

## Remittances from Korea to Southeast Asia: Trends and Implications

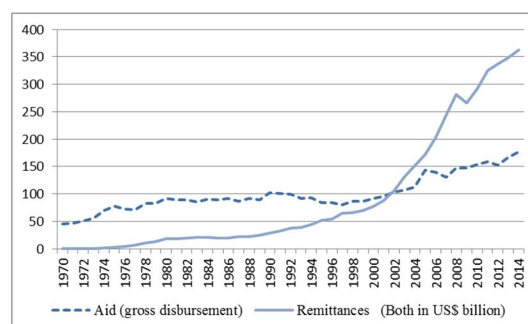
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### I. Trends in Global Remittances

Migrant remittances, money sent by migrants overseas back to their family and friends, have emerged as an important source of development finance. Remittances surpassed Official Development Assistance (ODA) in 2002 and the amount of remittances is now twice as large as ODA (Figure 1). In 2014, officially recorded remittances to developing countries reached US\$ 362 billion while ODA amounts to only about US\$ 180 billion.

Figure 1. ODA and Remittances to Developing Countries



Source: OECD DAC and World Bank.

As a source of development finance, remittances are known to be effective. Remittances directly augment household income and studies show that household spending in education and healthcare increase as a result. Both micro-level and aggregate data show that remittances largely reduced poverty. Although wheth-

er and how these development effects can be scaled up remains to be seen, development experts and policy makers are paying greater attention to remittances.

Remittances have a noticeable impact on development but carry significant transaction costs. This led to a growing interest in reducing remittance prices in the international development community. For example, G20 has set a goal to reduce the global average costs to 5 percent and called for action to promote financial inclusion including access to payments, savings, credit and other services related to remittances. To enhance the safety and efficiency of remittance transfers, World Bank and BIS have issued General Principles for International Remittance Services in 2007:

General Principle 1. The market for remittance services should be transparent and have adequate consumer protection.

General Principle 2. Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.

General Principle 3. Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

General Principle 4. Competitive market conditions, including appropriate access to domestic payment infrastructures, should be fostered in the remittance industry.

General Principle 5. Remittance services should be supported by appropriate governance and risk management practices.

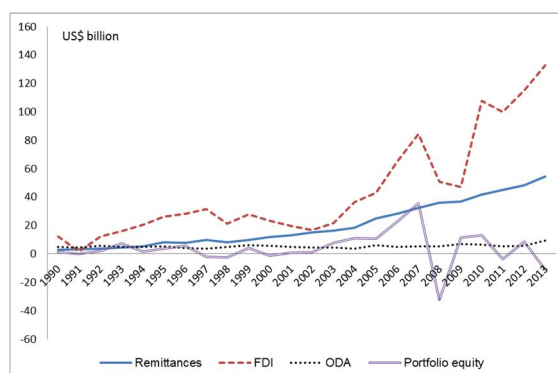
Yet, despite the fact that Korea is a source of significant amount of remittances, not much has been known about its outflows. This brief

surveys the recent trends of remittance outflows from Korea with a focus on Southeast Asia as its main recipient region.

## II. Global Remittances to Southeast Asia

Before examining remittance flows from Korea to Southeast Asia, it would be useful to discuss the trends of overall remittance inflows to the region. Remittances are the second largest type of external financial flows to Southeast Asia (Figure 2). Foreign Direct Investment (FDI) is usually far greater than remittances, but it is highly volatile and procyclical. The volumes of portfolio equity inflows have been much smaller and extremely volatile. ODA to Southeast Asia as a region has been stagnant and amounted only between 10 and 20 percent of remittances for the most part of the last decade. Therefore, remittances have shown much greater stability than FDI and portfolio inflows, not to mention being much larger than ODA as a source of development. This pattern is largely consistent with those of global external financial flows to developing countries.

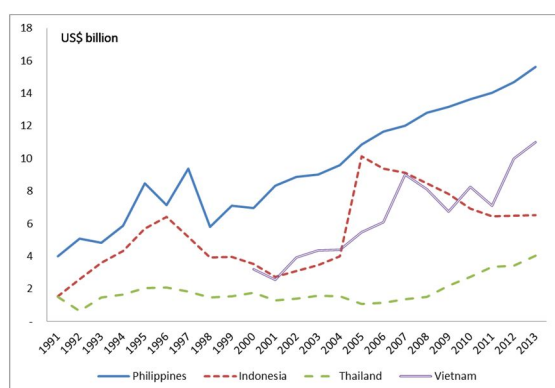
Figure 2. External Financial Flows to Southeast Asia



Source: World Bank.

Within Southeast Asia, the Philippines is the top recipient of remittances (Figure 3). In 2013, the country received US\$ 16 billion, followed by Vietnam (US\$ 11 billion). Other notable recipients were Indonesia (US\$ 7 billion) and Thailand (US\$ 4 billion). These remittances are sent from around the world by temporary migrant workers and permanent emigrants. North America and Europe tend to be the largest geographical source of remittances, yet the Middle East and East Asia also send substantial volumes due to their large migrant worker population.

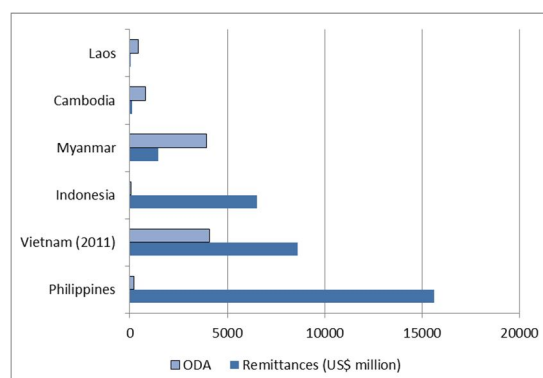
**Figure 3. Remittance Flows to Southeast Asia, Selected Countries**



Source: World Bank.

As a source of development finance, there is a substantial variation in the importance of remittances compared to ODA. In low-income countries of Laos, Cambodia and Myanmar, remittance inflows tend to be larger than remittance receipts both in absolute terms (Figure 4) and per capita (Figure 5). Whereas remittances are large, about twice the size of ODAs for countries like Vietnam, remittances to the Philippines and Indonesia are even larger, being 80 and 123 times as large, respectively.

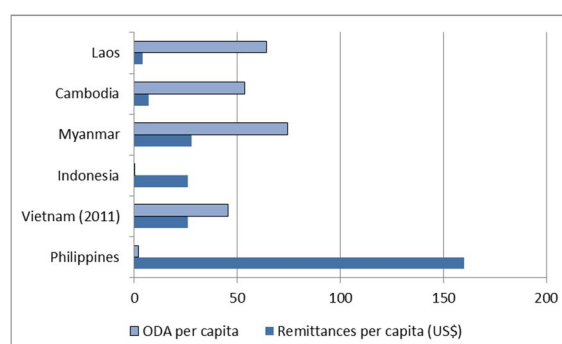
**Figure 4. Comparing Remittance to ODA inflows to Southeast Asia, 2013**



Source: World Bank.

The Philippines is also the top recipient country for remittance receipts per capita (US\$ 160) but it is interesting to note that Myanmar is in the second place (US\$28) (Figure 5). Indonesia and Vietnam are tied in the third place (US\$ 26). Remittances per capita surpass ODA per capita only in the Philippines and Indonesia, showing that ODA is still the primary source of development finance, especially in low-income Southeast Asian countries. The dominance of ODA over remittances in per capita terms is highly pronounced in Cambodia (US\$ 53 over US\$ 7) and Laos (US\$ 64 over 4).

**Figure 5. Comparing Remittance to ODA inflows to Southeast Asia, 2013**

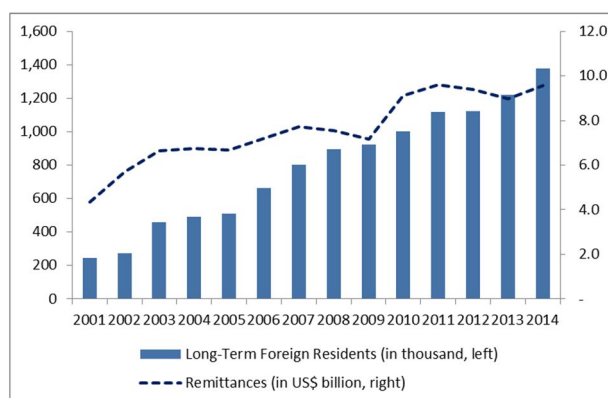


Source: World Bank.

### III. Remittances from Korea to the World and Southeast Asia

Remittances sent by migrants in Korea to their relatives back home around the world reached US\$ 9.6 billion in 2014 (Figure 6). This reflects the growing migrant population in Korea, which increased three times during the last decade. The number of foreigners staying longer than three months in Korea is now at 1.4 million, which is about 3 percent of the Korean population.<sup>1</sup> These migrants mostly consist of ethnic Korean Chinese, unskilled migrant workers from Asia admitted under the Employment Permit System, and marriage migrants also drawn largely from Asia. This rapid increase in migration accompanied a rise in remittance outflows. Remittances from Korea reached nearly US\$ 6 billion as early as 2002.

**Figure 6. Foreign Population and Remittance Outflows in Korea, 2001-2014**



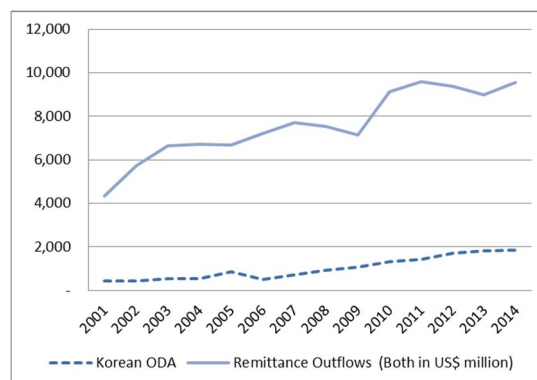
Source: Statistics Korea and Bank of Korea.

How does remittances from Korea compare with Korea's ODA as a source of development finance? The pattern is largely consistent with

<sup>1</sup> Counting foreigners with a long-term residence (longer than three months) visa

global trends, as remittance outflows far surpass ODA (Figure 7). Korea sent out five times as much in remittances as ODA in 2014.

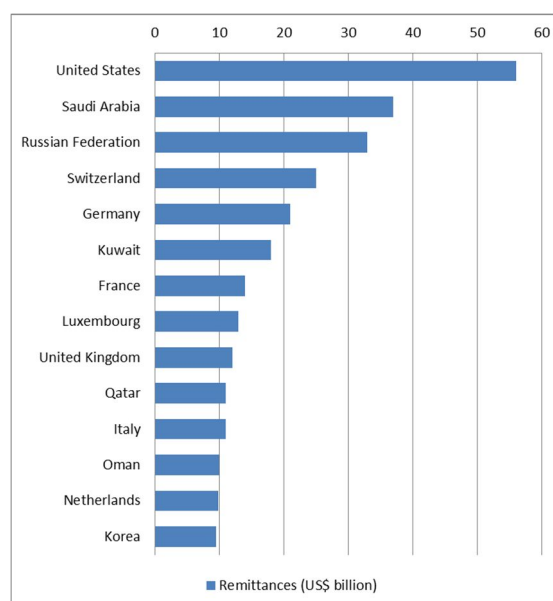
**Figure 7. ODA and Remittance Outflows from Korea**



Source: OECD DAC and Bank of Korea.

This makes Korea the world's 14th largest sender in 2014, after the Netherlands (Figure 8). The world's top remittance sender is the United States which sends US\$ 56 billion to the rest of the world. The second largest sender is Saudi Arabia with an outflow of US\$ 37 billion, followed by Russia and Switzerland.

**Figure 8. Top Remittance Senders, 2014**



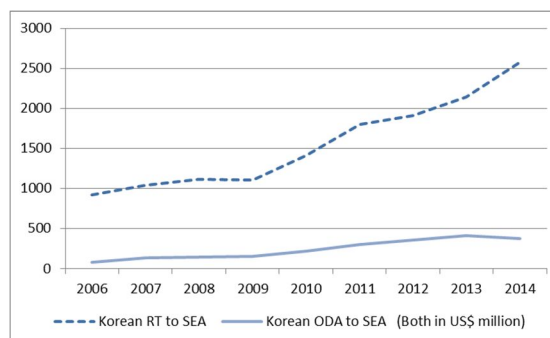
Source: World Bank.

Among the top 15 remittance senders, four countries are oil-rich Gulf Cooperation Council (GCC) countries which operate an extensive contract-based, temporary migration programs. GCC economies are heavily dependent on migrant labor and this makes them large contributors of remittances. In fact, GCC countries send more remittances than most industrialized economies in terms of remittances as a share of GDP, remittance outflows per citizen, and remittances per migrant.

The fact that Korea is one of the major remittance source countries is worth noting. Korea joined the OECD Development Assistance Committee (DAC) in 2010 and expanded its role of a donor in the international development system. Yet Korea has also emerged as an important source of remittances, mostly for Asian countries, which means that Korea's contribution to global development finance may be larger than previously thought.

Remittance flows from Korea to Southeast Asia have been on the rise and they have been constantly larger than its ODA to the region (Figure 9). In 2014, remittance flows from Korea to Southeast Asia stood at about US\$ 2.6 billion whereas ODA flows were about US\$ 380 million. It is also notable that remittances are rising much faster than ODA flows.

**Figure 9. Remittances and ODA from Korea to Southeast Asia**

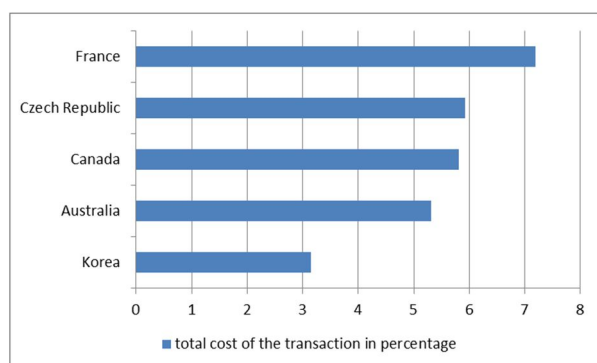


Source: Bank of Korea and Korea Eximbank.

World Bank has collected and distributed remittance price figures since 2011. According to its statistics, at the end of 2013, the global average cost of sending remittances was 8.58 percent of the amount sent and this represented a decrease from 9.81 percent in 2008 (In 2015, it stands at 7.53 percent).<sup>2</sup> Prices differ substantially according to the remittance corridors, reflecting the financial infrastructure and regulations of both source and recipient countries. For Korea, the main partner country is Vietnam. The remittance prices for Vietnam are the lowest with Korea, which is 3.14 percent in 2013 (Figure 10). In contrast, remittances sent from France costs as high as 7.19 percent. Other major corridors, mostly with the Western countries, cost between 5 and 6 percent. This shows that remittance transactions are relatively less costly between Vietnam and Korea.

<sup>2</sup> Remittance Prices Worldwide  
(<http://remittanceprices.worldbank.org>)

**Figure 10. Remittance Prices for Vietnam's Major Remittance Corridors, 2013**



Source: The World Bank, Remittance Prices Worldwide (<http://remittanceprices.worldbank.org>).

## IV. Policy Recommendations

Since remittances are an important source of foreign exchange and contribute to poverty reduction at recipient countries, they should be recognized as an important tool for development. For a country like Korea, including remittances in development statistics makes its contribution to global development finance much larger than is currently being acknowledged.

Despite development potential of remittances, it is difficult to liberalize immigration policy of developed countries simply to increase global flows of remittances. Immigration has complex socioeconomic and political consequences. Therefore, reducing the costs of transferring remittances and enhancing the efficiency of the overall payment flows represent one of the better policy options available.

In this light, host countries should make further efforts for improve remittance services. Host governments can contribute by focusing on the official payment system. Korea introduced a new method involving the use of cross-border payment and settlement system network for remittances sent from Korea to Vietnam in 2014. This had the advantage of offering real-time transactions, receipt confirmation, and low fees unlike the conventional channels of SWIFT and commercial money transfer service providers such as Western Union and Money Gram. In addition, financial service providers, with the encouragement and assistance from the host governments, could reach out to migrants and provide accessible information about their remittance services. NGOs or migrant organizations can be enlisted to assist migrants with remittance market information and to train them on how to save and remit money back home, and ultimately how to utilize remittances back in their home countries.

Finally, for better understanding of remittance sending patterns and behavior at the micro level, remittance-sending countries need to implement remittance sender survey among migrants. Korea has been conducting the Foreign Labor Survey since 2012. Although income and employment information is included in the survey along with basic items, remittances have not been examined so far. Policy measures mentioned in the previous paragraph can be better targeted and fine-tuned only when information on the individual migrant's remittance behavior becomes available. **KIEP**