Determinants of Workers' Remittances: The Case of Turkey[+] – A Review

Magnus. O. Abeng[*]

I. Introduction

According to the International Labour Organization, migrant workers' remittances (WR) play a central role in the economies of many labor-sending countries and have become a focal point in the ongoing debate concerning the costs and benefits of international migration for employment. It is estimated that over 180 million people have migrated from poor countries to earn a living outside the shores of their countries, with Mexico and Philippines identified as the world's largest and second largest migrant-sending countries, respectively. Funds flowing back from oversea workers are the third world's second largest source of development capital after foreign direct investment, surpassing both capital market flows and official development assistance. Global estimates show that official remittances flows in 2003 amounted to US$93 billion. The focus of the paper on the determinants of workers remittances (WR), using Turkey as a case study, was very timely, especially in this era of high level capital mobility occasioned by economic globalization.

[+] *Published by Aydas, O. T., Neyapti B. & Metin-Ozcan K in the Journal of Emerging Markets Finance and Trade, Volume 41, No. 3. May June 2005.*

[*] *Magnus is a staff of the Research and Statistics Department, Central Bank of Nigeria, Abuja*

II. Synopsis of the Paper

Leaning on International Labour Organization statistics, the authors noted that consequent upon the global economic integration – globalization, over 42 million workers migrated worldwide for purposes of employment abroad in 1999 alone. Workers' remittance receipts, the paper further observed, was as high as 10 per cent of GDP for countries like Samoa, Yemen, Cape Verde, Jordan, etc; 5 percent for Hungary, Egypt, Sri Lanka, etc; and 2 per cent for Nicaragua, Portugal, Tunisia, Nigeria and Turkey. In view of the increasing global economic integration and the potential impact of workers' remittances on domestic economies through current account financing, the authors sought to investigate the roles of macroeconomic variables like black market premium, interest rate differentials, per capita income in domestic and host countries and political factors as military regimes in determining workers' remittance flows in Turkey. The paper was divided into six sections to achieve this objective.

In order to properly situate the discourse, the authors provided a brief historical background of the Turkish economy and the trend of workers' remittances. The section was divided into three sub-sections dealing with workers' remittance flows to Turkey, economic and political context of workers' remittances and official measures with regards to migrants and remittances. In the first sub section, the authors graphically illustrated the trend in workers' remittances in Turkey depicting how Worker's Remittance (WR) has grown to assume an important position in the Turkish balance of payment position as well as becoming an important source of external financing for the country. Validating the above assertions, the authors noted that WR as a ratio of exports rose from 20 per cent in 1970 to 90 per cent in 1976.

In the second subsection, the paper examined the relationship between the economic and political stability in Turkey and the trend in migration. The paper gave a vivid description of the Turkish economy that hitherto was predominantly agricultural before being transformed into an industrialized economy. The

Turkish economy, which perfectly mirrors the Nigerian economy in the 1960s, had agriculture that produced about 41 per cent of national income, over 80 per cent of exports and employing over three quarters of the population in 1963. High inflation rate, high unemployment rate, the large scale capital intensive industries with high quality of technological equipment, political instability were identified by the authors as some of the factors that added fillip to the high volume of labor exportation.

The last subsection focused on the measures and strategies the Turkish government had adopted to promote remittances flows, especially after the decline witnessed during the period of political turmoil. Such measures included special exchange rates for remittances, special interest rates for the foreign currency at the Turkish Central Bank, special import privileges for consumer goods and machinery, Village Development Cooperatives, Turkish Workers' Corporations, bilateral training arrangement with host countries like Germany, etc. Also, the Turkish government tried to channel remittances savings into employment generating activities as well as other productive programs even though these programs failed to fully deliver their intended objectives.

The authors employed a macroeconomic model in the analysis of the determinants of workers remittances in Turkey based on the existing literature and the economic topography of the country. They employed such variables as official cash remittances, stock of workers abroad, per capita income of Turkey, black market premium, real overvaluation, domestic inflation, and domestic output growth. Other variables included a dummy variable for years of military rule as well as the host country per capita income and interest rate differential of about eleven host countries with the largest stock of Turkish emigrants. The paper employed the ordinary least squares technique and estimated two models distinguished only on the basis of the two definitions of WR: WR receipts per worker and WR flows.

The results of the empirical examination were very informative and relevant for policy making. The study observed that WR to Turkey between 1965 and 1993 were influenced by the need to compensate for negative incomes, that is, for consumption smoothening purposes while the negative effects of black market premium on remittances indicated that exchange rate controls discouraged remittances. Estimates of the model for the period 1979 and 1993 showed that higher interest rate in Turkey attracted remittances while political instability significantly discouraged remittance flows. Also the significance of inflation and growth, as indicators of economic stability, in explaining total remittance flows, combined with earlier observations, indicated that in the period after 1979, investment was the major driving force for remittance flows in Turkey, besides the consumption smoothening motive.

The paper concluded with the assertion from empirical evidence which indicated that for the period 1979 - 1993, macroeconomic variables such as black market premium, interest rate differentials, growth, inflation rate, and period of military rule significantly affected remittance flows. The central thrusts of the findings were that a sound exchange rate policy coupled with economic and political stability was key factors in attracting remittance flows. Investment and consumption smoothening were also identified as effective motives for remittance flows. The paper called on governments of the labor-exporting countries to put in place appropriate macroeconomic policies with a view to influencing the inflow of remittances since it had been found that macroeconomic variables significantly impact on workers' remittances, for the Turkish case. Also a sound exchange rate management strategy complemented by an improved financial intermediation system would greatly enhance remittance flows for labor-exporting countries.

III. Comments

It is important, from the onset, to appreciate the relevance of the topic of the paper. The non-technical language and simple diction adopted by the authors made the paper reader friendly. The relevance of the topic is underscored by the common political and economic histories shared by both Nigeria and Turkey, especially in the dominance of agricultural production in the early 1960s, and the interjections by the military in their polity. However, while the Turkish economy had been transformed into a technological and industrialized nation, encouraging the exportation of skilled labor, Nigeria is still exporting, to a large extent, unprocessed agricultural products.

III.1. Suggestions to the Author for Improvement

My observations on the paper are first on the structure of the paper. In order to provide for a smooth flow of the paper, I would rather suggest that the review of literature, which was presented in section three, should come before the historical account of the Turkish economy presented in section two. Secondly, the paper was silent on the channels through which Turkish workers remit monies to the country. A discussion on this would surely provide an immense strand of information for policy making with respect to where and how to target policy for effective harnessing of this important source of external earning. In addition, the paper assumed that there are no negative impacts of workers remittances and hence no mention of it was made. The global outsourcing of services, that is, where countries with technological know-how now establish firms in areas with cheap labour, portends a threat to this stream of income. This would mean a decline in labour export as such labour will now be required at home rather than abroad. Finally the authors believed that a sound macroeconomic environment and a robust financial system is all that is needed to induce workers remittance flows. The authors found military interventions to have a negative impact on WR but no recommendation was proffered in this regard. I think that adding political stability, social unrest and the safety of lives and property are some factors workers consider in taking decision to remit money home for whatever reason. From the regulatory point of view, the activities of government agencies like the Economic and Financial Crimes Commission (EFCC) and the global war against money laundering, coupled with other on-going reform programmes of government in Nigeria, to a large extent, have inadvertently reduced the inflow of remittances into the country by indigenes.

III.2. Usefulness of the Review for Policy in Nigeria

The findings of the paper are educative and could serve as invaluable inputs for policy formulation. For instance, I strongly agree with the paper's observation of a negative impact of black market premium, inflation, military regime periods on WR flows as well as the call for a sound exchange rate management policy, economic and political stability and transparency. The black market premium, for instance, has been identified as one of the major factors fueling the illicit round tripping activities of banks and the booming foreign currencies hawking business in Nigeria. While strongly aligning with the paper's call for a virile and robust financial sector, as a means of preventing remitted monies from being trapped in distressed financial institutions, one would like to add that from the developing countries' perspective, the building of high quality human capacity is a necessary prerequisite for inducing WR flows. A financial institution managed by competent crop of professionals is not likely to go into distress. Here the Nigerian educational system is called to question and concerted effort must be made to restore confidence in the system so as to enable its citizens compete favourably with others in the international labour market. Government, therefore, must committedly pursue the implementation of the ongoing banking sector reforms to a logical conclusion as a means of encouraging WR flows. This would, among other things, curb or completely eliminate the ugly incidences of remittances being trapped in distressed banks. In addition, a virile financial sector would eliminate or drastically reduce the patronage of the black market segment of the foreign exchange market as almost all remittances would now be transacted through the financial institutions. This would help track remittance flow data, an important ingredient for effective formulation and implementation of monetary policy in Nigeria.

IV. Conclusion

The several conclusions reached by the paper are quite elucidating while the issues raised are very crucial and fundamental for a country like Nigeria to carefully examine in the drive to increase the present level of Workers' Remittances from 2 per cent of GDP to a higher proportion. This would not only serve for consumption smoothening but also as a veritable source of external earnings for investment funds especially in the micro credit finance sector that the government is now making concerted efforts to develop. No doubt Nigeria is endowed with huge human talents and contributes a reasonable proportion of migrant workers world wide. It is therefore natural that accruing benefits from this stream of revenue be fully optimized. Consequently, concerted efforts should be made to make the economic and political climates conducive to induce remittance flows. There is also the need for government to put in place machinery that would encourage remittances, including looted funds from the economy.