CHAPTER II

CONCEPTUAL FRAMEWORK AND LITERATURE REVIEW

2.1. Conceptual Framework

Migration is a strategic solution for local economic development of a country in which the poverty intensity is severed and unemployment is uncontrollable. Sending remittances to home place is a tool for lowering poverty level and injecting capital to the economic activity of the recipients. However, the economic impact of remittances depend on three main determining factors: the capacity and propensity of migrants to send money back home, access to the safe and reliable money transfer service and the way the recipient of remittances utilize money (Osaki,2003, p.203-207).

2.1.1 Remittance Propensity

The migrants' propensities are basically driven by their own economic motivation and reciprocal obligation with the remittance recipients and concern towards for the welfare of the family left behind. However, their motives to remit are determined by other factors including working place, lifestyle in destination country, wage level, marital status and gender. The remittance behavior of out-migrants is particularly responsive to the economic needs of the household of origin, migrants' self interest, the kinship and sense of obligation to remit (Osaki, 2003).

For Myanmar migrant workers in Thailand, their remittance sending capacity is largely determined by legal status. Legal status in host country, Thailand, grants the migrant workers opportunity to access stable job, safety, regular income, health insurance and higher capacity to remit (AMC & MMN, 2005, p.104). However, since the current registration scheme of Thailand does not cover all migrant workers flooded at the lowest level of Thai labor force and it limits the ability of migrant workers to send remittances to their households left behind.

2.1.2 Remittance Sending Mechanism

Generally, it is difficult to obtain accurate quantitative data concerning migration and migrant laborers. This is especially true in the case of remittances. Although the formal channel of remittances can be traced from the record, the informal transfer of money can only be speculated. Even the World Bank admits that their present record still underestimates the full scale of remittances and fails to capture the full picture. There are some estimates which indicate that the scale of informal remittances may be as large as double that of formal remittances (WB, 2006a). Various kinds of remittance system are discussed briefly by Khalid Koser (2007):

> Sometimes entrepreneurs and traders travel regularly to and from home carry money back for migrants for a small commission- in Cuba, for example, these entrepreneurs are known as 'mulas'. Perhaps the most elaborate mechanism for informal transfers, however, is the Somali 'Hawilaad' system. The hawilaad or xawilaad system is based on Somali traders. They collect hard currency from Somali migrants abroad and subsequently use the money on purchase commodities that can be sold in Somalia. They return periodically to Somalia, sell their goods, then equivalent in Somali currency to the migrants' families. Profit made on the sales of the goods effectively becomes the traders' commission (Koser 2007, p.42).

For Myanmar migrant workers, legal status not only has effects on their working and living condition in Thailand but also their accessibility of the formal money transaction mechanism (AMC & MMN, 2005, p.122). Regardless of registered or unregistered under the existing regulation of Thai government, the migrant workers are still recognized as illegal. Transfer money through legal functions is not accessible for a migrant who had entered into Thailand without bearing any documents. The unofficial hundi remittance service is the only one option to send money back home. In some condition in which they are no available informal services around them, they have to send remittances when their friends and relatives returned and visit to their native. Or they have to carry it on their own return or short visit to native land. Generally, the existing available money transfer mechanism is based only on personal trust and it is not legally functioning. Under this given condition, the migrants' money is at risk on the way from Thailand to Myanmar if the service providers abuse their mutual trust they should maintain in dealing with the customers.

2.1.3 Contribution of the Remittances at Home

Cross border migration is increasingly accepted as a powerful tool for poverty alleviation in large number of developing countries. Remittances sent by migrant workers have been viewed as a source of income as important as international aid. International Institutions such as the World Bank and the Asian Development Bank also accept that remittances are playing a strategic role to reduce the poverty intensity and severity (ADB, 2006; WB, 2006a). In the past, it was accepted that migration could lead to negative impacts on the country of origin in terms of depopulation, separated families and loss of human capital or brain drain. However, many studies have recognized that out-migration produces positive impact on the sending country's economy by way of financial remittances, return of entrepreneurial migrants, flow of local investment capital which is put in local businesses, introduction of new technologies, and know-how transfer.

Moreover, the remittances can help the households left behind to avoid being vulnerable from risk including health problems, disasters and economic crisis. Douglas Messy believed that motivation to be migrants may come from the household decision to diversify source of income by sending family member abroad (Massey, 2003). Migration can reduce the family burden to support jobless family members. At the same time, diversifying their source of income will lead to capital increase for income generating business and future economic growth.

The UK's House of Commons International Development Committee viewed remittances sent by migrants is more effective than international aid in poverty reduction in a country development process. It highlights the role of migration as a tool for poverty reduction of Millennium Development Goals (MDGs) laid down by the United Nations. If more developed countries allow the flow of migrants from developing countries with less restriction and increase the proportion of migrants 3%in the labor force of their economy, the volume of remittances will exceed the international aid needed to meet the MDGs. The committee points out that it can be more effective than giving aids to poor (HOC, 2004). Currently, the global formal remittances are the second largest transfer of money worldwide after oil trade and are the most important source of external earning after Foreign Direct Investment (FDI). The amount of money sent by international migrants from developing countries who work in developed countries is three times larger than the official aid given by rich countries to them (Koser, 2007).

Similarly, the World Bank recognizes the important role of remittances for migrant sending countries in its 2006 report. The World Bank remittance report 2006 shows remittances received by developing countries go parallel with poverty reduction. It is expected that the global remittances will double within the next year five years, from about $167 billion in 2006:

> Careful analyses of the available household survey data indicate that remittances have been associated with declines in the poverty headcount ratio in several low-income countries—by 11 percentage points in Uganda, 6 in Bangladesh, and 5 in Ghana, for example. Cross-country regressions and simulations also indicate that increases in remittances help to reduce the incidence of poverty. (WB, 2006, p. xiii)

After passing many risky phases between Thailand and Myanmar, the contribution of remittances to the recipient households can be seen in the hands of the recipients. The contribution of remittances is largely determined by the spending habit of the recipient households. Not every use of remittances is productive (Black, 2003). It is still a hotly debated issue in academic circle to identify what type of expenditure is productive and what is unproductive (Datta, Kavita et al, 2006, p.5, De Haas, 2007, p.6) It is an option to take only the direct consequence of the use of remittances to decide what is productive and what is unproductive without considering the multiplier effects of both pattern of using remittances. Making a distinction between productive and unproductive had been based on the review of the literature and only income generating and employment creating economic activities are considered as productive spending.

2.2. Literature Review

The impact of remittances on the recipient is still a hotly debated issue. However, many studies discuss how the remittance impact on the household economy depends on the way they use money (Garip, 2006; Osaki, 2003). The implications of the remittances are not always positive or productive. Sometimes, all the remittances sent by the migrant are spent only for the daily survival of the family and the remittances can bring nothing in terms of further income generation or long-term investment.

On one hand, remittances can be used for establishing small business and making investment in productive ways. But on the other hand, the recipient may use remittances on consumer goods such as car and TV. In some cases, the amount of remittances is not large enough for the family to meet the goal of being better off and just to be spent on household daily survival, paying debt and health care. The benefit contributed by the migrants will be still limited as long as they spend in unproductive way (Osaki, 2003).

Similarly, on the issue of non-productive investment and conspicuous consumption out of the remittances, De Haas (2005) argued that it is difficult to define what is productive and what is non production consumption and investment.

> The idea that remittances are predominantly spent on excessive consumption has proved to be rather inaccurate. Furthermore, there seems reason to criticize the inclination to denote expenditure on

housing, sanitation, health care, food and schooling as unproductive and non-developmental. After all, such improvements in well-being and human capital also have tendency to increase their productivity, freedom of choice and the capacity to participate in public debate. Consequently they also constitute development, at least if we adopt a broad definition of this concept (De Haas, 2005, p. 1274).

Kavita Datta et al (2006), Christos Nikas and Rusell King (2005) and Gaur Seema (2003) had acknowledged that making a distinction between the productive and unproductive is quite blur and reminded to take into consideration about the future potential effects of so-called unproductive consumption namely satisfying basic needs, buying durable goods and building households.

Richard Black (2003) put some major expenses of the recipient households including basic consumption needs, buying medicines, building houses and other conspicuous consumption in festivals and social events under the term of 'unproductive uses'. And other author like Richard H. Adam (2005) from the World Bank and France Maphosa (2005) suggested that only income and employment generating investments should be taken as productive expenditure. Like many other findings in the literature, Richard H. Adam (2005) considered spending on health, new business development and education as productive investments.

However, Massey and Basem stated that households of migrants who own assets and physical property are more likely to invest their remittances in a more productively way (Massey and Basem, 1992). It means that the possession of a small shop by the family is a prerequisite for the expansion to a larger business by using remittances wisely.

Mitchell of New Economic Foundations questions the impact of migration and remittances is whether development or dependency. Mitchell argues that the euphoria of remittances may lead to the failure of taking responsibility to tackle the poverty by the government:

> A reliance on remittances may create an illusion of sustainable prosperity that provides a disincentive for governments to address issues of poverty and inequality that originally led – and in all probability continue to lead – to the forced emigration of their remittance-sending citizens (Mitchell, 2006, p.16).

2.2.1. Myanmar Migrant Workers and Remittances

Remittance flows from Thailand to neighboring countries have been accelerating in recent years. It is estimated that the total volume of remittances sent by registered migrants alone are amount to 590 million Baht per month and 7.08 billion per year approximately and 75% of the total amount flows to Myanmar (Caouette, Sciortino, Guest and Stein, 2006).

Most of Myanmar migrants send money home regardless of their status, legal or illegal. Formal remittance system is not accessible to Myanmar working in Thailand. Similar to the trend found among the majority of migrants around the world, migrant laborers are also using informal channels for money transfer because of many reasons. These channels are not always risk free and secured. They use the hundi system, widely used among the Myanmar Migrants because of its efficiency and reliability (AMC, 2005). In this system, the hundi service in Thailand calls their broker in Myanmar to contact to the recipient family after collecting money from the migrant worker. Most of the hundi provide telephone service for communications between senders and recipients. In this case, the recipients and senders can talk to each other and check the amount of money the sender sent and the amount reached the hands of the recipient. But for those who are not accessible to such kind of reliable hundi service approach other brokers. They send their money when their relatives go back home or they will carry by themselves on their return. Even if they carry their belongings by themselves, their trip to Myanmar is not safe enough when they are arrested by the police and army at the check point. In such cases, they have to give bribe to them for their escape (AMC, 2005). Some brokers are providing service not only for cash/fee but also in exchange for goods. In return the migrant have to spend 20 % of the remittances for service fee (Chantavanich et al, 2006). However, the percentage can vary in accordance with the location.

Many households left behind rely on the remittances sent by their family members working in Thailand. But, there are many obstacles for the workers in sending money back regularly. In many cases the problems which they encountered in their routes to Thailand and during their stay in Thailand are discouraging them from sending their home money. Above all, the cost of registration and cost of living in a foreign country weaken their capacity to save money. Generally, it is hard to find migrants and migrant workers who are free from the above mentioned problems. In fact, remittances are the net income they can save after overcoming all of these problems and difficulties. In some case, their household never receives remittances if they are unable to save money.

2.2.2. The Impact of Migrant Registration Policy of Thailand on Remittances

From the first migration policy introduced in Thailand in 1992 to the current policy, Thailand migration policy trend had passed seven registration schemes (Caouette et al, 2006). According to a report by Asian Research Center for Migration, Thai government policies on migrant workers are divided into four periods: the area-based, non quota system during the first period (1992-1998); the area- and quota-based system (1999-2000); the first amnesty policy (2001-2003); and the second amnesty policy (2004-2005) (Chantavanich et al, 2006). Many experts on migration view the emergence of Thailand migration policy as an ad hoc and unsystematic approach (Vitit, 2005; Martin, 2004; Chantavanich et al, 2006). Although the government policy had been transformed from controlling to managing migrants, regularization has only limited success up to now.

Government estimates on the number of migrants from Laos, Cambodia and Myanmar are still increasing year after year. However, the number of registration has been going down after 2004 Second Amnesty. Large scale deportation by Thai authorities indicates that there are still many migrants who have entered the country illegally. During one year period between 2005 July and 2006 June, 226,508 migrants were deported to country of origin (MAP, 2007). It means that the current registration system cannot cover all migrant workers.

Under the current registration system, migrant workers enjoy some benefits which can affect their capacity to save money. They are allowed to hold a registration card, access Thailand's public health care system and, and enjoy proper repatriation (Martin, 2004). Allowing migrants to access Universal Health Care system is one of the responses to the critics towards Thai government's disregards for migrants' rights. The Thai Ministry of Health extended 30 Baht health care to all registered workers. They are entitled to the same right to Universal Health Care and have to pay only 30Baht per visit regardless of the illness (AMC, 2005). Entitling to use the universal health care, registered migrant workers do not need to spend money on private clinics and it helps to improve their capacity to save and send money back home. However, many migrant workers are not fully aware of their basic rights and do not go to the public health service.

Moreover, cost incurred to a migrant worker for registration is still expensive and it has effect on the income of the migrants especially in the registration season. The cost for a one year work permit is 3800 in official price and this amount is closed to the average monthly salary of a migrant. In some cases, they have to pay more than official prices (LSCW, 2005).

Though policy changes towards Myanmar migrant workers have been allowing larger and larger number of the migrants for registration, the Thai government has no mechanism for promoting all these migrants to a legal status. The full implementation of Memorandum of Understanding signed in June 2003 between Thailand and Myanmar governments is still under negotiation process with regards to specific details (MAP, 2007). Being a registered laborer means they are have temporary to work in Thailand but they are still illegal aliens.

In the status of illegal, migrant workers are subject to the violation of their entitled rights by the employers. Exploitation in the work place makes them work long hours without regular holidays and receive lower wages less than minimum standard (Chantavanich et al, 2006). Sometimes, the working conditions make them difficult to contact their families and friends, for example, workers on fishing boats and domestic workers. Loss of contact with outside environment might have affect on their remittance sending procedures. Lack of effective government body monitoring the protection of migrant workers' rights has negative impact on their well-being.

It is out of the question for Myanmar migrants who hold no passport and hence enjoy no legal status to send the formal banking remittance system. They have no choice but to use the informal remittance service such as brokers and hundi. In case these service fees are costly, the remittance sending capacity of the migrants will be reduced to a certain extent. Sometimes they do not have access even to the informal remittance service. Prior Studies on the remittances of Myanmar migrants found out that the status of being illegal has adverse effect to some extent on the remittance sending capacity of migrant workers.

2.2.3. Myanmar Government Policy and Remittances

Since the military government took power in 1988, they have been making attempts to maintain foreign currency exchange reserves with endless effort. Due to the termination of the official aid from the Western powers after the coup and continuous fiscal deficits happening through out the term of their administration, Myanmar government is always in need of hard currency like U.S dollar and Euro (TLF, 2007). Recently, the outgoing migration of Myanmar is dramatically increasing and the government comes to realize the remittances sent back by its citizen abroad as an important source of foreign exchange for the country. Governments had made an effort to raise the country's GDP by creating oversea employment opportunity for its citizen. In order to attract the remittances, the SLORC had adopted the Law Relating to Overseas Employment in 9th July 1999 and established the Overseas Employment Supervisory Committee for implementing the systematic functions of oversea employment (BLC, 2007). Under this scheme, the employment agencies holding Overseas Employment Agency License had sprung up in recent years. Most of the labor recruitment agencies are sending Myanmar skill and semi skill labors mainly to South East Asia, East Asia and Middle East countries. Subsequently, the government has introduced some mechanism for strictly control on the remittances of these migrant workers who joined overseas job through legal employment agencies. For example, the Port of Singapore Authority (PSA) has hired Myanmar workers through recruitment agency since 1998. These Myanmar workers must send half of their basic salary through one of the government bank, Myanmar Foreign Trade Bank (Lwin, 2005a). In this case, the government tries to raise revenue by charging 10% service fee on the amount of remittances sent by these workers.

On the one hand, government is implementing policies for creating overseas employment for its citizen. On the other hand, some government mechanisms installed are discouraging the remittance sending propensity of the oversea Myanmar workers. Under the Foreign Exchange Regulation Act of 1947, any foreign currency which enters Myanmar through the government banks must be converted into Kyat or Foreign Exchange Certificate (FEC) or have to be deposited as a foreign currency account. Moreover, provided any citizen carries more than US$ 2,000 on his or her return home, it is a must for him to report to the authorities concerned (TLF, 2007).

Sticking to over valuated currency exchange rate is known as an attempt to control foreign hard currency. The legal currency exchange rate is pegged to the Special Drawing Rights of International Monetary Fund since 1977 and six kyat is equivalent to U.S one dollar in legal exchange rate. However the real currency exchange rate in the market in 2007 is about 1300 Kyat and 200 times higher than the official rate (Than & Thein, 2007). The overvaluation of Kyat is extremely high and the double exchange rate is creating an unfriendly investment climate and the disincentive for Myanmar remittance senders who are working worldwide. Even if they have to send the remittances back home as for fulfilling the terms and condition of the contracts they made with the government, many citizens tried to hide the amount of their real income[3]. In such cases, the employment agencies they deal help them hide the real income size, so that, they do not need to transfer the required limit through the government banks which deduct 10 % service fees. Instead they are using informal channels to remit home. These situations demand the emergence of a big black market for the facilitation of illegal money transfer. To control the money coming in and out of the country in informal way, the government had adopted the Control of Money Laundering Law since 2002. Under this law, the person who commits the offenses of illegal converting, transferring, concealing, obliterating or disguising of money and property will be entitled to the imprisonment of minimum three to maximum unlimited years. Even under these constraints, Myanmar overseas workers prefer the illegal channels for its cost effectiveness and efficiency.

Another factor which is pushing Myanmar migrants to choose informal remittance channel is lack of active and efficient money transaction service run by international and local private financial institutions. Apart from hundi and the government banks, Myanmar overseas workers do not have access to the international financial institutions such as Moneygram and Western Union for transferring remittances back home. Under the banking law adopted in 1990, the SLORC permitted the foreign banks to open in Myanmar. But their role is only for liaising between local and foreign clients for trade and commerce. No foreign bank is allowed to carry out the local business. Among the foreign banks which had open their offices in Myanmar, 49 banks left the country due to the government's reluctance to liberalize the banking sector though they still maintain their licenses (UCS, 2006). While the foreign banks are not authorized to function in local money transaction, the local private banks are also not permitted to handle foreign exchange including remittances (TLF, 2007). Formally, three state-owned banks, Myanma Economic Bank (MEB), the Myanma Investment and Commercial Bank (MICB), the Myanma

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[3] Interview conducted on 15th September 2007 with a returned Myanmar migrant who used to work in Malaysia for two years

Foreign Trade Bank (MFTB) only are active players for foreign currency transaction. Among them, Myanmar Foreign Trade Bank is dealing with the remittances (Lwin, 2005a). As mentioned above, deducting 10 % of the remittances by the state-owned bank is discouraging overseas Myanmar not to use their service. Instead, the informal channels have been popular choice even under strictly control of laws and regulations imposed by the government.

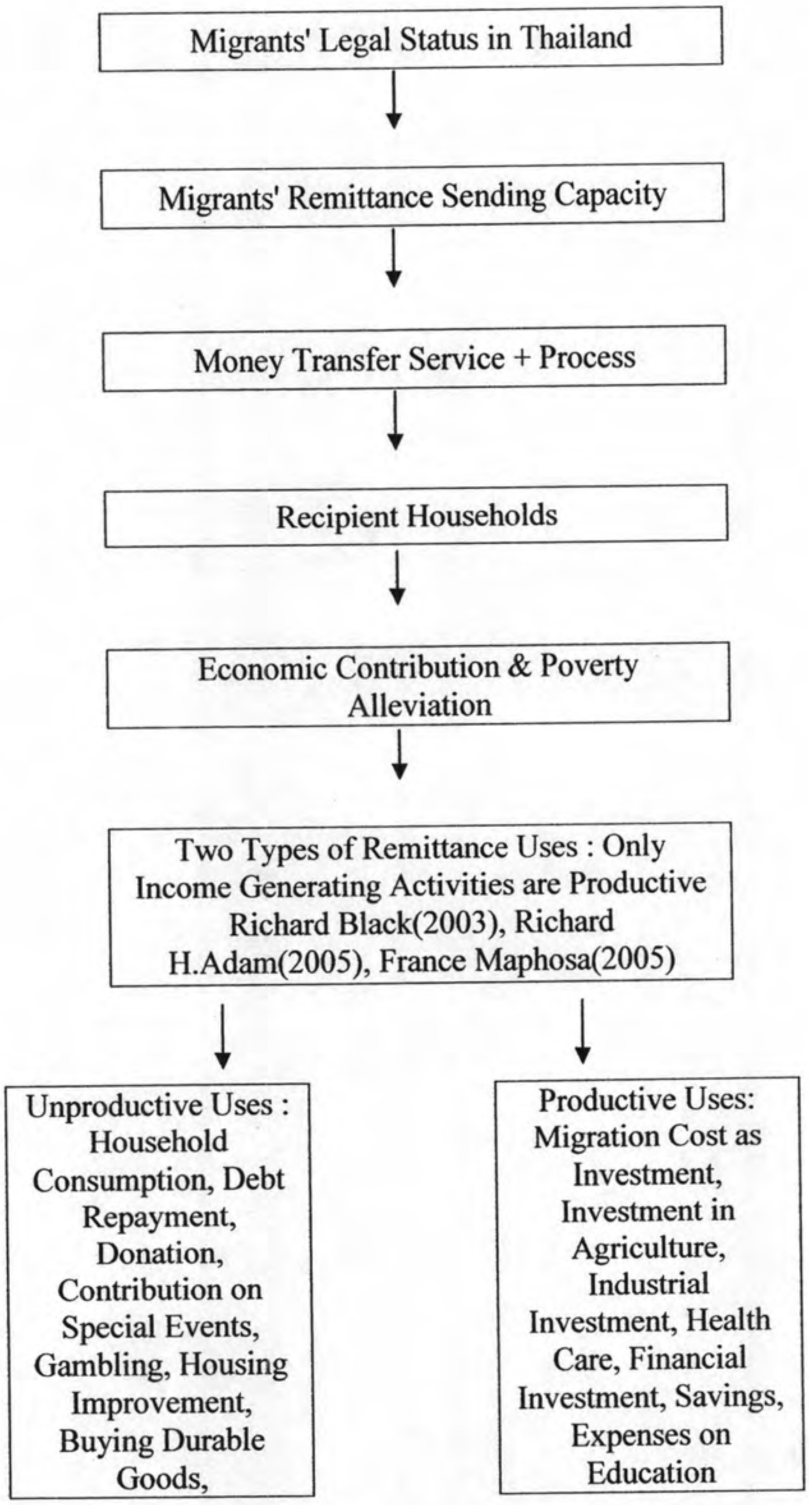

Figure 2.1 Conceptual Framework of the Study