The Economist

Remittance corridors

New rivers of gold

Remittances from unlikely places are helping poor countries in the downturn

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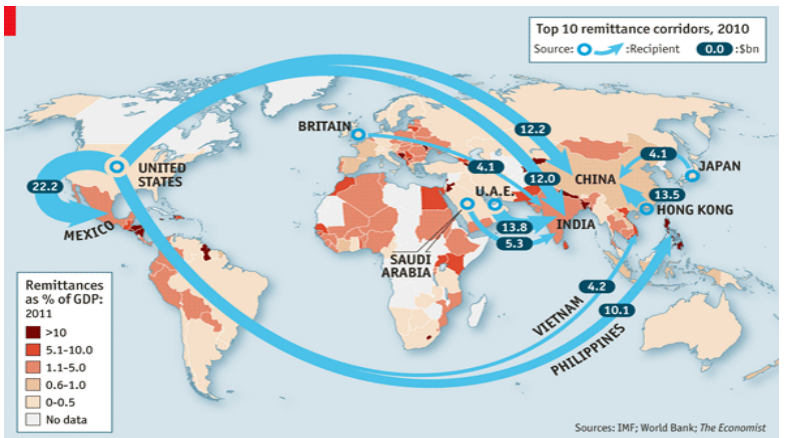


IN TAPACHULA, a furnace of a city in southern Mexico, people line up inside an air-conditioned branch of Banco Azteca to process their remittances. Last year Mexicans received an estimated $24 billion from friends and family working abroad, mainly in the United States, with which Mexico forms the world's busiest remittance corridor (see map). But a closer look at the Tapachulan queue shows how the remittance business is changing. Many are not Mexicans receiving cash from America, but migrant workers sending it back home to Guatemala or Honduras. “Very similar to what happens at the other border,” observes Jorge Luis Valdivieso, the bank's regional administrator, referring to Mexico's better-known northern frontier.

The value of remittances to poor countries is enormous. Since 1996 they have been worth more than all overseas-development aid, and for most of the past decade more than private debt and portfolio equity inflows. In 2011 remittances to poor countries totalled $372 billion, according to the World Bank (total remittances, including to the rich world, came to $501 billion). That is not far off the total amount of foreign direct investment that flowed to poor countries. Given that cash is ferried home stuffed into socks as well as by wire transfer, the real total could be 50% higher.

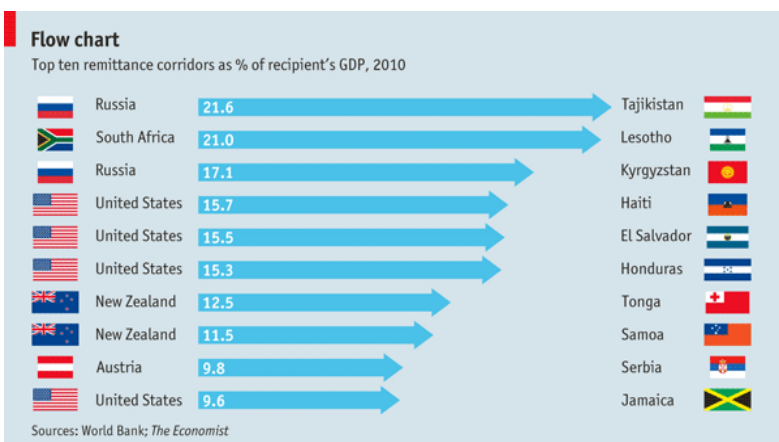
Remittances are not just big, but growing—they have nearly quadrupled since the turn of the millennium—and resilient. In 2009, when economies around the world crashed, remittances to poor countries fell by a modest 5%, and by 2010 had bounced back to record levels. By contrast, foreign direct investment in poor countries fell by a third during the crisis, and portfolio inflows fell by more than half. “The most remarkable thing about remittances today is their continued

growth, year after year, despite the global economic crisis," says Dilip Ratha, head of migration and remittances at the World Bank.

One reason for this apparent boom is simply that the data are better. Money senders such as Western Union and MoneyGram have improved their reporting to central banks. Oversight has tightened since September 11th 2001. This has led to big jumps in some numbers: Nigeria posted a near-doubling of remittance receipts in 2007. Where governments are sensitive about providing information, economists have used other methods. India, for instance, subjects remittances to Bangladesh to stringent tests. But by examining migration data, the World Bank reckons that some $3.8 billion probably crosses the border every year.

Partly thanks to these techniques, it is now known that remittances come from a wider variety of countries than was previously thought. This might in turn explain how they have avoided being affected by Wall Street's hiccups. In 1970 46% of recorded remittances were reckoned to originate in America. By 2010 America's share was just 17%. One big new player is the Gulf, which has sucked in migrant workers since the oil boom. Saudi Arabia is now the world's biggest sender of remittances after America, posting $27 billion in 2010, mostly to the families of South Asians and Africans who toil on its building sites and clean its homes. More than half of all remittances to South Asia come from the Gulf; worldwide, the region sends almost as many remittances to poor countries as western Europe does.

Expensive oil has made Russia a big destination for immigrants, too. In 2000 it was only the 17th-biggest remitter in the world—indeed, it was a net receiver. But by 2010 it was the fourth-largest sender, dispatching nearly $19 billion, mostly to Central Asia. Remittances from Russia are worth more than a fifth of Tajikistan's economy (see chart).



Though they are less volatile than many types of income, remittances are not immune to fluctuations. Cash flows to Mexico last year were still 12% lower than their pre-crash peak, partly because many Mexican migrants worked in the American construction sector, which is still reeling. The "Arab spring" of 2011 made a dent in remittance receipts in the Middle East and Africa, as migrant workers from the region fled countries such as Libya. An exception was Egypt, where receipts shot up by 14%. One reason may be that exiled Egyptians returned home with their savings; another is that a fall in property prices encouraged émigrés to snap up bargains.

Currency fluctuations can also skew remittance patterns. American greenbacks and euros are no longer sought after in those African countries where currencies have appreciated sharply in real terms thanks to demand for the commodities they export. "When you send dollars back to a family in Angola, they don't feel as rich as before," says Marcelo Giugale of the World Bank.

Working in Europe for five years no longer buys a house back home.

The question is whether migrants will react by spending longer in far-flung destinations, or by staying closer to home. Many already go for the second option: one-tenth of remittances to Africa come from within the continent. South Africa sends most of its $1.4 billion in remittances to its neighbours, for example.

In the rich world, many countries have closed their borders to protect home-grown workers. America has made its southern frontier harder to cross, which partly explains the slowdown in immigration from Mexico. Emigration has risen, too, since the economy stalled. But perhaps because they know it will be harder to come back, migrants are staying longer. According to the Pew Hispanic Centre, 27% of Mexicans deported from America in 2010 had been in the country for at least a year, up from 6% in 2005. That may help explain why remittances from America fell by only 5% in 2009, whereas in Britain, which has open borders with some of its biggest senders of immigrants, they fell by 27% (exchange rates played a part, too). Stricter border controls keep migrants in as well as out, and the remittances flowing.

Source

"Migration and Development Brief 18 (http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/MigrationandDevelopmentBrief18.pdf) ", World Bank, April 2012

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