



SCHOOL OF ECONOMICS
AND MANAGEMENT
Lund University

Department of Economics
Supervisor: Yves Bourdet

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Migration and Remittances – A Case Study of the Philippines

By

Peter Holmvall

Abstract

Capital movement in the world has great impact on economies. Remittances to developing countries are today seen as an important channel for economic growth in less developed countries (LDCs). The purpose of this thesis is to examine migration and remittances to and from the Philippines. Questions of particular interest are whether there are any patterns in migration or remittances in the Philippines and whether these possible trends can be explained by theory. Firstly, migration's and remittances' theory are presented to give an understanding of migration and remittances in general. The latter part discusses migration and remittances to the Philippines.

This thesis is an empirical study of migration and remittances. The thesis is based on a review of the literature on migration and remittances. It also compares statistics about migration from and remittances to the Philippines.

In this thesis it is found that, during 20th century, a large permanent migration from the Philippines to mostly highly developed countries and a large temporary migration to mostly nearby Asia and Middle East been recorded. Most remittances comes from the USA for two reasons; the high number of Filipinos living in USA and because some remittances from other countries are recorded through U.S. Banks. Countries with a large share of temporary migration from the Philippines, such as Saudi Arabia, have increased their share of remittances sent to the Philippines and with that increased their importance as a partner country in business. The receivers of remittances usually have it as their main household income and the money is usually spent on basic expenditures for the household.

Key words: Remittances, Philippines, Migration,

Author's email address: peter.holmvall.660@student.lu.se

Sammanfattning

Kapitalrörelse i världen har stor påverkan på ekonomier. Penningförsändelser till utvecklingsländer är idag sett som en viktig kanal till ekonomisk tillväxt i fattiga länder. Syftet med uppsatsen är att undersöka penningförsändelser och migration till och från Filippinerna. Frågor av speciellt intresse är om det finns mönster i migrations samt penningförsändelseflödet i Filippinerna som går att förklaras genom teori. Först presenteras teorier inom migration och penningtransfereringar för att ge generell förståelse till migration och penningtransfereringar. Därefter följer presentation av migration och penningtransfereringar gällande Filippinerna.

Denna uppsats är en empirisk studie av migration och penningförsändelse. Den jämför ytterligare teorier med trender i migration och penningförsändelse för Filippinerna. Uppsatsen är baserad på genomgång av migrations- och penningförsändelselitteratur, och statistik på migration och penningförsändelse till och från Filippinerna.

I denna studie framkommer det att Filippinerna har under 1900-talet haft ett stort permanent migrationsflöde ifrån Filippinerna till mestadels högutvecklade länder och ett stort temporärt migrationsflöde till mestadels närliggande länder i Asien samt till Mellanöstern. Den mesta penningtransfereringen kommer från USA och en del penningtransfereringar från andra länder är registrerade genom banker i USA. Länder med en stor andel temporär migration, till exempel Saudiarabien, har ökat sin andel penningtransfereringar till Filippinerna och är idag av ett viktigt samarbetsland i affärer. Penningtransfereringarna går oftast till familjer som har det som sin huvudsakliga hushållsinkomst och pengarna är vanligtvis spenderade på vanliga hushållsutgifter.

Nyckelord: Penningförsändelser, Filippinerna, Migration

Författarens emailadress: peter.holmvall.660@student.lu.se

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List of Abbreviations

ADB	Asian Development Bank
BSP	Bangko Sentral ng Pilipinas
CFO	Commission on Filipinos Overseas
DESA	The Department of Economic and Social Affairs, a United Nation's Population Division
FDI	Foreign Direct Investment
GDI	Gross Domestic Income
GDP	Gross Domestic Product
IMF	International Monetary fund
IMR	International Migration Review
IUSSP	International Union of Social Scientists in Population
LDC	Less Developed Countries
NELM	New Economics of Labor Migration
NSCB	National Statistical Coordination Board
NSO	National Statistics Office, the Philippines
ODA	Official Development Assistance
OFW	Overseas Filipino Workers
POEA	Philippine Overseas Employment Administration
RER	Real Exchange Rate
USD	United States dollars

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Chapter 1 Introduction

Countries become more integrated in their economic activity as the globalization goes on. The integration of economies leads to higher flow of production factors, capital and labor, between nations in search of higher profits. In 2000 international migration counted about 175 million people, three per cent of world population (DESA, 2005, p.23). A large part of migration occurs in developing countries, and knowledge on the impact it has on economies, is thereby especially important for developing countries. Migration of mostly unemployed is good for developing country as it may loosen the burden on weak government finance meanwhile migration of mostly high skilled is bad for developing country as it may generate a brain drain. International migration is for both sending and receiving nations a key factor for economic development (Todaro and Smith, 2003, p.94) but countries need to address migration policies differently depending on their preconditions and aims.

International migrants send capital, known as remittance, to relatives and friends in the home country and its size is counted as the second largest capital flow to developing countries, just after Foreign Direct Investment (FDI), and before Official Development Assistance (ODA) (DESA, 2005, p.41). The size and the shape of remittances are product of millions of individual's decisions, and the receivers freely choose how to use, in contrary to FDI and ODA, where the size and the shape are determined by agreements and negotiations by policy makers.

As with migration the decision to remit has many determinants which make it hard to draw a general conclusion on the outcome from remittances. Remittances are either consumed or invested which have positive impact on the GDP. Remittances have some negative effects on the GDP if the receivers' productivity decrease and if it causes the Dutch Diseases. It is further ambiguous whether remittances contribute to the reduction of absolute poverty.

The Philippines is a remittances receiving developing country with an estimated population of more than 85 million people in 2005 (The World Bank, 2006c). They have the largest out-migration (relative to population) of any country in East or South-East

Asia (Lucas, 2001, p.9); somewhere in the region of 1 million people. The estimated remittances to the Philippines in 2005 were around 10.7 billion USD (BSP, 2006a). These factors put the Philippines policy makers in a situation where knowledge about remittances' consequences is of great importance. Remittances have great impact on the domestic economy of the Philippines as remittances represent some 13.5 percent of GDP (BSP, 2006a, the World Bank, 2006c, my own calculations).

There is today good knowledge on remittances, both general and country-specific, but there is still a lack of information that makes it difficult addressing policies on remittances. Policy makers historically have substandard or no national statistics on migration and remittances to use in their analysis. To perform good estimations and predictions, migration needs to be recorded and remittances need to go through formal channels.

'Remittances' is today one of the main topics discussed and example on treated subjects within remittances are; benefits and costs from migration with an extra focus on impact of remittances (The World Bank, 2006a): policies and reforms how to address migration, remittances and brain drain (Özden and Schiff, 2006): the development potential of remittances, the implementation of remittances fostering activities (Maimbo and Ratha, 2005).

Dimzon (2005) gives brief introduction on the study of migration from and remittances to the Philippines. Burgess and Haksar (2005) cover most of the available aspects of remittances studies in the Philippines. An outstanding study on remittances to the Philippines are undertaken ADB (2004a, 2004b) which analyzes the results from household surveys on Filipino Overseas workers.

1.1 Purpose

Most studies conclude that further research is needed on the relationship between migration and remittances and this thesis contributes to the literature with descriptive data on the Philippines' recorded migration and formal remittances. This paper objective is to reveal the size and composition of migration and remittances to the Philippines.

The purpose of this study is to explain migration from and remittances to the Philippines by studying the theory on migration and remittances. Questions of particular interest are:

- How can migration and remittances be explained within a theoretical framework?
- What are the characteristics of migration from the Philippines?
- What are the characteristics of remittances to the Philippines?
- Does the migration explain the remittances to the Philippines?
- Does the theoretical framework work to explain migration from and remittances to the Philippines?

1.3 Method and material

The discipline of science can be characterized as deductive as the theories give the hypothesis and are expected to explain the trends observed from quantified data. The sources for this study are secondary and consist of: official governments' documents; discussion papers; statistic and articles concerning the Philippines from both national and international organizations. The most important sources have been collected from the World Bank's extensive data base covering most literature on remittances and the Philippines. National Statistics on the Philippines have been collected from Philippine authorities such as: NSO, POEA, NSCB and BSP.

1.2 Delimitations

This thesis is a bachelor thesis and with that meant to provide an analysis on a subject from a broad spectrum. Both migration and remittances separately can be more deeply analyzed. The Philippines are chosen as a case study since it is a developing country with a well documented and a large flow of migration and remittances. The consequences of migration are delimited to cover remittances. Possible trends in remittances will be

determined from migration patterns and theory. This thesis delimitations are further that the consequences of remittances are not widely covered.

1.3 Disposition

This study is divided into the following parts: Chapter two, theoretical framework on migration and remittance theories with extra focus on theories seeking to explain why migrants remit; Chapter three consists of country-specific data on the Philippines migration; Chapter four contains country-specific analysis on remittances to the Philippines. Furthermore, there is an extensive presentation on present research on this area of study in the Philippines: Finally, chapter five provides conclusions.

Chapter 2 Explaining Migration and Remittances - Theoretical considerations

This chapter is structured as follows; 2.1 defines migration theories, 2.2 defines remittance theories, its channels and the consequences of remittances, 2.3 gives the general conclusions from this chapter.

2.1 Migration theories

To migrate abroad is more costly and complicated than to move within a country. Demographic factors such as high fertility create potential for migration but do not work as a reason of migration. There is no single, well-developed theory to explain the volume and direction of international migration although a wide variety of theories sum up common reasons for migration.

Individual reasons for migration are mostly that the migrant expect higher personal utility after the migration. Since the migrant may not have perfect information the migration may not generate higher utility. The utility can for example be from higher wage, political stability or from living in a more advanced society.

Apart from individual reasons is the globalization one important factor for increased international migration. Surplus and shortage of labor between countries can be corrected through migration and as the costs of communication decreases the interaction between people in different countries increases. Migrant have network of friends and family in the home country and function as incentive maker and useful information carrier for prospect migrants. The surplus and shortage of labor may be within sectors and may not be visible in general figures on aggregate labor demand. This can for example happen when habitants raise their reservation wage, the lowest acceptable wage for work, which may happen when the habitants get richer. This increased reservation wage leads to a shortage in labor supply in the low wage sectors and the government may apply rules in favor of pushing for certain work immigration. (Stanton Russell, 1995, p.4-5)

Classical migration theories sees migration take form in a zero-sum game where the developing country, as the sending partner, lose valuable assets in the form of a brain drain. New literature on this subject focuses on positive effects from high out-migration; remittances bring capital to home country and are one positive effect from out-migration. Schiff (2006, p.221) concludes that the positive externalities has a marginal impact, meanwhile Stark et al (1997, p.233) conclude that migration by high-skill members may contribute to a higher average level of human capital per worker “since prospective migration favorably alters the incentives of a poor country’s workforce to invest in human capital formation”. The net welfare effect from migration therefore has no distinguishing path for the home country.

The *New Economics of Labor Migration (NELM)* contributes explanations to migration that gives remittances growth. The migration is a strategy to diversify family’s (group’s) sources of income. In this theory, wage differences between nations are not a necessary condition for migration decision (Stanton Russell, 1995, p. 4-5). Another theory that explains migration with remittances but where the remittances do not economically benefits the non-migrant family members is the Harris-Todaro migration model (Todaro and Smith, 2003, p.340). This model sees migration decision taken out of a cost-benefit calculation on an individual basis. Since this model assumes migration to be on an individual basis the remittances sent from the migrant may seen through a portfolio approach as a personal investment of capital in the home country.

2.1.1 Migrant’s profile

It is hard to draw conclusions on general determinants of migration decision due to the wide variety of countries’ and individuals’ characteristics. The World Bank’s (2006a, p.59-62) conclusions drawn from studying migration from developing countries to high-income countries shows that important determinants in general are the network connections in foreign countries and prospects of higher earning in foreign countries. The migration decision is usually made up on inadequate information and with less network connections the cost and risk to migrate becomes bigger.

The main reason for allowing a permanent visa is when it involves family reunification or refugees. Therefore, most international migration goes to countries with close geographical proximity or to those with colonial ties. The share female migrants have between 2004 and 2005 increased two percent units to 49 percent of total international migration. (The World Bank, 2006a, p.27-28)

In poor countries there exists a wide gender gap in education. Female literacy is generally lower than male literacy (Todaro and Smith, 2003, p.376) which imply that male are more likely than female to have high skilled occupations. There also generally exists an income gap between female and male doing the same kind of work which implies that families should be more caring that their son work than their daughter.

Low skilled migrants are more likely than high skilled migrants to irregular or temporary migrate since immigration laws in high-income countries are biased to favor high-skilled migrants. Further, high skilled migrants have more to lose from irregular migration since high skilled occupations more likely demand the worker to have work permit in the country.

Legal migration can be biased to only include the rich in the country since developing countries have common characteristics of low Gross Domestic Income (GDI) with highly skewed patterns of income distribution and problems with absolute poverty (Todaro and Smith, 2003, p.57). This common characteristic can give the conclusions: (a) income in a developing country is more likely to go to the wealthy, or (b) immigration policies often favour skilled workers. Therefore poor people in developing country have fewer possibilities to bear cost of higher education and legal migration (IMF, 2005, p.73).

2.2 Remittances theories

Many migrants send remittances back to their home country. Some do it in favor of themselves and some do it in favor of their family and friends in the home country. In order to understand remittances there are two main approaches for analyzing remittances: the “portfolio” approach and the “altruism” approach (IMF, 2005, p.78). These approaches present two main channels for remitting behavior.

The portfolio approach sees remittances as a self interest controlled capital transfer between home and host country to diversify the migrant's savings. Portfolio motives come out of investment opportunities and saving differentiation between home and host country (IMF, 2005, p.78). Thereby macro economic factors can explain the size of this kind of remittances. Empirical research on this subject has not agreed on how macro economic factors affect the amount. Swamy (1981) conclude that exchange rates and interest rates have no significant impact meanwhile El-Sakka and McNabb (1999) have proven it to be so. Host country's economic activity is supposed to have positive effect meanwhile home country's economic activity is supposed to have negative effect on the size of remittances (IMF, 2005, p.81).

The altruistic approach sees remittances as a transaction that benefits the receivers in the home country without any demand on the receiver for performance in order to get the remittances. Altruistic motives start in ties with or for caring in the family income and are expressed as either repayment of an old loan or some kind of aid to the receiver. Since remittances usually are sent to the family or relatives of the migrant can aid be expressed as repayment of an old informal loan in order to simplify the remitting behavior.

A case study on Guatemala undertaken Adams (2006) shows remittances increase the family's investments in the form of housing and education expenditures rather than spending on basic consumption (p.78). This points on remittances as home country investments although it is not clear whether the migrant himself benefit from the investments. Difficulties in explaining that large part of remittances going to consumption gave rise to family loan arrangement theory.

2.2.1 Family loan arrangement

In the *Family loan arrangement* remittances are an informal and implicit repayment to the home country family for costs taken before departure and Poirine (1997) largely developed this theory.

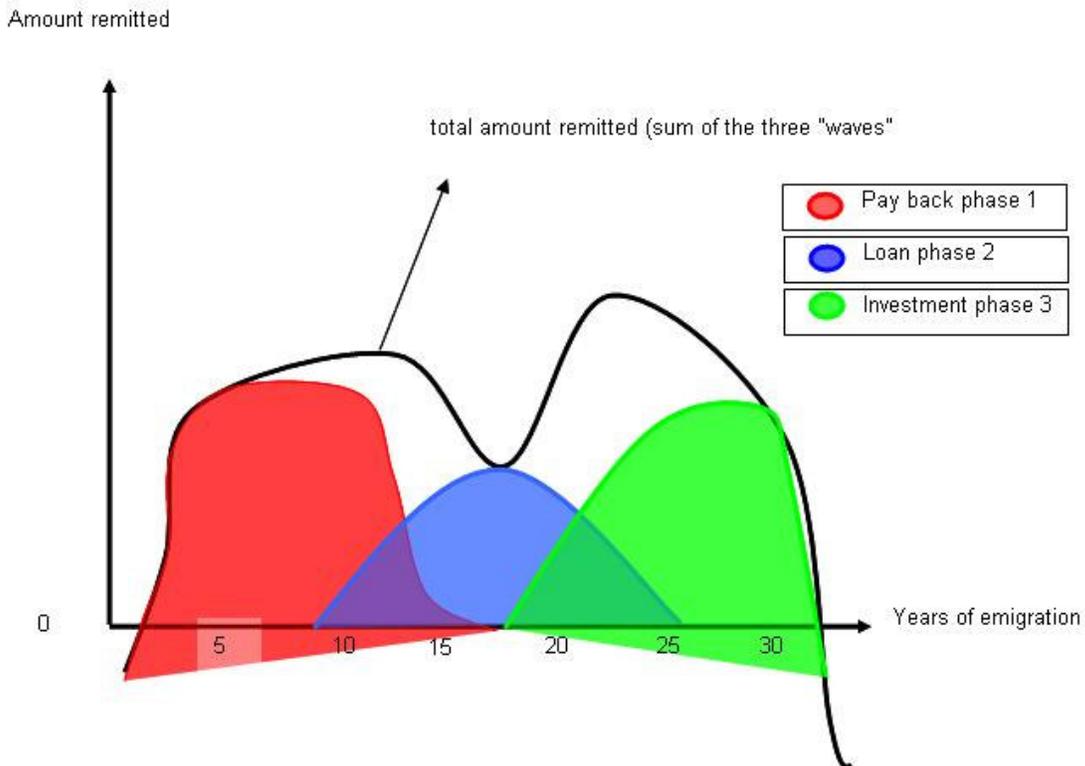
The chain of family loan arrangement works in three steps: The first step is the preparation and costs for migration; the second step is when the migrant has migrated and

repays the debt and saves for the future through remittances. The migrant's savings are used to prepare a new generation for migration; the third step concerns the new generation repaying their debt with remittances to the former migrant worker, currently retired in their home country. The loan taken before migration is informal or implicit so the interest rate and amount is not precisely agreed upon which makes the enforcement of repayment hard. The enforcement is done through social control, cultural values of family solidarity and loyalty, and threats of a loss of the family support at a later stage in life. The size of remittances stay stable for a longer period of time and this indicate that there is a good enforcement of repayment even though it is an informal loan (Poirine, 1997, p.593. 589-590).

The remittances life cycle can be divided into three components; pay back phase 1, loan phase 2, and investment phase 3. Figure 2:1 illustrates an M-curved wave of total remittance from migrants intending to return home for retirement. If the migrant intends to retire in the host country the investment phase (phase 3) will not be remitted and remittances will adopt a concave cone head instead. For short-term migrants these steps will be harder to distinguish since they overlap each other and on aggregate level this wave is not visible by all the individual average remittances functions. (Poirine, 1997, p.599)

Remittances consists of three elements which all have different impacts on the size and the use of remittances; loan, insurance and altruistic elements. Depending on which element is the dominant, remittance's takes its form. The loan element is expressed as a regular payment and the money is mainly used for consumption purpose, the insurance element is expressed as money that works to stabilize the economic situation for the relatives in the home country as in economic downturn, and the altruistic element is, with time, a decreasing element.

Figure 2:1 A theoretical average remittance function in the “intend to return” case



Source: Poirine, 1997, p.599

2.2.2 Remittances decision model

The decision to remit may be taken pre-migration as in the family loan arrangement theory where the migrant accumulate a debt pre-migration that needs to be repaid. The remittances that are not bound to a family loan arrangement need to be explained through other decision processes. Stanton Russell (1986) made a decision model with four key elements which explain the increased remittances sent. The four key elements for remittances can be summarized as: *pool of remittances; decision to remit; size of remittances; how to use remittances.*

The pool of remittances is determined by the amount of migrant workers, their wage rate and the economic activity in the host country which all have a positive correlation with remittances. The marital status (married people have closer ties to family members in the home country) of the migrant positively affect the decision and amount to remit.

The economic and social situation of the migrant's family in the home country affects the migrant's decision and amount to remit. With this it means that for migrants which families have low household income, low education and occupational level the migrant is more likely to remit and to choose a larger amount to remit. Further, the migrant's disposable income earnings have positive correlation with the decision and amount to remit. (Stanton Russell, 1986, p.679, 683-689)

Factors which, when increasing negatively affect the decision and amount to remit are political risk factors in the sending country, ratio of female migrants in the host country, household income level, employment of non-migrant family members, level of education and occupational level of migration. The decision to remit and how to remit is determined with positive correlation to the facility of transferring funds and an ambiguous correlation to the exchange rate and relative interest rate between host and home country. Years since out-migration have had a positive effect on the decision and amount to remit and the usage of remittances. The usage of remittances is biased to more consumption and less saving showing increases in the following factors: household income level; level of education; occupational level of migrants; employment of other household members. (Stanton Russell, 1986, p.679, 683-689)

2.2.3 Consequences of remittance

The consequences of remittances are determined by the purpose of migration and remitting. Remittances increase the inflow of foreign exchange to home countries and thereby increase the demand on domestic currencies. When remittances later is used for consumption or investment it further bring impact on the home economy as either increase in consumption or as in increase in investment.

The effects from the increased demand on the home currency are not clear. Some research shows that the real exchange rate (RER) can appreciate as an effect of remittances (See for example Bourdet and Falck, 2006) and give rise to the Dutch Disease. The theory of Dutch Disease sees capital inflow cause appreciation on RER, which makes the export sector less competitive and domestic consumption favor tradable

imported goods and non tradable domestic products. This change has a negative effect on GDP if tradable sectors are more productive than non tradable sectors. Countries with high unemployment or underemployment are less likely to experience Dutch Disease (McKinley, 2005, p.2-4).

Whether remittances would be sent with the intentions of a portfolio investment or altruistic helpfulness the remittances will affect the economy different. Capitals that are used in portfolio investment increase the economic activity since investments are done with the intentions to generate profits and productivity, in the same matter as FDI does. Capitals sent in the mind of altruistic helpfulness do not bring any demand for profits and productivity. Whether the remittances are dominating altruistic there is more likely that the inflow will have smaller effect on the economic activity. The effect could even become negative whether the capital makes the receiver less productive than the productivity the capital generates from being used. The idea that remittances work as compensation capital for poor economic performance was supported by Chami et al (2005, p.77) which found negative correlation between the size of remittances and the home country's GDP for the period 1970-1998.

The reason for the negative correlation between the size of remittances and GDP is due to the moral hazard and asymmetric information. The receivers are assumed to have the same income no matter if they work or not since remittances compensate for low income. The receivers then maximize the utility by spending more time for leisure since it becomes cheaper in an opportunity cost perspective. The remitter's utility is thereby assumed to be a function of their net consumption and the receivers' utility meanwhile the receivers' utility is a function of their work effort and the size of the remittances. The model also assumes the presence of asymmetric information; the remitter can not observe the receivers' work effort, which induces the moral hazard problem in remittances. This model explains that there may be a problem with decreased productivity when remittances are present and it states that remittances may not be the best tool for development and economic growth.

On the other hand increased remittances per GDP reduce the aggregate output volatility in the home country (IMF, 2005, p.77). Increased remittances may have a multiplier effect on GDP which dampening economic crises and recession. The capital

inflow has positive impact in countries with high unemployment, even when most of it goes to consumption (Maimbo and Ratha, 2005, p.5). Remittances give the receiver a higher disposable income, and higher disposable income has a spending effect, which has a positive multiplier effect on GDP. In the long run the higher capital inflow gives possibilities to accumulate capital through domestic saving and investment which have a positive effect on GDP (Bourdet and Falck, 2006, p.7).

Remittances can be used to finance basic consumption and to help improve health conditions. Remittances are also acknowledged to have a positive impact on education in the home country (Bugamelli and Peterno, 2005, p.5). These improvements may have positive effects on poverty in the home country.

2.3 General conclusions of theoretical framework

From migration theory we conclude that the migrants come from countries with a large supply of labor and face an income advantage to migrate. From remittances theory we know that migrants either remit because of altruism or self interest. Self interest can be a debt payment for migration costs taken by the family, investment in family affairs or just to increase their utility by caring for the relatives. Altruism is the migrants' way of sharing higher earnings with relatives in the home country. The portfolio approach sees the reason of remitting as mainly self interest, the migrants allocate savings between the countries, and the altruistic approach sees the remitting as family affairs, repaying borrowed money or supporting the left behinds.

In the long run remittances give more possibilities to economic growth through the increased consumption, domestic saving and investment and it may reduce poverty, improve health conditions and have a positive impact on education.

Reverting to the section on consequences, from remittances we know that remittances may have a negative impact on RER when the capital inflow is mostly spent on consumption. This is negative for GDP growth when the production changes, as a reaction from changed RER, to less productive sectors. Furthermore, it can have a

negative impact on GDP when the receiver reduces their work effort and compensates it with remittances.

Chapter 3 Patterns and motives for migration in the Philippines

This chapter is structured as follows and relates specifically to the Philippines: Section 3.1 gives an historical background on migration; Section 3.2 provides the background to the two different classifications of migration; Section 3.3 explains permanent migration patterns; Section 3.4 explains temporary migration patterns; Section 3.5 analyzes migration motives; Section 3.6 gives the general conclusions from this chapter.

3.1 Historical background and migration, 1900-1985

Since the Philippines are a developing country there are many countries that have reached a higher degree of economic success. The theory on migration, section 2.1, shows that migration goes from poorer countries to richer countries. This indicates that migration for the Philippines should be outgoing.

The Philippines have a long history of both international and internal migration. A large apportionment of the international migration has departed to the USA, where 2.7 million out of the 8 million overseas Filipinos were estimated to live, in 2004 (POEA, 2006a).

The USA was the colonial power of the Philippines from year 1899 until the Philippines' independence in 1946. The USA's immigration rules were, during the colonial period, less strict for Filipinos than other Asian citizens and Philippines' international migration were mostly toward the USA. Students and unskilled labor were the most common occupations of Filipinos traveling to the USA. Unskilled labor temporary moved to Hawaii and the West Coast for work in agriculture. Meanwhile students were spread around the country. USA's immigration rules became stricter during the 1930s and prevented immigration until after The Second World War. (Liu et al, 1991, p.490-492)

The USA allowed old migrants to naturalize to U.S. nationality (around 100 000 were Filipinos) after The Second World War, and at the same time opened up for immigration

of US citizens' spouses and those involved in high-skilled labor. 33 000 migrated to the USA between 1946 -1965, and this group were spouses to US citizens and high-skilled labor. The immigration policies between 1965 and 1985 allowed for larger reunification of families (parents and children were first priority), and the largest part of migrants from the Philippines to the USA were relatives to those who had already migrated. (Liu et al, 1991, p.492)

Both rural-urban and international migration in the Philippines has been dominated by female migrants because of familial objectives and opportunities (Lauby and Stark, 1988, p.474). Urban job opportunities in the Philippines are more likely to fit female workers and the Philippines' society has tradition of accepting females so that they can have economic independent roles (p.476). Women in the Philippines have closer ties than men to their origin families and this give rise to causal relationship between the characteristics of her family and her migration patterns (p.486).

Another study on international migration in the Philippines with focus on genders was undertaken by Semyonov and Gorodzeisky (2005). The big difference in Lauby and Stark's research compared with Semyonov and Gorodzeisky's research were the choice of sample. This work studies married overseas contract workers with children, Lauby and Stark focused on young labor migrants (Lauby and Stark, 1988). As a difference Semyonov and Gorodzeisky found that male migrants earn more money and also send more remittances than female migrants.

3.2 Classification of migration

The Philippines official statistics on migration have historically been dependent on foreign countries immigration statistics in order to compile their migration statistics. The two most important institutions from the 1980s for gathering and presenting migration data within the Philippines are the Commission of Filipinos Overseas (CFO) and the Philippine Overseas Employment Administration (POEA). The CFO was created in 1980. They focused their operations at training and registering migrating Filipinos. Meanwhile

the POEA was established in 1982 and its main functions are to promote and monitor the employment of Filipino overseas workers.

The CFO make permanent migration data available and whilst the POEA make temporary migration data available. The CFO's data is seen as highly reliable when compared with foreign countries immigration statistic (Cariño, 1987, p.1265). The CFO's homepage reveals data providing details of the total number of emigrants classified in gender, occupation and their destination country, reported between 1981 and 2003.

For Filipinos working temporarily abroad, to acquire travel an exit permit, their contract and documents need to be verified and validated by the POEA before departure. The POEA gathers information about contract workers and count Filipinos that leave the country as deployed. Problems with Filipinos evading the POEA's monitoring and overseas workers without contract make the POEA's estimation of the total number of Filipino workers temporarily abroad not reliable, but when the data is spliced with the CFO's data, this provides the most reliable estimate on international migration from the Philippines (Cariño, 1987, 1269). The POEA's homepage shows data on the total number deployed between 1984 and 2003, and together with other sources, data on deployment has been found for a longer period of time.

Migration is further analyzed separately from the perspectives of permanent and temporary migration since there are many differences found between these two kinds of migrations. The intentions for temporary migrants are most likely to stay in the host country for a shorter period of time and then return to the home country meanwhile the intentions for permanent migrants are to settle down in the new country for a longer length of time. First, in section 3.3, is permanent migration analyzed and then, in section 3.4, is temporary migration analyzed.

To be classified as a permanent migrant the Filipinos need to hold a foreign immigration visa that is not dependent on work contracts (ADB, 2004a, p.3). This category includes also those who acquired foreign citizenship prior to departure. Temporary migrants are also called Overseas Filipino Workers (OFW). To be classified as an OFW the migrant's who stay overseas need to be based on formal or informal contracts of employment (ADB, 2004a, p.3).

3.3 Permanent migration

3.3.1 Destination country

The USA is a highly developed country with colonial ties to the Philippines. As the old colonial power of the Philippines the USA have been the main receiving country of the historical permanent migration from the Philippines. The large networks of Filipino migrants in the USA inspire and help prospect migrants in their efforts to migrate to the USA. A large share of the permanent migration should go to the USA.

Most of the permanent migration from the Philippines 1981-2003 has been to the USA. About 80 percent of total migration in 1981 went to the USA and during the 1980s the Filipino migration to Canada, Australia and Japan increased which resulted in a decrease on about 10 percentage points in migration to the USA (see figure 3:1 and 3:2). Migration to the USA stayed at a steady high amount of people and was still the largest receiver of migrants in the end of the 1980s even though the share of migration to the USA decreased.

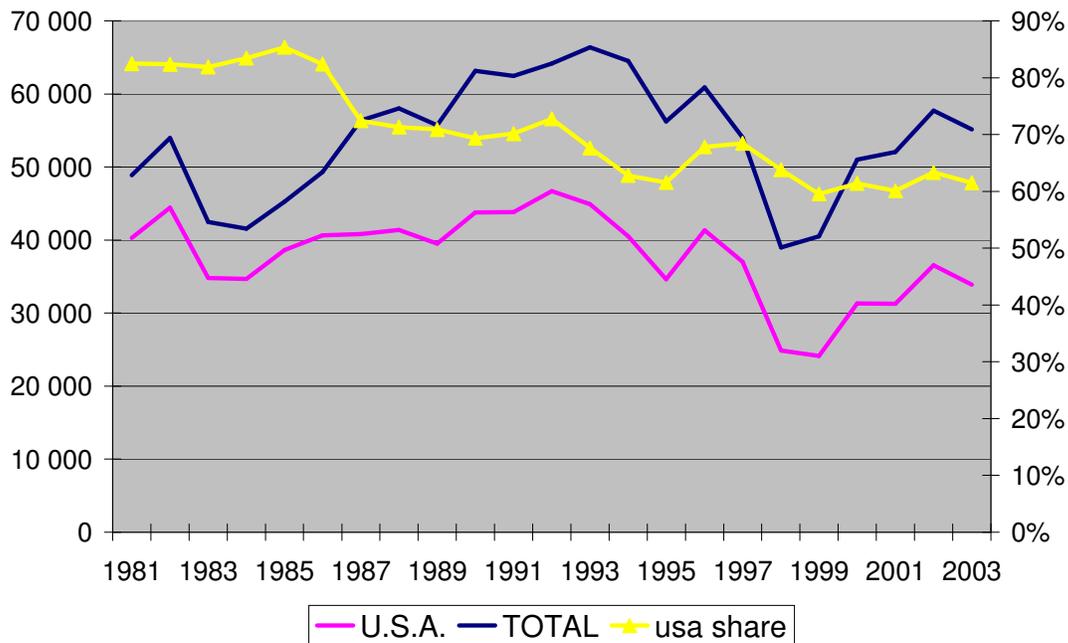
Total permanent migration reached a peak of 65 000 people in 1993 and then declined until the end of the 1990s. Most of this decrease can be explained by the large changes in number of Filipino migration to Canada and a steady decrease in the permanent migration to Australia and the USA. Filipino migration to Canada doubled in two years and peaked in 1993 and then largely decreased until 1998. Migration to the USA also peaked in 1993, and then largely decreased until 1999. Migration to Australia followed similar patterns to those of the USA and steadily decreased until 1996 when it stagnated at a low rate.

The three main destinations in 1990 (the USA, Canada and Australia) markedly decreased the annual amount of immigrants from the Philippines during the 1990s. The situation was different for permanent migration to the rest of the world. For example Filipino migration to Japan did not decline at all throughout the 1990s (see figure 3:2). This decrease in permanent migration to the main destinations together with the pattern of migration for the rest of the world resulted in a higher diversity in Filipinos' migration patterns. The USA's share of total migration declined to 60 percent during the 1990s which further indicate the larger diversity in Filipinos' migration patterns.

Migration in total figures increased for every major country except Australia during 2000-2003 and the migration patterns stayed diversified with the USA remaining as the main destination.

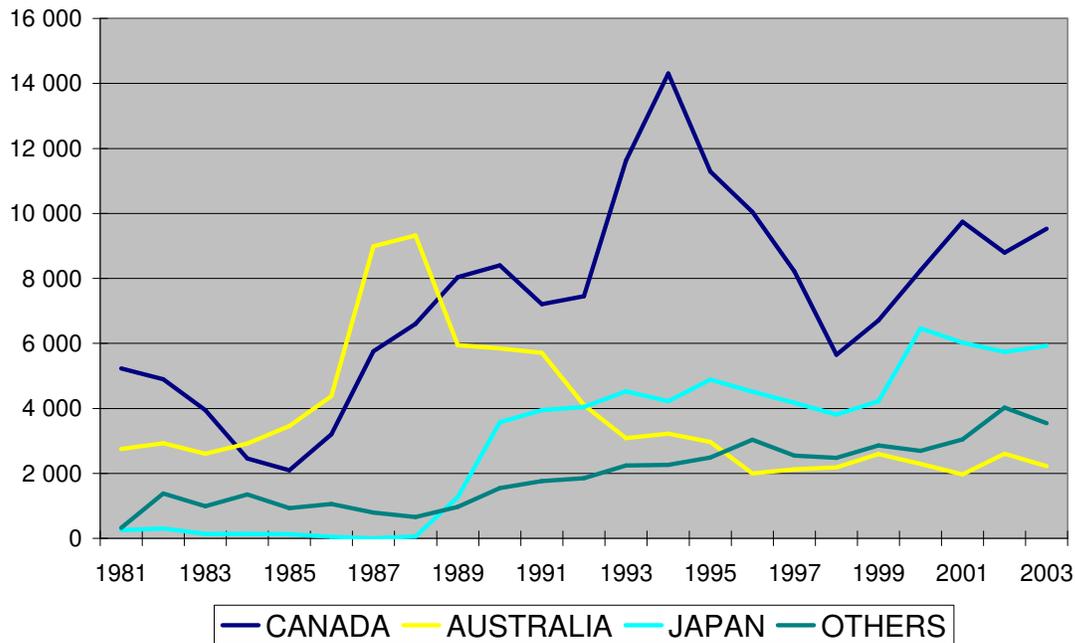
Permanent migration increased for Canada, Japan and other countries between 1981 and 2003 meanwhile it decreased for Australia and the USA (figure 3:1 and 3:2). Almost none permanent migration had Japan as the destination country before 1989 meanwhile in 2004 Japan was accounted for the third largest destination country. Permanent migration patterns became less dependent on the USA as a destination country. Meanwhile it still counted for 60 percent of total Filipino migration in 2003. The high rate of permanent migration going to the USA shows that colonial ties play a critical role in explaining the migration patterns of the Philippines.

Figure 3:1 Permanent migration (1981-2003): Country of destination: USA, Total and USA's share of total



Source: CFO, 2006b, Left axis: USA and TOTAL, Right axis: USA share

Figure 3:2 Permanent migration (1981-2003): Country of destination: Australia, Canada, Japan and others (excluding USA)



Source: CFO, 2006b

3.3.2 Gender

Migration is generally male dominated and should also be true for the Philippines. The Philippines are a developing country and thereby men are more likely to get higher education. This gives men larger possibilities to obtain a work visa (temporary migration) abroad which later can be a permanent visa. When these migrants have permanent visa their partner easily can apply for a permanent visa. Since most migration are family related the permanent migration should be female dominated when including migrants that is partners to former migrants. By excluding partners to former migrants from the permanent migration the permanent migration should be male dominated.

The permanent migration patterns for the Philippines have been female dominated ever since year 1981, since then at least 58 percent of total permanent migration per year has been females (CFO, 2006a). The share of female migrants has steadily been

increasing since 1981 and was counted for around 60 percent of total migration per year in 2003.

A large share of the total migration consists of “Housewives” which is dominated by female migrants (CFO, 2006a). By excluding housewives the share of females should decrease to a more equal level if it is assumed that migration pattern in general is equal.

The migration pattern become clearly male dominated as an effect of excluding housewives (CFO, 2006a, and my own calculations). In 1981 were only about 36 percent of the migrants excluding housewives females. There was a large upswing in the share of female migrants during the 1980s and then in the 1990s there was a large downswing in the share of female migrants. The share of females of migrant workers clearly have increased since 1981 meanwhile male still dominate in the permanent migration statistic when housewives are excluded.

3.3.3 Occupation

Hard immigration rules implies that the migrants should possess some qualities that attract the host country. Thereby should a significant share of the permanent migrants be family related or be in an occupation that attracts the host countries authorities, such as high skilled labor. Family related migration should be independent on what occupation the migrant have and thereby there should also be a large variety of occupations among the migrants.

Largest share of the total permanent migrants were unemployed prior to departure in 1981 and the share increased until the end of the 1990s (see figure 3:3). The large share of unemployed permanent migrants shows that permanent migration is not so likely to be explained out of the migrants’ occupations which support the idea that permanent migration is determined by family related migration.

Unemployed counted for about 70 percent of the total permanent migration in 2003. Most of the unemployed migrants were housewives and students (CFO, 2006c). The large share of housewives further shows that family related migration is one of the main determines for permanent migration. The total share of family migration is not possible to

see but are expected to be large since some family members are employed prior their family reunification.

The most common occupation between 1981 and 2003 is “Professional technical and related workers” which can be assumed to contain a large share of high-skilled migrants. Of the employed permanent migrants it shows that the migrants are more likely to have a high skilled occupation as was suggested (CFO, 2006c).

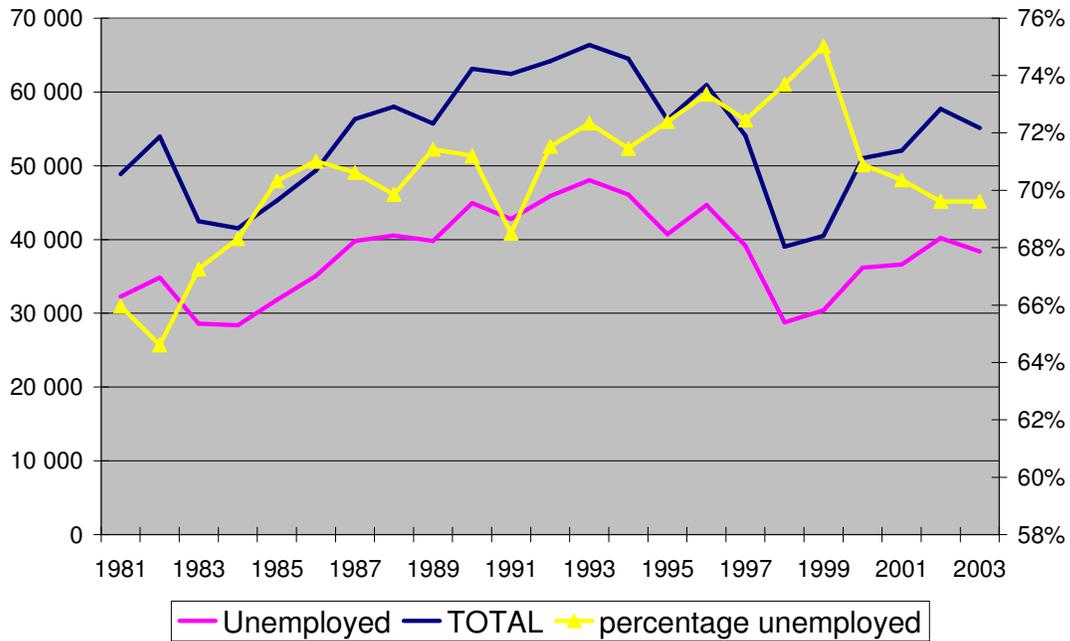
The number of employed migrants increased during the 1980s and this growth seems to be skewed toward high-skilled migrants. The patterns of permanent migration in the 1980s can best be explained as “Unemployed-biased and high-skilled-biased growth of migrants”.

Total migration peaked in 1993 and then decline until 1999 when the lowest number of migration was recorded. At the same time the share of unemployed migrants increased until 1999 when it peaked at being 75 percent of the total migration. This shows that there was a relatively larger fall in the number of employed migrants than in unemployed migrants during the 1990s. “Professional technical and related workers” declined relatively more than other employed occupations so the downturn during the 1990s can be assumed to hit harder for high-skilled migrants than that of low-skilled migrants (CFO, 2006c). Migration patterns of the 1990s were “employed-biased and high-skilled-biased decline of migrants”.

Total migration recovered quickly after the 1990s downturn and this recovery came through two channels. “Professional technical and related workers” recovered progressively, and the other variables grow at a slower pace. This led to a smaller share of unemployed from the total number of migrants. The first three years of the 2000s show on an “employed-biased and high-skilled-biased growth of migrants”.

For the period 1981 to 2003, total permanent migration and unemployed permanent migration increased by about ten percent. Meanwhile employed migration stood still. “Professional technical and related workers” seems to be highly volatile variable which indicates a conclusion that high-skilled migration has high volatility but another occupation that can be assumed to include a large share high-skilled workers are “Managerial Executives and Administrative Workers” which increased without being negatively affected by general swings in migration (CFO, 2006c).

Figure 3:3 Permanent migration (1981-2003): Occupation: Unemployed and total



Source: CFO, 2006c, Left axis: Unemployed and Total, Right axis: percentage unemployed.

3.4 Temporary migration

3.4.1 Destination country

Temporary migration is dependent on work contract in order to get visa and work permit to the host country. Temporary migration goes to countries in a labor shortage and where there exist networks that can help the migrant find jobs before he migrate. The USA should be included in the data due to the historical migration to the USA. Temporary migration should be less dependent on whether the country is rich or if the migrant have networks connections in the host country since the reasons for allowing the migrant a visa depends on if the migrant have a prospect work in the host country or not.

Most OFW went to the Middle East in the 1970s to fill up demand of labor in the infrastructure and service sector. In the 1980s, Asia increased its share of OFW and

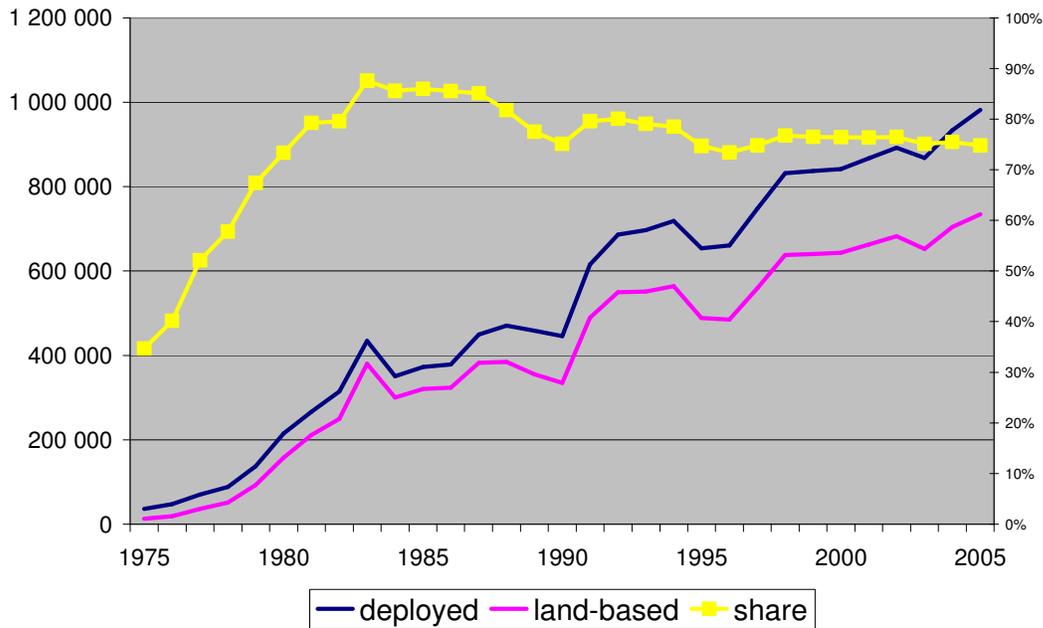
became the most prominent receiving region of OFW (Carlos, 2002, p.81, 83). A large number of temporary migrants are sea based and most temporary migrants in 1975 were sea based. The number of deployed Filipinos increased from almost zero in 1975 to become about one million people in 2005 (see figure 3:4). During this increase land based temporary migration has ever since 1980s been counted for about 70-90 percent of total temporary migration.

Asia was the most prominent receiving region of temporary migration until 2001 when the Middle East took over (see figure 3:5). Temporary migration increased in 1998-2005 for all regions except Asia which made Asia lose its position as the main region for temporary migration. Europe is counted as the third largest region although its small share of temporary migration from the Philippines with a growing amount of migrants (POEA, 2006b). The share of temporary migrants going to North and South America is almost nonexistent.

Hong Kong absorbs most of temporary migration going to Asia, followed by Taiwan and Japan. The decline in temporary migration for Asia was most severe for Hong Kong and Taiwan (POEA, 2006b). Hong Kong; the second single largest receiving country of temporary migration, was still Asia's largest receiver of temporary migration, in 2005, meanwhile Japan surpassed Taiwan and became Asia's second largest receiver of temporary migration. Since the top two receivers lost a large share of its temporary migration and other countries seemed not to be so affected by the downturn, the Asian labor market for temporary migration became more diversified.

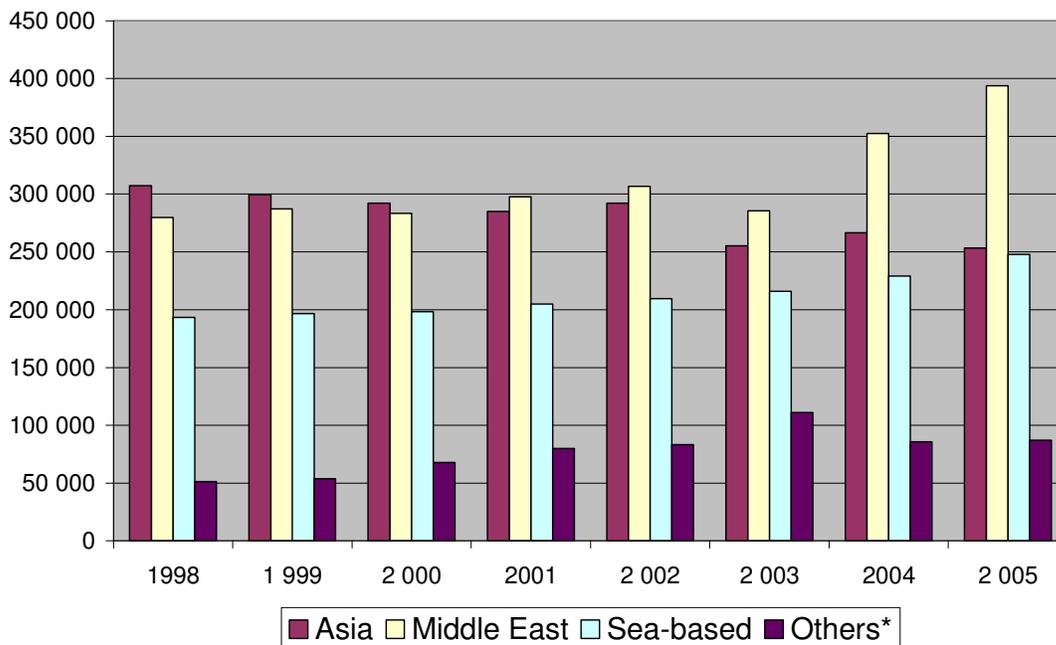
Between 1998 and 2005, the single largest receiving country of temporary migrants from the Philippines was Saudi Arabia. The number of temporary migrants to Saudi Arabia have between 1998 and 2005 stayed at a high rate and counted for just below 200 000 in 2005. Most countries of the Middle East significantly increased their number of temporary migration 1998-2005 and with this, the Middle East, strengthen its position and became the largest receiving region of temporary migrants from the Philippines in 2001 (POEA, 2006b).

Figure 3:4 Temporary migration (1975-2004): Total: Land-based specified



Source: Asis, 2006, POEA, 2006a, Left axis: deployed and land-based, Right axis: share of land-based migrants of total temporary migration

Figure 3:5 Temporary migration (1998-2005): Destination: region-level: total



Source: POEA, 2006b, * = Europe, Americas, Trust Territories, Africa, Oceania, Un-specified

3.4.2 Gender

Since there is an income and educational gap in favor of male the temporary migration should show on a higher degree of male migrants. This was shown for permanent migration when unemployed housewives were excluded, section 3.3.2, and since temporary migration is almost only work related migration, the chances of a male dominated migration pattern is high.

The number of newly hired temporary migrants increased between 1992 and 2002 from about 260 000 people to 290 000 people. The changes in headcount can be explained by an increase in the number of deployed female, meanwhile the number of deployed male decreased (POEA, 2006c). The share of female newly hired temporary migrants increased from 50 percent to almost 70 percent between 1992 and 2002 (see table 3:6). The increase is observed within all occupations except “For reclassification”. A clear majority of “Professional and technical workers” and “Service workers” were females, showing that females in 1992 were active in both high and low skilled sectors. The growth in share of females between 1992 and 2002 can be traced to both sectors, indicating that the increase in females is sporadic, and does not follow any pattern of skill sensitiveness.

During the time period 1992 to 2002 there was large changes in the amount of “Professional and technical workers” of newly hired OFW (POEA, 2006c). The changes in total number of migrants within this occupation and the changes in the share of females shows that the decrease prior 1996 in newly hired “Professional and technical workers” was more prolific on females meanwhile the recovery after 1996 was larger for females. This indicates that changes in aggregate newly hired “Professional and technical workers” have larger effects for female.

This growth in newly hired deployed female was neither occupational specific nor skill specific. Female newly hired OFW showed higher growth rates within low-skilled, high-skilled, male-dominated, female-dominated sectors.

A part of the reason to the increased share of female temporary migrants can be attributed to the Asian crises in 1997 which hit harder on new recruitments and rehires for male temporary migrants than female temporary migrants. Male migrants are more

likely to have worked in the sectors badly hit by the financial crises (production and construction) whilst female migrants worked in sectors not so affected by the crises (domestic helpers, entertainers, care takers and Office cleaners). (OECD, 2001a, p.289)

Table 3:6 Temporary migration: Newly hired: Occupation specific sex ratio

	1 992	2 002
Professional*	75%	85%
Managerial Workers	16%	34%
Clerical Workers	28%	63%
Sales Workers	38%	48%
Service Workers	82%	90%
Agricultural Workers	1%	3%
Production Workers	5%	29%
For reclassification	15%	5%
Total	50%	69%

*Source: POEA, 2006c, * = “Professional and technical workers”, percentages female of total number of temporary migrants.*

3.4.3 Occupation

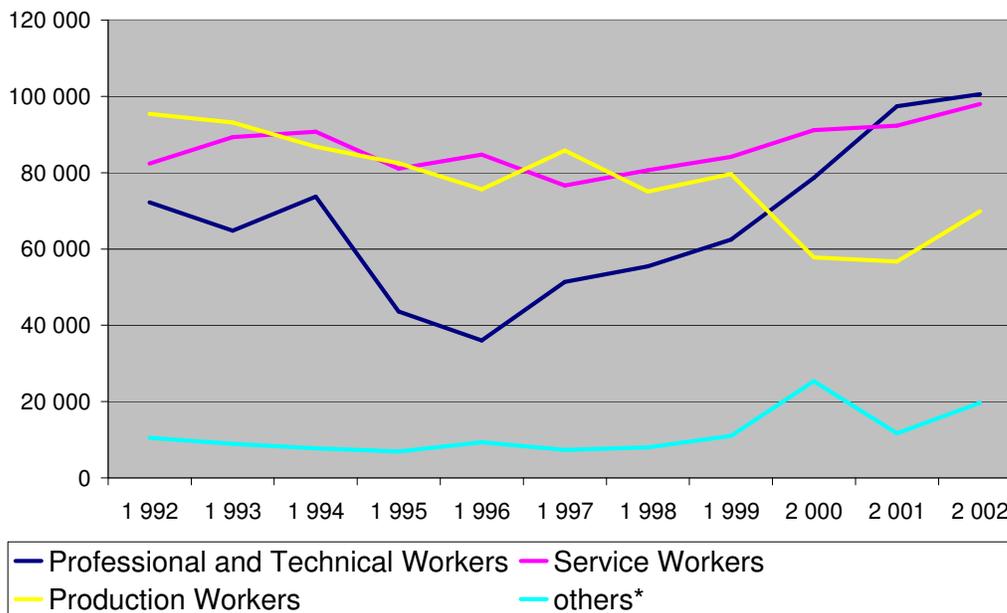
The occupation of temporary migrants should be high skilled as the host country prefer to import high skilled labor. There is a problem in measuring the occupation of temporary migrants since the data cover newly hired temporary migrants and not the whole stock of temporary migrants. This means that if there are differences in the length of stay depending on the occupation, the data will mislead to a wrongful conclusion on the total temporary migrations’ occupations. Rehiring patterns may differ between occupations. The data will tell whether a certain occupation is more likely to get recruited or not. This gives understanding to which occupations may expand or contract in their total amount of workers.

The most common occupation for temporary migrants in 1992 was production workers which declined and became third largest occupation in 2002 (see figure 3:7). Service workers which were the second largest occupation in 1992 slowly increased until 2002 when it was counted as the second largest occupation. The high skilled occupation “Professional and Technical workers” was the third largest occupation in 1992 and after a big dip in 1996 it recovered and became the most common occupation in 2002.

“Production workers” and “Service workers” can be assumed to be low-skilled and both showed in numbers less fluctuation in recruited employees relatively to Professional and Technical Workers. This indicates that labor market for high-skilled deployed act faster to changes in demand.

Temporary migration is dominated by Professional and Technical workers, Production workers and Service workers. There have not been any large changes in the composition of temporary migration’s occupation between 1992 and 2002 except for that Professional and Technical workers increased (see figure 3:7).

Figure 3:7 Temporary migration 1992-2002: Newly hired: Occupation



Source: POEA, 2006c, * = “Managerial Workers”, “Clerical Workers”, “Sales Workers”, “Agricultural Workers”, “For reclassification”.

3.5 Migration motives

Migration has become a strong institutional attribute in the Filipino culture, especially after the state by laws simplified the life of being Overseas Filipinos Workers (OFW). In the 1980s institutions like the CFO and the POEA were formed to promote and simplify the process of Filipinos going overseas for work. In the 1990s the government changed legislations in favor of dual citizenship, legal support overseas and other legal adjustments which encourage Filipinos to work overseas (Asis, 2006).

There are observed similarities and differences between permanent and temporary migration patterns which show on pull and push variables may affect migration decision differently depending on if it is a decision to conduct permanent or temporary migration.

Geographical proximity and colonial ties are two variables affecting international migration and for the Philippines it is easy to discern two different migration patterns. Permanent migration goes most likely to the USA, Canada, Japan and Australia (see figure 3:1-3:2). Of the four top destination countries for permanent migration, Japan is the only country in regional area of Asia (geographical proximity to the Philippines). Geographical proximity does not seem to have large impact on permanent migration although colonial ties may explain the large flow of international migration going to the USA.

The relatively small share of temporary migration to the Americas and Europe compared with Asia and the Middle East, shows that geographical proximity may be of importance for the temporary migrants' decision to go overseas.

3.5.1 Push-factors

The most dominant reason for international migration is the possibility to earn higher incomes (ADB, 2004a, p.63). As a developing country with low economic growth and high population growth, the Philippines have problems satisfying the higher demand for employment with new jobs. This put pressure on the citizens to find work opportunities abroad. The negative economic environment in the Philippines works to give both

employed and unemployed Filipinos personal incentives for working abroad and to uplift their family from poverty by working overseas. The Philippines also have had periods of time with unstable political environment working to put pressure on migration (ADB, 2004a, p.63).

Surveys in the Philippines show that high and increasing awareness of international migration is a positive instrument for changing the life for the better, even though there remains a risk of migration. One out of five adult Filipinos had a desire to migrate in 2002 whereas in 2005, 26 to 33 percent respondents would migrate and live abroad if they could. Even among children there exist a will to migrate. A survey in 2003 showed that 47 percent of children between 10 to 12 years old wish to work abroad someday (Asis, 2006).

The observed differences in migration patterns for permanent and temporary migrants can be explained by the want to live in a society with a higher degree of economic success. The top four destinations of permanent migration in 2002 (the USA, Canada, Japan and Australia) had much higher GDP than the four top destinations of temporary migration in 2002 (Saudi Arabia, Hong Kong, Japan, United Arab Emirates). The permanent migration is relatively more than temporary migration directed to countries with higher economic development.

A country with high economic development gives more possibilities to reach higher earnings in a life time perspective. The motives behind temporary migration have a shorter time planning and therefore it should be of less importance if the host country has reached a high economic development. The income perspective support has been shown empirically to be a valid motive for migration (De Jong et al, 1983, p.478). De Jong et al further found that family and friend network and exposure to the new environment also were significant determinants for taking the decision to migrate.

Even though the temporary migrants have short time planning, the motives of earnings behind Filipino migration are still in a life time perspective (Yang, 2005, p.21). Only small shares of temporary migrants that have other family incomes work with the motive of a targeted earning level. So there is a great possibility that the migrants will stay abroad and work as long as they can, even though they reach a certain level of earnings during their stay abroad.

3.5.2 Pull-factors

The network of family and friends in the new country may work as a pull-factor for migration since it makes the migrant more likely to migrate to somewhere near its relatives. The large share of “Housewives” doing permanent migration, see section 3.3.3, require connections with an individual who has already migrated in order to become married or to have her husband in the foreign country. The early settlement of Filipinos in the USA laid the ground for a steady flow of migrants going to the USA. Since 1981 there has only been one country (Japan) which showed outstanding increase in its share of permanent migrants (figure 3:2). This indicates that it is hard to break established migration patterns. Network connections in the foreign country are of importance for both permanent and temporary migration.

3.6 General conclusions of migration in the Philippines

The two main findings for permanent migration from studying the destination countries are first the migration patterns of permanent migration becomes more diversified 1981-2003 and second Japan largely increase their share of the permanent migration and becomes third largest destination country since 1990s. The migration pattern of the temporary migration becomes also more diversified. The main destination countries of permanent and temporary migration are largely different.

When comparing the ratios between men and female in the composition of permanent and temporary migrants, there is an increasing share of females among permanent and temporary migrants. About 60 percent of annual permanent migrants were female 1981-2003 meanwhile the share of female temporary migrants was 50 percent in 1992 and grew to about 70 percent in 2002. In both classifications we witness a larger share of female migration. This shows that as the migration patterns in the destination country become more diversified the share of female migrants increases. Due to large increases in female temporary migrants the share of men family related migrants can increase.

In post-1985, family ties and educational level plays a major role for permanent migration. The colonial ties between the USA and the Philippines opened up for international migration a long time ago and those who naturalized citizenship in the USA have been a channel for migration. Family members to former migrants usually have a preference for permanent visas. In 2000 there was 1.2 million U.S. citizens born Filipinos and of these 68 percent had obtained a College Degree or Higher, meanwhile less than seven percent had only obtained Primary Education (Lucas, 2001, p.11).

Chapter 4 Patterns and motives for remittances in the Philippines

This chapter is structured as follows and deals specifically with the Philippines: Section 4.1 explains how remittances are measured; Section 4.2 deals with aggregate and country specific remittances; Section 4.3 observes the profile of a remitter; Section 4.4 examines the effects of remittances.

4.1 Classification of remittances

Remittances are measured differently around the world and in order to be able to compare remittances between countries, the countries need to collect and report the same kind of data. The IMF has come up with a recommendation for how countries should collect and report remittances. BSP follow IMF's manual in recording remittances which mean that "remittances include: (i) workers remittances or transfers in cash or in kind from migrants to resident households in the country of origin; (ii) compensation to employees or the wages, salaries and other remuneration, in cash or in kind, paid to individuals who work in a country other than where they legally reside; (iii) migrant transfers which refer to capital transfers of financial assets made by migrants as they move from one country to another and stay for more than one year". (ADB, 2004a, p.3)

This way of recording remittances include all in cash or in kind earnings permanent and temporary migrants transfer to their origin country. The size of recorded remittances is affected by the channels the remittances uses.

The Philippines official statistic on Workers' remittances is reported by BSP (Bangko Sentral ng Pilipinas, Philippines' central bank) on their home page. Their data on remittances is not reliable of the actual country source of remittances because many remittance centers use US intermediates for transmitting funds internationally which makes the USA's share of total remittances seem larger than it is (BSP, 2006a).

4.1.1 Remittances channels

The transfer of remittances can differently affect the economy depending on which channels it uses. If remittances are transferred through informal channels it is harder for the state to make correct measurements. With incorrect data the decisions behind economic policies may seem right but be wrong and thereby result in a lower economic growth. Formal channels are more easily monitored by the state and thereby more preferred channels by the state. By knowledge on the channels it is possible to lower the transaction costs and increase the security in the most common remittances channels.

Remittances channels can be divided into two separate categories: formal and informal channels. The formal channels are banks or non-bank money transfer agencies which are registered or regulated by authorities to engage in money transfers and informal channels are unregulated transfers (ADB, 2004, p.4). Regulated organizations report frequently to the central bank about the size of remittances sent through their organization and finds no incitement for reporting wrongfully. The lack of forcing power for unregulated organizations and people to state the true size of remittances sent make it harder to estimate the size of remittances sent through informal channels.

Even though remittances through formal channels are reported frequently it is hard to measure the size of remittances. The diversity of methods in use to transfer capital and the channels multi functional makes it hard to observe how much of the amount sent are remittances and how much is not. Banks and credit unions offer electronic transfers, money orders and drafts which are the most observed formal channels (Martinez, 2005, p.9-10). When an ATM dual card is used for remitting, it is impossible to observe, if the money is used by a foreign tourist or remittance. Money transmitters (for example Western Union) have a large part of the market share.

The informal channels' are advantageous as it is anonymous, swift and there is a low transaction cost compared with formal channels. Negative consequences of informal channels include the possibility of use for money laundry since no governments regulate the transactions but there is at the same time no proof saying that criminal organizations prefer these channels. Informal channels are more likely to be present where the government has strict and restricted exchange policy (Freund and Spatafora, 2005, p.4-5).

Cash carried home is an example of a transfer through an unregulated channel where incentives for reporting and the reporting mechanism are weak. People fill in declaration cards upon arrival declaring if and, if so, how much cash they carry with them. If this amount is rather high, the custom agent will most likely ask questions about this transfer. This system is partly built on peoples trust since the custom agent can not stop and search everyone, so individuals may find it in their interest to not truly report the size of remittances carried home. Those who illegally work abroad prefer to avoid questions from custom agents about their carried cash.

Market observations on the global level estimate the size of informal transactions range from 35 to 250 percent of the recorded size (Freund and Spatafora, 2005, p.2) and in the case of the Philippines; studies have divulged a wide variety of estimations but agree to a decrease in usage of informal channels for transfers. The share of remittances through informal channels in the Philippines decreased from being 60 percent in 1981 to 55 percent in 1982. This trend continued, and after 1990 formal channels were the most common used channels and 42 percent of total remittances was estimated in 1998 to be through informal channels (Puri and Ritzema, 1999). Buencamino and Gorbunov (2002, p.8) conclude that when the Philippines, in 1995, abolished exchange controls and unified the exchange rate, the remittance through formal channels quadrupled.

4.1.2 Remittances channels in the Philippines

Annual surveys on Overseas Filipinos undertaken National Statistics Office (NSO) of the Philippines include questions about what channels they choose when remitting. To find a difference over time in remitting behavior the data is divided into two time periods. The annual data within the time period are then used for calculating an average value over the period which then is compared with the average value over the other period in order to find a long run change in remitting behavior. Data between 1992 and 2000 are available and 1996/1997 is chosen as a breaking point for calculation. Large economic impacts such as the Asian crisis in 1997 bring effects that affect remitting behavior and may be one of many contributors to changes in long run remitting behavior.

Remittances through banks - a highly formal channel, made an increase with three percentage points to 43 percent of total remittances (see Table 4:1). At the same time there was increased usage of the remittances channel, “carried home by migrant”, with five percentage points to 39 percent. Remittances carried home by the migrant include large share of informal remittances due to the problem of regulating the flow of remittances. All the smaller channels lost market share in usage rate and this show that the market for remittances channels became more specialized and homogeneous during the time of study. By higher rate “Bank” and “carried home by migrant” compared with “Agency/Local Office”, “Door-to-door” and “Friends/Co-workers” make the transaction more personalized and less dependent on other people and external firms. A large share of total remittances is still through informal channels being carried home by migrants. This highlights that national surveys and private enforcement on reporting are still needed in order to sum up the total amount of remittances sent.

Table 4:1 the Philippines: Channel of transmission (percentage), 1992-2000

<i>Channel</i>	<i>1992-1996</i>	<i>1997-2000</i>
Bank	40	43
Agency/Local office	3	2
Friends/Co-worker	4	1
Door-to-door	17	15
Others (specify)	2	1
Brought home by migrant	34	39

Source: Freund and Spatafora, 2005, p.41 and my own calculations, rounding up single units between 1997 and 2000 make the total percentage not equal to 100.

4.2 Aggregate remittances

Remittances are sent from individuals traveling to other countries. Aggregate figures on remittances are of interest for understanding where most of the remittances come from. We expect remittances to be larger where there are more migrants and where the migrants earn more income.

Total remittances to the Philippines in 2005 came to 10.7 billion USD and since 1994 annually had grown 13 percentiles on average (see figure 4:2). This large flow of capital was 20 percent of import and 10 percent of GDP for the Philippines in 2005 and thereby of large importance for the economy (The World Bank, 2006b, my own calculations). The remittances are divided into remittances earned in specific countries and earned by seamen because a large share of the total remittances is built up on remittances from seamen. Country specific remittances is further on referred to land based remittances as to specify that the remittances excludes seamen's earnings.

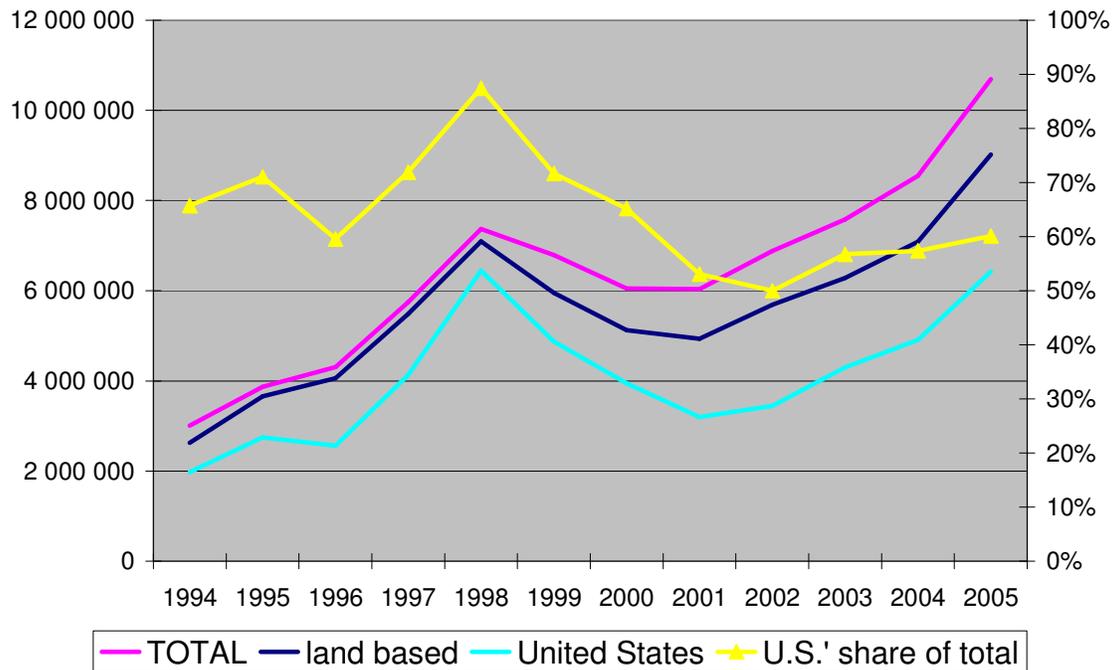
In the 1990s as in the 2000s, total remittances were increasing and the only period with negative or stagnated growth of remittances was 1999 to 2001 (BSP, 2006a, 2006b). Of total remittances, the share of sea based remittances came to about 13 percent in 1994 which drastically decreased in 1995 and stayed low until 1999 when it jumped back to its pre-1995 level. It is clear that sea based remittances did not decrease as severely as land based remittances in the period of decreasing remittances and stayed for the rest of the studied period at its high rate, of about 15 percent. This indicates that sea based remittances have a more stable growth rate during the time of study. Land based remittances decreased more after 1998 in the general drop and stayed with a lower share even when total remittances recovered after 2001. Land based remittances seem to be more sensitive and react more quickly to negative changes than positive changes in total remittances. The reason for this can be that land based workers are more diverse than sea based workers in their professions and therefore more diverse contracts among land based in type of work and length of duration.

The largest source country of remittances to the Philippines is the USA, which stands for more than half of all remittances sent (see figure 4:2). Remittances from the USA have, during the time of study, counted for about 55 to 70 percent of total remittances except for the year 1998 when it was about 90 percentages of total remittances and in 2001-2002 when it was down to about 50 percentages of total remittances. These two extreme observations may be explained by two large economic impacts on the world economy: The Asian crises in 1997 and the terrorist attack against the USA in 2001. The Asian crises lead to lower earnings from those working in affected countries which increase the percentage of remittances from less affected regions. As a reaction of the

terrorist attack on the USA in 2001 regulations were perused against international money transfers in order to prevent funding to reach terrorist organizations. This had negative effects in the size of the remittances sent, since from that point there was a need to legitimate your bank account and declare the purpose of transmitting money (The Economist, Oct 22, 2005, p82).

The period of extra low shares of remittances from the USA are in 2001-2002 and remittances from USA drastically decreased its share of total remittances after the peak in 1998; so the large decrease in 2001 may be independent from the terrorist attack against the USA in 2001.

Figure 4:2 Remittances to the Philippines: Total, land based and USA



Source: BSP, 2006a, BSP, 2006b, Left axis: Total, land based and United States, Right axis: U.S.' share of total

4.2.1 Remittances' country of origin

Most remittances are supposed to come from the countries with high economic activity and with a large share of migrants that have close relatives in the Philippines. A large share of permanent migration has gone to the USA and Canada and these countries should be important contributors to the total size of remittances sent to the Philippines. Most temporary migration have go to the Middle East and Asia and since temporary migrants are more likely to return home there should be a large share of remittances sent from these regions too.

Remittances from the USA are the largest source of remittances even though a small apportionment of temporary migration goes there. The explanation of its high share of total remittances can be that large share of total migration gone to the USA and that large part of OFW' wages goes through U.S.' banks (BSP, 2006a). The second largest source of remittances in 2005 was Saudi Arabia (see figure 4:3). Remittances from Saudi Arabia before 1997 were in small numbers. In year 1997 remittances from Saudi Arabia was at its lowest level and then after 1997 it annually increased until 2002 when it reached a top and counted for about one million USD. Since the year 2000 remittances from Saudi Arabia have been the second largest country of origin for remittances to the Philippines. One reason for the large inflow of remittances from Saudi Arabia is that most temporary migration goes to Saudi Arabia, as seen in section 3.4.1 (BSP, 2006b).

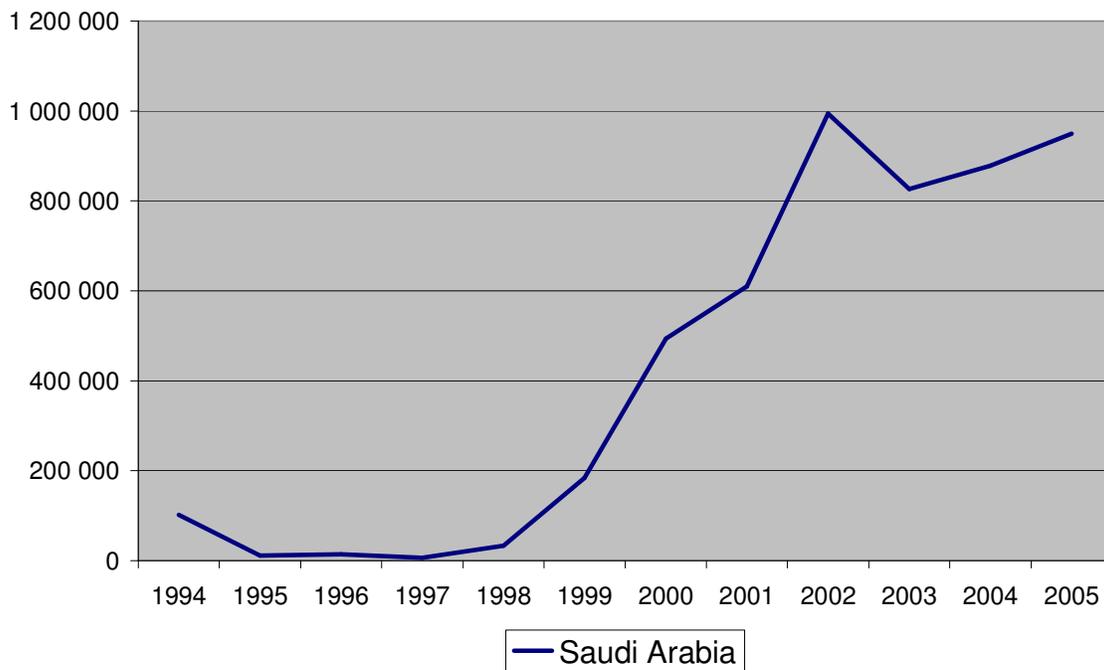
Remittances from Italy and Japan (see figure 4:4), followed the same pattern as remittances from Saudi Arabia as remittances from Saudi Arabia were not large size before 1998 but increased thereafter and in 2005 counted as the third and respectively fourth largest country of origin for remittances. Remittances from Japan drastically decreased after 2002 which is an anomaly of sorts, and remittances from the United Kingdom first increased largely in 1996 and then decreased until 1999 when it again increased and returned to a high level in 2005.

One explanation to the USA's decreased share of total remittances after 1998 may be the large increases in remittances sent from other countries, especially Saudi Arabia, Japan and Italy. Another explanation may be that countries with a large population of OFW and large share of total remittances, such as Hong Kong and Singapore, did not

show any large decrease in transmitted remittances after 1998 meanwhile remittances from the USA declined largely between 1998 and 2001. The decline after 1998 was most severe for the USA and unspecified countries (BSP, 2006a). Even though remittances from the USA increased after 2001 their relative share of total remittances stayed stable at around 50 to 60 per cent of total remittances.

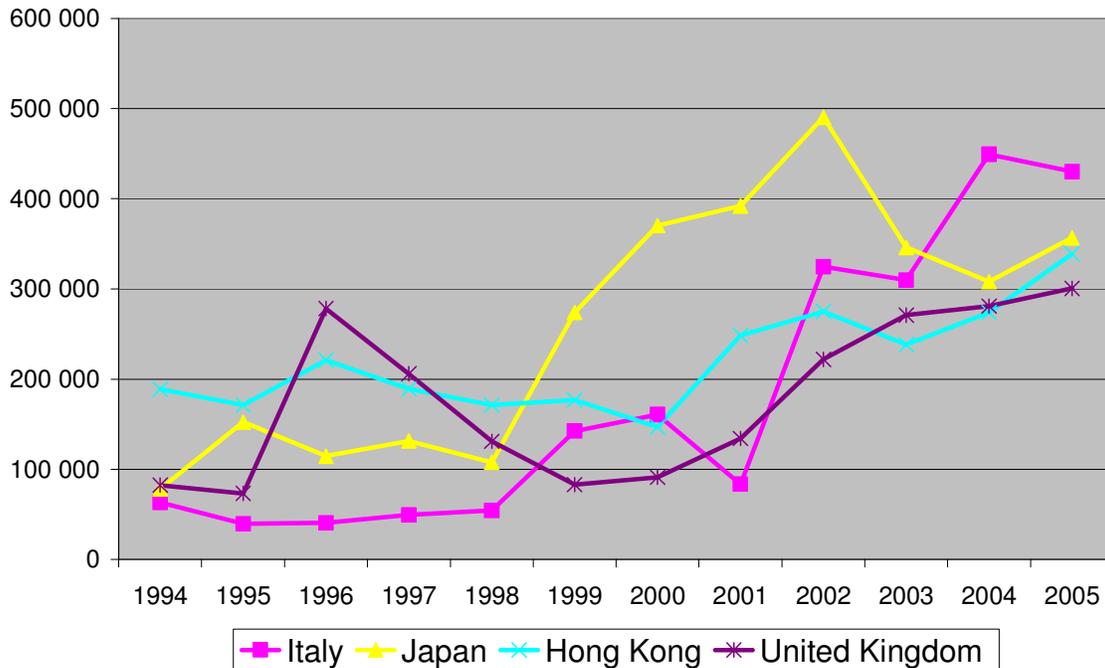
A large share of permanent migration goes to Canada and Australia although remittances from these two countries are in relatively small figures. At the same time there are a large flow of remittances from Italy and United Kingdom which does not report to be large receivers of Filipino migrants. These two findings show that there is more than the destination country that explains the large amount of remittances to the Philippines.

Figure 4:3 Remittances to the Philippines: Saudi Arabia



Source: BSP, 2006a, BSP, 2006b

Figure 4:4 Remittances to the Philippines: Italy, Japan, Hong Kong and United Kingdom



Source: BSP, 2006a, BSP, 2006b

4.3 Profile of remitter

In the last section it is found that the destination country of the migrants does not fully work to explain the size of the remittances. Countries such as the USA, Japan, Hong Kong and Saudi Arabia are examples of countries supporting the theory that countries with a large pool of migrants contribute with a large flow of remittances. Countries such as Italy and the United Kingdom which has a large flow of remittances to the Philippines but not a large immigration from the Philippines shows that there must be more variables explaining remittances than the number of migrants to a country. Theory states that the migrant with close ties to family members in the home country and with high disposable incomes in the host country are more likely to remit.

ADB (2004a, 2004b) conducted one survey in San Francisco, USA, with 434 migrants and one nationwide survey with 1.150 migrants on vacation in the Philippines, in the beginning of 2004. These surveys are clearly biased to reflect patterns in temporary

migration since a majority of respondents in both surveys were contract workers, 89 percent in Philippines' survey and 69 percent in the USA survey were contract workers and only 27 percent in the USA survey was immigrants (ADB, 2004a, p.17). The high share of contract workers in the USA survey relative to the finding that only a small fraction of temporary migration goes there show that temporary migrants are overrepresented in the USA survey.

The survey shows a clear difference in occupation for the USA's respondents and the Philippines' respondents since the majority of the USA's respondents have high-skilled (Professional and technical) occupations or are unemployed meanwhile the majority of the Philippines' respondents have low-skilled (domestic helper and unskilled workers) occupations (see table 4:5).

Even though there is a large difference in occupation in the surveys, and that U.S.' respondents remit less frequent, the average monthly remitted amount are almost the same (ADB, 2004, p.19). Remittances patterns from respondents in the survey showed that 97 percent of respondents remitted more often than every quarter of a year with about 80 percentage of respondents remitting monthly (ADB, 2004b, p.7).

A majority, 68 percent of respondents in the Philippines survey was married (ADB, 2004, p.26) which is seen by theory to have a positive effect on remitting behavior meanwhile a majority of respondents was female which is seen by theory to have a negative effect on the decision to and the amount to remit. 85 percent of Philippines' respondents were likely or very likely retire in the Philippines (ADB, 2004b, p.16) showing that temporary migrants are likely to continue to remit even after being in the host country for a long time since they plan to retire in their home country.

The total household monthly income for professionals and seafarers were higher than other occupations and both occupations were male dominated (ADB, 2004, p.20-21). This is supported by Semyonov and Gorodzeisky (2004, p.21) which found significant larger earnings for male migrants than for female migrants even though all of the migrants made higher earnings through migration. This shows that the size of remittances from a country is further explained by the composition of Filipino migrants in the country.

This study did not find statistics on the skills and gender of Filipino migrants in Italy and the United Kingdom. Thereby can this study neither support or dismiss the hypothesis that migrants to Italy and the United Kingdom are male dominated and have a high share of high skilled migrants as an explanation to the high amount of remittances from these countries.

Table 4:5 Occupation of OFW

Occupation	Philippine Survey	US
Domestic helper	25	2
Seafarer	20	2
Laborers, unskilled workers, farmers, etc.	22	7
Service workers, sales, etc.	13 (for service,	15
Office supervisors and workers	office and technical	8
Technical and skilled workers	workers)	23
Entertainers, Performers	10	1
Professionals and associate professionals	10	25
Others, retired, housewife, student, etc.	0	17
Total	100	100

Source: Asian Development Bank Consultants.

Source: ADB, 2004b, p.59

4.4 Effects of remittances

It is clear that there is a large inflow of remittances and this must have short term and long term effects on the economy. Theory points on the remittances mostly increase spending on basic consumption. In section 2.2.1 it shows that the purpose of remittances is shown through the usage of it.

For the Philippines, remittances have generated higher earnings for families with overseas workers than for families whose full incomes are from domestic earnings (Dimzon, 2005, p.99). Remittances stands for about 80 percent of the household income for receiving households in the Philippines and about 55 percent of the households have other incomes other than remittances (ADB, 2004b, p.33). For households with remittances as their main income most of it is spent on food consumption at home,

education, utilities and other households operations, personal care, communications and transportation (p.35). This shows that remittances to the Philippines include both element of insurance as for loan and altruism and since remittances stands for the largest share of the household incomes remittances is of large importance for the lives in the Philippines.

The spending behavior is quite the same for households that supplement the income with remittances. Remittances stands for most of the basic expenses and those that have other income slightly lower the share of remittances spent on basic needs but not much (ADB, 2004, p.35). As more other incomes the family has as more likely are that the remittances are spent on insurance elements.

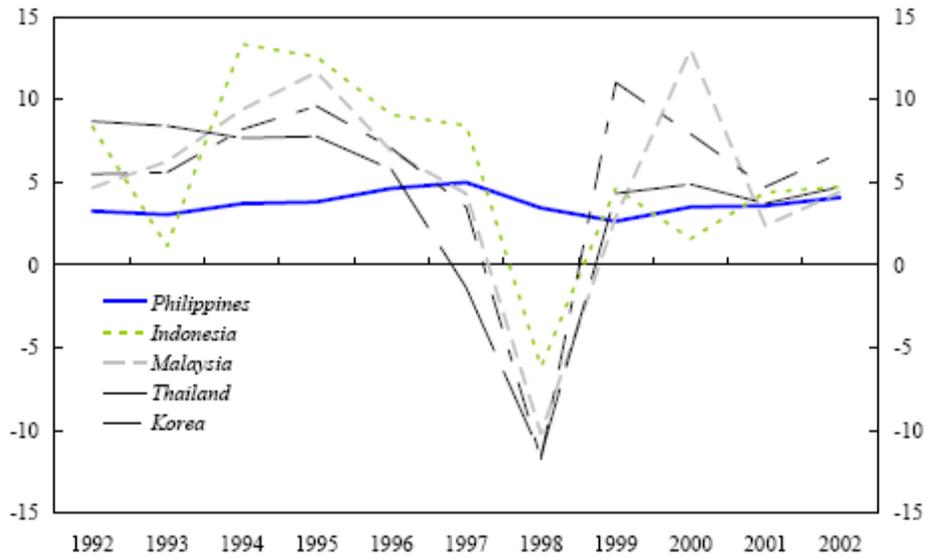
The higher earnings for remittances receiving households have contributed to a higher consumption level but research point on that remittances excluding its multiplier effect on consumption, have not contributed very much for poverty reduction (Dimzon, 2005, p.99-100). Some positive effects from remittances is that it stabilize the household economy and that it increase the income of the family which points on that poverty can be fought with remittances.

GDP volatility should be small due to the large share of remittances and the remittances should have some negative effect on the GDP although there should be some spending effects with positive effect on the GDP.

The period of high share of remittances from the USA (and also a general increase in remittances) was in 1997 when the Asian crises affected the Philippines economic performance. Burgess and Haksar (2005) investigated remittances impact on the Philippines economy during the Asian crises and showed that the Philippines avoided a significant contraction of consumption during the Asian crises (see figure 4:6). The maintained levels of consumption together with the increases of remittances during the Asian crises are explained from altruistic behavior. Worth noticing is that the correlation between short term changes in remittances income and consumption is weak (Burgess and Haksar, 2005, p.8). It is further seen through research by Boorman et al (2000) that the Philippines managed the Asian crises better than other Southeast Asian countries for two reasons: the Philippines economy lagged behind the others so their economy did not overheat until far later; IMF arrangements were already present before the crises to stabilize the macro economic situation. Remittances can dampen crises and recessions

(IMF, 2005, p.77) and the large growth of remittance in the wake of the Asian crises was the effect of the Asian crises.

Figure 4:6 real annual growth of private consumption 1992-2002



Source: Burgess and Haksar, 2005, p.7

Chapter 5 Conclusions

The purpose of this study was to explain the theories on migration and remittances and to study the migration from and remittances to the Philippines. Questions of particular interest were if the research on migration and remittances has come up with theoretical framework that can adapt to explain the Philippines situation, and how the formation of migration from and remittances to the Philippines over a historical time perspective has changed. The results of this study suggest that:

- There are many reasons why migration may occur and there is a wide range of theories attempting to explain this pattern. The theory of NELM contributes the best understanding in migration that brings an increase in remittances since this theory links migrants' economy and well-being with migrants' family in the home country. Harris-Todaro model further explain migration from individual preferences which can be extended to include remittances for allocating the personal savings. Portfolio and altruistic are the main approaches for understanding remittances, and the huge amount not investment related remittances can be understood through the theory of Family loan arrangement.
- Migration from the Philippines is divided into permanent and temporary migration. The permanent migration mostly goes to highly developed countries such as the USA and Canada and is a family related movement. The occupation of permanent migrants is mostly high-skilled except from the large share of unemployed housewives. The temporary migration mostly goes to the Middle East and Asia except the sea-based OFW. The newly hired temporary migrants were mostly low skilled in 1992 but larger share high skilled were newly hired in 2002.
- Remittances to the Philippines are mostly transferred through formal channels and remittances have steadily increased since 1994. Remittances have historically been from countries with a high share permanent migration meanwhile remittances from countries with a large share of temporary migration are clearly

increasing. Saudi Arabia is an example of a country with large share of temporary migrants and with a distinct increase of remittances since the end of the 1990s. A part of the reason can be attributed to the fact that more temporary migrants choose to send their remittances through formal channels.

- Most migrants send some kind of remittances regularly and the remittances goes mostly to families that are dependent on remittances as their main household income. Remittances in the Philippines are mostly spent on covering basic expenditures. This shows that remittances are important for keeping families away from poverty since without remittances the household income would largely decrease. Remittances contributed to keeping the consumption level high during the Asian crises and there are indications that remittances contribute to less volatile consumption behavior.
- The theory of migration and remittances points on migration and family boundary to be a key determines for remittances. There exists two paths of migration from the Philippines and largest flow of remittances comes from countries with a high share of historical migration. Countries with a growing share of temporary migrants were shown to have an increasing share of total remittances. The theory of migration and remittances work well to explain the basics behind migration and remittances in the Philippines.

5.1 Future research areas

The Philippines have a long tradition of migration and have during the time of study witnessed a huge increase of remittances. No large study was found during this research period on how remittances affect the poverty in the Philippines. There is for example a study undertaken by Nilsson (2005) at Lund's University on remittances and poverty in El Salvador that could work as a guideline for a further study on remittances and poverty in the Philippines.

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