EDITORIAL
Remittances and the global financial crisis

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Abstract

Migrant remittances are an important source of external finance for developing countries. The current financial crisis is believed to have influenced migrant remittance flows as well as volume and patterns of use of remittances. In this special issue, a collection of cases from around the world is presented to understand the immediately felt effects of the crisis. Potential influences due to the crisis impact on migration patterns are yet to be seen and studied.

Keywords: remittances, global financial crisis, international migration.

Introduction

At over $300 billion a year, migrant remittance flows provide a lifeline to the people of many poor countries (Ratha 2003, Russell and Teitelbaum 1992). Remittances are one of the less volatile sources of foreign exchange earnings for developing countries. Remittance flows to developing countries quadrupled between 2002 and 2008 as a result of (a) increased scrutiny of flows since the terrorist attacks of September 2001, (b) reduction in remittance costs and expanding networks in the remittance industry, (c) the depreciation of the U.S. dollar (which raises the value of remittances denominated in other currencies), and (d) growth in the migrant stock and incomes.

With the onset of the financial crisis in the latter half of 2008, however, there were widespread concerns: would these flows dry up, and migrants return in large numbers, adding further woes to countries facing difficulties? The literature at the time, and even now, had little guidance to offer on these questions. This special edition marks a first attempt to collect the incipient literature on this topic in one place.

The literature has indicated for some time now that migrant remittances tend to be stable or even counter-cyclical in response to an economic hardship – be it financial crisis, natural disaster, or political conflict – in a remittance-recipient country (Ratha 2003, World Bank 2005, Mohapatra et al. 2009). This time, however, the crisis began in the US and Europe, remittance-source countries. Some early literature (e.g., Swamy 1981) argued that source country factors are a major determinant of remittance flows. This literature if it were conclusive would lend credence to the fear of a meltdown, but the world has changed dramatically since the early 1980s.[1]

The economic crisis in a major migrant destination country was expected to reduce migrants' income and employment opportunities and hence their willingness

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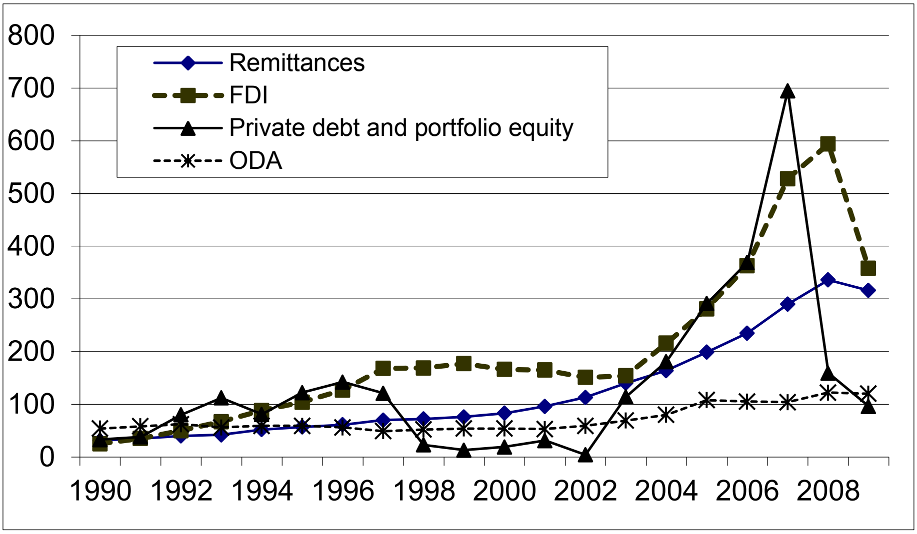
[1] The literature on remittances nearly dried down (giving way to the literature on external capital flows) during the 1980s characterized by the debt crisis and latter, the emergence of private capital flows to developing countries that followed from the restructuring of external debt.

and ability to stay on in the host country and continue to remit funds to friends and family back home. To an extent this expectation was realized as remittance flows registered a decline in 2009 for the first time in recent memory. That said, it was also remarkable that remittance flows to developing countries fell only 6 per cent in 2009, proving to be rather resilient compared to the flows of private capital flows which declined precipitously (figure 1).

Figure 1. Remittances have proved to be resilient compared to other financial flows to developing countries



There were several reasons behind the relative resilience of remittances and migration. For this purpose it is worth using a simple stock-flow equation for migrant stock:

Migrant stock = Existing migrant stock – Return migration + New migration

Remittances are sent by the stock (cumulated flows) of migrants, not by the recent arrivals only. While it is true that in some countries *new* migration flows declined by 40-60 per cent in 2009 compared to 2008, it did not become negative. Thus the stock of migrants continued to grow in destination countries, lending persistence to remittance flows affected in some countries.

Contrary to expectations, *return* migration did not take place as expected even as the financial crisis reduced employment opportunities in the US and Europe. Indeed, many countries (e.g., Spain) offered financial incentives to encourage return, but migrants stayed on. It is too soon to have complete data, but anecdotal evidence suggests that migrants moved from construction sector to retail trade and agriculture, and in some cases stayed on despite losing their legal status, but they were unwilling to return for fear that they would not be able to come back when the economy and job market recovered. The problem was intensified by the imposition of immigration controls in many destination countries – these controls affected new migration, but discouraged return. The duration of migration appears to have increased in response to tighter border controls.[2]

In addition to the persistence of migrant stocks that also lent persistence to remittance flows, existing migrants tried hard to absorb the income shock and continued to send money home. They were able to do so because remittances are typically only a small part of the income. But in many instances, especially in the Gulf countries, unskilled migrant workers tried to reduce consumption and shared accommodation with others to be able to send money home.[3]

If some migrants did return or had the intention to return, they tended to take their saving back to the country of origin. Such funds would show up as inward remittances as these are personal transfers from a non-resident to a resident. This behaviour is similar to the "home-bias" in the literature on capital flows.

Finally, exchange rate movements during the crisis caused unexpected changes in remittance behaviour: as local currencies of many remittance recipient countries (India, Philippines, and Mexico, for example) depreciated sharply against the US dollar, they produced a "sale" effect on remittance behaviour of migrants in the US and other destination countries. Goods, services and assets back home became significantly cheaper and affordable to migrants earning foreign currency. As a result there was a surge in investment-oriented remittances to many countries in South Asia and East Asia.[4]

Available data during 2009 and the first half of 2010 reveal three major trends:

a) The more diversified the migration destinations, the more resilient are remittances. Thus, countries in South Asia and East Asia that have a large number of migrants in the US, Europe and the GCC countries continued to register increases in remittance inflows despite the crisis, whereas countries in Latin America and the Caribbean that have most of their migrants in the US suffered a decline.

b) The lower the barriers to labor mobility, the stronger the link between remittances and economic cycles in that corridor. Thus migrant sending and receiving countries within the EU saw more return migration than in the US-Mexico or UAE-Philippines corridors.

c) As remittances proved to be relatively resilient in comparison to private capital flows, many remittance-dependent countries became even more dependent on remittance inflows for meeting external financing needs. Indeed, many countries (e.g., Bangladesh and the Philippines) that obtained new sovereign rating (with a view to raising bond financing from international markets) benefited from the fact that they had access to a large and relatively stable flow of remittances (Ratha et al. 2010).

The global financial crisis is yet to be over, and it is too soon to have the data and analysis to get a complete picture of the impact on global remittance and migra-

[2] Ratha (2009) uses data from the Mexican Migration Project to show that the duration of migration for Mexican migrants rose significantly during 1995-2007 even as the number of US border patrol agents along the Mexican border increased exponentially.

[3] Many recent migrants in the Gulf had no option but to stay on as they owed huge amounts of debt to recruitment agents.

[4] Also fiscal stimulus in the crisis-affected destination countries may have helped migrants sustain remittances, although many governments also restricted employers from hiring of foreign workers. In a study on a related topic, Taylor (2000) found that immigrant households that received social security or unemployment insurance were more likely to remit than other immigrant households.

tion flows. Past literature has identified several factors not discussed above that affect remittance behaviour: duration of migration, characteristics of migrants, remittance costs and remittance infrastructure, legal status of migrants and their access to financial services, their relationship to the family and their loyalty to the government back home (which is often affected by the root cause of migration to start with).

The current financial crisis has reduced the employment opportunities and spread to developing countries. Thus, for the first time since the 1980s, remittances to developing countries are estimated to have declined in 2009. The remittance flows represent a much larger slice - than foreign aid- of foreign currency inflow to developing countries. For some smaller nations, remittances represent at least a third of their GDP (e.g. Lesotho, Moldova, Tajikistan, and Tonga). In the last two years, remittance flows to South Asia (e.g. Pakistan, Bangladesh, Philippines) grew while the flows were weaker in Latin America (e.g. Mexico, El Salvador), Middle East, North Africa and Europe. An adverse lagged effect is still a possibility.

Amongst others, the factors affecting remittance flows include the economic opportunities in the destination countries, development and growth trends in both sending and destination countries, crisis influence on migrant stock and their well-being, migrants' attitude towards consumption, cultural characteristics, migration experiences, currency fluctuations and so on. There are different classifications and explanations. Macro approaches largely interested in variation in national outcomes (see Adams, 2003; Glytsos, 2002; Taylor et al., 1996b), whilst micro approaches are interested in local effects (see Massey et al., 1994; Taylor et al., 1996a; Binford, 2003; Reichert, 1981; Durand et al., 1996).

It is argued that micro-level interdisciplinary approaches with a household focus can offer an alternative view (Cohen 2005). In this introduction we tend to stick with macro approaches and leave the floor to our contributors of the special issue. However, it is important to understand the micro processes shaping up the geography of remittances at different levels (i.e. individual, household, community, region, nation, global). Thus, remittances, like migration, do not occur in a vacuum. They link migrants and non-migrants as well as the destination and the origin in many ways that go beyond dependency or development.

The remittance flows are expected to be responsive to changes in migration practices. Some relatively recent scholarship argues transnational migration along with other characteristics can facilitate long term remittance flows (Levitt, 2000) or as argued long ago in the literature, remittances decline as migration mature (Stark 1978). Our question in this special issue is how the crises, the recent financial crisis in particular, influence remittance flows. Although many studies focus on remittances influence on overall accounts, as Massey et al (1998) argued that direct effects of remittances on sending communities are important. Cohen's studies on Southern Mexican communities are full of examples where remittances are contributing to the development of regions, communities and to the nation while also influencing internal migratory moves as well as changing gender relations in the communities of origin (Cohen 2010).

Often argued in the literature that most remittances are used to cover daily expenses but a small fraction goes into investment (Koc and Onan, 2004; Cohen and Rodriguez, 2005; Hansen 2000) therefore its relevance to development is questionable. However, they still represent a significant item in balance of payments. In many countries, remittances have maintained a central role often amounting to about a third of total export revenues in countries like Bangladesh or Yemen.

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For this special issue, we have encouraged papers dealing with the effects of the current financial crisis on migrant remittances and received a very good response from academics and professionals working in this field. There six articles and three short case studies discussing the trends and potentials across the globe with reference to particular countries. This collection represents a pioneering attempt in understanding the remittance flows in crisis environments. Other forms of remittances (e.g. gifts, knowledge transfer) are excluded although they play an important role in maintaining transnational networks and ties between migrants and non-migrants (see Cohen, 2005 and Cliggett, 2003).

The first paper by *Tansel* and *Yaşar* applies a Keynesian simultaneous and dynamic macro-econometric model to measure the effect of the crisis on remittances in Turkey with reference to the period from 1964 to 2003. They indicate that consumption, income and imports are likely to grow with remittances while investments shrink.

Akkoyunlu tackles with an intriguing question whether remittances along with trade, aid and FDI is a cure for emigration from Turkey. She examines the period of 1969-2004. Her analysis concludes that remittances and other international engagement through trade, aid and investments are likely to increase migration from Turkey although they may contribute to the reduction of emigration in the long run.

Garlan's paper presents us the current and future trends in remittance payment technologies with particular reference to India and Mexico. He particularly looks into ways in which new payment technologies such as mobile payments can help countries in securing the flows of remittances in the times of economic hardships such as the current financial crisis. These methods are also discussed as a potential tool to reduce undocumented remittance flows.

The article by *Naufal* and *Vargas-Silva* argues that during the crisis a decline in remittances from the GCC was evident albeit a not a large scale one. Analysing the most recent data from 2010, they foresee a reversal of this pattern. The reasons behind this are the continuous need for foreign workers and improvement of working conditions for these workers in these countries.

Pajnik and *Bajt* examine the effects of protectionist policies and analyse the ways in which immigrants in Slovenia cope with the financial crisis. Their paper is unique in this special issue as they employed a qualitative approach and analysed immigrant narratives. The narratives show that immigrants find it difficult to save in the current crisis and therefore less likely to remit which adversely affect their families back home in their respective countries of origin.

Tajikistan, a small economy dependent on remittance flows, is analysed by *Danzer* and *Ivaschenko* using the 2007-2009 panel data. They found that remittances from Russia, the main destination country, have declined. They also argue that migration pressure has increased in the country during the crisis.

The three case studies allow us to compare the remittances trends and patterns in three distinctive regions and countries, namely India, Tonga, and Sub-Saharan Africa. *Gupta* analyses the macroeconomic determinants of remittances to India while providing an overview of the period from the 1970s. He expects a decline in remittances in the long run. *Jayaraman* and colleagues underlines the importance of remittances for small Pacific Island countries in their analysis of Tongan economy and how remittances contributed to the growth of GDP. *Mohapatra* and *Ratha* describe a simple methodology for forecasting country-level remittance flows in a manner consistent with the medium-term outlook for the global economy. The final case study by *Singh* elaborates the shifts in the effect of remittance flows in Sub-Saharan Africa. Prior to the crisis, he argues that remittances were perceived as shock absorbers alleviating poverty and economic difficulties in migrant sending countries whereas in the current crisis, the link established by remittance flows may transmit the crisis to the countries of origin.

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