Six Myths about Migrant Remittances and the Global Economic Crisis


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There was fear that the global economic crisis would interrupt the flow of remittances to developing countries, force migrants to return to their sending households and endanger the economic health of sending nations. However, anxiety over the collapse of remittances was largely unfounded. While there was a small decline in remittance flows globally in 2009, in general, they did not fall as far or as quickly as other forms of assistance and they have begun to recover. In this paper we examine a series of myths that colour the remittance debate. Debunking the myths that surround remittances allows us to show the complex role remittances play for migrants, their sending households and communities as developing nations cope with the global economic crisis.

Introduction

Migrant remittance flows provide a lifeline to sending households, their non-migrating members and the national economies of many developing countries (Ratha and Sirkeci 2010; 125). Remittances are an important and stable source of foreign exchange for sending nations and their value multiples in significance as they move through the economies of developing countries. The importance of remittances to the health of sending and developing nations lead to widespread concerns that the global financial crisis would bring a decline in remittance transfers and the return of migrants to their sending households and communities (see for example Lopez, Livingston and Kochhar 2009).

The fears voiced over the decline of remittances and the returns of migrants to their sending countries were largely unfounded. Despite a decline in remittance flows in 2009, in general, remittance rates did not fall as far or as quickly as did other forms of assistance (Ratha, Mohapatra and Xu 2008; Sirkeci and Ratha 2010; 126). Remittances rates have begun to recover. There has been steady increase in remittance rates from 2010 onward when total remittance flows to developing countries reached 372 billion dollars (Figure 1, and see Ratha and Silwal 2012). Furthermore, there was no large scale return of migrants to their countries of origin.

In this paper we examine why remittance rates tended not to decline and follow the path of other forms of capital flows – particularly foreign direct investment. We discuss six myths that limit our analyses and bias the discussion of remittance practices globally. Only after we have debunked the false and preconceived notions that are associated with remittance practices can we begin to understand why remittance rates did not decline as precipitously as did other forms of capital flows and why there was no mass repatriation of migrants to their sending countries and home communities.

Myth 1: Remittances are financial

Remittances are thought of as the monies that travel from migrants to their sending households, villages and nations (Adams 2009). These funds play a critical and central economic role for migrants and their households as they cover the costs of daily

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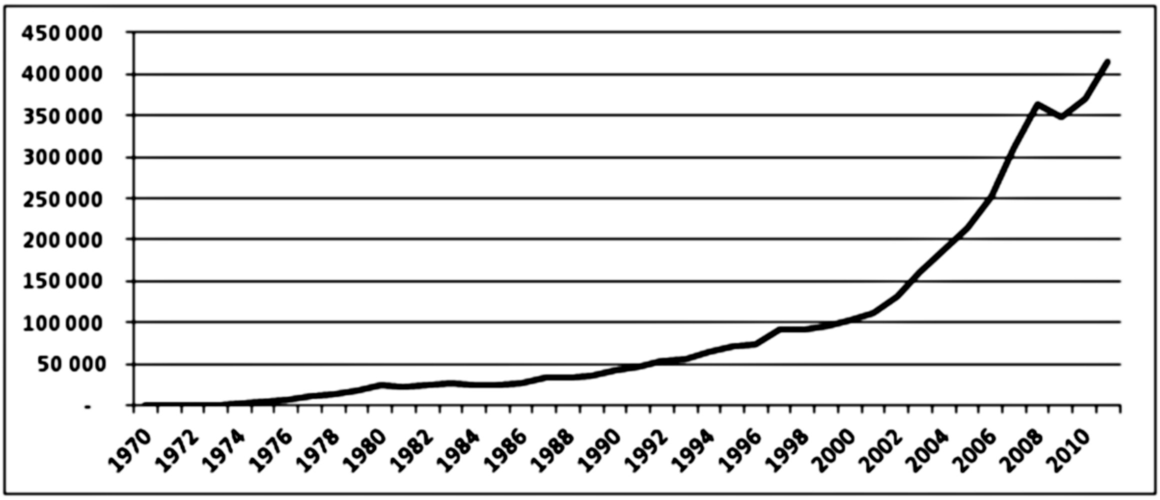

Figure 1: Remittance flows: developing countries, 1970–2010 (Source: World Bank global remittances data (adapted from Ratha and Silwal 2012).

life for many movers and their families, sending nations and even some development (Cohen 2011).

The financial and economic value of remittances is no surprise with billions of dollars circling the globe yearly; yet, remittance flows are more than financial and they influence more than the economic wellbeing of sending households, communities and nations. Remittances include goods, knowledge, practices and experiences and can take the form of ideas and beliefs as well (Brown and Connell 1994; Gonzalez 2009; Grigolini 2005; Newland and Patrick 2004; Villarreal and Davy 2007). While it can be very difficult to measure remittances in these forms, non-financial flows are likely to be critically important to movers and non-movers.

The importance of non-monetary flows is particularly significant when the amount of money a migrant sends is small and comes infrequently (Cliggett 2005). In these situations the links provided by non-monetary flows (information, ideas, opportunities and the like) provide substance for long-term links that maintain relationships through periods of economic stress. The back and forth flows that support social networks over time range from the familial to the political and often create new spaces for the construction of identity, belonging and opportunity (Levitt 1998).

Myth 2: Remittances flow from migrants to sending households

The amount of money flowing globally from movers to their sending households and countries exceeded $370 billion in 2011 according to the World Bank (Ratha and Silwal 2012). Nevertheless, the amount of money, goods and ideas (among other things) is even more astounding when we note that remittances flow in many directions (Kearney 1996). While movers remit to their sending households and communities, non-movers also send and flows are often reversed as non-movers support movers (Levitt 1998). It is often the sending household that provides the initial capital for immigrant entrepreneurs in their destination countries.

Sometimes the shift in flow is anticipated and there is ample evidence that migrants are sponsored in their moves and supported by non-movers who will invest in hoped for success. Sponsorship typically continues as migrants settle. Support also often expands to include a flow of goods, services, news and the like that works to intensify and strengthen the link between migrants and non-migrants, movers and sending households (Cohen 2011).

The initial financing of the movement by the sending household is likely to set the volume and frequency of future remittances and the amounts sent, in either direction, are not trivial and are often more than enough to stem disasters at home and maintain a standard of living for a sending home (and sometimes for the migrant who is struggling between jobs) that would not be possible otherwise.

Myth 3: Remittances follow legal paths

While billions of dollars in remittances follow legal pathways between migrants and sending households; there are billions of dollars flowing from movers to homes that are unaccounted and largely untraceable (Amuedo-Dorantes and Pozo 2005). These flows follow informal paths and avoid banks, wire services and their fees. While these flows are largely unreported, they occasionally appear in the news and may amount to tens of millions in US dollars (ABS-CBN News 2012; Arab News 2003). Defined as "pocket transfers" these flows are estimated to double the amount of money that travels from migrants to their home countries and it certainly increases the importance of remittance sending. Though it may never be possible to accurately capture the size and value of these flows, they are critical to movers and non-movers alike.

Myth 4: Remittances drive migration outcomes

Researchers sometimes argue that remittances (or their promise) drive migration rates (Wood 1982). Certainly it would seem that the opportunity to remit should function as a logical motivation to encourage movers. Nevertheless, the link between remittance outcomes and mobility is quite complex (Vertovec 2000).

Where the migrant remains tied to his or her natal home and sending community remittances tend to flow more freely. The mover gains from the support he or she receives from a sending home. The non-mover gains as well as the sending households are secured through the remittance practices of the mover. Remittances are one way the migrant creates a sense of value, self-worth and identity (Vertovec 2009).

Nevertheless, migration is not simply a decision made in regard to remittances. It is a decision that reflects the strengths and weakness of the mover, the sending household, local history and expectations as well as destination communities and their politics (Cohen and Sirkeci 2011). These factors all influence migration outcomes and remittance practices. To assume that remittances are largely economic is to ignore the very complexities that drive mobility and influence outcomes.

Myth 5: Remittances are regular across migrant communities

Movers are not driven by some innate force and remittance rates are elastic over space and time (Ali 2007). The complexity of remittance practices support sending households but also support the migrant as he or she crosses national and international borders (Carling 2008). Not surprisingly, the age, gender, education, ability, ethnicity and legal status of the mover all influence remittance outcomes (Cohen, Jones and Conway 2005; Conway 2007).

Younger migrants tend to remit somewhat more than do older migrants, women for longer periods, but men more money. Educated migrants stand to earn more than do less-educated migrants who move outside the legal universe of destination countries yet they may remit less than their co-movers. Migrants from the same country may have different experiences and minority populations tend to lack services and opportunities at home and fill lower status positions in their destinations (Sirkeci 2012).

Remittances also flow beyond the actions of a specific migrant to include children and sometimes even grandchildren who will support flows to natal homelands they may never have visited and that they only know through the stories of their parents and grandparents (Fuglerud and Engebrigtsen 2006). These long-term linkages are absolutely critical for the health of sending communities over time yet also reflect the connections that exist between movers and non-movers.

Myth 6: Migrant remittance practices are easily explained

There is an assumption that a migrant travels to make money, and with money in her or his pocket simply needs to visit a corner store, access a wire service or call on a bank to seamlessly transfer funds from their new home to sending household. Yet, remittances practices are complex, motivations are not always clear and outcomes are not always predictable (Cohen 2011). Even as the systems for the transfer of funds grow more transparent and costs decline, remitting remains difficult and can be expensive.

The costs of transfers can be moderated by the legal status of migrants or in relation to the sending households in countries of origin and if the parties involved have access to formal and/or informal remittance channels. Furthermore, the money a migrant remits can be quite limited. Somewhere between 60–80 % of every dollar earned by a migrant stays in her or his destination nation covering the costs of living, entertainment and services. The rest can be very little flows to sending households and there are times when those who receive remittances are unknown to the sender. What is perhaps most amazing about the actions of migration are the strong bonds that are clear and that pull at movers, encouraging them to remit even when the mechanisms available for sending money are quite limited and the outcomes of their actions are unknown (Sirkeci, Cohen and Yazgan 2012).

Conclusions

The characteristics of remittances and migration help us understanding the resilience of remittance flows during crises. First, migrants who are well-established in their new homes are sending remittances. The risk of unemployment in the countries of origin as well as tightening border controls result in longer stays abroad and often remittances will continue. Similarly as remittances are often only a small part of a migrant's income, a fall in income is cushioned by the relative size of the amount remitted. Also if the crisis causes a return migration the returnee is likely to take back accumulated savings as well as knowledge and experience. Diversity in destination country's labour market as well as diversity in types of migrants who decide to relocate and sometimes cross international borders contributes to the resilience of remittances.

First, remittances are sent by the settled migrants while recently arrived migrants do not remit as regularly as they must establish themselves in their new homes. It is true that in some countries new migration flows declined by 40-60 per cent in 2009 compared to 2008, the flow of migrants to destination countries was not reversed.

Second, 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. Anecdotal evidence suggests that migrants did change jobs and adjusted their expectations in response to the crisis. Migrants moved from construction sector to retail trade and agriculture, and in some cases stayed on despite losing their legal status (and see Heyman 2007). In fact, many migrants unwilling to return to their sending communities for fear that a future migration would be difficult and they would not be able to come back to their new communities and jobs when the economy recovered. The problem was intensified by the imposition of immigration controls in many destination countries that affected new migration and inadvertently discouraged return. The duration of migration appears to have increased in response to tighter border controls.

Third, migrants often absorbed income shocks and continue to send money home as remittances are typically only a small part of their incomes. In other examples migrant workers reduced consumption and share accommodation to save money to later send home.

Fourth, if some migrants did return or had the intention to return, they tended to take their savings back to their country of origin. These individuals also bring new skills and abilities with them, and in some cases the experiences are the foundation for local development.

Finally, exchange rates shifted during the financial crisis and caused unexpected changes in remittance behaviour: as local currencies of many remittance recipient countries (for example India, Philippines, and Mexico) depreciated against the US dollar, they produced a "sale" effect on remittance behaviour of migrants. 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.

Available data from 2009 and the first half of 2010 reveal three major trends influenced remittance practice (Sirkeci, Cohen and Ratha 2012). Furthermore these trends had little to nothing in common with the mythologies we associate with remittance practices.

a) The more diversified the destinations and the labour markets for migrants the more resilient were the remittances sent by migrants. Thus, countries in South Asia and East Asia that had 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 had migrants living largely in the US and focused on narrow opportunities in construction (and replaced that construction work with service) suffered a decline in income.

b) The lower the barriers to migrant labour mobility, the stronger the link between remittances and economic cycles in that corridor. Thus migrant from sending and receiving countries within the EU saw more return migration than in the US-Mexico or UAE-Philippines corridors. In other words, while incomes declined in some situations and anti-immigrant rhetoric rose, the diversity of opportunities open to migrant (whether legal or extra-legal) created opportunities for work that might not have been traditionally associated with movers.

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.

The global financial crisis continues though in new ways (as the crisis continues around the Euro as does the fall out of disaster in Japan) and for the first time since the 1980s, remittances to developing countries declined in 2008-2010. Nevertheless, that decline was relatively slight when compared to foreign aid and over the last two years, remittance rates have recovered. There was no large scale return of migrants to sending countries. Even in countries that struggled with their own declines remittance practices remained largely unchanged reflecting the economic opportunities movers tend to encounter in destination countries; on-going patterns of development; migrant wellbeing and attitudes towards consumption, culture, opportunity and so on.

Remittances, like migration, do not occur in a vacuum. They link migrants and non-migrants, origins and destinations in dynamic ways. Our review of the myths framing the remittance debate is a step in better understanding this dynamic.

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Tapaaminen Ruotsin työ- ja integraatioministeri Erik Ullenhagen kanssa

Ruotsin integraatioministeri Erik Ullenhag vieraili Suomessa kesäkuun alkupäivinä. Ullenhag halusi tutustua myös suomalaiseen muuttoliikkeeseen ja sen käytäntöihin. Ruotsin Helsingissä sijaitsevaan suurlähetystöön oli 11.6.2012 kutsuttu kahdeksan suomalaista muuttoliikeasiantuntijaa kertomaan maamme integraatiokäytännöistä ja muuttoliiketilanteesta. Kaksituntisen lounastapaamisen aikana keskustelu oli erittäin avointa ja vilkasta. Ministeri Ullenhagen ei sulkenut pois myöskään Ruotsissa asuvaan suomalaisvähemmistöön liittyvää keskustelua. Hän otti mielellään vastaan asiaan liittyvän muistion.

Itse jäin tuumailemaan tapaamisen jälkeen kahta asiaa. Ensinnäkään en voinut olla ihmettelemättä ministeri Ullenhagen syvällistä tietämystä ja toisaalta hänen kykyään omaksua uutta tietoa siirtolaisuusasioista. Hän ei päästänyt keskustelijoitaan – tekisi mieleni sanoa kollegoitaan - helpolla. Toisaalta pohdin, miksi suomalaiset ministerit eivät toimi samalla tavalla, avoimen vuorovaikutteisesti ja innostuneesti, sekä ilman kiireen tuntua.

Tilaisuuden teki toimivaksi se, että me kaksikielisen Suomen edustajat puhuimme Suomessa olevassa Ruotsin suurlähetystössä englantia. Näin ministeri tuli vieraitaan vastaan ja sai aikaan vilkkaan, asiantuntevan ja tasa-arvoisen keskustelun.

Kauniiksi lopuksi laitettakoon ministerin kotisivuilta kopioitu teksti, joka hyvin kuvaa sekä ministeriä henkilönä että hänen ajatusmaailmaansa.

“Sweden will continue to be an open and tolerant country - I will never compromise on this. As a liberal, I welcome immigration, regardless of whether people come to Sweden as refugees or to work or study. But integration must be more effective - people who come to our country must be able to get a job and learn Swedish quickly." http://www.sweden.gov.se/sb/d/13513.

Ismo Söderling