PROMOTING REMITTANCE AS A TOOL FOR ECONOMIC DEVELOPMENT IN SOUTH AFRICA

by

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submitted in fulfilment of the partial requirements for the degree of

PHILOSOPHIAE MASTERS IN ECONOMICS

in the

DEPARTMENT OF ECONOMICS AND ECONOMETRICS

at the

UNIVERSITY OF JOHANNEBURG

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NOVEMBER 2008

ABSTRACT

Global capital inflows particularly foreign direct investment, official development assistance and portfolio flows, have over time, played a prominent role in strengthening developing economies. There is, however, a recent phenomenon in which migrant remittances have turned out to be the leading source of capital inflows to developing countries after foreign direct investment. Remittance flows have reacted largely to an increasing international migration, albeit more rapidly than the latter. It is observed nevertheless that in the case of South Africa, the impact of neither of the two phenomena on economic development is least understood. This formed the basis for this study.

The study aims to sensitise policy officials to the positive potential impacts of remittances on economic development whilst also arguing that international migration is an exogenous phenomenon that cannot be prohibited. However, it is a source of a much needed resources, provided realistic instruments are in place to examine, monitor and ensure that remittances are used appropriately. The study is empirical and is based on the literature review on the subjects of remittances and migration. The research has consistently demonstrated that remittances improve economic development. It is within this context that South Africa should, as a matter of urgency, develop an effective policy framework to influence remittances for development.

ACKNOWLEDGEMENTS

First and foremost, I would like to give thanks to my creator who has driven and motivated me to come this far. He is my strength through every step I take and every decision I take in executing my thesis.

- I would like to thank many people who have made this possible, especially my Supervisor, Dr Lekganyane-Maleka who shared with me much of her expertise and research insight and whose thoughtful advice often gave me a sense of direction during my studies.
- I also thank Professor Ronald Mears for his support and guidance, and Mr Arnold Wentzel under whose supervision I fashioned this topic.
- This work would not have been possible without the support and encouragement of my work and student colleagues, friends and family for providing a stimulating and fun environment in which to learn and grow
- Lastly, and most importantly, I wish to express gratitude to my parents, my late father Mbuyiswa and my mother Caroline Gumede. Throughout the years they have been pillars of strength; to them I dedicate this thesis.

Opinions expressed in this thesis, and conclusions arrived at, are solely my own.

Johannesburg
November 2008
Sibusiso S.E. Gumede

DECLARATION

I declare that

Promoting remittance as a tool for economic development in South Africa

is my own work, that all the sources used or quoted have been indicated and acknowledged by means of complete references, and that this research was not previously submitted by me for a degree at another University.

Sibusiso S.E. Gumede

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LIST OF ABBREVIATIONS

AA	Affirmative action
AfDB	African Development Bank
BOP	Balance of Payment
CDP	Compulsory Deferred Payments
COMESA	Common Market of East and Southern Africa
DHA	Department of Home Affairs
EAC	East African Community
ECA	East and Central Africa
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of Western African States
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Area
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
HSRC	Human Science Research Council
HTA	Home Town Associations
IADB	Inter-American Development Bank
IMF	International Monetary Fund
ISS	Institute for Security Studies
IT	Information Technology
JBC	Joint Binational/Bilateral Commission
LAC	Latin America and the Caribbean
LDC	Least/Less Developed Countries
MPL	Marginal Product of Labour
MOU	Memorandum of Understanding
MIB	Millennium India Bonds
NELM	New Economics of Labour Migration
ODA	Official Development Assistance

OFW	Philippine’s Overseas Filipino Workers
OSIM	Organisation de solidarité internationale issue de l’immigration
OECD	Organisation for Economic Cooperation and Development
REC	Regional Economic Community
RIB	Resurgent India Bond
RSA/SA	Republic of South Africa/South Africa
SADC	Southern African Community Development
SANSA	South African Network of Skills Abroad
SARB	South African Reserve Bank
SEBRAE	Brazilian Service of Support to Micro and Small Companies
SEDA	Small, Micro and Medium Enterprise Development Agency
SSA	Sub Saharan Africa
TDCA	Trade and Development Cooperation Agreement
UK	United Kingdom
UN	United Nations
UNECA	United Nations Economic Commission of Africa
US	United States of America
WTO	World Trade Organisation

CHAPTER 1

THE PROBLEM AND ITS SETTING

1.1 INTRODUCTION

Interest in migrant remittances as an instrument for economic growth is gradually gaining momentum, particularly in developing countries. There is an increasing optimism that remittances could help improve socio-economic conditions for poor and vulnerable economies. The rationale behind using remittances as a supplementary tool for development is driven by various considerations and limitations in the current macro-economic set-up, which in many countries has failed to deal with some of the most crucial socio-economic challenges. The study intends to investigate the influence of remittances on economic growth and development of the emerging economies. It is premised on an assumption that there is a positive correlation between remittances and economic growth. Hence the essence of the discussion is that remittances improve economic development.

In the past, there has commonly been great emphasis on macro-economic management, such as a practical monetary and fiscal policy, open trade regime or privatisation as the engine for economic growth. While such interventions have generally been successful for full-grown economies, they have, however, registered trivial progress than was actually anticipated for most of the growing economies. It is partly for these reasons that remittances continue to stimulate significant interest in many countries as the alternative instrument of development. In countries where remittance flows are well documented, for instance in Morocco, Mexico, India and the Philippines, they are found to have eased government's social responsibility (Sorenson: 2004 and de Haas: 2005). The awareness of remittances has further been strengthened by the World Bank annual reports (2006) and (2007) that provided detailed analyses of remittances.

These reports have successively demonstrated that remittances have become a major source of external finance for many developing nations, far outstripping aid and second only to foreign direct investment (FDI). For instance, in 2006 alone, worldwide remittances to developing countries were highest at US$221 billion. This development justifies the sudden interest from developing nations to want to explore how remittances can be utilised to develop their economies.

1.2 BACKGROUND

South Africa's acceptance back into the world in the 1990s marked the beginning of not only a new political era, but also a paradigm shift in terms of socio-economic path. During the Apartheid era South Africans were restricted from travelling freely to other countries. The democratic transition brought an end to this restraint. The Human Science Research Council (2006/07) estimates that recently there are more than a million South Africans who have emigrated to all parts of the world mainly for economic reasons.

South Africa has the highest number of nurses and other health professionals in the United Arab Emirates (UAE), Canada and the United Kingdom (Mattes & Mniki: 2005; Lowell: 2001). The country has a fairly large number of educators all over the world and a growing demand for security personnel in the Middle East, particularly in Iraq. Bennhold (2006), in what has become known as "economics of football", reports that a pool of African soccer players, including those from South Africa, pursues their soccer careers in Europe, where it is reported that they earn millions of pounds and euros per week. Regrettably, the country lacks the institutional competence to monitor the flow of these earnings and to evaluate their impact on the entire economy. Remittances have negative and positive effects on economic development, but this depends largely on the policy environments as practiced by the labour exporting countries. There is, however, a growing consensus among researchers, development economists and practitioners regarding the positive effects of remittances on developing economies (Maphosa: 2005; Cross: 2003; Gupta, Pattillo & Wagh: 2007). This view has gained ground because of the immediate impression that it has had on a number of developing economies such as South Korea, Pakistan and Mexico. According to the World Bank (2007) these countries have succeeded in minimising poverty, diseases and inequality. The Bank attributes this partly to the policy environment and efficient use of remittances. The policy environment that prevails in South Africa leaves no doubt that remittance flows may have a vast influence on the country's development.

There is an opposing notion, however, emanating from remittance growth being intertwined with issues of migration. According to this school of thought remittances encourage migration, which, in turn, exacerbates brain drain and restrains economic development (Desai, Kapur & McHale: 2002). Nevertheless, brain drain problem has in many instances been found to be compounded by a multiplicity of other factors, such as government's lack of interest in the subject, poor policy environment and inadequate financial infrastructure (Pearce, Stanton & Wimaladharma: 2004). Remittances have important implications not only for employment growth and poverty reduction, but also for countering the brain exit. These challenges continue to impact negatively on South Africa. Other developing nations like Mexico, India and Malaysia to mention but a few, have registered considerable development in terms of researching, putting mechanisms in place and partnered with the World Bank in developing a reliable, statistical framework for monitoring remittances, areas in which South Africa is clearly lagging behind.

1.3 STATEMENT OF THE PROBLEM

In other countries it has been established that remittances play a pivotal role in improving economic conditions, but no such relationship has been established within the context of South Africa. It is thus practically impossible to determine what role remittances are playing or to what extent have they improved the country's development. Due to a lack of information it is again not clear whether recent interventions by government, namely restricting health professionals in particular from working abroad, have borne any fruits or intercepted emigration and this provides a basis for more research.

South Africa has arguable responded passively to a growing international interest in remittances. This is evident by the absence of a policy framework either on migration as a precondition for remittances, or lack of attempts aimed at improving data collection. It is even more disturbing in view of the fact that the country has become a net exporter of labour. The absence of such information renders some of the inferences, such as the country's rate of brain drain, suspect. The goal of the study is not only to limit the research on remittances as a source of economic emancipation, but also to examine other concepts that frequently surface when discussing remittances, namely migration and brain drain. This study also seeks to look at how the policy environment at home and abroad directly or indirectly impacts on the flow of remittances. As a result of the interdependency between remittances and migration the study will probe to see under what conditions migration would be regarded as a preliminary condition or used to anticipate remittances.

1.4 AIMS AND OBJECTIVES OF THE STUDY

The objective of this study is to analyse the conditions under which remittances may be promoted and, mainly, to sensitise policy authorities with respect to the effects that remittances have on economic development. The study aims to explore the policy relevance on remittances through drawing on literature. The essence of the discussion focuses on the overall impact, positive or negative, that remittances have on economic development. If the impact is positive, the study looks at the measures that government may implement in order to maximise its effects on the economy. If the impact is negative, the study looks at measures to alleviate the negative impact. The research basically undertakes to bring to light certain basic views that are often overlooked or overstated when discussions on remittances emerge. It seeks to present the importance of remittances in addressing socio-economic development of poor nations, particularly in alleviating poverty.

The aim of this research is to provide policy officials with a new perspective on the issue of migration and remittances as opposed to a generalised view that the two phenomena have detrimental effects on development. One of the highly controversial issues currently in South Africa is the migration of skilled labour. In order to deal with this challenge, considering that migration precedes remittances, a broad understanding of the subject is necessary in order to change these deficiencies into benefits. The study will determine possible measures that government may adopt in preventing “negative migration” through stimulating the impact of remittances on the economy. Remittances are a new force of development. If, as is now generally acknowledged, migration is an international phenomenon that governments can do little to prevent, then governments should formulate strategies to use migration to their own advantage with remittances being the likely benefit. Governments, including that of South Africa, have a growing obligation to proactively harness remittance and migration policies to other macro-economic policy goals.

Such measures require that a country begins to develop a systematically defined strategy for development – one that looks beyond just conventional analysis. The harmonisation of economic policies that build links between remittances and migration as well as other policies aimed at mobilising financial flows should be investigated. This is the opportune time for government to become a far more active participant in this matter.

1.5 RESEARCH DESIGN AND METHODOLOGY

This section attempts to provide a general outline of the research design and the type of methodology used. The research question that the study endeavours to answer is whether "South Africa should encourage remittances as a tool for economic development". A comprehensive theoretical literature review was undertaken. The research involves collation and synthesis of already existing information. Hypothetically, the study suggests that remittances improve economic development. Therefore, an extensive literature review will be conducted to demonstrate under what conditions this is possible. Literature sources will comprise but not be limited to academic journals, published and unpublished books and articles, journals and internet.

1.6 OVERVIEW OF THE STUDY

The dissertation is organised as follows: Chapter 2 provides a literature review. It provides a basic description of the concepts used in the section, such as remittances and migration. The chapter systematically presents a detailed overview of remittances through responding to the two most important questions, namely why people migrate and why they remit. The chapter establishes a theoretical background that forms the foundation for this research. In view of the fact that no theory on remittances exists the study analyses remittance-related theories of migration simply because of their relevance to remittances.

In Chapter 3 the developmental impacts of remittances are discussed. There are essentially two main arguments against promoting remittances, that is migration and brain drain. What is steadily emerging, however, is that both phenomena are little understood in the context of South Africa. This section demonstrates just how a remittance policy is indispensable for developing economies, especially those that have a sizeable migration like South Africa. It is argued that developing countries suffer from a skills exodus leading to underdevelopment, largely because of the countries' reluctance to embrace migration and accept it as an opportunity rather than a threat. This section concludes by suggesting that remittances are currently the only potential mechanism available to moderate the negative effects associated with migration and brain drain.

In Chapter 4 remittance trends are analysed. Migration as a predecessor to remittances is also analysed. Based on these trends the study seeks to project the likely future developments in order to guide policy formulation. For instance, looking at the ageing population in industrialised countries and climate changes, the chapter offers an indication of how these developments are likely to affect the distribution of labour in developing countries, which, in turn, will stimulate remittances.

In Chapter 5 the aim is to analyse some of the best policy practices by the labour-exporting countries such as Morocco, India, Mexico and Malaysia. Developmental impacts of remittances mainly depend on the internal policies of the labour-exporting country. The role of the diasporas, strengthening of the financial sector and data collection are, for instance, some of the strategies these countries have used in mobilising remittances. In these above-mentioned countries the flows are well documented and their impacts on economic development are well known. Using these countries as an experiment would help South Africa to identify threats, challenges and opportunities timeously, and to take well informed decisions looking forward.

In the last part of this research, Chapter 6, a detailed summary of all the preceding five chapters is given. The conclusions are drawn and recommendations are put forward for the consideration of policy officials.

CHAPTER 2

A LITERATURE OVERVIEW OF REMITTANCE-RELATED THEORIES

2.1 INTRODUCTION

The objective of this chapter is to provide a basic theoretical background on remittances. Despite increasing literature on remittance flows there is, nevertheless, no theory of remittances. There are just common development theories that discuss some aspects pertaining to remittances, but which do not necessarily predict the phenomenon's conduct. For example, Chami, Fullenkamp & Jahjah (2003) refer lightly to what is termed "informal theory" of remittances as a form of flow that behaves more like other capital flows. However, they argue that this does not necessarily mean that remittances have the same ability and tendency to follow a pattern similar to capital. This section looks at migration theories that have built a credible foundation for analysing remittance behaviour.

This part attempts to answer two fundamental questions on what motivates people to migrate and what motivates them to remit? Remittance determinants have been examined thoroughly in literature. According to de Rezende Rocha and Elbadawi (1992) literature on remittance determinants tends to be premised on two categories. The first category is macro-economic determinants that make assumptions on the rationale behind migration. These are more economic and institution-related and are best explained by neo-classical theory. The second category is micro-economic and it focuses on the socio-demographic characteristics underlying motives for remitting and is best explained by the New Economics of Labour Migration (NELM). These two schools of thought are further analysed below.

Given the role of migration in inspiring remittances, the study does not in any way argue for the promotion of migration in an effort to stimulate remittances. There is, of course, an increasing tendency from labour-sending countries to support migration mainly to earn foreign currency. The philosophical foundation of this research is not to persuade South Africa to follow suit. However, it serves as a reminder that international migration is an exogenous phenomenon that the country has no control over. Migration can however be used, particularly through remittances, to solve some of the short and medium-term challenges such as poverty, inequality and improving the level of education as found in countries with active remittance frameworks. The chapter begins by defining key words, namely remittances and migration. This is followed by an assessment of the two theories that determine remittances, neo-classical theory of migration and NELM, as well as a synthesis of the two theories.

2.2 CLARIFICATION OF KEY CONCEPTS

2.2.1 Remittances

Geographically there are two types of remittances: domestic or internal remittances that occur as a result of rural-urban migration, and international remittances, which are wages earned abroad. Countries apply different definitions to remittances. The most accepted definition in the literature describes migrant remittances as cross-border transfers by migrants, compensation of employment or worker's remittances (International Monetary Fund: 2006). Migrant transfer refers to the "net worth" of migrants who move between the countries. Compensation of employees comprise of salaries, wages and other benefits in the form of cash or in-kind remuneration earned by migrants abroad, while worker's remittance refers to current transfers made by international migrants (Giuliano & Ruiz-Arranz: 2005; Mishra: 2006; Taylor: 1999; World Bank: 2006). This definition is similar to that of the International Monetary Fund's Balance of Payment (BOP) description of total remittances as a sum of the three items mentioned above.

Due to substantial growth in the global financial flows, and particularly remittances, various efforts were made by the United Nations' Statistical Commission in collaboration with other multilateral agencies, such as IMF and Organisation for Economic Cooperation and Development (OECD), to develop a credible statistical framework for monitoring remittances. These efforts include new measures to collect and harmonise the calculation of the financial flows. For instance, the International Monetary Fund (2006) recommended that on the BOP, the item "worker remittances" should be substituted with "personal transfer", new item "personal remittances" be introduced as well as the aggregate portion called "total remittances". The focus of the study is on monetary remittances as opposed to social remittances, in-kind remittances or any other form of remittances as found in the literature (Schrooten: 2005; Solimano: 2003; Nunes: 2006). The distinction between types of remittances is crucial for this study because the analysis is more economically inclined. In other words, it is oriented towards investigating monetary flows as compared to remittances in the form of goods or gifts.

2.2.2 Migration

International migration is defined as a systematic movement of a group of people from one area to another, or from one country to another. Tanner (2005) defines migration as the international migrants residing in a country of which they are not natives. Due to globalisation international migration rapidly became an economic change agent in the recent history. There are many reasons why people migrate from one country to another. Razin & Sadka, (1992) mention a number of elements, such as political, social, religious and ethnic elements, as having been responsible for migration. Amin & Mattoo (2006) describe those elements as push and pull factors. Push factors are quite common in Africa where ethnic wars, low salaries and poor employment conditions are a norm. On the other hand, an attractive wage offered by developed countries plays a significant role in attracting the best skilled people from developing countries, and this is an example of a pull factor (Galvez-Tan, Icamina, Javier & Lorenzo: 2007). For the purpose of this study, international migration is further narrowed down to refer specifically to international movement of labour for economic reasons. The emphasis is on the economic aspects of migration, and therefore asylum seekers are not regarded as economic migrants despite the fact that, in many instances, they do participate as economic agents in the host countries (Bougha-Hagbe: 2004; Gubert: 2005).

2.3 THEORETICAL DETERMINANTS OF REMITTANCES

There are two categories of theoretical determinants of remittances, which are macro-economic and micro-economic. The first category refers to a combination of economic activity, such as stock of people abroad, wage rate and exchange rate differences (Pearce et al: 2004). International migration falls in this category and is regarded as the main determinant of remittances. Most findings suggest that the total remittances received by each country depend on the stock of migrants abroad. For instance, Siegel (2007) postulates that the amount of remittances depends on the number of migrants abroad. De Rezende Rocha & Elbadawi (1992) concur with this notion, considering that migration precedes remittances. This is the underlying principle on which the argument is based that South Africa should develop and streamline a remittance framework.

The second category of the literature refers to potential socio-demographics, sometimes referred to as micro-economic determinants of remittances. They include, but not limited to family size or characteristics, years of schooling and marital status. Micro-economic determinants propose that workers remit for different reasons, ranging from family responsibilities back home to what is commonly referred to as altruism or unselfishness in the literature circles, self-interest, and co-insurance to exchange rate disparities (Hagen-Zanker & Siegel: 2007). A considerable section of the literature research has only recently acknowledged the role of family in remitting. The great proponents of this theory of family aspects are Lucas and Stark (1985) as well as recently Mora and Taylor (2006). The following two types of migration theories, neo-classical theory of migration and NELM, will be analysed below, and a theoretical synthesis will be done.

2.3.1 Neo-classical theory of migration

Conventional approaches to explaining migration decisions are said to be based on neo-classical economics. This theory is traced back to what is generally regarded today as the first modern school of economic thought, which is classical economics. Razin and Sadka (1992) indicate that in a classical economic set-up, factors of production will move, when not domestically or otherwise constrained, from environments where its marginal product of labour (MPL) is less to locations where the MPL is highest, MPL being wages or salaries.

According to a neo-classical approach to migration, households act rationally by taking advantage of benefits arising out of economic differentials between and among states. It essentially illustrates that wages are paid on the basis of the MPL. Such a development gives rise to remittances. For instance, Cornelius and Rosenblum (2004) further advise that when the returns of labour are greatest in foreign markets, such that the anticipated increase in earnings exceeds migrations costs, migration becomes attractive. This is supported by a general consensus in literature that these are macro-economic factors that play a crucial role in causing migration, which ultimately increases the stream of remittances (Bolay & Guerrero: 2005; Massey: 2003; Ha, Lee, Myers & Shin: 2005). To further demonstrate the circumstances under which this is possible, wage, exchange rate and interest differentials are examined as a case in point.

Firstly, neo-classical theory predicts that real wage gaps between countries give rise to two flows, first migration and later remittances. Ordinarily, the theory suggests that migration flows from low-wage and labour-abundant countries to high-wage and labour-scarce countries, while remittances flow from high-wage and labour-scarce countries to low-wage and labour-abundant countries. The Inter-American Development Bank (2004) supports this argument. In its annual analysis of remittance flows towards the Latin American region the bank sums up this equation as people moving “North” by the millions and money moving “South” by the billions. Schiopu and Siegfried (2006) find that positive correlation between workers’ real earnings and the stock of migrants in the host country does explain remittance flows.

Secondly, there are mixed opinions regarding the influence of the exchange rate on remittances. It is generally anticipated that exchange rate differentials on remittances would have impacts similar to wage rate differentials. However, this seems not to be the case. For example, Kapur (2003) contends that a country that experiences macro-economic shock, that is positive economic shock, would probable receive a large amount in remittances. This could be resulting from a lower or devalued exchange rate of the host country leading to intensity in remittances. On the other hand, the strength and weakness of the currencies of the developed and developing countries have, on their own, contributed to some migrants moving overseas to do jobs that are of lesser importance. For instance, Hagen-Zanker and Siegel (2007) argue that skilled workers earn less, after adjustment for purchasing power parity, from developed countries than in developing countries. This development indicates the willingness on the parts of migrants to use exchange rate differentials as a tool to equalise or even maximise their earnings abroad. This clearly leads to increased remittances.

Thirdly, with regards to interest differentials, de Rezende Rocha and Elbadawi (1992) find that interest between home and host country does have a role to play towards explaining remittance behaviour. For instance, Buch and Kuckulenz (2004) use India to show that remittances in the form of repatriated deposits grew faster in response to interest rate differentials as a result of the decline in international interest rates. On the other hand, Aydas, Neyapti and Metin-Ozcan

(2005) find remittances to be related to interest rates in the host countries but find no evidence of this in the sending countries. Whereas Schiopu and Siegfried (2006) contend that there is inconclusive evidence that interest differentials have major implications for remittances when compared to portfolio flows. Ahmed, Arezki and Funke (2005) underline this line of debate by asserting that empirical studies suggest that interest differentials would only lead to portfolio flows which are largely unstable and erratic. In all cases, however, it is apparent that the domestic policy environment has a critical role to play in influencing the level of remittances.

2.3.2 New economics of labour migration (NELM) theory

This theory focuses on what Aydas et al (2005) call socio-demographic determinants. It attempts to answer the question of why people remit. Ratha and Shaw (2007) find that factors determining the intensity of remittances could range from gender, year since worker has migrated and years of education to occupational levels. Aydas et al (2005) further point out that such socio-demographics are closely associated with the incentive to remit.

Various theories have been put forward in an effort to analyse what can genuinely be interpreted as the motivating factors behind remittances. But in what many authors regard as a groundbreaking work by Lucas and Stark (1985), an analysis of remittances was successfully embedded within the framework of NELM. This theory argues, among other things, that the money earned by migrants abroad may be sent home less or more frequently depending on the individual household circumstances and this is not determined by the number of migrants abroad. According to Lucas (2003) strong remittance determinants in micro-economic or household context are pure unselfish concern for the welfare of others, pure self-interest and risk diversification or insurance.

For the purposes of this study the focus will be limited to the three micro-economic determinants of remittances within the household or family context, that is insurance, unselfishness and self-interest. In a number of studies these determinants were proven to be key influencing elements (Aydas et al: 2002; Gubert: 2005; Kapur: 2003; Schiopu & Siegfried: 2006; Docquier & Rapoport: 2005).

Considering unselfish motive as the basis for analysis, it is natural to presuppose that remitting is a result of a conscious decision by the migrant and is influenced by knowledge of the conditions back home which often propel people to migrate and therefore remit. Mora and Taylor (2006), for instance, state that remitting results from the migrant's concerns about possible adverse economic shocks and poverty suffered by family members. Docquier and Rapoport (2006) further refer to this as a utility function in which the migrant cares about the consumption and well-being of the other household members. Thus remittances are sent to benefit the family members in the country of origin purely out of unselfishness. A remittance based on altruistic motives is expected to increase with the migrant's earnings from the host country, thus expanding the intensity of remittances.

Traditionally, family relationships are anticipated to play a significant role and act as a primary reason for remitting. Campbell, Crush, de Vletter, Green, Pendleton, Simelane and Tevera (2006) suggest that South African diaspora are likely to be remitting considerable amounts of money back home, but their remittance behaviour is currently not known. Such determinants of remitting, though explored under NELM below, will certainly remain speculative and sketchy as little research has been done in this area in South Africa.

The second determinant that literature points to is associated with market failure. Market ineffectiveness creates an incentive for international migration, leading to large inflows of remittances. The overseas move assumed by the NELM is considered to be a household decision embarked upon to reduce risks by diversifying family income and partly to unlock capital constraints for investment in production and other fruitful economic activities (Massey: 2003). Taylor (1999) states that migration decisions are not taken individually, but rather as part of the family's grand plan to raise income and insure against unfavourable conditions. By sending a family member overseas on a temporary basis, a family can accumulate wealth in the shortest possible time. International migration is thus regarded as an insurance strategy resulting from the potential market failures at home.

The third important motive recognised in the literature, which also correlates with the amount of remittances is self or personal interest. Remittances arising from the self-interest motive can take various forms. Schiopu and Siegfried (2006), for example, focus on the aspects of inheritance, loan repayment and exchange motive. Migrants send remittances with an ambition to inherit. A migrant is considered a rational individual preparing for his/her future outside the host country. As De Vasconcelos (2005) finds, migrants remit money towards productive ventures or assets at home. Ha et al (2005), for example, use home ownership as an indicator or a measure, arguing that home ownership is an important milestone and a highly symbolic achievement. This trend has become common to all parts of the world, even South Africa. In addition, portfolio allocation by migrants, as predicted by de Rezende Rocha and Elbadawi (1992) often compels them to choose whether to leave the savings in the host country or to remit them home. This decision depends on a number of specific country circumstances but mainly on the policy environment.

2.3.3 Theoretical synthesis

Syntheses of the two theories provide some interesting insight. While the classical theory serves as groundwork for the neo-classical approach, NELM as explained below draws its effectiveness from the neo-classical imperfections. In other words, NELM is a better measure to explain, in a few words, some of the aspects that are not clearly explained by neo-classical analysis. These deficiencies have provided motivation and a new approach to NELM, and enhanced the understanding of international migration-cum-remittances within the family context (Glytsos: 2002). This section therefore contrasts the two schools of thought mentioned above.

Firstly, the NELM approach builds from neo-classical analysis of international migration and even goes further to provide answers or solutions to some of the neo-classical limitations. Holst and Schrooten (2006) argue that migration and remittances have been studied outside the family and community context. According to the neo-classical theory a migrant has been assumed to be a rational, individual decision-maker with no consideration for his or her family. This approach simply equates international migrants to remittances. This has been found to be insufficient in providing insight and logic on the migrant's behaviour to remit. This kind of approach fails to account for other interactive processes clearly explained by NELM.

Secondly, contrary to conventional theory, which views return migration as a failed project, NELM regards migration as a well thought-out strategy to gain the benefits arising from geographic disequilibrium within the shortest possible time (Stark 2004). NELM views migration as a temporary strategic move to maximise income in order to fulfil a specific set of objectives. The neo-classical theory generalises that in deciding on an overseas move, a migrant is assumed to be moving abroad permanently (Massey: 2003). It considers a migrant as someone who, over and above maximising earnings, also maximises the duration of the stay abroad. A trend, as Ojeda (2003) argues, that renders migration a human resource drain with little or no contribution to developing countries. Hence he contends that the loss of labour cum capital may be regarded as a strain on economic development.

Thirdly, Massey, Joaquin, Ali, Adela and Taylor (1998) contend against oversimplification by arguing that international movement is hardly observed without looking at wage differentials. They dispute the causal relationship between wage gap and migration. In other words, there are other underlying factors emanating largely from the family considerations which can better explain why migrants leave their countries of origin and why they remit. Massey (2003) further advances the argument by stating that the neo-classical theory falls short of explaining circular migration, commonly referred to as return migration, where, after a brief spell in a high-wage environment, migrants would return to low-wage countries. Thus migration is perceived as a failed venture or a miscalculated move on the part of the migrants, which, according to NELM, is not true.

The last element, which is basically a misapplied assumption, is that of the migrants stock, which is anticipated to depend on whether a country has a low or middle income. In other words, the neo-classical analysis assumes that migrants originate solely from poor or least developed countries. The theory inaccurately takes as fact that only poverty could produce migrants. This notion is disputed by literature. Massey (2003) argues that studies have systematically proven that migrants come mostly from middle-income countries such as Mexico, the Philippines, India, Egypt and others. Cornelius and Rosenblum (2004), for example, contend that even in middle-income countries only a few could afford the cost of financing migration. In a nutshell, authors seem to find errors with the neo-classical analysis. It is these shortcomings that appear to have reinforced the NELM in explaining the dynamics around migration and remittance flows.

In South Africa's scenario, for example, neo-classical theory and NELM do to a certain degree provide little information on the nature and pattern of migration that the country has experienced since the beginning of democracy. For instance, there are a large number of South Africans who have chosen foreign employment purely to maximise earnings, to escape unemployment and to cater for their families back home. However, the model is not sufficient to explain other developments.

The country's out-migration intensified immediately after the transition period in 1994. It was more pronounced in the white community, indirectly leading to the former State President Nelson Mandela accusing the white populace of being unpatriotic (Crush & Frayne: 2007). The report of the Human Science Research Council (2006/07) indicates that more than a million white people have left the country since 1994. Conventional theories of migration therefore fail to give a clear indication on why the country began experiencing excessive out-migration, particularly of the white community, only in 1994. The only assumption one could draw from this is that the trend was motivated by structural changes and associated policies, such as affirmative action, employment equity and black economic empowerment policies that have little to do with perceived earnings abroad.

2.4 CONCLUSION

This chapter dealt with two of the most important questions in the remittance literature, namely what motivates people to migrate and what inspires them to remit. The key concepts remittances and migration were defined. Migration-related theories, namely the neo-classical theory and new economics of labour migration, were considered as the key determinants of remittances. The analyses of these two important theories proved critical because for a policy to be effective it has to combine different micro-economic and macro-economic viewpoints.

With respect to the neo-classical theory, for example, the reality that remitting depend on the stock of migrants abroad remains undisputed. In spite of this truth, however, the chapter, by means of NELM, demonstrated that the stock of migrants overseas is not adequate to explain remittance flows. The NELM suggests that even if there are millions of migrants abroad, and there is no willingness, attachment, connection or bond with the family members back home, remittances are likely to remain absent. Literature refers to this phenomenon as unselfishness. The theoretical fusion further uncovered other fundamentals that are crucial for the policy formulation process. From the above perspective it becomes clear that South Africa should develop an active interest in the subject of remittances. There are many developments currently taking place that warrant immediate remittance policy intervention.

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CHAPTER 3

DEVELOPMENT DIMENSION OF REMITTANCES

3.1 INTRODUCTION

This chapter discusses developmental impacts of remittances. Whilst it has proved practical to examine migration without essentially looking at its impact on remittances, it has proved a rather complex task for many scholars to investigate remittances without looking at a particular migration dynamic such as brain drain. The previous chapters dealt with theoretical determinants of remittances, and the evolution of migration and remittances. This section incorporates one of the most fundamental critiques against remittances, namely the brain drain. In examining remittances and their effects on economic development the study brings together some of the major points in support of or in opposition to the flows as catalyst for growth and economic development.

Broadly, the debate on remittances features two contrasting views. There are those who argue that, due to migration and brain drain, development through remittances is harmful and impairs economic development instead of improving it (Skeldon 2003; Adams: 2003; Tanner: 2005; Solimano: 2003; Chami et al: 2003). Whilst other scholars contend in favour of remittances as a viable instrument for economic development, through increased capital flows. They mention a number of other emerging economies where such a policy was effective (Adams: 1991; Kuhn & McAusland: 2006; Cohen & Rodriguez: 2004).

There is, nevertheless, a broad consensus from both literature categories that with a good macro-economic regime in place remittances are likely to have positive effects on economic development (Ellerman: 2005; King and Nikas: 2005; Kapur: 2003; Azad: 2003). Such initiatives include, among others, immigration centres, active banking systems that lower transaction costs and make it simple for migrants to repatriate earnings back home, and effective evaluation and monitoring mechanisms to determine how the beneficiaries spend the money in the home country. This section will thus study the potential impacts of remittances on economic development, both positive and negative, and on micro as well as macro level.

The implications of these two phenomena on remittances are critical. The chapter begins by examining two opposing views of remittances advanced by optimists and pessimists as a model for economic development. The views of the moderates are also discussed. This chapter further analyses brain drain within the context of South Africa and concludes by outlining the main areas that urgently necessitate the South African government's consideration.

3.2 REMITTANCES AND ECONOMIC DEVELOPMENT: OPTIMISTS VERSUS PESSIMISTS

Since the 15th century, international migration has been driven by the desire to earn money, to improve oneself and to derive maximum utility in a world where agriculture was predominantly regarded as the stronghold of industrialisation (Massey: 2003; Hatton & Williamson: 1992). While the agricultural sector's influence has gradually diminished, the service sector has gained momentum. This has contributed to intensity in the service-sector-oriented migration and a growing demand for imported skills, particularly from low and middle to high income countries. McHale (2005) uses India as an example of a leading middle-income country that has experienced an intense out-migration of the information and communication technology sector.

It is noted that, in the case of India, remittance growth outpaces migrant numbers. In other words, brain drain in India, if it does exist, is overpoweringly compensated for by remittances. The same conclusion cannot, however, be drawn in South Africa where, in spite of a considerable increase of, for instance health-care professionals taking overseas employment, the remittance flows or their impact on growth is yet to be established. It is also noteworthy that South Africa's controversial stance on the issue differs markedly from that of India. What possible effects does this development have for emerging countries, including South Africa?

First, the optimistic view, as explained by the neo-classical theory of migration, is that migration is part of a broader development process. Remittance itself is a developmental effect of migration. Proponents of migration as a strategy for development, such as de Haas (2006), Siegel (2007) and Cornelius & Rosenblum (2004), argue that emerging markets stand to benefit from migration through remittances. But the benefits are likely to be more pronounced in countries that research this phenomenon extensively.

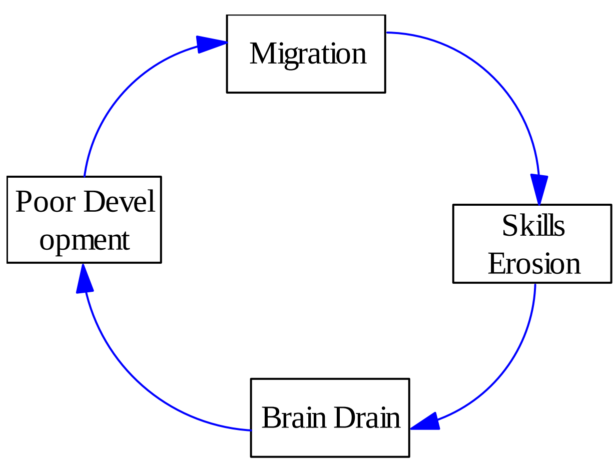
The developmental impacts of remittances at micro level can be in the form of effects on consumption and poverty, human capital or education, investment and savings, improved health care and development of entrepreneurship (Tanner: 2005; Koechlin and Leon: 2006; Solimano: 2003; Lopez-Cordova & Olmedo: 2006). In terms of poverty, for instance, remittances are a direct source of income from migrants abroad to their families, and therefore affect poverty directly. World Bank (2006) finds that most countries that receive remittances have increased investment in education and health, encouraged entrepreneurship and reduced poverty. Addison (2004) states that Ghana is a prime example of an African country where remittances have mainly been channelled into small-scale businesses. This could be because Ghana has programmes or institutions in place that keep track of its diaspora abroad and provides special programmes for returning migrants (Addison: 2004).

At macro level studies also show that for countries that absorbed a reasonable amount of remittances, like Lesotho, the Philippines and Mexico, such inflows have had a favourable impact on the balance of payments (Gupta et al: 2007;

Adams: 2003). The World Bank (2007) maintains that availability of and access to foreign exchange is a crucial factor in development. According to Akokpari (2006) 60 percent of Basotho migrants' income used to be channelled from South Africa via the Central Bank of Lesotho, through a policy of Compulsory Deferred Payments (CDP), and this benefited the economy of Lesotho. It is also argued that international remittances impact positively on labour supply. In other words, it reduces unemployment, particularly for unemployed graduates, even though some economists maintain that this is one of the root causes of brain drain (Lopez-Cordova & Olmedo: 2006).

Second, there are a number of convincing opposing arguments by the pessimists. They are of the view that international remittances create more anxiety than relief, with the key contention being the brain drain. According to them migration goes in one direction which shows that it causes skills erosion, which leads to brain drain and ultimately poor development, as figure 3.1 attempts to exemplify below. Furthermore, Adams (2007) and Orozco (2004) find no evidence that remittances have a redistributive effect as is often thought to be the case. They find that remittances have caused unnecessary expenditure on items such as property and imported consumer goods instead of on investment and also exacerbate inequality.

Figure 3.1: Chain of causality according to the pessimists



Source: World Bank (2007)

At macro level, a large inflow of remittances may lead to exchange rate appreciation (World Bank :2007). Bourdet and Falck (2003) using the Cape Verde as an example, substantiate how a large inflow of remittances in that particular country raised the value of the currency, rendering domestically manufactured goods less competitive. The International Monetary Fund (2006) refers to this phenomenon as Dutch disease. A balanced view, according to Mora and Taylor (2006), is that the promotion of migration to earn remittances can be either positive or negative towards economic development, depending on the policy effectiveness of the labour-exporting countries.

3.3 BRAIN DRAIN AND ECONOMIC DEVELOPMENT

Brain drain has become one of the most complex phenomenon and is pessimistically received within the study of migration and remittances. What appears to create even greater confusion and controversy is the inconsistency in the description of the term. In general, a large section of literature defines brain drain as the migration of an educated, trained, skilled, highly qualified, talented or professional labour force from one country to another (Tirana: 2006; Bhorat, Meyer & Mlatsheni: 2002). Others ambiguously refer to this phenomenon as a “loss” of skilled people from “low to high-income” countries, a depiction that does not take South-South migration or the likelihood of migrants returning to their home countries into account.

It is clear, based on the many definitions often advanced by economists, that there is no universally accepted description of brain drain. This often gives rise to an inaccurate and erroneous analysis of the phenomenon. For instance, some analysts assert that the emigration of nurses and teachers amounts to brain drain for certain countries (Richardson: 2007; Oosthuizen: 2006). For example, South Africa has a large number of unemployed graduates (Bhorat et al: 2002; Oosthuizen: 2006). Proponents of the brain drain therefore blindly argue that the migration of such graduates represents brain drain and thus damaging to the economy. This contention is flawed as those graduates are not actively involved in the production processes.

An understanding of the exact meaning of scarce skills therefore becomes fundamental for this analysis. For the purpose of this study the term brain drain refers to a loss of skilled intellectual, trained professional, technical labour or a phenomenon of emigration of highly qualified personnel to another company or country that offers greater benefits or opportunities (Mishra: 2006; Tirana: 2006; Giannoccolo: 2004). If, for instance, brain drain is defined as only the emigrants with tertiary education, such a definition would be considered illogical because not all emigrants possess scarce professional skills.

3.3.1 Myths and facts about brain drain

The link between migration and brain drain, and specifically the extent to which the former stimulates the latter, is often not indirect. Migration traditionalists have contended that a consequence of migration is brain drain with little impact on development. For that reason, it is important that a critical assessment is made of what the literature regards as impediments to development through remittances in order to determine whether this is the case, particularly within the South African context. Furthermore, it is equally imperative to examine under what circumstances the promotion of a remittance policy might negatively affect economic advancement.

There are various reasons that have been put forward in favour of, or, against promoting remittances as a development tool. The international migration, particularly of the skilled labour force, is a major challenge for many developing economies. It constitutes a core argument against migration and therefore remittances. In essence, literature on brain drain mainly recognises the two most important difficulties, which are fiscal expenditure on building a human capital base and brain drain effects on economic development. The aim of this subsection is not to argue about the existence or non-existence of brain drain. While, for a number of reasons, it assumes the existence of a brain drain in the Sub-Saharan Africa (SSA) region it questions its presence in South Africa. Hence, it contends against the comprehensive generalisation of brain drain.

Firstly, the factual argument often put forward in opposition to migration as a precondition to brain drain is its effect on fiscal. The departure of highly skilled employees indirectly means that poor countries are subsidising the economic development of industrialised countries. Highlighting the importance of education in economic development, Lowell (2001) contends that the country's economic prosperity is based on the average level of education. Brain drain deprives poor economies of skills necessary for their development. Commander, Kangasniemi and Winters (2003) also argue, among other things, that brain drain is a loss of investment in education. This is because government expenditure on education is normally high for poor countries and this trend would certainly not serve the interest of the poor.

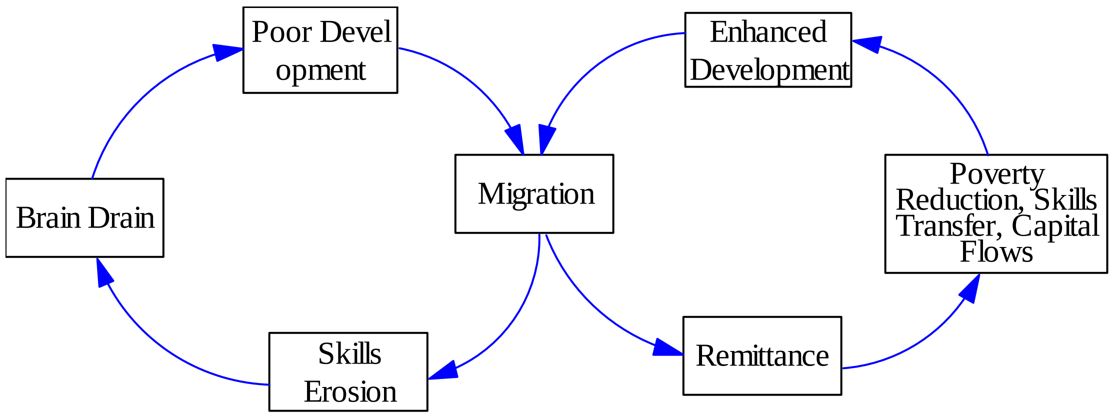
This notion is strengthened by de Haas (2005) who indicates that the macro-economic impact of migration on industrialised countries is modest and positive when compared to the severe effects that this phenomenon has on developing economies. For instance, Campbell, Crush, Green, Nangulah and Simelane (2005) argue that South Africa is one of the countries that has done well towards building its human capital base, but it is not as proactive as is necessary to keep this resource together. No analysis has, however, been done to determine the fiscal loss as a result of this development. Neither has a study been done to prove beyond reasonable doubt that the current migration is synonymous with brain drain.

Secondly, there is evidence from small economies in Sub-Saharan Africa, Latin America and the Caribbean that brain drain has detrimental effects on development in general (Kapur: 2003). Tanner (2005), for instance, argues that the mobility of skilled personnel in Africa has not only led to instability but has also increased corruption. Mishra (2006) argues that migration loss outweighs remittances in certain countries in the Caribbean region. It could be because, as the study finds, the Caribbean diaspora is rich in human capital. For some countries, human capital decline may severely and negatively affect growth and development. For any economy to prosper and to counter the effects of brain drain, a well educated workforce is a prerequisite (Crush, Mattes & Richmond: 2000).

In contrast, there is increasing literature that rebukes the brain drain argument as a migration myth, highly exaggerated and flawed (de Haas: 2005; Tirana: 2006; Commander, Kangasniemi & Winters: 2004). The brain drain is aggravated by a variety of other reasons, including poor use of remittances, government's incompetence and poor management of the migration process. Previous research encouraged wholly by the brain drain phenomenon had failed to realise the importance of remittances but instead promoted the need to prohibit out-migration or to impose taxes on income (Bhagwati: 1976).

Figure 3.2 below illustrates that migration is a two-way route that, depending on the policy in the source country, can have either a positive or negative effect. It shows that migration leads to development by means of remittances. Faini (2006) highlights some of the limitations of the brain drain theory. He argues that early studies simply contended that a brain drain is detrimental to development, but failed to take into account that migration could provide much needed capital in the form remittances. According to Schiff (2005) the brain drain problem is short term while the benefits of remittances are long term, provided that proper support measures are in place. Mishra (2006) and Chami et al (2003), on the other hand, find that there are many positive effects resulting from remittances.

Figure 3.2: Chain of causality according to the optimists



Source: World Bank (2007)

Furthermore, the previous brain drain theory had not considered geographical proximity which renders the brain drain less significant for other labour-exporting countries. This argument appears convincing for Morocco and Europe, Mexico and the United States, or for even Zimbabwe and South Africa where millions of immigrants, including illegal immigrants from Morocco, Mexico and Zimbabwe are working in Europe, the United States and South Africa respectively (Yang: 2006; Freeman: 2006; McKenzie & Rapoport: 2007). For these three labour-sending countries, Mexico, Zimbabwe and Morocco, the human capital loss is minimal as there are millions of migrants with primary education, something which remittance proponents argue is good for development (Commander et al: 2003; McKenzie & Rapoport: 2007).

Adams (2003) finds, for instance, that only 16 percent of Mexicans with a tertiary education migrate to US, compared to 360 percent in Jamaica. He argues therefore that this is due to geographical proximity. This also holds true for the SSA region where it is found that more than 35 percent of migrants to the EU region have a tertiary education, compared, for instance, with the Magreb region where this figure is less than 10 percent (Maimbo & Sander: 2003).

3.3.2 The extent of brain drain in South Africa

With reference to South Africa, it remains a concern that migration only attracts interest in as far as it is perceived to exacerbate brain drain, or contribute towards the skills shortage. Much has been said by some about South Africa's loss of skilled personnel, while others dismiss this as insignificant, and rightfully so, as there are developments that throw doubt on the notion that the country is experiencing a brain drain. It appears as if the brain drain is exaggerated without much evidence to justify it. A careful introspection into South Africa's development reveals that there are a reasonable percentage of people with scarce skills who have left the country. However, the lack of skills in South Africa could largely be as a result of other related events such as structural changes, an unresponsive tertiary system, the growing economy, or supply and demand mismatch (Bhorat and Kanbur: 2005).

The brain drain pessimism seems to have narrowly concentrated on skills exiting the country instead of making it simpler for skilled immigrants to come into the country, making use of returning migrants or even encouraging skilled migrants to return home. The media reports create an impression that the brain drain is an observable or known fact in South Africa. However, a serious analysis reveals a disputable over-generalisation. For example, the report by the Human Science Research Council (2006/07) stating that more than one million South Africans have left for overseas is not clear enough on how many of those have scarce technical competencies and not just tertiary education.

Bhorat et al (2002) argue that the brain drain is a major concern in South Africa. However, to support their debate, despite admitting that emigrants do not report their status or education levels at Home Affairs on departure, they argue on the basis of the number of emigrants who have left South Africa. For example, de Haas (2005) contends that not all migrants are highly skilled. Indeed South Africa has experienced an exit of the upper end of human capital, such as physicians, doctors, scientist and engineers but there is no statistical analysis to argue that this constitutes a crisis. It is an erroneous assertion to argue that the emigration of mostly white South Africans to countries such as Canada, Australia, US and UK should be equated to a brain drain. There is a lack of convincing evidence that this diaspora is rich in human capital as is often contemplated.

This argument conveniently disregards returning migrants, the number of work permits issued annually to skilled foreigners, albeit at a frustratingly slow pace, the country's growing economy and South African companies' expansion into the rest of the world, particularly Africa, with a sizeable number of employees assigned to areas where their employers need them. According to Tanner (2005), the brain drain may be justifiable in countries such as Malawi, Zambia and others where the exit of nurses is threatening to bring the health-care system to a standstill. For instance, Lucas (2005), Faini (2006) and Bertoli (2005) state that remittances cannot be studied without paying careful attention to the country's ability to produce trained personnel. In other words, while it may take longer for countries such as Malawi and Zambia to train and substitute lost workforce, that period may be shorter for countries such as South Africa or India.

Akokpari (2006) does however caution developing countries that Africa's emigration of brains is a direct result of government's failure or inability to create and research brain-retention strategies. South Africa is no exception to this. The country has not responded wisely, judging from the previous decisions made by government to deal specifically with the skills shortage and the perceived brain exit particularly of health-care professionals. It has neither researched the amount it receives in remittances from its diaspora nor how this flow can be transformed into proper economic development.

3.4 CONCLUSION

The study looked at the inter-relationship between the two phenomena, namely migration and brain drain, in relation to remittances. The more prominent debates in support of or against remittances were reviewed by evaluating these concepts. It is through appraising the different arguments by proponents and detractors of remittances that a well-informed policy framework can be developed. Throughout the chapter a perception that the shortage of skills in South Africa is a consequence of migration is contested. Also, it disproves the notion that the current wave of migration is synonymous to brain drain. However, it stresses categorically that if the country is serious about fulfilling its short to medium-term obligations remittances, migration and the brain drain have to be factored into the government's macro-economic strategies.

The chapter argued that for a country to respond appropriately on this topic it is of utmost importance that a clear policy framework be established. The rate of remittances depends largely on the rate of emigration, which is either good, depending on the flow and use of remittances, or bad depending on how it exacerbates brain drain. The section analysed areas on which authorities should concentrates through distinguishing between myths and realities. The section counsel the government to formulate a policy response based on research rather than perception. More research should therefore be conducted on the subject and data-collecting mechanisms, both on migration and remittances should be developed. The developmental impacts of remittances were discussed with a view to cautioning against the generalisation that remittances are good for development without necessarily considering the policy environments under which this is possible.

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CHAPTER 4

TRENDS AND FORECAST OF MIGRATION AND REMITTANCES

4.1 INTRODUCTION

In Chapter 4 trends on migration as a prerequisite and remittances as the end product are introduced. This chapter seeks to test some of the arguments made in the previous chapters, specifically by looking at the causal relationship between the stock of migrants abroad and the flow of remittances. Based on the elements that have driven migration in the past, the chapter seeks to forecast the anticipated behaviour for both phenomena over a period of time. The new issues, which include but are not limited to low fertility rate in the industrialised countries, particularly the extent to which this impacts on labour supply, climate change and the explosion of Free Trade Agreements (FTA) are set to create a new type of economic migrant which will ultimately change the stream of remittances. For example, the General Agreement on Trade in Services (GATS) of the World Trade Organisation (WTO) contains critical information on the movement of people which is set to change the pattern of remittance flows.

Over the years, many developing countries have seen inequality, unemployment and poverty rising to very high levels. The mercantilist approach to economic development, privatisation or simple conventional policies such as inflation targeting, tight monetary or fiscal policies appear to have failed developing countries. These policies have frequently been commended as critical to unlocking the growth potential of poor economies. They have nevertheless not succeeded. The timing may thus be opportune to explore other alternative policies for growth and development. This makes the conceptualisation of remittances a far more important step to accelerate development. Studying the pattern of remittances and migration is important because both concepts are vulnerable to globalisation which has clearly proved its ability to shape the global development agenda. Interesting patterns where remittances have outpaced leading traditional foreign capital for developing countries' official development assistance (ODA) require immediate attention.

The section will therefore discuss remittance and migratory trends. Both show a consistent upward trend. This has successfully shaped the attitude and the manner in which researchers, economists and development practitioners perceive and analyse remittance flows. There is a substantial number of developing economies, practitioners and economists that have conservatively viewed migration as a risk to economic development while agreeing that remittances provide opportunity. This creates a sequencing challenge on how the two can be tied together without necessarily hindering development. A comprehensive understanding of patterns could thus help policy officials to harmonise the two different viewpoints regarding remittances. The flow provides hope for many emerging economies and a new policy framework, but no development template as often prescribed by the development institutions such as World Bank and International Monetary Fund.

4.2 TRENDS IN MIGRATION AND REMITTANCES

4.2.1 International migratory trends

This subsection briefly analyses migratory trends only as a precondition for remittances. Although the neo-classical theory and NELM theoretically argue, in the previous chapters that migration and the migrants' families are key predictors of remittances, this section examines whether, in practice, these theories hold true. Globally, international migration has expanded very rapidly to account for three percent of the global population (World Bank: 2006). Maimbo and Sander (2003) estimate that there were 75 million migrants in 1965, 154 million in 1990 (Faini: 2006), while the figure has accelerated to just over 175 million in 2006 (World Bank: 2006), representing an increase of just over 100 million over a forty-year period. According to Hatton and Williamson (2002), the period prior to 1920 witnessed more than 60 million Europeans migrating particularly to the United States (US), Australia and, to a certain extent, Africa. Literature refers to this movement as North-South migration (Taylor: 1999; Acosta, Calderón, Fajnzylber & López: 2006).

However, as Massey (2003) notes, this trend started reversing in the period from 1960 onwards. Industrialisation of the Northern hemispheric countries induced a movement of people, unprecedented in the history of migration, from South to North. It was not only the industrialisation of the Northern hemisphere that led to this development, but also structural changes such as the attainment of independence that spread through Africa during the same period, or what Crush and Frayne (2007) refer to as the “end of colonial period”. It is regrettable that in many instances this was more of a removal than a voluntary emigration. Skeldon (2005) argues for instance that skilled personnel in Mozambique and Angola had been forced to flee during the eve of independence.

A closer observation of the SSA region reveals several disappointing developments. Of particular concern for the region is the composition of migrants. Maimbo and Sander (2003) point out that, the region has seen a sizeable number of skilled Africans moving to the European Union (EU) region, while a substantial number of unskilled Africans tend to stay within the continent. Katseli, Lucas and Xenogiani (2006) note that, of all the regions with diaspora in the EU, SSA has the highest percentage of skilled migrants. The EU is by far the most preferred destination for African migrants. This could be as a result of colonial links, language, and ease and simplicity of registration for some professions (Bhorat et al: 2002). For instance, a study by Commander et al (2004) on health-care workers, specifically doctors, indicates that, while the process of registration may take longer for non-commonwealth countries, the opposite is true for commonwealth nations.

Nationally, since the end of apartheid, the trend has somehow been indifferent from the rest of the African countries. South Africa is currently witnessing a similar pattern where a significant number of people have emigrated (Bhorat and Kanbur: 2005). Apart from crime, many of those who have been interviewed, who have already left or are considering leaving, cite affirmative action (AA) policy as their primary anxiety (Campbell et al: 2006). For South Africa this is where the migration and brain drain confusion primarily emanates from. Brain drain in the context of South Africa is exaggerated and its scope is not clearly understood. This development, however, creates policy space for government to develop an alternative practical policy framework to deal with some of the perceived challenges such as affirmative action.

Generally, labour markets all over the world are becoming much more open and transparent. Regional integration, which has traditionally been limited to removing trade and investment impediments, has gradually been extended to include the free movement of people. Most countries, both labour-exporting and importing, have come to realise that preventive or controlling measures like those applied by South Africa and UK governments health care workers from SA are temporary and offer no long-term solutions (Sidley: 2004). There is an undisputed consensus in literature suggesting that migration and remittances are inherently linked. By implication this simply means that remittances are still anticipated to grow robustly as international migration continues to expand (Ellerman: 2005; Giulliano & Ruiz-Arranz: 2005). Yang (2006) states that this development has had and will continue to have major influences on the policy direction of most countries, a reality that many countries, including South Africa, seems unable to get away from.

4.2.2 World remittance trends

Remittances continue to awake interest among the developing nations because of its immediate impact on socio-economic development. The flows have indisputably become a major source of external finance for many developing nations. Ratha (2003) argues that remittances seem to have withstood volatility in capital markets because of their stability, predictability and consistency. Remittance flows have, for the past three decades, maintained their growth path while other flows, such as foreign direct investment (FDI) and official/overseas development assistance (ODA) has been erratic and trending down (Mishra: 2006). For instance, Taylor (1999) indicates that remittances grew from as little as $2 billion in 1970 to $70 billion in 1995. Solimano (2003) estimates the figure to be at $15 billion in 1980 while Sander (2003) estimates remittances to have increased from $33 billion in 1991 to $80 billion in 2002.

Table 4.1: The World Remittance Flows (1995-2004) US$ billions)

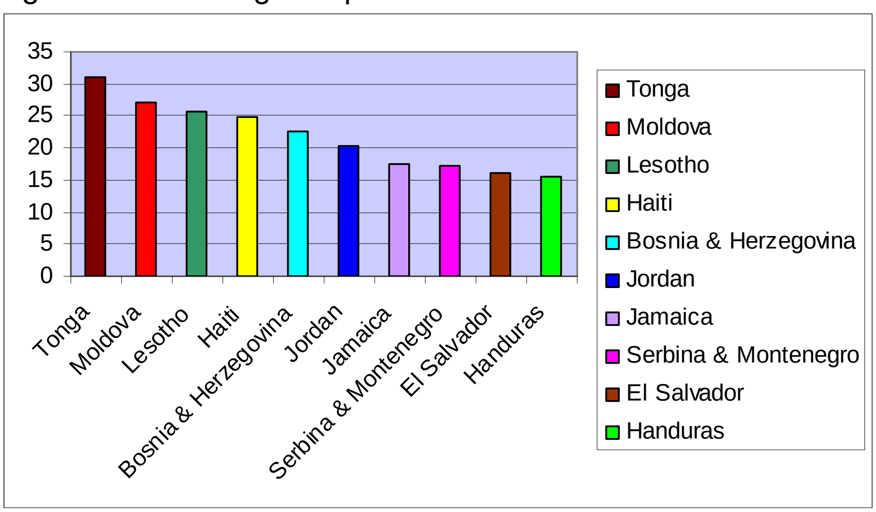
	1995	2004	Growth Increase
Workers' Remittances	58	160	102
Foreign Direct Investment	107	166	59
Private Debt and Portfolio Equity	170	136	34
Official Development Assistance	59	79	20

Source: World Bank (2005)

For instance table 4.1 above shows that while private debt has trended down and ODA grew somewhat, remittance flows have registered a staggering growth of $102 billion from 1995 to 2004. The World Bank (2007) report further indicates that worldwide remittances have increased from $167 billion in 2005 to $221 billion in 2006. In terms of intensity, Yang (2006), Maimbo and Sander (2003), Gupta et al (2007) and Solimano (2003) all note that remittances come second behind foreign direct investment as the largest source of external flows. Whilst Faini (2006) and Acosta et al (2006) also note that the current estimates of remittances might actually be only a fraction of the actual money that flows among the countries due to the difficulty in calculating remittances and obtaining data. Ratha (2003) further points out, for example, that remittance inflows are heavily underreported, particularly in SSA where financial infrastructure is still very poor. It is estimated that nearly US$10 billion of remittances goes unreported yearly (Gameltoft: 2002).

As a percentage of Gross Domestic Product (GDP) remittance ratio has risen considerably compared to other capital flows. Mishra (2006) notes that FDI fell to six percent in 2002 from nine percent in 1999, while remittances increased from three to thirteen percent during the same period. Figure 4.1 below shows, for example, that relative to GDP remittance flows constituted 31 percent for Tonga, 27 percent for Moldova and 25 percent for Lesotho in 2005. The recent figures for Haiti and Tonga, as given by Acosta et al (2006), have risen to 35 and 45 percent respectively. This ratio is lowest for SSA countries at three percent, with the exception of Lesotho which has proved to be one of the leading countries in the region with a very high remittance ratio of 25 percent relative to GDP (Maimbo and Sander:2003).

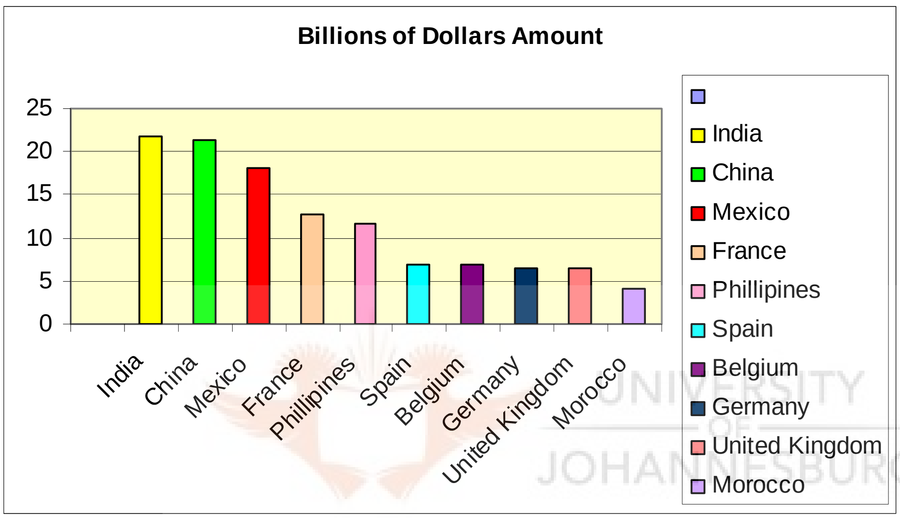
Figure 4.1: Leading Recipient Countries - Remittance Share of GDP (2005)



Source: International Monetary Fund 2004

The growth pattern of remittances, as illustrated by Figure 4.2 below, has consistently favoured countries such as India, China, Mexico, Brazil and the Philippines. These countries have, for the past two decades, dominated the remittance industry. Noticeably, there are few common characteristics about their demographics, such as density in their population and an export-oriented policy approach on migration.

Figure 4.2: Leading Remittance Recipient Countries - (US$ billion) (2005)



Source: International Monetary Fund, 2004

The distribution of remittances is unequal among the regions. Latin America and the Caribbean (LAC) region have, for some time, dominated remittance inflow. The region is the largest recipient of remittances by far. Table 4.2 below shows that Latin America and the Caribbean (LAC) region has consistently received larger inflows of remittances except during 2002 where the region received $28 billion, while East Asia and the Pacific received the largest at $29 billion. However, it appears that the Asian region is intent on ending the LAC dominance of remittance flows.

For instance the World Bank (2006) indicates that three of the top four remittance-recipient countries, namely China, India and the Philippines, come from the Asian region. The World Bank (2007) notes that, despite the LAC region having registered an increase in 2007, this has nevertheless decreased compared to the previous years. This could be as a result of a slowdown in the US economy and restrictive immigration policies. The SSA remains the region with the lowest remittance received.

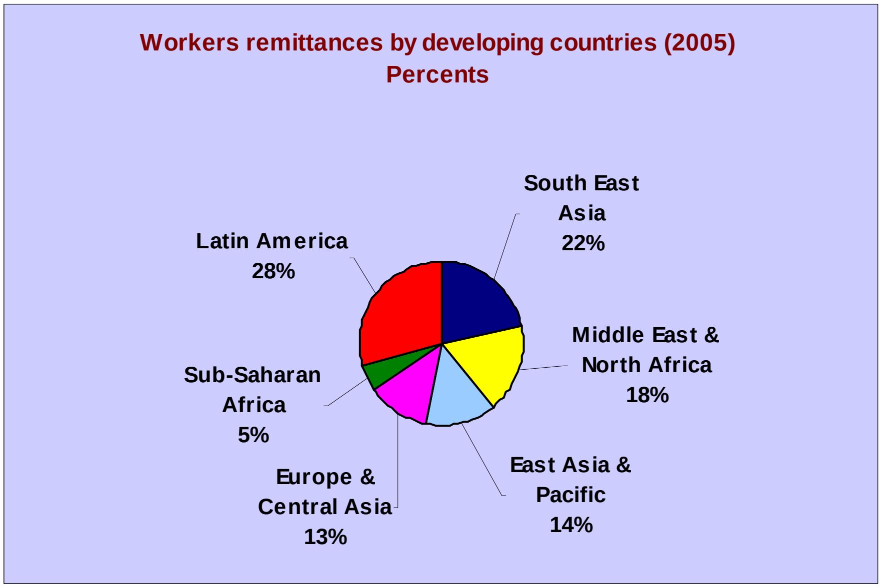
Table 4.2: International Migrant Remittances ($ billion) from 2000-2006

Inflows	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
All developing countries	85	96	117	145	163	188	199
East Asia and the Pacific	17	20	29	35	39	44	45
Latin America and the Caribbean	20	24	28	35	41	48	53
Sub-Saharan Africa	5	5	5	6	7	7	7
Middle East and North Africa	13	15	16	21	23	24	25
Europe and Central Asia	13	13	14	17	23	31	32
South Asia	17	19	24	31	30	35	36

International Monetary Fund Balance of Payment Statistics Yearbook (2006)

Dividing the African continent into two regions, Sub-Saharan Africa (SSA) and the North Africa or Magreb region, there is a distinct gap created by geographical proximity. For instance Maimbo and Sander (2003) note that out of $12 billion received by the continent in 2002, only $4 billion accrued to SSA while the rest went to North Africa. They cautioned, however, that this trend could be resulting from the poor data collection mechanisms in the SSA region. This pattern has not changed in 2005.Figure 4.3 clearly shows that SSA has received an average of five percent of the world's total remittance as compared to 18 percent for North Africa and Middle East. The proximity of North Africa to Europe and oil rich Gulf States such as United Arab Emirates and Saudi Arabia, leading sources of remittances, may partly explain the rising remittances into the Magreb region.

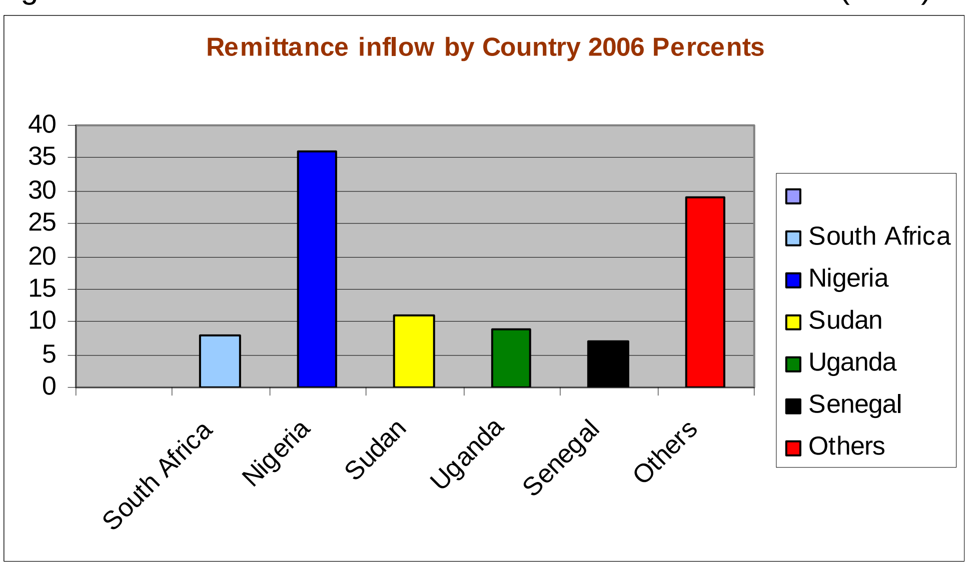
Figure 4.3: Workers' remittances by developing countries (2005)



World Bank (2005)

According to the IMF Balance of Payments Yearbook (2006) Nigeria, Sudan, Senegal and South Africa are ranked as the four leading recipients of remittances in the SSA region in 2005. Figure 4.4 below shows Nigeria as the prime beneficiary of remittances in the region with 36 percent of total remittances going there, followed by Sudan and Uganda with 11 and 9 percent respectively.

Figure 4.4: Remittance inflows for selected countries - SSA (2006)

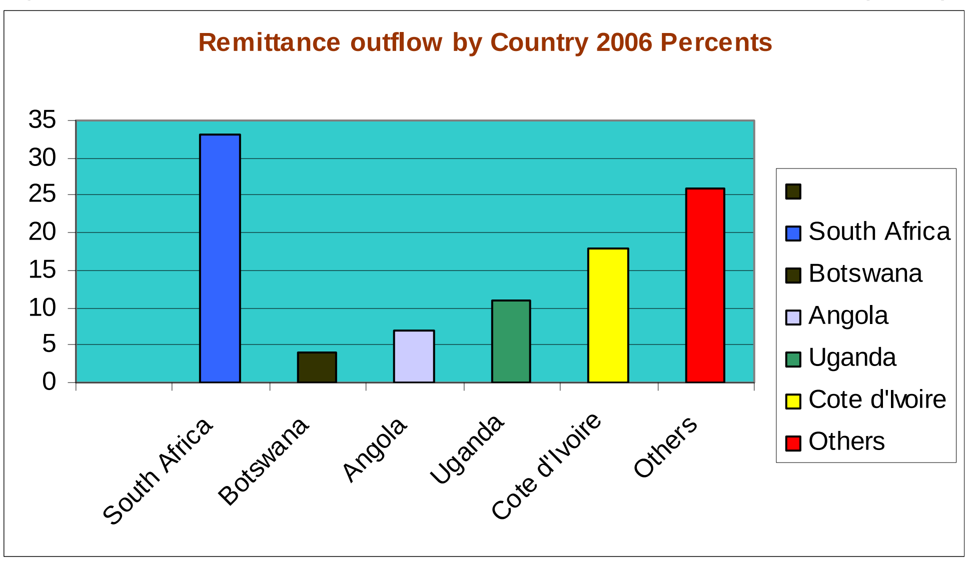


Source: World Bank, 2007

In terms of outward flows, Figure 4.5 shows South Africa's dominance as the primary source of remittances in the region. This should not in any way rule out the possibility that South Africa is the continent's leading beneficiary of remittances. For instance, a study done by Bun and Hernandez-Coz (2007) notes that the UK, which, coincidentally, is a major destination for South African expatriates, has registered a record remittance outflow of $4,5 billion in 2004. The study shows that the main recipients of UK remittances in SSA are Nigeria, Ghana, Kenya, South Africa and Somalia.

According to Bun and Hernandez-Coz (2007) approximately $450 million and $360 million went to Nigeria and Ghana respectively in the form of remittances. Suppose, for argument's sake, that a conservative estimate of $100 million went to South Africa, based on an exchange rate of seven rand per US dollar, this automatically translates remittance inflows from UK alone to more than R700 million. To emphasise, this estimation does not take into consideration remittances from countries such as Canada, Australia, Gulf States and US, countries with the highest concentration of SA diaspora.

Figure 4.5: Remittance outflows for selected countries - SSA (2006)



Source: World Bank, 2007

There are also other related and compelling facts that should be taken into consideration by the authorities in assessing the extent of remittances in the South African economy. The Institute for Security Studies (ISS), in reference to the United Nations (2004) report, states that South Africa is ranked third as leading supplier of security personnel to Iraq after the United States and the United Kingdom. According to Kotze (2004) large numbers of South African recruits originate mainly from SA's former security forces. These soldiers transfer their earnings to relatives and families in South Africa.

Another interesting development, and a growing research discipline, is what literature terms "economics of football". This discipline investigates among others, migration of soccer players, salaries and bonuses as well as transfer markets. There are large sums of money involved in the business of soccer. For instance, Dobson and Goddard (2004) and Baur and Lehmann (2007) report that in 2000 English soccer players were receiving salaries in excess of a million pounds per week. Frick (2007) highlights that the ordinary player in Europe receives in excess of 20 million Euros per annum. He further indicates that the minimum transfer fee in Europe is now 36 million Euros on average, while the maximum record stands at 70 million Euros. There is a significant number of South African football stars playing for elite teams in Europe. South Africa, like other African soccer giants Nigeria, Ghana and Ivory Coast has become a net exporter of football players with a sizeable number of football stars abroad (Baur & Lehmann: 2007).

Frick (2007) cites Brazil as having a comparative advantage in producing world-class soccer players. The country receives a large amount in remittances from European countries. The economic theory advocates that poor countries should identify raw material and add value in order to compete in the global niche markets. In the case of Brazil, youngsters are trained at an early age to not only be competitive in the domestic league but to withstand the elite leagues of Europe. It follows that the former Portuguese colony has, over the years, exported more players to Europe than any other country. A number of soccer players abroad might help to explain the intensity of remittance to net exporting countries, thus giving credibility to the neo-classical view that remittances are determined by the stock of people abroad.

4.3 FORECAST OF REMITTANCES

This last section of the chapter seeks to predict the direction of remittances by assessing the current developments and the future outlook. Remittance flows have, according to expectation, grown concurrently with international migration. Notwithstanding the outbreak of restrictive immigration policies both phenomena have intensified (Clark and Drinkwater: 2001). The interrelationship between the two suggests that remittances would still expand as the size of migration increases (Findlay: 2001). In the past, remittances have been a simple exercise of analysing economic and political conditions that produce migrants. Recently, however, there has been a slight shift in the analyses where, despite economic and political factors still being significant, social demographics are increasingly becoming an area that warrant attention (Bloom and Canning: 2004; Hatton & Williamson: 2002). Also on the environmental front, there are growing concerns that climate change would soon produce a number of migrants from developing countries (Kepner: 2006).

Firstly, what may appear as a simple issue for developed countries, low fertility and an ageing population in the EU, US, Japan and other major industrialised countries could actually have a negative impact on the developing economies, assuming that no proper policy measures are put into place (Lai, Lee, Mason, Miller and Tung: 2006). Demographic changes in the industrialised countries seem very isolated for one to presume that they will soon define remittance patterns. Billari, Kohler and Ortega (2006), as well as Hatton and Williamson (2002), emphasise that an ageing population and low fertility have a direct impact on labour supply. The negative growth due to these two concepts automatically affects the number of the working age population thereby creating a demand for replacement labour which can only be sourced from developing countries.

According to the United Nations Economic Commission for Africa (UNECA) (2007) the ageing population in industrialised countries has the great capacity to increase the demand for inexpensive but qualified health-care workers from Africa. This trend is currently visible even in South Africa. Not only is the EU in dire need of health-care workers, but Bach (2003) estimates that by the year 2020, the US would experience a deficit of 800 000 nurses. While Billari et al (2006) estimates, using the UN medium variant population projection that over a 50 year period from 2005 the EU and the US would need 18 and 38 million migrants respectively in an endeavour to keep the working age population at a constant size.

Secondly, environmental challenges such as degradation, desertification and deforestation are known to have produced a number of migrants in the past. However, the new environmental challenge, global warming, is destined to produce millions of migrants. The United Nations Population Division (2007) further warns of a new class of international migration that will alter the composition of migrants and drastically change labour supply. These developments have serious implications on the growth of remittances. The test for countries such as South Africa and others is whether their current policy environments are ready to deal with these challenges face-to-face. This does not seem to be the case in South Africa.

4.4 CONCLUSION

The chapter covered trends both in migration and remittances. Over the past four decades growth in migration has intensified, leading to remittances increasing by billions of dollars. This section demonstrated that remittance flows are a natural consequence of migration. It thus becomes clear that, in order to increase the flows, international migration has to be controlled or directed towards attaining particular developmental outcomes. This cannot come about without policy intervention. Hence the distribution of remittances among countries and regions bears testimony to this reality.

The Sub-Saharan Africa region benefits the least from remittances despite being a leader in exporting skilled migrants. This represents a double defeat for the continent in terms of its skilled personnel and remittances. A further analysis of the EU population pyramid currently facing down is also not good news for the continent. This has negative implications on the supply of labour. The working age population is rapidly declining, which creates the need for replacing labour. These are extremely important dynamics that need to be investigated by developing countries. They should also be considered as the basis upon which a remittance framework should be established.

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CHAPTER 5

COMPARATIVE POLICY ANALYSIS

5.1 INTRODUCTION

This chapter attempts to examine what other leading recipients of remittances are doing and what other developing countries, especially in the SSA region, fail to do. Empirical evidence reveals that the SSA remains the region receiving the lowest amount in remittances. The remittance industry has, for more than three decades, largely been dominated by a few countries such as India, Mexico, Pakistan and China, among others. The objective of this section is to conduct a comparative analysis, particularly of the four notable countries in the field of remittances, namely Mexico, Morocco, India and the Philippines. There are various policy measures that have been adopted by these countries purely to encourage remittances. Other countries like India are adamant to have undergone structural economic reforms mainly to strengthen their economic environment, but not for the purpose of maximising remittances.

The emphasis is not much on what remittances have done for these countries but on the types of policy measures, mechanisms or processes that have been put in place to encourage remittances and to moderate negative effects associated with brain drain. There are potential approaches to the policy making process that still present a particular challenge to many governments. It is well documented that in dealing with difficulties posed by migration these economies have undergone a series of policy challenges. These challenges are harmful to development in some sectors. Such experiences have transformed the narrow perspective that remittances are only suitable to address micro-economic challenges such as poverty, but the interest on remittances is now spilling over onto analysing their multiplier effects to the entire economy.

The study would highlight how other countries have approached remittances by considering some of the policy interventions aimed at alleviating risks and challenges as well as strengthening institutional capacity. There is recognition that a remittance framework founded solely on a good macro-economic environment, for example a sound banking system, is likely to yield moderate to poor results on economic development. However, if for example, the diaspora is capacitated to play an active role and bilateral agreements are used effectively, remittances are expected to increase development. Hence the countries under examination have embraced growth through remittances as the cornerstone of their socio-economic development through using various tools at their disposal (Burgess and Haksar: 2005; Skeldon: 2005; Cohen & Rodriguez: 2004).

The analysis of this section would also pay attention to other important policy initiatives as done by other less developed countries (LDCs) such as Mali, Lesotho, and Cape Verde etc. The comparison between South Africa and these countries would be done randomly in order to identify particular measures that have been taken to perfect policy responses in macro-economic environment, the role of the diaspora and partnership agreements.

5.2 THE IMPACT OF THE MACRO-ECONOMIC ENVIRONMENT ON REMITTANCES

Economic literature generally agrees that positive impacts of remittances have been felt mostly in countries where there are sound domestic policies (World Bank: 2006; Maimbo & Sander: 2003). A good macro-economic environment is one of the critical areas that require government's attention in an attempt to increase the flow and impact of remittances. Gubert (2005) argues that, despite its role as a social safety net for those left behind, remittances alone cannot provide an environment conducive for socio-economic upliftment. This view is evidenced from the developments in the leading labour-exporting countries, which after initiating certain macro-economic policies began registering a consistent and significant increase in remittances (Addy, Boris and Colleen: 2003). Nevertheless, most of these structural reforms were not necessarily carried out primarily to intensify remittances but mainly to tie together or restructure development policies.

Chishti (2007) notes, for example, that at no stage has the Indian government initiated laws that seek to govern remittances nor legislated any specific policy aimed at increasing the remittance flow. However, India has created and maintained a favourable environment that allows all growth-oriented policies to thrive. This has proved to be a resourceful strategy for India considering that macro-economy is a multifaceted discipline encompassing initiatives which include but are not limited to the operations and supervision of the forex markets, monetary policy, financial market or exchange rate liberalisation, banking sector and capital markets. For instance, financial liberalisation has had an enormous impact on remittances in the case of India, while the banking sector in Morocco has greatly improved remittances. In Mexico, the financial infrastructure and improved data collection have helped to formulate a realistic remittance framework.

5.2.1 The impact of financial liberalisation on remittances

Financial liberalisation is one dimension, though not a direct remittance policy intervention, that has increased the remittance flow for countries under examination (Orozco: 2004; Mora & Taylor: 2006; Tirana: 2006). The World Bank (2006) suggests that the liberalisation of the exchange rate and elimination of capital markets in India led to a large increase in remittances. Today India is the world leading recipient of remittance at $26 billion in 2006, easily constituting three percent of India’s Gross Domestic Product (World Bank: 2006; Tirana: 2006; Taylor: 1999). Chishti (2007) observes that India’s dominance of the remittance industry is a recent phenomenon. India had previously registered a linear increase in migration for the past four decades. The growing interest of

India’s government has led to an increase of remittances from $12 billion in 2000 to $26 billion in 2006. The World Bank (2007) attributes this exceptional growth to a combination of India’s stable policy environment, increased migration and improved data collection mechanisms by government.

In South Africa there appears to be a feeling of contentment that macro-economic policies would automatically address all the problems and social ills currently affecting the country. The South African Reserve Bank (SARB) administers foreign exchange controls while commercial banks act as authorised dealers of forex on behalf of SARB. Other authorised dealers include Bidvest Bank, Rennies Foreign Exchange and Moneygram, which like other commercial banks, charges excessive “commission” fees for their services. It is not known how these transaction costs and the mere rigidity in the whole system divert remittances to informal channels. Exchange rate regulations, which are arguably up to standard in South Africa, basically control in- and outflow of capital, which implies that all remittance-related transactions should be declared at SARB. This is supposed to be simplifying the work of SARB with respect to data compilation but it is not happening.

5.2.2 The effects of improved data-collection methods on remittances

In terms of remittance data, the current situation in South Africa reflects that in India prior to 2000 where, in spite of a stable macro-economic policy environment and extensive increase in migration, very few amounts of remittances had been reported. For instance, the World Bank (2007) indicates that South Africa’s inward remittances were as little as $735 million compared to an outflow of $1067 million in 2006. This scenario is a complete opposite of what might generally be anticipated in a country which has, since 1994, observed an emigration of more than one million people (Human Science Research Council: 2006/07). Just like in India, this could be as a consequent of a lack of data or poor data collection mechanisms in South Africa. It could also be an indication, as Uctum and Uctum (2003) point out, that most countries do not distinguish between the components of the capital flows, and no effort is made to analyse the effect of the structural changes on the these flows. Chishti (2007) notes that India's data-collection techniques include maintaining a sharp distinction between different financial inflows. It is surprising that a country like South Africa, which has depended on foreign capital to stimulate its expansion since the 1970s, still clearly records Foreign Direct Investment and Portfolio flows in its financial account. The country's inconsistencies in its data-collection methods could be clearly observed by looking at the Philippine development. In 2005 the Philippine had three million legal workers and approximately two million illegal immigrants abroad. The diaspora transferred in excess of $11 billion to the Philippine, contributing 14 percent towards the country's GDP (World Bank: 2006; Abella, Martin & Midgley: 2004).

5.2.3 The impact of an effective banking sector on remittances

The banking sector is another related financial territory that has significantly changed the flow of remittances. It has become one of the most important institutions that many labour exporting countries have strategically restructured. Stressing the importance of the banking sector in the remittance discipline Orozco (2004) underlines the fact that, at some point, remittances involve the banks. Therefore the banking sector should not be led, but should play a leading role in devising mechanisms directed at increasing remittance flows. The emerging world's view is that the banking sector should be strengthened in order to create a powerful competition that will stimulate the free flow of remittances. A competitive banking sector is critical for a number of reasons, but the prevalent ones are the ability to lower transaction costs and enhance technology transfer. The remittance operating costs have frequently been singled out as the main element discouraging remittances or diverting remittances into informal channels (Massey: 2003).

According to the African Development Bank (2007) Morocco has done exceptionally well in encouraging an inflow of remittances. One of the practical strategies pursued by Morocco was to improve the efficiency of its banking sector, which was then followed by taking Banques Populaires (People's Bank) into major remittance source countries in Europe. The African Development Bank (2007) further notes that Morocco has the largest diaspora in the EU. It is not surprising therefore that almost 85 percent of its remittances originate from that region.

5.2.4 The impact of infrastructure and technology on remittances

Financial infrastructure and technology may not be separated from the competitive banking sector (Addy et al: 2003). Advances in infrastructure and technology have been discovered to have had a major positive effect on remittances. South Africa's banking sector is lagging behind when it comes to banking products' innovation directed at mobilising remittances. While Mexico is regarded as one of the exemplary countries with a sophisticated and more innovative remittance market as a result of its enhanced technology transfer (Addy at al: 2003).

Improved technology has made it easy for the government of Mexico to issue identity cards to its nationals in the United States. These cards are widely accepted by many financial institutions specifically for the purpose of opening up accounts (Yang: 2006). According to Freeman (2006) such measures have had positive impacts on the Mexican macro-economy, to such an extent that there has been a noticeable increase in the ratio of savings and investment to GDP specifically from the Mexican diaspora. The Inter-American Development Bank (2004) further points out that the intensity of the competition in the Mexican banking sector has produced products that help facilitate diaspora consolidation of housing finance projects, equity investment in venture capital, programmes to support micro and medium enterprises and capitalisation of remittances for economic development.

5.3 THE ROLE OF THE DIASPORA IN MOBILISING REMITTANCES

The aim of this section is to look at specific measures currently being considered by most labour-exporting countries with a view to enhancing the contribution of the diaspora in their economic development. Bougha-Hagbe (2004) defines diaspora as “international migrants who, although dispersed from their homelands remain in some way part of their community of origin”. For the purpose of the research the focus would be limited to measures that cultivate a policy environment that allows the diaspora to play a more meaningful role towards economic development through increased investment, diaspora bonds and entrepreneurial activities. While domestic policies of the labour-sending countries have been found to be of crucial significance in increasing remittances, there is a rapid growth of migrant associations in most major receiving countries.

Traditionally, the main focus of these migrant associations had been limited to orientation and welfare of the migrants in the receiving countries. The changing social structures for both labour-sending and receiving states have since transformed migrant associations from entities merely concerned with welfare of migrants into entities that play an increasingly active economic role (Cox & Ureta: 2003). Some of these prominent migrant associations include Organisation de solidarité internationale issue de l’immigration (OSIM) mainly by Africans and operating in France, Home Town Associations (HTA) in US by Mexicans and the Philippine’s Overseas Filipino Workers (OFW) operating internationally (Opiniano: 2004; Adams: 2003).

Alongside macro-economic reforms it is also critical to develop initiatives directed at attracting remittances to large-scale investments. Tirana (2006) observes that in many countries, when there are signs of stability and the indications are that the economy is ready to take off, members of the diaspora become more interested in establishing links with their countries of origin. India and China stand out as the model economies where remittances have had a major impact on investment. The International Labour Organisation (2006) notes that the Chinese command economic structure might have made it simple for its diaspora to invest in large-scale projects. In 2004, more than 55 million Chinese had already made an estimated $60 billion investment in the Chinese economy (Ghosh: 2006).

Tirana (2006) argues, for instance, that the levels of diaspora engagement and investment were higher in China than in India, largely because of the Chinese policy on its emigrants, which was more pragmatic and proactive. This development prompted the Indian government to institute a high-level committee aimed at finding innovative methods for mobilising diaspora investment. This programme opened up policy space resulting in the Indian diaspora in the US forming business partnerships with Indian-based entrepreneurs, especially in the Information and Communication Technology (ICT) sector which is currently impacting positively on the Indian economy.

On the other hand, in the case of the Philippines, it is argued that remittances from its diaspora have had no positive effect on the country's investment ratio (Abella et al: 2004; Galvez-Tan et al: 2007), whereas in Cuba and Armenia, for instance, and this is as a result of the Leninism economic model, the fall of the Soviet Union has had mixed results and also produced different policy environments for both countries. The Armenian diaspora, for instance, has attempted to invest in the country, but were severely affected by the uncertainty of the Soviet bureaucracy that still existed in that country, while the Cuban reforms have seen the remittance from its diaspora doubling (Barberia: 2002).

Secondly, diaspora bonds are proving successful in other countries. Addy et al (2003) and Sander (2003) note that the Philippine government had tried floating development bonds called Bagong Bayani (New Heroes), targeting migrant workers, but with little success. Also, Ghosh (2006) indicates that the policy misalignment in Egypt saw the government efforts to increase remittances by issuing bonds to its diaspora failing. This further attests to the view that remittance mobilisation initiatives cannot be isolated from other macro-economic policy objectives. Mexico and India have stable macro-economic environments. Migrant bonds in India are outstandingly successful, while Mexico has not ventured into it. The country's Resurgent India Bond (RIB) and Millennium India Bonds (MIB) are the most popular initiatives to attract remittances. Ketkar and Ratha (2007) report that migrant bonds by the Indian government had had a very strong effect on stimulating remittances to India. This principle is comparable to South Africa's Retail Bonds except that India's bonds are more targeted at its diaspora.

Lastly, other labour-exporting countries such as Brazil have sought to make use of its citizens in diaspora even before they return to their country of origin. The Brazilian Service of Support to Micro and Small Companies (SEBRAE), an equivalent of South Africa's Small, Micro and Medium Enterprise Developments (SEDA) has now extended its mandate to its overseas diaspora. For instance the pilot project in Massachusetts, US, aims to establish and promote entrepreneurial activities for Brazilians who wish to set up small businesses on return (Inter-American Development Bank: 2004). Like SEDA, SEBRAE is a government-owned agency. Comparing this initiative to Morocco and Ghana where large flows of remittances have been channelled into small-scale businesses, into setting up commercial establishments in the SMME sector in food processing, driven purely by migrants without government's facilitation, chances of these projects succeeding are clearly not as high as in the case of Brazil.

Literature finds the continent of Africa to have weaker macro-economic fundamentals and inconsistencies in the application of policies, which affect its ability to increase remittances. This dampens the pace with which remittances impact on economic development (African Development Bank: 2007). For example, a comparative outlook by Agunias (2006) find remittances to have reduced inequality and poverty, and increased school attendance in Mexico, while in Ghana, for instance, there is no evidence that it has changed school enrolment.

5.3.1 Potential role of the South African diaspora

For South Africa, it would appear that cultural identity lies at the heart of government's laid-back approach in preventing what could easily be described as the disintegration of the rainbow nation. There is a feeling of hostility as the government of South Africa feels strongly that emigrants are unpatriotic. Ghosh (2006) finds that the same unfriendliness existed in India until the government launched a high-level committee on the diaspora. Its mandate was not only limited to improving the relations between the government and diaspora but included developing mechanisms aimed at improving the flows and investment of the Indian diaspora.

First, it is highly unlikely that the South African government does not see any potential role for South African expatriates, especially those in countries such as Australia and United Kingdom. The South African diaspora based in these countries have established websites and newspapers for communication, albeit amongst themselves. In Australia, for instance, South African expatriates have created websites such as **rainbownation.com, saaustralia.org, sabona.com.au,** established newspapers and magazines which the government can easily tap into. The government's attitude towards its diaspora can have unfavourable impacts in a quest to mobilise remittances. Furthermore, the South African Network of Skills Abroad (SANSA) has a very good objective which, regrettably, does not enjoy government support. The purpose of the organisation is to attract the South African diaspora abroad back to the country. It is unfortunate that its purpose seem to be limited to returning the skills as opposed to mobilising all forms of resources, from skills, capacity trade and remittances to investment. The government of South Africa must consider using these forums to its own advantage.

Secondly, it is equally concerning that a country that has led African Renaissance and Pan Africanism, culminating in the first World African Diaspora Summit soon to be held in South Africa, seem not to appreciate that, by virtue of having been naturalised in Africa, people of European and Indian descent are part of the African diaspora and therefore ought to be mobilised like any other indigenous South Africans. For the government to think that emigration trend is only unique to South Africa is an oversight. Opiniano (2004) states for example that in the Philippines two out of every five Filipino would like to immigrate, but this does not make Filipinos less patriotic.

The government's limited interest and negative attitude towards the diaspora inhibit the objectivity and delicacy with which this matter should be pursued. The Organisation for Economic Co-operation and Development (2004) indicates that many countries have realised the value of the diaspora by instituting forums aimed at encouraging the diaspora to dialogue on many issues, including economic development, the right to political representation in national governing bodies, right to dual citizenship, right to vote and other related rights as deemed necessary (Sorenson: 2004).

5.4 THE ROLE OF BILATERAL, REGIONAL AND MULTILATERAL AGREEMENTS ON IMPROVING REMITTANCE FLOWS

The literature on mobilising remittances has generally over-stressed the policy environment in the labour-exporting countries. There are, however, other growing strategic approaches such as using bilateral, regional and multilateral agreements in order to improve remittance flows. Bilateral agreements are mutually agreed positions between the two countries on the type of approach to be pursued, with regional agreements referring to those taken at Regional Economic Community (REC) level, while multilateral agreements, often called partnerships, involve intercontinental/interregional initiatives such as Africa-EU, Africa-Japan, etc. Remittances are gradually becoming a priority in multilateral forums that have, for years, been focussing on trade and investment (De Vasconcelos, Terry and Wilson: 2005).

With respect to initiatives at intercontinental and multilateral level as a basis for discussion, the dialogue on migration and development featured prominently in the Africa-EU Strategic Partnership, which was an outcome of the Africa-EU Summit that took place in Lisbon, Portugal in December 2007. This summit once again underlined the significance with which remittances have become a feature of globalisation. Africa and the EU jointly agreed that migration and remittances are intertwined, with both parties stressing the need to double the efforts towards increasing the flow of remittances, reduction of transaction costs and creating an enabling environment for investment to grow. The joint declaration by both parties undertook to "…foster the linkages between migration and development, maximise the development impact of remittances, and facilitate the involvement of diasporas/migrant communities in development processes".

At regional level, it is not clear how the Free Trade Area (FTA) protocol on the free movement of humans will work out. Of the five major African Regional Economic Communities (RECs), namely Southern African Community Development (SADC), Common Market of East and Southern Africa (COMESA), Economic Community of Central African States (ECCAS), Economic Community of Western African States (ECOWAS) and EAC, all have provisions on the movement of people within their respective regions. Mattes and Mniki (2005) are of the view that, this development will likely benefits South Africa on every front in the SADC region by attracting neighbouring skilled immigrants and increasing its already intensified exports and services to the region, to the detriment of its neighbours. Therefore South Africa is still anticipated to dominate remittance outflows in the region. In the European Union region, since its enlargement, there has been a visible increase in remittances mainly to Western Europe, on the whole reflecting an increase in immigrant level to countries such as France, Spain, Italy, Germany and UK (World Bank: 2007).

The bilateral agreements, which often take the form of a Memorandum of Understanding, are a recent phenomenon. These agreements are not uniformly implemented but rather look at the special interest of a particular country in question. For instance nursing would predominantly be an issue of interest for the Philippines, Information Technology (IT) experts for India and doctors for Cuba. The literature has advocated the use of bilateral agreements, but with little attempts by labour-exporting countries to rationale them (Cadavid: 2004; Ratha: 2003; de Haas: 2005). Agunias (2006) argues that very few countries have taken the opportunity of using bilateral agreements.

According to Freund and Spatafora (2005) the Philippine is the only country that has, over the past few years, despite having exported labour for more than four decades, entered into a bilateral agreement with Asia-Pacific, Middle East and Europe, the regions where most Filipinos work. Galvez-Tan et al (2007) further point out that the Philippine's view of these bilateral agreements is not only limited to mechanisms directed at increasing remittances, but on investment in training, skills transfer and scholarships. Holtz-Eaken (2005) shares this view in that developing nations must approach remittances not only as a form of compensation, but as a mechanism to develop their depleted human capital. He emphasises the need to mandate the wealthy countries to go beyond creating an environment conducive for migrant workers, but in addition, take an active interest in the development of skills for people in the country of origin through, inter alia, training, making study loans, bursaries and subsidies available.

South Africa has a Memorandum of Understanding (MOU) with Cuba to supply the country with health officials, particularly doctors (Blunden: 2008). South Africa is fully cognisant of the impact that these remittances have on the Cuban economy, yet it has not even attempted to adopt this model with countries like Australia, Canada and the UK. This raises the question of whether it is wise to confine Ricardo's theory of comparative advantage only to tradable goods. Cuba has used its relative advantage on health-care expertise very successfully. This is another lack of foresight on the country's part when a country like Kenya, with a sizeable diaspora in the UK, after South Africa, Nigeria and Ghana, has begun drafting a text that will guide its bilateral discussion with the UK on migration and development issues (UK International Development Committee: 2004).

The Trade and Development Cooperation Agreement (TDCA) between South Africa and the European Union is due for review. Understandably, the initial agreement did not have an article on migration, and strikingly the current text that forms the basis for discussion does not have an article on migration and remittances. The Moroccan-proposed FTA with the European Union involves facilitation of migration for development (Sorenson: 2004). Through this, the Moroccan government aims to increase not only the presence of Moroccans in the EU, but mainly remittances. It is therefore important for South Africa to recognise that it is not an island but an entity that is interdependent on other entities. Bilateral agreements can, to a certain extent, address issues related to migration and remittances.

5.5 CONCLUSION

The purpose of this chapter was to discuss various approaches by different countries on migration and remittances with a view to counselling South Africa on what might be its best possible course of action. Several dimensions such as the use of macro-economic environment, diaspora and partnership agreements from the four countries India, Mexico, Morocco and the Philippines were compared to developments in South Africa. The comparative analysis reveals a number of underlying flaws that, when studied unilaterally without being compared to other countries, may not be discovered. A comparative analysis helps to identify shortcomings on the current migration and remittance initiatives from the countries under examination, while also identifying best practices that South Africa can model for its own development.

Based on the realities of migration as a phenomenon that can only be manipulated but not prevented, it becomes clear that South Africa has no appreciation of this fact. It is notable that, compared to other countries, there is absolutely nothing that has been done to encourage the inflow of remittances into South Africa. The country has not taken advantage of its macro-economic environment, it has not taken advantage of its diaspora overseas or taken advantage of growing bilateral agreements. The study finds that among many initiatives aimed at addressing brain drain, the countries reviewed displayed a strong orientation towards making good use of return migration, intensified training measures and improved data-collection mechanisms. The amount in remittances that South Africa receives does not tally with the number of outward migrants reported annually. Clearly this incompatibility points to the data-collection flaw in South Africa. There is thus a necessity to strike a balance between the two in order for remittances to provide a bridge between migration and development.

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CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

6.1 CONCLUSIONS

The economic impacts of migrant remittances have, in recent years, received considerable attention from scholars, policy makers and development practitioners all around the world. The flows have grown quite significantly to become the second major supply of external finance after foreign direct investment. Remittances have progressively become the world's most researched area despite the fact that little is known about the subject in South Africa. The aim of this study was to sensitise policy authorities to the potentially positive impacts that the flows have on economic development. The study brings to light the importance of harnessing a remittance framework to an all-inclusive development strategy. The financial sector is a very significant sector in South Africa. The government's efforts, aimed at encouraging foreign direct investment, have yielded modest to poor outcomes. Instead, these efforts have transformed into a much more erratic portfolio flows.

The country's growing emigration creates a forceful case for South Africa to set up mechanisms not only to examine remittances, but also to administer migration. The flows have steadily provided evidence of being a useful tool towards economic development. It is essential that an analysis on how to balance the benefits stemming from remittances without necessarily obstructing development is undertaken. The study does not seek to debate, for instance, that what works for Cuba, Cape Verde or Lesotho will work for South Africa. However, it argues that the country should begin to explore promoting remittances as an instrument for development. This requires expansive examination of other remittance-related disciplines such as the domestic environment, the policy on migration, brain drain, global financial trends etc.

Chapter 2 analysed the theoretical determinants of remittances. It answered the questions why people migrate and why they remit. The two most vital theories in support of the explanation of remittances, which also answers the two questions, the neo-classical and NELM, were discussed. The two theories are very fundamental in formulating a remittance framework and are complementary. The neo-classical theory of migration, for example, falls short of explaining some of the more underlying dynamics relating to remittances. For a long while it had been assumed that the stock of migrants abroad is the only determinant of remittances. The theory appears to have been taken for granted that higher wages, improved working conditions abroad as well as exchange rate differences will propel people to migrate in numbers and therefore to remit, when in reality it is not necessarily so.

The NELM has taken the analysis further by asserting that, even though there are millions of migrants abroad, it does not in itself guarantee that remittances will intensify. The theory brings to the fore the influence of family on remittances. It states that migrants remit earnings to their home countries for reasons ranging from humane, family strategy to insure against unfavourable market conditions to self-interest reasons. The theoretical blending of the two theories further demonstrates the neo-classical ambiguities and areas where NELM have been incredibly elaborative.

With respect to South Africa, there are two key things that the chapter suggests should be examined. Whilst the neo-classical theory imply that migrants take advantage of opportunities offered by foreign markets in terms of wage, interest and exchange differentials, for instance, it does not, however, explain the effect that structural changes have had on the migrants' decision to emigrate. The NELM makes realistic assumptions about family role in remittances but this pattern is also unknown in South Africa.

Chapter 3 focused on the developmental dimensions of remittance on economic development through looking holistically at the debates in favour of or in opposition to remittances. The analysis was further expanded to include one of the most primary critiques against promoting remittances as tool for development , namely brain drain. Using the optimistic and pessimistic views as a foot for discussion, critical arguments were raised in support of or against encouraging remittances. There is a wide consensus in the literature that, despite events having demonstrated that remittances bring sustainable development, it is incumbent upon developing countries to be wary of the generalisation that remittances improve economic development. In other words, countries have to exercise caution not to assume that development through remittances is automatic.

The development dimension or maximum impacts of remittances depend on the policy efficiency as practiced by the emigration countries. A concern was raised that this subject matter seems to attract interest in South Africa in as far as it is perceived to exacerbate brain drain. The concept brain drain was defined and it became clear that based on its definition it is difficult to conclude that South Africa's emigration represents a brain drain. The chapter argued that emigration is not the same as brain drain. It is only through credible statistical information that distinguishes between tertiary qualification and scarce skill competence that one can conclude that the country is experiencing enormous brain exit. This information is unknown since emigrants are not obliged to disclose this information on departure. However, the chapter argues for a remittance framework that looks beyond just encouraging remittances. The framework should consider the skills depletion that goes with migration and use remittances to mitigate some of the adverse effects by creating a pool of skilled workforce.

In chapter 4 the main objective was to highlight the fact that international migration is a natural phenomenon that cannot be prevented. However, a consequence of migration is remittance flows that can to a large degree be encouraged to achieve greater economic development. The chapter drew attention to the influence of migratory trends on remittance development. While both phenomena have registered an unrestrained trend over the past four decades remittances appear to have grown considerably higher than international migration. Remittance flows have surpassed overseas development aid and come second behind foreign direct investment.

The chapter also looked at the remittance spread among countries and regions. The world's leading beneficiaries, as far as remittance is concerned, are India, the Philippines, Mexico and China to mention just the few. Regionally, though Asia is increasingly bridging the gap but Latin America and the Caribbean still dominate the flows. This section revealed two most critical areas based on trends that oblige governments to establish a policy setting, which will enhance the efficient use of remittances, but also guarantee non-exhaustion of the labour supply. Firstly, it discovered that whilst Sub-Saharan Africa remains the region that benefits least from remittances, it also sends more skilled labour abroad than the other regions. Paradoxically, this development does not match the amount of remittances that the region receives. If, data-collection mechanisms and policy environments are not improved the region is likely to remain the lowest receiver and an industrious user of remittances.

The chapter concluded by summarising the likely future developments in the remittance field. It cautions that, even though economic and political reasons have defined the nature and concentration of remittances in the past, environmental and socio-demographic dynamics are set to create a new wave of migration which will afterwards revolutionise the face of remittances. Given these developments it becomes imperative that encouraging remittances should be a cautiously guided exercise.

In chapter 5 the emphasis was more on comparing policy approaches by the leading recipient countries such as India, Morocco, Mexico and the Philippines.

Some of these experiences are contrasted to the current national developments with a view, amongst others, to benchmarking South Africa with respect to the risks posed by the country's passive attitude towards increasing international migration and to identify the best practices for its own development. A comparative analysis would help the country to establish a well informed policy stance on this issue. The comparison was done randomly by looking at South Africa's strengths, such as its macro-economic policy environment, as well as its weaknesses such as the laid-back approach on its diaspora as a first point of call in mobilising resources.

In terms of macro-economic environment the study demonstrated that whilst the four countries under inspection, namely Morocco, Mexico, India and the Philippines, have similar stable settings, they seem to have different approaches than South Africa. For instance, financial liberalisation and improving data-collection mechanisms in India led to a substantial leap of remittance flows within the shortest period of time, while the banking sector overhaul and infrastructure technology in Morocco and Mexico respectively improved remittance flows to those countries. It is argued that South Africa has not used its macro-economic environment wisely.

Looking at the role of the diaspora, the study shows, for example, how the government of India, after taking initiatives to strengthen relations with its diaspora, altered the value of remittances to India. For some time the Indian diaspora had played a negligible role in the Indian economy but the government intervention changed that. The chapter went further to analyse the role of bilateral, regional and multilateral agreements in promoting remittances. For instance, the Philippines and Cuba are two countries that have used bilateral agreements quite fruitfully – not only to increase earnings but also to facilitate a transfer of skills. These are all critical interventions necessary in formulating a well balanced, progressive and liberal remittance framework.

6.2 RECOMMENDATIONS

Clearly there is an increasing global rivalry for skilled migrants and remittance flows of which South Africa appears to be reactive. An important question is how long a significant subject matter like remittances will remain alien to South Africa. The remittance inflows into South Africa have been a mere coincidence. Hence the study strongly advocates that, instead of being a spectator, the government must begin leading from the front. There is an enormous responsibility awaiting the government. For a country like South Africa, which has done absolutely nothing to research this phenomenon, this section put forward some policy interventions that may enhance the understanding of the subject?

This would, in turn, ensure that a remittance framework being developed improves the flows while ensuring that the skills base remain undamaged. Remittances cannot be clearly studied without researching migration patterns. The following aspects of the policy proposals would thus go further than prescribing a remittance promotion strategy, but also look into proper management of migration.

- For the development of a knowledgeable policy framework it is generally accepted that reliable statistical data is vital. Both the Departments of Home Affairs (DHA) and National Treasury or South African Reserve Bank (SARB) are certainly to be held responsible for the lack of data of the number of people working abroad as well as the amount of inward remittances. Firstly, the DHA, by its own admission, does not compel emigrants to disclose their status or qualifications on departure, nor does it have a reliable database for all emigrants. So far, the South African Statistics rely on the mirror data as reported by host countries such as the UK, the US, Canada and others to estimate the extent of out-migration. Secondly, SARB does not have credible statistics on inward remittances. Contrary to the government of India, for instance, which distinguishes among various types of flows in its financial or flow-of-funds account, SARB is relatively ambiguous on this. The emphasis seems more on recording portfolio flows, FDI or even outward remittances as opposed to inward. It is difficult to attribute this to capacity constraints. It is rather a case of South Africa underrating remittances flows. It is recommended that data-compilation mechanisms be put into place. The country should develop measures to calculate and correctly classify remittances on financial account.

- It is also imperative that South African authorities begin participating in other multilateral discussions regarding remittances in order to develop a policy framework that reflects international perspective. The International Monetary Fund (IMF), African Development Bank (AfDB) and the World Bank, to mention a few, regularly hold Ministers' and senior government officials' workshops, symposiums and seminars to discuss how the impacts of remittances can be deepened. It is suggested that South Africa should consider participating in these forums.

- The country has not employed bilateral agreements wisely. Joint Binational/Bilateral Commissions (JBCs) forums should, on occasion, be used to engage other countries and to persuade them not only to invest in capital, but also to help the country's education system in order to produce more skilled labour. South Africa's Department of Health has this type of arrangement with Cuba where, instead of paying salaries to the Cuban doctors, funds are transferred directly to the government of Cuba. It is recommended that South Africa begin to explore this arrangement with countries where there is the highest concentration of South Africans in diaspora such as Canada, Austrialia, the United Kingdom and United Arab Emirates.

- During the apartheid period in South Africa the diaspora abroad played an important role, but the diaspora of other countries play a much more prominent role towards economic development. The hostility and labelling of the diaspora as non-loyalist and non-patriotic is short-sighted. The government of South Africa should reach out to its diaspora and there are many ways to do this. The government can encourage the diaspora to take part in the political decision-making process, it can provide incentives such as bonds, it can encourage its diaspora to own South African bank accounts and property, it can relax some of the exchange controls with regards to money transfers, and it can advertise and tailor-make small to medium investment projects that requires financing. To achieve this objective government can partner with non-governmental organisations such as SANSA. The government can also make use of the diaspora's communications platform already in existence to show compassion as well as underline the potential contribution that the diaspora can play towards economic development.

- Lastly, the South African banking industry is very uncompetitive and charges exorbitant transaction fees. High transaction costs have frequently been mentioned as the root cause behind the informal transfer of remittances. Transaction costs and the financial infrastructure creativity should therefore be reinforced in order to make it less expensive to transfer money back home. This should also be supplemented by initiatives that restrict cash-to-cash transfers for statistical purposes.

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