.63	595.08	1,308.69
	United States	4,299.85	4,904.30	6,424.85	6,526.43	7,564.89	7,825.61
Oceania		44.47	42.60	54.57	85.61	121.42	149.42
Percent of total		1	0	1	1	1	1
Europe		1,040.56	1,286.13	1,433.93	2,061.07	2,351.70	2,658.73
Percent of total		14	15	13	16	16	16
	Germany	95.53	108.12	142.53	162.02	207.94	304.64
	Italy	309.81	449.29	430.07	574.66	635.94	678.54
	Norway	13.94	18.63	19.81	128.28	159.15	185.62
	United Kingdom	271.03	280.81	300.73	561.67	684.01	776.35
Middle East		11,663.76	1,166.38	1,232.07	1,417.49	1,909.21	2,172.42
Percent of total		15	14	13	15	15	15
	Bahrain	23.20	30.80	41.61	67.04	142.43	159.50
	Saudi Arabia	826.36	877.21	949.37	1,117.92	1,141.32	1,387.12
	United Arab Emirates	160.82	183.44	257.43	427.25	529.96	621.23
Africa		11.37	3.44	4.52	10.27	16.03	17.75
Percent of total		0	0	0	0	0	0
Others		50.66	44.00	0.89	0.82	0.85	0.95
Percent of total		1	1	0	0	0	0

Source: Bangko Sentral ng Pilipinas, available: [www.bsp.gov.ph/statistics/keystat/ofw.htm](http://www.bsp.gov.ph/statistics/keystat/ofw.htm), downloaded 10 September 2009.

**Figure 2: Remittances to the Philippines by Country of Origin (million US\$)**

Source: Bangko Sentral ng Pilipinas, available: [www.bsp.gov.ph](http://www.bsp.gov.ph), downloaded 5 November 2009.

## D. Bangladesh

One of the Asian countries for which recorded remittances flows represent a significant share of GDP is Bangladesh, where remittances account for about 10% of GDP. According to the International Organization for Migration (2009), about 250,000 citizens leave Bangladesh every year using official channels and many more using unofficial channels. The main destination of Bangladeshi migrants is India (World Bank 2009). It is estimated that a total of 3.5 million people born in Bangladesh now reside in India. However, as we discuss below, the bulk of recorded remittances to Bangladesh are not coming from India. According to official statistics published by the Bank of Bangladesh, a total of about US\$57 billion in remittances has been sent to Bangladesh from across the globe since 1990.

Table 3 provides information on the remittances received by Bangladesh by source country. There are no big surprises about the top five sources of remittances flows to Bangladesh. The information provided by Bangladesh's Central Bank suggests that most of the remittances originate in the Middle East. Saudi-Arabia, with about 1.5 million Bangladeshi expatriates (Pakkiasamy 2004), tops the list with almost US\$3 billion in remittances for the fiscal year 2008–2009.<sup>5</sup> The US comes third with US\$1.6 billion in remittances, and the UK comes fifth, with US\$.8 billion. The United Arab Emirates and Kuwait, two other countries with large population of Bangladeshi migrants, occupy the second and the fourth place. Thus, while a notable share of remittances to Bangladesh originates in western countries, the bulk of these migrants' transfers come from the Gulf Region (Figure 3).

The size of remittance flows relative to other sources of foreign exchange is also impressive in Bangladesh. In 2005–2006, remittances accounted for 45% of Bangladeshi exports; 49% in 2006–2007, and 56% in 2007–2008. These figures confirm the towering importance of remittances for the country. Bangladesh also receives large flows of foreign aid, but the volume of recorded remittances is about three to four times that of foreign aid.

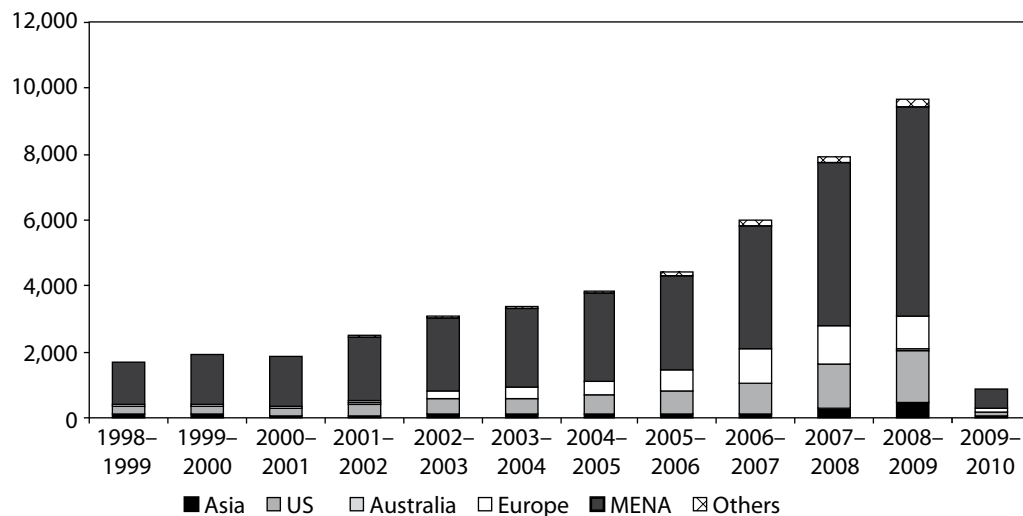
Most migrants from Bangladesh are low-skilled workers. It has also been widely reported that the migrants from Bangladesh in the Middle East and other regions of the world have been subject to continuous abuses and exploitation. These abuses include work shifts of more than 12 hours per day (without overtime pay), unpaid salaries, no access to medical care and poor living conditions (Human Rights Watch 2004). Therefore, the typical migration experience of many low-skilled workers in Bangladesh is not necessarily a pleasant one. These experiences are particularly relevant for this study given that most of these abuses are committed in the Middle East, the same region from which the bulk of remittances seems to be coming from.

<sup>5</sup> Bangladesh Central Bank reports remittances flows by fiscal year.

**Table 3: Remittances to Bangladesh by Economy of Origin (million US\$)**

Region	Economy	1998–1999	1999–2000	2000–2001	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007	2007–2008	2008–2009	2009–2010
Asia	Malaysia	67.5	54.0	30.6	46.9	41.4	37.1	25.5	19.1	11.8	92.4	282.2	37.9
	Singapore	13.1	11.6	7.8	14.3	31.1	32.4	47.7	61.3	80.2	130.1	165.1	16.3
	Republic of Korea	1.9	0.5	0.3	0.8	3.9	5.2	18.4	16.4	17.1	19.7	18.3	2.2
	Japan	39.4	34.6	10.7	14.1	18.2	18.7	16.0	8.7	10.2	16.3	14.1	1.3
	Hong Kong, China	5.1	5.2	4.0	4.0	4.8	5.9	5.6	5.4	6.2	8.1	9.1	0.8
Americas	United States	239.4	241.3	225.6	356.2	458.1	467.8	557.3	701.4	930.3	1380.1	1575.2	119.6
Oceania	Australia	0	0	0	2.3	3.4	4.8	7.2	8.9	11.3	13.1	6.8	0.6
Europe	United Kingdom	54.0	71.8	55.7	103.3	220.2	297.5	375.8	517.4	886.9	896.1	789.7	70.6
	Italy	0	0.2	0.4	0.4	19.3	27.2	41.4	78.4	149.7	214.5	186.9	24.3
	Germany	5.1	4.7	3.8	6.1	9.6	12.1	10.1	11.0	14.9	26.9	19.3	1.5
MENA	Saudi Arabia	685.5	916.0	919.6	1148.0	1254.3	1386.0	1510.5	1562.2	1734.7	2324.2	2859.1	270.1
	United Arab Emirates	125.34	129.9	144.3	233.5	327.4	373.5	442.2	512.7	804.8	1135.1	1754.9	151.4
	Kuwait	230.2	245.0	247.4	285.8	338.6	361.2	406.8	454.4	680.7	863.7	970.8	78.5
	Qatar	63.9	63.7	63.4	90.6	113.6	113.6	136.4	161.4	233.2	289.8	343.4	30.6
	Oman	91.9	93.0	83.7	103.3	114.1	118.5	131.3	153.0	196.5	220.6	290.1	25.6
	Bahrain	38.9	41.8	44.0	54.1	63.7	61.1	67.2	61.3	80.0	138.2	157.4	13.5
	Iran	0.2	0	0	0	0.2	0.4	0.5	1.7	2.4	3.2	3.3	0.5
	Libya	0.1	0.04	0.1	0	0.2	0.1	0.3	0.2	2.6	0.4	1.3	0.3
Others		44.0	36.0	40.5	37.6	40.0	48.8	48.2	92.6	125.1	142.2	242.4	39.9
Total		1705.7	1949.3	1882.1	2501.1	3062.0	3372.0	3848.3	4427.2	5978.5	7914.8	9689.3	885.4

Source: Bangladesh Central Bank, available: [www.bangladesh-bank.org](http://www.bangladesh-bank.org), downloaded 10 September 2009.

**Figure 3: Remittances to Bangladesh by Country of Origin (million US\$)**

Source: Bangladesh Bank, available: <http://www.bangladesh-bank.org>, downloaded 5 November 2009.

## E. Others

Other Asian countries in which remittances represent an important share of GDP include Afghanistan, Armenia, Nepal, Sri Lanka, Tajikistan, and Viet Nam. From these six countries, Tajikistan stands out with remittances accounting for more than 30% of GDP. Tajikistan declared its independence from the Soviet Union in the early 1990s. However, the country fell into a civil war almost right away. One of the responses to the civil war was a mass departure of the Tajik population to the Russian Federation (Mughal 2007). It is argued that about 1.2 million people became refugees or were internally displaced during the civil war. The civil war also left 50,000 dead (United Nations 2006). During the 1990s, remittances kept the country afloat in the middle of the crisis (Mughal 2007). It is estimated that over 80% of remittance flows to Tajikistan originate in the Russian Federation (Brown et al. 2008). While there are signs that labor migration in Tajikistan has moderated, the migration rates remain relatively high (Kireyev 2006).

## IV. The Global Economic Crisis and the Future of Remittance Flows to Asia

### A. Remittance-Receiving Countries

Table 4 shows the flow of workers' remittances worldwide and by region of the world from 2000 to 2008. Of the US\$338 billion sent by immigrants to developing countries in 2008, about US\$306 billion, or 91% of the total flows, were sent to middle income countries. Money flows to middle income countries have experienced consistent growth over the years with an average annual growth rate of 18% for the time period presented in the table. Hence, the growth of transfers to these type of countries in 2008 (16%) is especially noticeable.

**Table 4: Global Flow of Migrants' Remittances (million US\$, percent year-on-year)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
World	130,512	145,445	167,494	204,529	237,523	275,179	317,313	384,789	443,514
growth rate	3.69	11.44	15.16	22.11	16.13	15.85	15.31	21.26	15.26
All developing countries	82,537	93,122	112,609	140,420	164,370	198,932	235,403	289,376	337,761
growth rate	8.74	12.82	20.93	24.70	17.06	21.03	18.33	22.93	16.72
Low-income countries	5,654	8,131	10,410	11,472	13,214	16,097	19,940	24,600	31,567
growth rate	10.4	43.8	28.0	10.2	15.2	21.8	23.9	23.4	28.3
Middle-income	76,884	84,991	102,198	128,947	151,157	182,835	215,463	264,775	306,193
growth rate	8.6	10.5	20.2	26.2	17.2	21.0	17.8	22.9	15.6
LDCs (UN-classification)	6,147	6,664	8,425	9,657	10,879	12,042	14,258	17,527	22,759
growth rate	7.0	8.4	26.4	14.6	12.7	10.7	18.4	22.9	29.9

Source: World Bank, Migration and Remittance data, November 2009, available: [www.worldbank.org](http://www.worldbank.org), downloaded 5 November 2009.

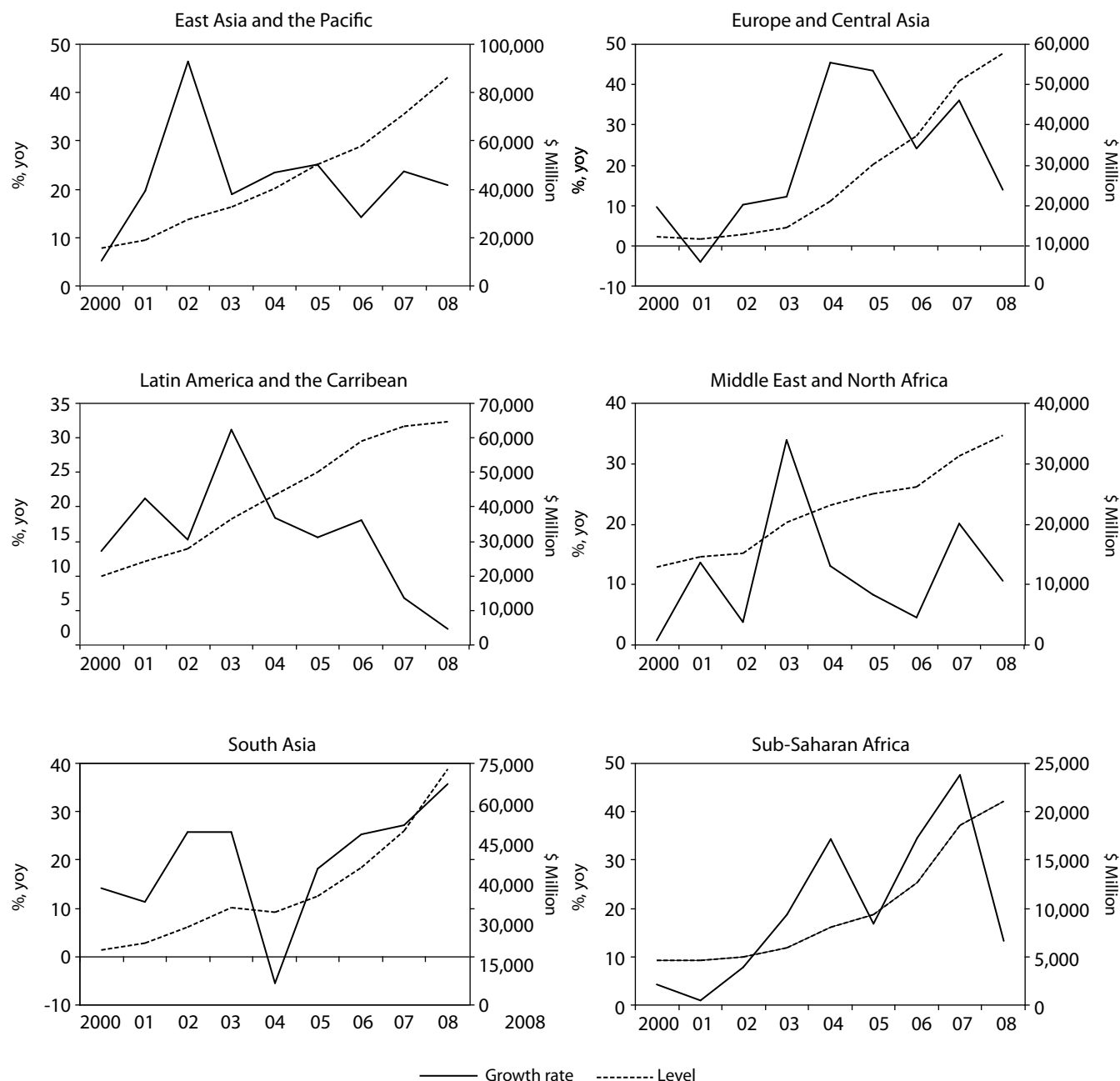
A similar picture appears for the flows to low income countries, a relatively strong growth rate over 2000–2007 (22.1%) followed by a decrease in the growth rate for 2008 (12.99%). In fact, quarterly data indicates that there is a global decrease in remittances that started in the third quarter of 2008 for Latin America, but that was not experienced in Asia during that year (Ratha and Mohapatra 2009). Given this decreasing trend in remittances in many parts of the world and the grim prospects of the global economy, the World Bank changed their projections of global growth in remittances for 2009 to a decrease in these flows of about 6%.

The global figures are surprising but it is perhaps even more insightful to look at the recent trend of remittances by regions (Figure 4). In most of the categories that include Asian countries (East Asia and Pacific, Europe, and Central Asia) we can appreciate a lower growth rate of remittances in 2008 compared with those in 2007. To understand and get a sense of the future outlook of remittances, in Figure 5 we provide monthly data on remittances flows for the last 2 years. The figure concentrates on some of the key recipients of remittances flows in the region—Bangladesh, Pakistan and the Philippines.

The Philippines received US\$11.34 billion in remittances from January to August 2009. This compares to US\$10.94 billion received during the same period in 2008. While monthly remittances to the Philippines tend to fluctuate up and down (e.g., flows decreased in January, April, July, and August 2009 compared to the previous month), the general trend of remittances seems to be positive, although not much of the recent growth in these flows is evident. While for the whole of 2008 the average monthly growth rate was 14%, for the first 8 months of 2009, the average growth rate remains at just 4%. Hence, for the Philippines, we do not see evidence of a dramatic plunge in workers' remittances as a result of the current recession. The evidence suggests more of a stagnation of these flows.

Monthly data from Bangladesh also shows an interesting pattern. Remittances flows to Bangladesh have increased noticeably from US\$471 million in August 2007 to US\$935 million in August 2009. Moreover, during this time—except for one period—in every month, the growth rate of remittances was positive (compared to the same month of the previous year). Therefore, for the case of Bangladesh, we also fail to see a plummet in monthly remittances. Still, the monthly growth rate of remittances is decreasing, going from an average of 38% in 2008 to an average of 17% for 2009, suggesting a slowdown in these flows. Yet, remittances remain in better shape than other flows to Bangladesh. For instance, while there has been a noticeable decline in exports from Bangladesh in recent years, remittances are actually modestly increasing. Moreover, the recent analysis of Hussain and Naeem (2009) predicts that even in the worst case scenario for migration outflows from Bangladesh, remittances to the country during the next fiscal year should grow by almost 9%, to reach US\$10.4 billion.

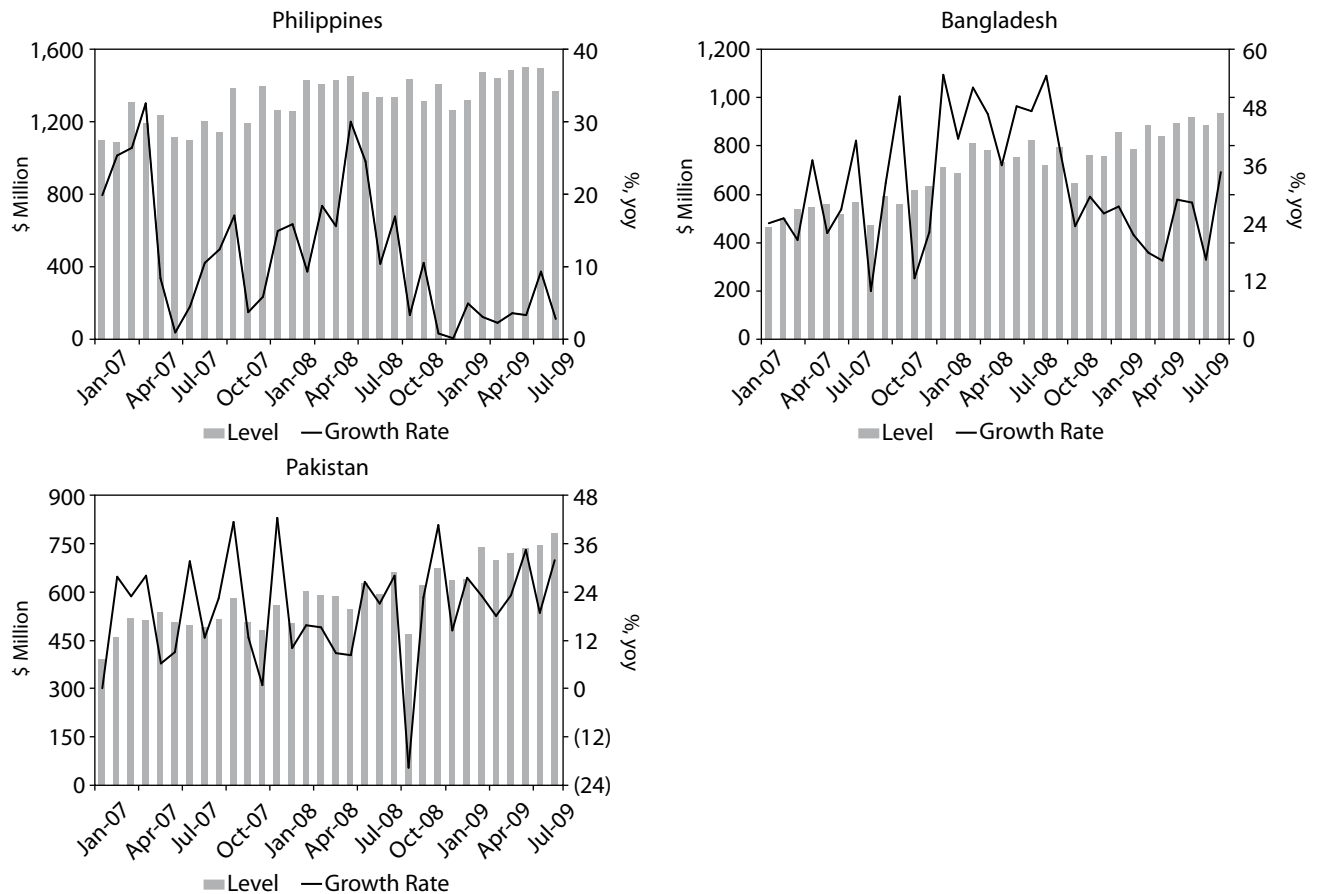
Finally, in the case of Pakistan, there seems to be more volatility in the growth rate of remittances when compared with the cases of Bangladesh and the Philippines. There is even one month (October 2008) for which the growth rate is markedly negative. While

**Figure 4: Global Flow of Migrants' Remittances**

Source: World Bank, Migration and Remittance data, November 2009, available: [www.worldbank.org](http://www.worldbank.org), downloaded 5 November 2009.

there were some difficult events occurring in Pakistan during that period (e.g., earthquake in the province of Balochistan and the recent elections), the reasons for the drop in remittances remain unclear. Nonetheless, the statistics for 2009 suggest that remittances to Pakistan are actually on the rise. While Pakistani migrants will get affected by the crisis at some point and flows will most likely decelerate in the future, the evidence obtainable from the data does not reflect signs of a slowdown.



**Figure 5: Monthly Remittances for Selected Countries**

Source: World Bank, Monthly Remittance Flows to Selected Countries, available: [www.worldbank.org](http://www.worldbank.org), downloaded 5 November 2009.

The crisis may have effects on the remittances market other than affecting the flows remitted. For instance, the financial crisis has led to the consolidation of many banks and financial institutions, while other financial institutions have succumbed completely to the crisis and have in effective terms been wiped out of the map. Therefore, in addition to looking at the inflow of remittances, it is also interesting to look at the situation of the remittances market in general and the cost of remitting in particular. Table 5 provides the average cost of remitting about US\$200 to a selected group of Asian countries using the main official remitting channels (e.g., Western Union). The countries in the rows are the sending countries, while the countries in the columns are the receiving countries. The first number reported for each pair of countries, under the column “ALL”, is the average cost of remitting as a percentage of the total sum remitted for all institutions surveyed (non-weighted average). The cost of remitting takes into account the fees and the exchange rate margin. For instance, the 13.03 for France and the PRC indicates that to remit about US\$200 from France to the PRC, the immigrant has to pay an additional 13% of this amount. The number reported in the second column “WU” is the cost of sending money using Western Union (11.11 for the case of France and the PRC) one

**Table 5: Cost of Remitting to Selected Asian Countries**

Sending Country		Receiving Country											
		Bangladesh		China		India		Indonesia		Pakistan		Philippines	
		ALL	WU	ALL	WU	ALL	WU	ALL	WU	ALL	WU	ALL	WU
Canada	%			11.9	9.22								
	Growth			-8.11	-36.5								
France	%			13.03	11.11	11.98	13.95						
	Growth			27.7	-21.0	28.7	25.6						
Germany	%			19.48	17.96	12.54	14.84						
	Growth			-21.0	10.9	17.2	11.7						
Italy	%			11.42	17.02	5.49	8.97						
	Growth			12.6	14.9	-23.0	-7						
Japan	%			17.98	N/A								
	Growth			20.3	N/A								
Malaysia	%							7.78	4.67				
	Growth							-2.9	-34.7				
Netherlands	%							12.01	16.51				
	Growth							-46.7	19.3				
Saudi Arabia	%	2.84	3.54			3.08	3.59			2.5	3.72	5.07	4.69
	Growth	-44.2	-42.53			-37.1	-40.76			-56.2	-33.5	6.1	-13.6
Singapore	%	2.92	3.84	5.9	8.13	4.44	4.66	6.59	6.57	13.1	16.95		
	Growth	-61.3	-33.68	-24.9	-6.0	-33.0	-3.7	11.1	2.5	-2.8	-0.4		
United Kingdom	%	7.11	11.05	18.23	22.25	9.06	11.34			6.83	9.42	8.55	22.1
	Growth	-10.8	-10.01	-1.8	1.9	7.7	0.98			-6.7	-18.3	-2.6	-2.7
United States	%			12.56	7.42	4.61	6.38	8.51	14.25			6.95	8.44
	Growth			-2.26	1.37	-5.9	-53.02	N/A	N/A			-21.9	-31.9
												3.79	3.05
												-36.4	-56.9

Notes: The percentage (%) values reflect the percentage of the sum remitted that the immigrant must pay in order to send about US\$200 back home. The growth rate is the change from the second quarter of 2008 to the first quarter of 2009. ALL reports the average values for all the institutions surveyed, while WU reports the values for Western Union.

Source: <http://remittanceprices.worldbank.org/>.

of the principal money transfer agencies in the world. Finally, the row below those two numbers reports the growth rate of these costs from the second quarter of 2008 to the first quarter of 2009. As can be seen from Table 5, with regard to the growth rates, we have both positive and negative values, suggesting that some remittance corridors have become more expensive, while others have become less expensive. Nonetheless, the negative values outnumber the positive ones suggesting that remitting costs have actually decreased in the majority of these corridors.

In sum, by looking at the data at the receiving end we do not find evidence of a dramatic shrink in remittance transfers or increase in the cost of remitting. Still, the flow of remittances also depends on the economic conditions of the sending regions. Therefore the following questions become relevant: What regions of the world are getting hit particularly hard during this crisis? What sectors are getting affected? Are these countries large remittances senders to Asian countries?

## **B. Remittance-Sending Countries**

Evidence suggests that some of the countries most affected by the current economic crisis are areas in which migrants, and especially remitters, tend to reside. While the cases of the US and the UK have been highlighted widely in the news and policy circles, there are other important locations for Asian migrants that are seriously affected by the current crisis. For instance, Dubai the second largest emirate of the United Arab Emirates after the capital Abu Dhabi, is facing a serious economic downturn with the especial prominence of a weakened construction sector, an area where migrants tend to concentrate. The United Arab Emirates recorded net remittances (outflows–inflows) of about US\$8.7 billion in 2007.<sup>6</sup> The United Arab Emirates also ranks 13<sup>th</sup> in the world in terms of total immigration flows–migrant recipient country. The population of expatriates in the United Arab Emirates is approximately 3.2 million, which constitutes more than 70% of the United Arab Emirates total population—making it the third immigration country by percent of population (World Bank 2008). The discussion above indicates that a large portion of remittances to Asia originates in the United Arab Emirates—hence we may expect the severe economic downturn in this country to affect migrants' flows to Asia for the next few years.

In addition to the United Arab Emirates as a country, this is, in general, an important region of the world for migration and remittances to Asia. International estimates of official remittances flows suggest that total outward remittances from the Middle East to Asia have increased considerably during the last two decades. As Adams (2006) suggests, the six member states of the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) pay out considerable amounts in worker remittances to migrants. In fact, several countries from the Gulf Cooperation Council

<sup>6</sup> See the information on the balance of payments on the Central Bank of the United Arab Emirates webpage at: [www.centralbank.ae/annualdata/table10.php](http://www.centralbank.ae/annualdata/table10.php).

rank in the top 10 countries in the level of remittances sent abroad. The leader in this regard is Saudi Arabia, which ranks second only to the US in the amount transferred abroad—and just in 2008, sent more than US\$16 billion in remittances to other countries. The information discussed above also shows that Saudi Arabia is a key player in the flow of remittances to several Asian countries (e.g., the Philippines).

Outward remittances constitute a significant phenomenon in the Gulf Cooperation Council countries because of two distinctive reasons: the percentage of the total population that are expatriates and the imposed restrictions on immigrants. Despite an increasing domestic labor force, the Gulf Cooperation Council countries still rely heavily on a large expatriate pool of workers (Fasano and Iqbal 2003). Across the Gulf Cooperation Council countries, the expatriate's population constitutes, on average, 50.4% of the total population. Further, the emigrants in the Gulf Cooperation Council countries are not allowed citizenship, which begets the feeling of provisional residence and therefore increases the likelihood of remitting and the amounts remitted.

A noteworthy share of the foreign workers residing in the Gulf Cooperation Council countries are Asian migrants (Kapiszewski 2006), which makes remittances to Asia really sensible to economic conditions in these countries. By the same token, economic conditions in these countries are dependent on the price of oil, their main export and principal source of income. The sharp decline in oil prices during 2008 seemed to be putting the Gulf Cooperation Council countries on the brink of their own internal crisis. However, oil prices have since increased somewhat (oil prices have increased by US\$20 during the first 4 months of 2009)<sup>7</sup> ameliorating these concerns. If oil prices stabilize in the future, so should remittances from this region.<sup>8</sup>

### **C. Other Considerations**

On the other hand, the crisis may make remittances even more important for receiving economies given that these flows are more resilient to tough economic times than other flows such as foreign direct investment (FDI). Evidence suggests that even if they were to stop migration flows at some point, remittances would continue to flow (although probably not increasing) for many years (Funkhouser 1995). Therefore, if as expected by some experts, migration controls proliferate in some countries, remittances should decrease only gradually. There is also a talk about a drop in the foreign-born population in the United States and other developed countries (Papadimitrou and Terrazas 2009) due to return migration as a result of lack of good employment opportunities in host countries. These returnees are not likely to settle permanently in the home countries. They are more prone to wander in the home country for a while where living expenses may be lower (e.g., they can stay with family members) and return to the host country once the global economy stabilizes.

<sup>7</sup> See [research.stlouisfed.org/fred2/data/OILPRICE.txt](http://research.stlouisfed.org/fred2/data/OILPRICE.txt).

<sup>8</sup> See Naufal and Termos (2009) for a discussion of the impact of oil prices on remittances flows from the Gulf Cooperation Council countries.

A portion of this return migration has been actually encouraged by host country governments. The most famous case is probably the Government of Spain, which has offered unemployed migrants compensation to leave the country. Migrants must hand over their residence visas and work permits and are forbidden from returning to Spain for 3 years. Once the global economy stabilizes, income differentials between Spain and the home countries are likely to remain present and, therefore, migrants that already have certain knowledge about Spain and the possible options for work in the country would be inclined to return.<sup>9</sup>

In the case of Asia, this is even more dramatic, because a large portion of the labor force is composed of unskilled workers located in the Middle East. These are mostly temporary workers that keep a pattern of cyclical migration with their home countries. The deteriorated economic conditions in the Middle East suggest that many Asian migrants may have to come back home sooner than expected and with their pockets lighter than expected. But many countries in the Middle East still need these migrants and are likely to demand their labor again in a few years. As such, the current crisis is not the end of migration as we know it. Finally, there is even evidence that in some countries in Central Asia (i.e., Kyrgyz Republic, Tajikistan, and Uzbekistan) the number of immigrants has increased in response to the decrease in remittances. These increased rates of migration should translate into higher transfers in the future (Marat 2009).

All in all, rather than an epidemic of remittance decreases for countries in the region, we are faced with a decrease in the growth rate of remittances for the region that should last a few years. This, of course, assumes that the crisis will not turn unexpectedly worse and last longer than expected. If that unexpected turn of events materializes, then we may see a further decline in remittances. But barring that possible, but unlikely scenario, we should observe a relatively quick recovery of these flows. All estimates of the impact of the crisis on remittances (e.g., Ratha and Mohapatra 2009; Cali and Dell'Erba 2009) point to a fairly fast resurgence of these flows. This is not to say that we will see the remarkable increases in remittances of the previous decade. As we mentioned above, a significant fragment of that spectacular increase was due to improvements in data collection and a shift in the transmission mechanism of remittances. Nonetheless, the relative stability and impressive volume of remittance flows suggest that these flows should still be one the main components of developing policies for Asian countries in the future.

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<sup>9</sup> Another interesting program is that of New York City in the United States, where the municipal government is offering families (including migrants) one-way airplane tickets out of the city (including international destinations).

## V. Conclusion and Policy Implications

The main purpose of this study is to examine the effects of current economic crisis on remittances to Asian countries. In particular, this study tries to shed some light on the future trend of the remittance flows. Are remittances going to return to the levels of the past or, is this the end of the remittances boom?

Asia hosts three of the main four recipients of remittances in the world (India, PRC, and Philippines). It has the largest regional flow of remittances and in several countries these flows account for more than 10 % of GDP. Asia also hosts the main recipient of remittances as share of GDP in the world, Tajikistan. In general, those countries receiving massive volumes of remittances are not the ones for which remittances represent a significant share of output. The Philippines stands out as the exception, since remittances account for more than 10% of GDP and at the same time, the country receives major flows of remittances. That is, remittances to the Philippines are impressive in both absolute and relative terms.

Although the flow of remittances has slowed down, the deceleration is much more muted than other foreign currency flows. This reflects the relative resilience of remittances, which in general are also countercyclical and less volatile than capital flows. Some possible reasons for this are: (i) Although new migration has slowed down, the number of permanent overseas migrants has not yet been much affected by the global economic crisis; (ii) Not all migrants are based in developed countries but a significant number of them are based in other developing countries in Asia that are not severely affected by the current crisis; and (iii) Anecdotal evidence shows that many migrants are doing the *dirty, difficult, and dangerous* (3-D) jobs that locals refuse to do. This to some extent protects the migrants from the global crisis. Furthermore, there is no evidence of factors that will push remittance flows further down once the global economy stabilizes. Therefore, these flows should be back in the growth path in a few years. We are unlikely, however, to see the same growth rates of the past, given that an important share of that growth in remittances during the last two decades was due to better recording of remittances and an increase use of wire transfers on the part of migrants.

These migrant transfers have been repeatedly categorized as countercyclical transfers that come to the rescue in the face of a domestic crisis. This is not to say that remittances are considered an automatic mechanism that is able to correct negative cyclical fluctuations in output, but rather that these flows are considered to help the policies intended to address those cyclical fluctuations. However, this response of remittances is more likely to occur after local fluctuations in output and in cases in which most of the destination economies remained relatively stable. In a situation like the current financial crisis where the global economy is weak, migrants' pockets are also suffering the downturn and therefore it would be difficult for many migrants to compensate households for the poor economic conditions back home.

In fact, with respect to the current crisis, it seems that remittances to Asia have stopped growing but are not decreasing steadily. Therefore, it is important for receiving countries not to impose restrictions that may hinder remittances such as taxes on these flows, mandatory remittance schemes, or fixed exchange rate policies. Previous studies suggest that these policies just lead to the creation of black markets that result in large amounts of these flows going through informal channels. The best policy is not to interfere as these flows normalize. The fact that we have not seen a dramatic drop in these flows suggests that remittances are resilient and should recover in a few years. Receiving countries just have to make sure that they do not obstruct the adjustment process.

While governments should not interfere in the adjustment process, this does not imply that there are no policies that Asian countries can adopt to make the most out of the inherent development potential of remittances. For instance, many countries in the region (e.g., India and Pakistan) are already providing beneficial terms (e.g., higher interest rates, tax exemptions, flexible currency conversion) to financial instruments (e.g., bonds) that are acquired by migrants. These types of policies promote the investment of migrant's monies into the financial sector of the receiving economies and help enhance the financial literacy of both the migrant and the household.

Professional, skilled, and unskilled migrant workers provide a valuable source of labor to receiving countries. The remittances they send home are a stable and resilient source of foreign exchange, which can make a substantial contribution to growth and poverty reduction in large recipient countries. It is thus in the mutual interest of sending and receiving countries to maximize the benefits of labor migration. These benefits could outweigh the associated economic and social costs of migration.

Increasing protectionist policies of migrant-receiving countries in the wake of the global crisis are adversely affecting Asian migrant workers and remittance flows. Bilateral and/or international agreements for unrestricted mobility of migrants within a controlled scheme for a certain time can reduce barriers to labor mobility. Unskilled workers would benefit from training programs to develop their specific skills in common needs. The return of migrants back home presents an opportunity for home countries to make the best out of their new or improved knowledge and skill. Highly skilled expatriates such as engineers and scientists could be mobilized to improve research and development in Asia, while returning business entrepreneurs could assist in attracting and enhancing the opportunity and quality of investment in home countries. This reverse brain drain could be further facilitated by general economic development policies aimed at creating an enabling environment, allowing markets to work efficiently, promoting human development, restoring peace, law and order, and providing social security.

Remittance flows can be made easier by improving the official channels and developing the domestic financial sector. This requires better quality, availability, and access of financial services to both senders and recipients to improve their financial literacy, and

the development of financial sector products such as deposit and savings accounts, consumer loans, mortgages, insurances, pensions, and assistance to participate in short-term bond scheme. The participation of alternative financial institutions such as community banks, savings and credit cooperatives, as well as microfinance is critical to expand access and outreach to lower income communities and isolated rural areas that large commercial banks cannot reach or have traditionally ignored. International organizations, government, and other related institutions can provide assistance to improve migrant households understanding and expertise to start small enterprises and thereby facilitate the use of remittances for productive use.



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## **About the Paper**

The global crisis has adversely affected most remittance-sending countries. Given the uncertainty surrounding its duration, should developing Asia prepare for a long period of remittance stagnation? To shed light on this issue, Shikha Jha, Guntur Sugiyarto, and Carlos Vargas-Silva examine remittances data for key Asian countries. While remittance flows have currently slowed down, there has been no sharp drop, and there is no indication that they will slow down further. Hence remittances should be back on a higher growth path in a few years. It is unlikely, however, to see the same growth rates of the past two decades, given that an important share of that growth was due to better recording of remittances and an increased use of wire transfers on the part of migrants.

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