Enhancing the Development Impact of Migrant Remittances and Diaspora: The Case of Viet Nam

As a failure of development but increasingly as an integral part of the whole process of development with a potentially important role to play in the alleviation of poverty.

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In a traditional viewpoint, migrants are both pushed by lack of opportunities at home and pulled by the hope of economic gain. A search for a better life is often underlying the movements. Development processes affect and are affected by migration flows. Migration can help to achieve this by associating people more closely with available economic opportunities, employment and services. This thesis remains relevant today. Both internal and international migration is on the whole contributing to development and poverty reduction (IOM, 2003). The

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monies sent back by migrants contribute more to national and local economies than trade in several countries. Registered remittances to the countries of origin were estimated at US$100 billion in 2004. It represents roughly one and a half times official development assistance (Newland, 2004). In addition, a large, unknown amount is transferred through informal channels or to countries that do not report statistics on remittances. A major reason to transfer money through informal channels is the still inadequately developed banking systems in countries of origin. The effects of remittances on development are often complex and contradictory, but seen in a positive light by a majority of researchers.

As most remittances, either in cash or in kind, are sent back to the migrants' family members and relatives, the most obvious impact of remittances is to support the subsistence and incomes of households in the places of origin. Remittances do not only increase the individual household income, a part of them can also be channeled into investments and contribute to the growth of local economy. The use of remittances for private consumption may even stimulate demand, which may create local markets and jobs for non-migrants. Although the proportion of total income from remittances may be less in poorer households, the relative impact is likely to be greater (Skeldon, 2002). Among the poor, a larger proportion of remittances may possibly be spent on consumption rather than on investment, but remittances directly increase the household income of those families and amount, in many cases, to over 50 per cent of the total household income (Dang, 2003).

Maximizing remittances and their development impacts

The label "remittances" subsumes a variety of transfer types that have different potentials for development. First, there are classical and most common intra-family transfers that are usually associated with the word remittances: money or gifts sent by a migrant to his or her relatives in the country of origin. Second, there is what might be called "personal investment transfers", either in the form of regular deposits, or in the form of a one-off transfer upon visit or return. Third, there are collective transfers, usually directed towards a shared beneficiary, for example through a village/hometown association. Finally, remittances can be charities that overseas migrants support for the neediest in home countries. Those different types of transfer have different relative importance, depending upon destinations of migration and the maturity of the diaspora as well as the diaspora management (Shain and Barth, 2003).

The links between migration and remittances are self-evident. Both have a strong correlation to poverty reduction in home countries. New empirical findings resulting from an international study of 74 low and middle-income developing countries reveal that on average, a 10 per cent increase in the number of international migrants in a country's population can lead to a 1.6 per cent decline in the poverty headcount. Similarly, a 10 per cent increase in the share of remittances in a country's GDP can lead to a 1.2 per cent decline in poverty (see Page and Adams, 2003). It should be noted that the impacts of international migration on poverty vary by region, probably owing to the fact that migration statistics fail to accurately capture the numbers of undocumented migrants. The tendency to remit varies depending upon factors such as the strength of the migrant's kinship ties and his/her intent to return to the country of origin. Migrants who intend to return tend to remit more funds than migrants who are permanently integrated into host countries.

Remittances have generally better local investment potential where modern and flexible financial infrastructures exist and where government policies are capable of supporting migrants' financial needs. Specific challenges include improving financial infrastructures in terms of reliability and outreach, adjusting existing regulations to reduce obstacles to formal remittances and improving the quality of data on migration and remittances. From the perspective of the migrants, informal transfer systems offer inexpensive and reliable alternatives to formal transfers where those are lacking or inadequate.[1] Indeed, weak banking infrastructures and restrictive regulations have the effect of encouraging the use of informal channels making remittance flows even more difficult to quantify and lessening their development impact. The challenge is therefore to devise regulatory regimes, which are flexible and inclusive enough to encompass both informal and formal sector approaches.

In the case of the Philippines and India, rapid increase in volume of remittances over the past few decades and the fact that remittances have remained less volatile, impervious to economic slowdowns, and will most likely increase in the foreseeable future in tandem with continuing emigration from those countries. In the Philippines, remittances in 1974 amounted only to US$ 103 million annually. Today, the country receives US$ 7 billion annually. Moreover, over 800,000 Filipinos continue to migrate annually creating the potential for further significant growth in remittance flows to the country. In India, 74 per cent of the trade deficit is financed through remittances receipts. Both India and the Philippines have engaged in proactive strategies to attract remittances and foster the use of formal channels and enhance development impacts. For instance, over the past 20 years, the Philippines has promulgated legislation granting incentives and privileges for remitters in terms of investment options, purchases of land, tax breaks, etc.

The role of overseas Vietnamese in Viet Nam's socio-economic development

Overseas Vietnamese includes any Vietnamese citizens, former Vietnamese citizens or descendants permanently residing abroad. It does obviously not include Vietnamese citizens temporarily working abroad for a fixed period such as diplomats, students and labour-exported workers. Viet Nam which once observed a massive outflow of refugees, technical experts and skilled workers, now acknowledges its overseas communities as a precious source of much needed capital and human resources on which it can draw. Today, there are about 3 million overseas Vietnamese all over the world, regardless of the timing of their migration, different generations and the circumstances under which they migrated (Committee for Overseas Vietnamese, 2005).[2]

Remittances

Before 1987, as the recipients of remittances were forced to withdraw the money in Vietnamese currency at the bank, many people preferred to receive goods and gifts that they could resell on the free market such as medicines, clothes, cosmetics, electrical and electronic devices, etc. The value of goods and money sent to Viet Nam by overseas Vietnamese in the 1908s was estimated to reach US$ 100-200 million per year.

With the policy reforms introduced in the mid-1980s, the whole economy started to benefit from the large-scale inflow of remittances from abroad. The level of remittances by overseas Vietnamese is already rather high in terms of the total inflow to the country and the level of sending by each overseas Vietnamese household. If one divides the figure for the total remittances from abroad in 2001 by 2.7 million, the average amount of remittances sent by one overseas Vietnamese is about US$ 1,000 per year. The impact of remittances seems to vary considerably at the individual and regional levels. For example, out of US$ 1,754 million as remittances from overseas Vietnamese in 2001, US$ 880 million was repatriated via banks in Ho Chi Minh City.

In an effort to encourage more overseas Vietnamese to remit and invest in the country, the Government announced in February 2000 that it would begin to dismantle the two-tiered pricing system that offers lower prices to Vietnamese than to foreigners for travel and many other services (*Migration News*, March 2000). In an effort to further facilitate the flow of remittances, in 2002, the Prime Minister's Decision 78 was issued to expand the types of institutions that could receive and deliver foreign currency remitted by overseas Vietnamese to their relatives in the country.

A remarkable amount of remittances of over US$ 3 billions was reported in 2004. Over 90 per cent of remittances were received in cash while the remaining 10 per cent were in kind. The figure is equivalent to the total export value in the given year. This does not include the amount of remittances, both in kind and cash, sent directly by migrants to their families. If those informal flows were included, the level of remittances sent by Vietnamese overseas would be much higher. Migrant remittances have contributed significantly to foreign exchange, living standard improvement, and economic development.

Although overseas Vietnamese were not senders of the highest cash remittances, the rapid increase in the total amount of remittances through official channels from the late 1990s until 2004 indicates that government policy towards facilitating remittances have generally been successful. About US$ 1 billion of the remittances sent by overseas Vietnamese have been used for small-scale investment purposes, not directly for consumption. Greater efforts should be made to record the amount of remittance monies that are transmitted through private, informal or unofficial channels. A full and complete accounting of the impact of the remittances on development needs more accurate data on the large and currently unknown level of unofficial remittance transfers.

While remittances seem to have distributive consequences that may merit the concern of policy makers, there is no doubt that this capital inflow has supported Viet Nam's economy in its most critical time and crises in 1970s and the 1980s to the new stage of development in the late 1990s. Remittances from overseas migrants have played important economic and social roles. Successful migration can provide adequate incomes to prevent the migrant's family from falling into poverty, and even raise its living standards. It is very obvious that family incomes in rural areas are significantly improved by migrant remittances.

Remittances are often used to improve the living standards of migrants' families, and are used for consumer goods, better housing, education of children, rather than for immediate needs (Dang, 2003). Remittances are less volatile than other financial inflows and their use can have a number of multiplier effects in the local economy.[3] Investment in education and health care have investment type effects which can help raise families out of poverty in the long-run.

Diaspora investment

Aside from remittances, there is strong evidence on investment that overseas Vietnamese have made in their local communities. As of 2002, there were 60 projects under the Foreign Direct Investment Law (with a total registered capital of about US$ 440 million) and about 700 enterprises under the Domestic Investment

Promotion Law (with a total registered capital of about US$ 65 million) set up by overseas Vietnamese. Those figures indicate that the number of enterprises established by overseas Vietnamese has been increasing since the Domestic Investment Promotion Law came into force (1996).

Despite efforts by the Government to improve the investment climate for overseas Vietnamese, the number of enterprises established by overseas Vietnamese has not been increased throughout the 1990s. It is noted that projects by overseas Vietnamese are generally small. Except for a few large projects in the oil and gas sector, the majority of projects are just over US$ 2 million, in such sectors as trade, tourism and other services. The Vietnamese authorities also welcome investment in agriculture as a means of modernizing the rural society and farming production in Viet Nam.

Another investment-related role of overseas Vietnamese is a “bridging” role between Viet Nam and foreign investors. Many overseas Vietnamese are holding in key position in major foreign companies located in Viet Nam. Those people are expected to be able to facilitate interactions between the foreign and Vietnamese sides by helping the foreign investors to better understand the business environment of the country, and introducing different potential business, advanced management techniques, etc. Besides the direct investment, overseas Vietnamese also contribute to increasing indirect investment through remittances to relatives in-country for investment purposed, as mentioned above.

Knowledge/technology transfer

Compared with remittances to and investment in home country, technology transfers are areas where the potential of overseas Vietnamese does not seem to have been fully utilized. Indeed, figures such as 60 FDI projects and 700 domestic enterprises do not seem very impressive, especially considering the recent policy drive to improve foreign and domestic investment environment. One way for overseas Vietnamese skills and knowledge to be repatriated is undoubtedly through investment (including cases where those workers are employed by foreign-invested projects as experts or managers).

Some factors can be identified to account for those modest figures. First, the figures for investment do not show the real scale of overseas Vietnamese investment in the country, as many people use their relatives’ names when operating in the country. Second, as acknowledged by the Government, the capital accumulated by overseas Vietnamese is no match for that accumulated for example by overseas Chinese. The Vietnamese diaspora has only a short history, and some of the most successful cases are found among professionals rather than entrepreneurs and business men. Third, there also seems to be psychological factors that make potential overseas Vietnamese investors hesitant to initiate or expand operations in Viet Nam. Those psychological factors often derive from the remaining sensitivities in the relations between overseas Vietnamese and their homeland.

A visible attempt to mobilize overseas Vietnamese's talent for national development is the Transfer of Knowledge Through Expatriate Nationals (TOKTEN) programme, which aims to match available expertise in the overseas Vietnamese community with domestic demand. The programme was first initiated in Viet Nam in early 1990 but it developed slowly. In its first 10years of operation, only 20 overseas Vietnamese experts were recruited under the programme. In 2002, the reformed programme established a roster of about 150 overseas Vietnamese professionals covering a wide range of sectors including information technology, industry, engineering, management and finance, medical and public health. It still remains to be seen how effectively the programme can operate.

Another area where the overseas Vietnamese are most welcomed to participate is education and training. The Government has organized several hearings and other events in recent years to gather the opinions of members of the Vietnamese diaspora on how to improve the education and training system in Viet Nam. Besides acting as lecturers in seminars and short-term courses, some overseas Vietnamese also invest in education and training sector projects or work with foreign educational institutions seeking to operate in Viet Nam. The initiatives can have a substantive impact on the development of the nation's human resources.

However, the contribution of overseas Vietnamese to Viet Nam's socio-economic development is not limited to the above cited three areas. For instance, Vietnamese residing in the former Soviet Union and East European countries are reportedly playing a significant role in the trade relations between Viet Nam and those countries. Many overseas Vietnamese are also involved in charitable activities in Viet Nam, through local organizations and networks or directly. The importance of the above three areas has been particularly emphasized by the Government.[4]

Discussions

Recent salient trends in international migration have included shifts in migration patterns such as the emergence of new origins and destinations for global migrant flows, the changing gender and age composition of migrant flows (as women and children migrate more and more independently from parents or spouses), increasing importance of temporary migration and South-South migration, and the increasing incidence of irregular migration including trafficking and smuggling of migrants. It was pointed out not only that migration patterns are changing, but also that the perception of migration is itself changing (IOM, 2003). It is no longer simply seen as a failure of development but increasingly as an integral part of the whole process of development with a potentially important role to play in the alleviation of poverty.

In this context, it can be reaffirmed that remittances constitute one of the most visible contributions of migration to development in poorer countries. While the full extent and impact of remittances cannot be properly assessed without developing better data, those transfers contribute very significantly to poverty alleviation, by increasing the income of poor households. Migrants' remittances may have a greater effect even than traditional foreign aid. Remittances can constitute a form of reinvestment by migrants in their home countries and are part of a much wider spectrum of developmental effects of international migration. Interestingly, it is the contribution of human capital through skills and knowledge acquisition abroad (taken together with remittances) that will have the greatest long-term development impact, beyond that of remittance transfers alone.

With the increasing importance of migration in Asia, governments will need to put in place comprehensive policies designed to maximize the contribution of migration to economic growth and poverty alleviation. Available estimates and official data cover only the remittances flowing through the formal transfer system and hence underestimate the true level of remittances sent to home countries. There is a pressing need for better migration and remittance data. Even in those countries that do collect migration data, the data often remain unpublished and the same recurring open question persists as to how much money is transferred through informal channels.

In this regard, the roles of diaspora communities in home countries are yet to be well explored, especially in relation to the economic development of the countries of origin, poverty reduction and the economic exchange between sending and receiving countries. Remittances are far from being the only vehicle for the diaspora's influence on the incidence of poverty in home countries. For many countries, those transfers are a major source of foreign direct investment (FDI), market development (including outsourcing of production), technology transfer, philanthropy, tourism, and more intangible flows of knowledge, new attitudes and cultural influence.

The present paper examines the impact of the established Vietnamese diaspora on the national development and identifies ways in which policy interventions could strengthen that impact. The Government should consider providing assistance and logistical support to build and strengthen diaspora networks that have a strong developmental potential, such as those devoted to cooperation in business or information technology.

In the past quarter of a century, Viet Nam has shed more than two million people who have settled in the United States of America, Europe, Australia and various other countries. Hundred of thousands of overseas Vietnamese have returned to visit their home country and run new business. A couple of billion dollars is remitted from abroad every year; those remittances have become an increasingly important feature of the Vietnamese life. In addition, a few hundreds of experts and intellectuals travel to Viet Nam annually on short-term assignments with Vietnamese counterpart organizations, and several dozens have brought in a more or less large amount of capital.

The overseas Vietnamese community has been and will continue to be a great asset to the home country. The question that requires to be addressed is how policy makers can create conditions to mobilize this asset more effectively for national development purposes. While there remain various technical problems, measures to specifically promote investment by overseas Vietnamese center on issues such as entry-exit regulations, prices and fees for certain services, ownership of in-country housing and property (to expand areas where overseas Vietnamese may enjoy equal treatment with the Vietnamese citizens and/or preferential treatment over foreigners). Many overseas Vietnamese investments have been implemented in another person's name (typically their relatives) to avoid possible disadvantages.

Although the general policy regarding overseas Vietnamese has been reasonably clear, decisive and consistent, a review of a number of policies at a more technical level reveal that specific regulations remain complicated, ambiguous and restrictive. Besides, there is the challenge of slow and inconsistent policy implementation at different administrative levels. Those obstacles are also likely to be part of the reason why the Vietnamese diaspora tends to invest under the names of local Vietnamese.[5]

The good news is that the Government is stepping up efforts to remedy the shortcomings in current policies. New demands are met step by step, despite many apparent entanglements. The gaps in harnessing the development potentials of the Vietnamese diaspora can be identified and overcome by addressing some of the major problems facing overseas Vietnamese investors; Viet Nam has committed to ensuring overall non-discriminatory treatment and eliminating unfair dual prices and fees for foreign investors.

Till recently, Viet Nam has been applying different investment policies between foreign investors and domestic investors. Overseas Vietnamese (together with foreigners permanently residing in Viet Nam) are entitled to choose between the two regimes when they invest in economic activities in Viet Nam. When the country enters the World Trade Organization (WTO) in the future, the same policy shall be applied to investors from all country members, including the Vietnamese diaspora, without requiring proof of the investors' origin, nationality and status. More importantly, the general investment environment in Viet Nam is likely to continue to improve as the country proceeds with intensive economic and administrative reforms.

It would be necessary to go beyond the realm of "policies towards overseas Vietnamese" to rebuild relationship between overseas Vietnamese and their home country. The attention is focused particularly on the economic and cultural cooperation with the Vietnamese diaspora. In this regard, the Government is not only devising financial incentives to try and attract remittances, but is also increasingly showing concerns about broader issues related to the lives of overseas Vietnamese, such as their cultural and information needs. Altogether, Viet Nam has so far been successful in handling this sensitive and complex issue, but there still remains an ongoing process that requires sustained effort to fully reap the benefits.

Lastly, while international migration is often recognized as an important source of foreign exchange and beneficial investment, the roles of internal migrants are often "invisible", reaching poorer stratum of the society. Many development-focused policy prescriptions seem to neglect the contribution that internal remittances can make to poverty alleviation and national development. As internal migration can serve as one of many livelihood strategies for poor people and a part of the development process, policies for domestic and international remittance flows are complementary, especially as internal migrant remittances are usually supporting households that are poorer and more vulnerable than households receiving international remittances.

Endnotes

1. For example, in Bangladesh, only 46 per cent flowed through official channels, 40 per cent through the informal *hundi* or *hawala* system (Siddiqui and Abrar, 2002).

2. Major groups of overseas Vietnamese (*Kieu bao*) include 245,000 persons in Australia, 1,300,000 persons in the United States, 200,000 persons in Canada, 250,000 persons in France, 100,000 persons in Germany, 300,000 persons in Russia and Eastern Europe, 40,000 persons in the United Kingdom of Great Britain and North Ireland, 15,000 persons in the Neatherlands, 12,000 persons in Belgium, 30,000 persons in Northern Europe, 12,000 persons in Japan, 110,000 persons in Taiwan Province of China and 100,000 persons in Thailand (Commission for Overseas Vietnamese, 2005)

3. Even when remittances are unproductively used to satisfy basic consumption needs, buying medicines, food, property, building houses or spending on wedding/funerals as well as daily life, they can affect local economy, create jobs and generate income (Taylor, 1999).

4. Different from Viet Nam; China; Taiwan Province of China; and India focus less on remittances in favour of pursuing three very different business-oriented models in seeking diaspora's contributions to national development. Taiwan Province of China has pursued a "brain trust" model, focusing on attracting human capital from the diaspora. China has long worked to attract direct investment and open trade opportunities through overseas Chinese communities. India's recently launched diaspora policy is multi-pronged, pursuing direct investment, portfolio investment, technology transfer, market opening and out-sourcing opportunities.

5. Such an example is the implementation of a regulation which allows overseas Vietnamese to buy houses. The process is too slow and its practical obstacles may well have a negative effect on those who already have mixed feelings about their roles and relationship with their home country.

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