Even Trump can't halt march of overseas workers and their money flows

David Dodwell, 9/2/19

https://www.scmp.com/comment/opinion/article/3025251/why-even-trump-cant-stop-march-overseas-workers-and-money-flows

HK workers video https://youtu.be/n27h6Mh3Ad4

TED talk https://youtu.be/3I3uURDuDAM

In Hong Kong, we think of this every Sunday when Philippine and Indonesian domestic helpers flood public places to grab a day's respite from the households they support. But Hong Kong is a bit-player in the international worker market, and the remittance flows it generates.

You might be surprised to learn that remittances back to the Philippines from its 300,000 or more workers in Hong Kong don't even rank in the top 10 sources of the country's US$34 billion in remittances in 2018 – money that today helps reduce the government's current account deficit from 10 per cent of GDP to just 1.5 per cent.

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According to the Pew Research Centre in the US, by far the main source of Philippine remittances is the US (U$11.1 billion), followed by the United Arab Emirates (US$4.1 billion), Saudi Arabia (US$3.7 billion) and Canada (US$2.4 billion).

And while we may think of the Philippines as one of the leading destinations for international worker remittances, it ranks far behind India (whose international workers remitted around US$79 billion last year), and even China, which received around US$67 billion – not from construction workers on belt and road contracts but, according to Pew, first from the US (US$16 billion), and next from Hong Kong (US$15 billion), with Japan third (US$4.2 billion).

Foreign workers in Singapore wait outside their dormitory for transport to their place of work. Photo: AFP

People like Dilip Ratha, head of the World Bank's Global Knowledge Partnership on Migration and Development, have come to regard remittances as much less fickle than foreign investment or portfolio investment flows.

"They are the most important game in town when it comes to financing development," he is quoted as saying in the *Financial Times.* "Remittances are the first form of help to arrive."

While we rightly think of remittances by international workers as a distinctly Asian phenomenon (last year US$143 billion flowed back into East Asia, and US$131 billion into the Indian subcontinent), the habit is also endemic to Mexico (which received remittances worth US$36 billion last year), and has become increasingly important in Europe.

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As important as remittance flows have become, problems still plague the business. Ill-developed financial services industries in most developing economies mean that the cost of sending money home can still be prohibitively expensive.

The World Bank estimates average remittance fees of 7 per cent, and 10 per cent or higher in Africa. Remitting through banks costs an average of 11 per cent in fees, and 7 per cent through post offices – which makes it a nice little earner for many in the financial services industry.

The World Bank's aim is to get the average cost of sending remittances home down to 3 per cent, but this would only be the start of building trust in the international banking system. In the meantime, governments like Indonesia have begun to offer "diaspora bonds" to make sure remitted funds can be more effectively used in national development.

It worries them that, in the absence of such bonds, remitted funds tend to "evaporate" into consumer spending. But World Bank officials like Dilip Ratha push back: "Is consumption bad? … Investment can wait, consumption can't."

When so much of this consumer spending is focused on housing, medical bills and education fees, he may have a point: as long as governments fail to invest adequately in education and health care, you can hardly blame international workers and their families for channelling funds into those areas of most urgent – and unmet – need.

With controversies over immigration mounting in places like Donald Trump's America, there have been some who argue that the strong recent growth in remittances is likely to stall. I think they are wrong.

While controversy is unlikely to go away, the growth in international employment and remittances is likely to continue. Demographic ageing in the mature Western economies means that the reliance on imported labour is more likely to grow than subside.

With the low- and middle-income economies expected to add 500 million to their populations in the next 20 years, and with income inequality still huge (an average developed economy's income per capita is US$43,000, versus US$800 in developing economies, according to the World Bank), the structural trend must still be for more demand for international labour, not less.

I have encapsulated this international trend – and the huge remittances it generates – in what I call the "Earn, Learn, Return" phenomenon. As long as governments in developing economies fail to generate the opportunities their communities need, their workers will continue to flock overseas – not to migrate, but to earn, learn, and then return to invest in their own communities' futures.

Expect remittances to become increasingly important to many of our region's economies.

David Dodwell researches and writes about global, regional and Hong Kong challenges from a Hong Kong point of view