

Economics in Brief



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Remittances from migrant workers stabilise the economies of developing countries

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Labour migration – volume and background

More than 170 million people from developing countries work abroad, representing a substantial 6.5 % of their labour force. The motivation which drives these people is the inadequacy of the employment opportunities in their own countries. To that extent, it is not surprising that industrialised nations and oil-rich Arab countries are key destinations (43 and 14 % respectively). But south-to-south migration also features strongly: 43 % of migrants from developing countries work in another country within the same category.

Remittances

Since the year 2000, the value of monetary transfers from migrant workers to their home countries (“remittances”) have almost quintupled to USD 400 billion (see diagram). On their own, the top five recipient countries – India, China, Mexico, the Philippines and Nigeria – receive 50 % of all remittances. These are all middle-income countries, not low-income countries. However, if the level of remittances is set against GDP, a different picture emerges. Remittances are particularly important for low-income countries such as Tajikistan (47 % in relation to GDP), Liberia (31 %) and the Kyrgyz Republic (29 %).

An important source of capital, particularly during the global financial crisis

The diagram shows the major significance of remittances compared to other capital flows. For example, remittance

volumes are now four times as high as the inflows from development aid. It is worth noting that remittances provided a stable source of financing during the 2008/09 global financial crisis. In contrast, direct investment and portfolio investment both collapsed during the crisis. The specific background to this positive turn of events was that there was scarcely any return migration in 2008/09; and those who did return home took the savings which they had deposited in the host country back with them.

The importance of remittances for the balance of payments is emphatically demonstrated in those countries where the remittances / GDP ratio exceeds 10 %. In 2011, the combined balance of trade in goods and services for all these 19 countries together showed a deficit of USD 80 billion. This was offset by remittances amounting to almost the same figure (USD 74 billion). Without these remittances, it would not have been possible to finance these shortfalls. Hence

remittances also make a significant contribution to investment activity and economic growth.

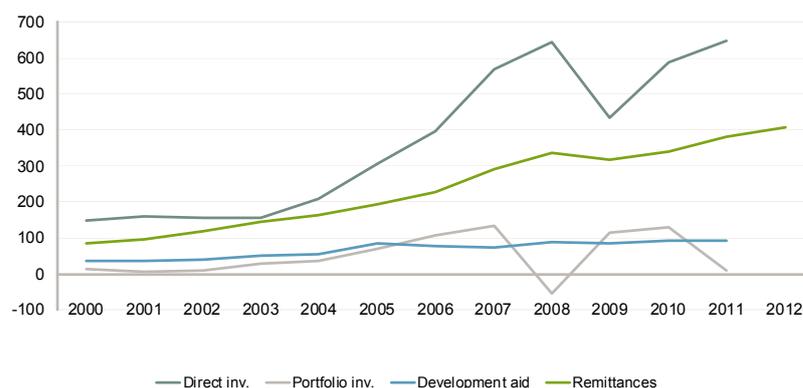
Positive cost / benefit ratio

Remittances, however, do not constitute an unqualified economic benefit. The migrants’ productive capacity, which would otherwise have been put to domestic use, moves out of the home country; and any investment made in training benefits the host country, not the homeland. In the case of skilled worker migration, these effects can be substantial (i. e. “brain drain”). For example, the World Bank estimates that 10 % of all doctors trained in South Asia have emigrated, and as many as 90 % of university graduates in Jamaica have done the same. But migrant workers are predominantly poorly qualified, and so, on balance, remittances are an expression of the benefits of emigration. The high level of transfer charges (which average 9 %) remains a problem.

Conclusion

Remittances are important for the home countries of migrant workers. Nevertheless, these countries should not relax their efforts to improve the development framework and thereby enhance their workers’ prospects of employment within their own country. ■

Diagram: Capital inflows to developing countries (USD billions)



Source: World Bank, OECD