

# Chapter 1

## Introduction

### 1.1 Background and Rationale

Migrant remittances play an important part in the development of a household, within the migrant's home country. Migrant remittances are also important as a stable source of financial development for developing countries, compared with other capital flows (Ratha, 2005). In recent years, migrant worker remittance flows to developing countries have grown rapidly, from US\$ 116 billion in 2002, to US\$ 305 billion in 2008, through formal remittance channels (see Table 1.1). Moreover, there are also a large amount of unrecorded remittance flows that take place through informal channels.

Generally speaking, the amount of these migrant remittances has a significant economic impact on the micro- and macro-level economies of the home countries, especially in developing countries like Myanmar. From a positive perspective, the increase in remittances has directly contributed, not only to recipient households' poverty reduction and an improvement in their welfare, but also to community development as well. Furthermore, a large volume of remittance flows, contribute to the country's GDP growth, and to macro-economic stability such as the long-term stability of the inflation rate, a reduction in the interest rate and an increase in consumption.

However, remittances can generate negative long-term impacts, such as a

loss of both labor and human capital. The ratio of income distribution can become different among remittance and non-remittance families in their community. Indirectly, remittances can create social problems, through the long term separation of migrant workers and their families. These problems usually include drug abuse, sexual entertainment and gambling.

The determinant of migrant remittances depends on a number of variables. Generally, the demographic characteristics of the migrants, such as age, sex, marital status, links with the family left behind in the home country, and the employment status of the migrants, all play an important role in determining remittance behavior. Besides this, macro-economic variables such as interest rates and currency exchange rates also play an important part. Moreover, since, remittances are crucial sources of income for the migrant's families in their home country, the use of remittance are important; whether they are spent on consumption activities or on productive investment.

Due to the global financial crisis, the pattern of remittance flows has recently changed. Although the World Bank expected the growth rate of remittances to decline in the third and last quarter of 2008, but the value of remittances reached US\$ 305 million in 2008, an increase of nine percent compared with 2007 (Ratha, 2009). Again, World Bank expected remittances to decline by seven to ten percent in 2009, compared with 2008. On the other hand, although the world media is currently suggesting that a large number of migrants are going back to their home countries due to the global financial crisis, but the rate of new migration is still rising when compared with previous years (Ratha & Mohaoatra, 2009). For this reason, the growth rate of remittances is likely to recover quicker than expected, even as the global

financial crisis continues. However, it is hard to predict the actual growth rate of remittances. Though the growth rate of remittances is uncertain, the role of remittance flows in the developing countries is still one of an important source of household income. Remittances also contribute a substantial proportion of finance of the macro level, since the private business sector has sharply declined and the rate of unemployment has increased in developing countries. Regarding the volume of remittance flows in the study area, the volume of money transfers from Mon migrants in terms of Ringgit, has not decreased significantly (on the Malaysia side). However, the volume of remittances in terms of Myanmar Kyat has significantly reduced in the receiving study area (on the Myanmar side), since the currency exchange rate of the Malaysian Ringgit has increased significantly against the Myanmar Kyat on the black market. According to the money distributors of the study area in Myanmar, the volume of remittances in terms of Myanmar Kyat decreased by one third, starting from the third quarter of 2008 to the beginning of 2009. However, in the study area of Myanmar side, the rate of migration is still increasing when compared to previous years, as a result of increasing unemployment in the source villages, and as conformed by the money distributors in the area.

**Table 1.1:** Remittance flows to developing countries (2002 – 2008)

	2002	2003	2004	2005	2006	2007	2008e
<b>(US\$ billions)</b>							
Developing Countries	116	144	164	195	229	281	305
East Asia and Pacific	30	35	39	47	53	65	70
Europe and Central Asia	14	16	22	31	38	50	53
Latin America and Caribbean	28	37	43	50	59	63	63
Middle-East and North Africa	15	20	23	24	26	31	34
South Asia	24	30	29	33	40	52	66
Sub-Saharan Africa	5	6	8	9	13	19	20
<b>Growth rate (%)</b>							
Developing Countries	21%	25%	14%	18%	17%	23%	9%
East Asia and Pacific	47%	20%	10%	19%	13%	23%	7%
Europe and Central Asia	11%	13%	43%	41%	23%	31%	5%
Latin America and Caribbean	15%	31%	18%	16%	18%	7%	0%
Middle-East and North Africa	4%	34%	13%	5%	6%	22%	8%
South Asia	26%	26%	-6%	15%	20%	31%	27%
Sub-Saharan Africa	8%	19%	34%	17%	37%	44%	6%
World (\$ billions)	170	207	235	268	307	371	397

e = estimate

Source: (Ratha, 2009)

### **1.1.1 Who are the Mon People?**

Among all the ethnic groups in Myanmar, the Mon people were the first group to arrive in what is presently called Myanmar (Burma). They arrived in today's Myanmar probably between 2500 and 1500 BC, and they have settled in some of parts of today's Thailand and in lower Myanmar. They were the first group who had introduced Theravada Buddhism to the rest of Southeast Asia. Moreover, the Burmese script was adapted from the Mon script. The golden age of Mon history came to an end in 1757, when the Burman King Alaungphaya (U Aungzeya) defeated the last Mon ruler of Pegu (Hongsawatoi Kingdom) (South, 2005). Nowadays, the majority of Mon people lives in today's Mon State, in Karen State and in the Tanintharyi (Tenasserim) Division of Myanmar, and some lives in today's Thailand. In recent years, usage of Mon, especially among the younger generation has declined rapidly, and less than a million people can speak the Mon language fluently in Myanmar. The main sources of livelihood for the Mon people in Myanmar are agriculture and fishing. This study will focus only on the Mon people from Myanmar.

### **1.1.2 A Brief Overview of the Myanmar Economy and its Financial Sector**

Myanmar, formerly known as Burma, is a country in Southeast Asia, bordered by China to the north, Laos to the east, Thailand in the southeast, Bangladesh to the west, and India in the northwest, with the Bay of Bengal to the southwest. The total land area of Myanmar is 678,500 square kilometers (261,970 sq mi), making it the largest country in mainland Southeast Asia, and the 40<sup>th</sup> largest in the world. The total population is estimated about 52 million (Foreign & Commonwealth office, 2008).

Before the 1960s, Myanmar was one of the wealthiest countries in

Southeast Asia. It was once the world's largest exporter of rice and exported 75 percent of the world's teak. However by 1987, Myanmar had become one of the least developed nations in the world, according to United Nation's ranking. According to the Human Development Index (HDI), Myanmar was ranked 135<sup>th</sup> out of 178 countries, as Human Development reported by United Nations Development Programme (UNDP) in 2008.

Myanmar has been predominantly an agricultural country since British colonial times. Due to political and economy instability, Myanmar's economy has not changed significantly since independence on January 4<sup>th</sup> 1948. During the first decade after independence (1950/51 to 1960/61), the average GDP growth rate was 5.8 percent, but then during the period of socialist government (1961/62 to 1989/90), the average GDP growth rate declined from 3.5 percent to 1.9 percent (Myint, 2005). Due to the economic failures of the socialist government, a pro-democracy demonstration erupted nationwide in 1988. After the socialist government was replaced by a military junta, the economy changed from a control-oriented socialist economic system, to a free market or market-based economy. In the first half of the 1990s, the average GDP growth rate went up to 6.1 percent, due to the positive results of economic reform (Myint, 2005). During 1999/2000 to 2004/05, the Myanmar Government announced that the real GDP growth rate had increased from six percent to twelve percent. However, most scholars argued that it was difficult to believe the double-digit real GDP growth figure in this period. Estimates provided by the Economist Intelligence Unit (EIU), put the real GDP growth rate at only two to four percent per annum, from 1999/2000 to 2004/2005.

In Myanmar, the informal financial sector provides various financial



services, not only to individual migrant workers and their families, but also to the whole economy of Myanmar, especially in the private business sector, since the banking system and formal finance sector do not function to support economic growth. Moreover, by restricting foreign trade and foreign currency exchange, most of the private traders are directly or indirectly involved in informal financial channels, in order to overcome restrictions, such as under-invoicing and the black-market trading of foreign currency earnings (Than, 2007). According to the strategy “export first, import second”, export earnings are needed for private goods importers and to limit the payment of imports to suppliers abroad (Myanmar Times, 2003). However in the real world, it is difficult for the private traders to balance the volume of imports and exports since the volume of imported and exported goods depends on market demand. Beside, not every private trader carries out both an import and export business. Thus, the black-market exchange of export earning money has become popular among the traders doing normal trading. Myanmar practices multiple exchange rate systems; there are at least four wildly different exchange rates for the Myanmar Kyat (MMK), these being 1) the local currency, against the US Dollar. The official exchange rate is around six Kyat to one US Dollar, as shown in Table 1.2, a rate which is linked to International Money Fund (IMF) Special Drawing Rights (SDRs), 2) the customs valuation rate of 850 kyat to one US Dollar, 3) the official exchange rate of one Foreign Exchange Certificate (FEC) to one US Dollar, and 4) the unofficial black market rate (Clapp, 2007). In reality, there are still a number of unofficial currency exchange rates in the markets, such as the *hundi* system of exchange, the market-determined US Dollar exchange rate, the black-market exchange rate for Myanmar Kyat against the FEC, a hotel rate, and a black-market exchange rate of export

earnings. Among them, the *hundi* system of exchange and the market-determined US Dollar exchange rate are the main exchange rates for international transactions in the private sector, and the most popular unofficial exchange rates, not only among the traders and business sector, but also among the ordinary citizens, especially for people who receive remittances from abroad and earn salaries in US Dollars or FECs in Myanmar.

**Table 1.2:** Currency Exchange Rate (Kyats per US Dollar)

Description	2001	2002	2003	2004	2005	2006	2007
Official rate (Year-end)**	6.68	6.57	6.08	5.75	5.76	5.76	5.78
Free market rate (Year- end)***	720	1100	900	960	1300	1250	1260

Source: (EIU 2007)\*\*, Author\*\*\*

### 1.1.3 Overview of Migration and Migrants' Remittances in Myanmar

Over the last two decades there have been large-scale migrations of people from Myanmar to other countries, especially to neighboring countries, for the purpose of seeking out job opportunities. Most of them have come from a variety of geographical locations and ethnic groups. Malaysia is the second highest recipient of Myanmar migrant workers after Thailand. According to a report produced by a number of NGOs, there are currently about two million Myanmar migrant workers in Thailand and about five hundred thousand in Malaysia. However, it is difficult to confirm these figures due to a lack of adequate information.

In Southeast Asia, Malaysia is one of the largest labor importing countries, with more than 1.8 million legal foreign workers out of a total labor force



of 11.3 million (Ahmad, 2006). Among them, Myanmar is the fourth largest contributor to Malaysia's foreign workforce, with 92,020 documented workers, as shown in Table 1.3. Besides documented workers, there are hundreds of thousands of immigrants who are employed without work permits or other related documents. In 2007, William Gois, Regional Coordinator for Migrant Forum in Asia, said the number of undocumented migrant workers in Malaysia from Indonesia, the Philippines and Myanmar probably topped 200,000.

**Table 1.3:** Migrants by Country of Origin in Malaysia, March 2006

Country	Number of migrants
Indonesia	1,215,036
Nepal	200,000
India	139,716
Myanmar	92,020
Vietnam	85,835
Bangladesh	58,878
Philippines	22,080
Pakistan	15,021
Thailand	7,282
Cambodia	6,637
Sri Lanka	5,076
Others	2,482
<b>Total</b>	<b>1,850,063</b>

Source: Expert Group Meeting on ESCAP Regional Census Programme, International Migration in Malaysia, Department of Statistics, Malaysia.

In 2006, the World Bank estimated that US\$ 117 million of remittances flowed to Myanmar from all over the world, though this figure does not include the remittances of migrant worker transfers, as shown in Table 1.4. As the Myanmar economy relies heavily on informal financial and remittance channels in the real world, the true size of the remittances is certainly higher than estimated. As the

formal remittance system is complex and unstable in Myanmar, the majority of migrants depend upon the *hundi* remittance system (informal remittance system) for transferring money back to their household, whether documented or undocumented. Almost 100 percent of the workers remitting money to Tenasserim Division and Mon State of Myanmar use the *hundi* remittance system (Turnell, 2008). Using the *hundi* remittance system, the cost of the money transfer can vary according to the amount of the remittances and the location. Generally, the cost of the money transfer is approximately two to ten percent of the remittances. However, the cost of the transfer can be higher than estimated in some areas, because of the distance to the *hundi* dealers or money distributors in Myanmar (the location to withdraw the money in Myanmar).

**Table 1.4:** Remittances

(US\$ Million)	2000	2001	2002	2003	2004	2005	2006
<b>Inward Remittance</b>	<b>104</b>	<b>117</b>	<b>106</b>	<b>85</b>	<b>117</b>	<b>131</b>	<b>117</b>
of which							
Workers' Remittances	77	86	76	59	81	87	66
Compensation of Migrants' Transfer	27	31	30	26	36	44	51
	..	..	..	..	..	..	..
<b>Outward Remittance</b>	<b>14</b>	<b>14</b>	<b>23</b>	<b>23</b>	<b>25</b>	<b>19</b>	<b>32</b>
of which							
Workers' Remittances	14	14	23	23	25	19	32
Compensation of Migrants' Transfer	..	..	..	..	..	..	..

Source: World Bank, Migration and Remittances Fact Book, 2006.

#### 1.1.4 Overview of Mon Migrant Workers from Myanmar, in Malaysia

By the late 1990s, Malaysia had become one of the main destination countries for Mon migrants from Myanmar. The majority of Mon migrants had to

work in the “3D jobs” (dangerous, dirty and difficult) with low salaries, such as in the fishery sector, in factories, on construction sites, rubber plantations and in restaurants. In 2008, only five percent of Mon migrant workers were properly documented in Malaysia, according to the Mon Labor Rights Promotion Network (MLRPN), Malaysia. As most migrants remain undocumented, their social network is essential for gaining the necessary information. As for gender issues, most Mon women do not migrate alone to Malaysia. The majority follow male relatives, or their husband. Thus, the number of Mon female migrant workers is much lower than the number of male workers in Malaysia. Most Mon women prefer to migrate to Thailand, rather than to Malaysia, because of the strong Mon community in Thailand, and the ease of returning back to their origin village, although the wages in Thailand are lower than in Malaysia. Traditionally, most married Mon women have a duty to take care of their children, parents and elderly people in their community.

## **1.2 Significance of the Study**

In the study area, 90 to 94 percent of households have at least one migrant in another country. Moreover, two-thirds of total income in the remittance-receiving households is contributed by remittance income from abroad. Thus, migrants' remittances to the rural areas where Mon people live, is a significant and important issue. One of the main findings of this study is the fact that the remittance behavior of Mon migrants working in Malaysia was mainly dominated by feelings of altruism and an attachment to their family in Myanmar, although their permanent return to their home remains uncertain. The pattern of migration tends to be temporary. Indirectly, this study shows that the cause of migration is push factors rather than pull factors, due to economic and political instability and social insecurity in Myanmar.

Another important contribution of this study is evaluation of the use and impact of the remittances for household expenditure patterns among the remittance-receiving households in the migrant's origin communities. Evaluating the use and impacts of the remittances in the remittance-receiving households is important, not only because of their contribution to the total income of the household, but also because of their contribution to the household's economy. Contrary to other studies, this study assumes that the flows of inwards remittance contribute, not only to poverty reduction and improved living standards in the receiving households, but also a positive multiplier effect on the household economy in the short-term.

### **1.3 Objectives of the Study**

The objectives of the study are:

- (1) To investigate the characteristics of Mon migrants, Migratory characteristics and characteristics of migrants families
- (2) To identify the factors influencing Mon migrants' remittance behavior
- (3) To investigate how the remittance-receiving households spend their remittances.

### **1.4 Hypotheses**

The hypotheses of this study are to analyze remittance behavior according to the previous literature on the subject. As stated in Chapter 2, educated immigrants from Latin America and Eastern Europe perform poorly in terms of the amount of their remittances. This means that migrants with a better education have less responsibility to support the family left behind, since their origin households are likely to be rich, with a regular income. Given that, the education level of migrants does not significantly impact on the propensity to remit, or the amount remitted.

The duration of migration influences remittance behavior. A temporary migration presumes that people who migrate plan to come back, and therefore during their stay in the host country they send regular payments, and sometimes the amount sent even increases over time (Cracium, 2006). Therefore, this study expected that the length of stay in Malaysia would show a positive relationship with the likelihood to remit and the amount remitted.

Giving support to altruistic hypotheses, the migrants who made more phone calls to their household in Mexico, were 1.22 times more likely to remit, than those who did not (Barcaglioni, 2008) and the number of visits back to their home country within previous three years had a positive influence on remittance behavior, when compared to the migrants who rarely visited their home (Lerch, 2006). Thus, the stronger degree of emotional connection and physical connection with the family left behind in Myanmar was expected to show a positive relationship with the propensity to remit and the amount remitted.

To evaluate the impact of remittances, Khine (2007) found that the larger amount of remittances flowed into unproductive uses, rather than into productive use, in her study village in Mon State, Myanmar. This study was therefore expected to show that the remittance-receiving households were more likely to spend money on non-productive uses, such as household consumption for daily survival and the purchasing of durable goods, than on productive purposes.

### **1.5 Scope of the Study**

This study attempts to analyze the remittance patterns of Mon migrants from Myanmar working in Malaysia, through a New Economic Labor Migration (NELM) view to meet the objectives of study. In specific terms, this study tries to answer four

main questions from an academic standard point: (i) what are the characteristics of the Mon migrants, their migration patterns and their families? (ii) What factors influence their remittance behavior? (iii) How does the migrants' money flow from Malaysia to their home community in Myanmar, through informal channels? And (iv) how do the remittance-receiving households spend the remittances?

Beside the main questions, this study will also discuss the proportion that the remittance contributes to the remittance-receiving household's total income. Under what conditions does the migrant remit more or less? In this study, I will investigate Mon ethnic migrant workers from Myanmar working in Malaysia, as well as their home community in Myanmar. By analyzing the nature, structure and characteristics of their migration and remittances, this study does not expect to represent the whole of the Mon community in Myanmar. However, this study does cover a section of the Mon people and the Mon community from Myanmar, and their remittance behavior. Until now, there has been no empirical academic study carried out into remittance behavior of Mon migrants working in Malaysia and its socio-economic relationship. Moreover, it is difficult to rely on both governments' official secondary data regarding migration and remittances, due to a lack of information in both countries. In order to overcome this limitation, a cross-sectional design was adopted in this study, using a snowball sampling method.

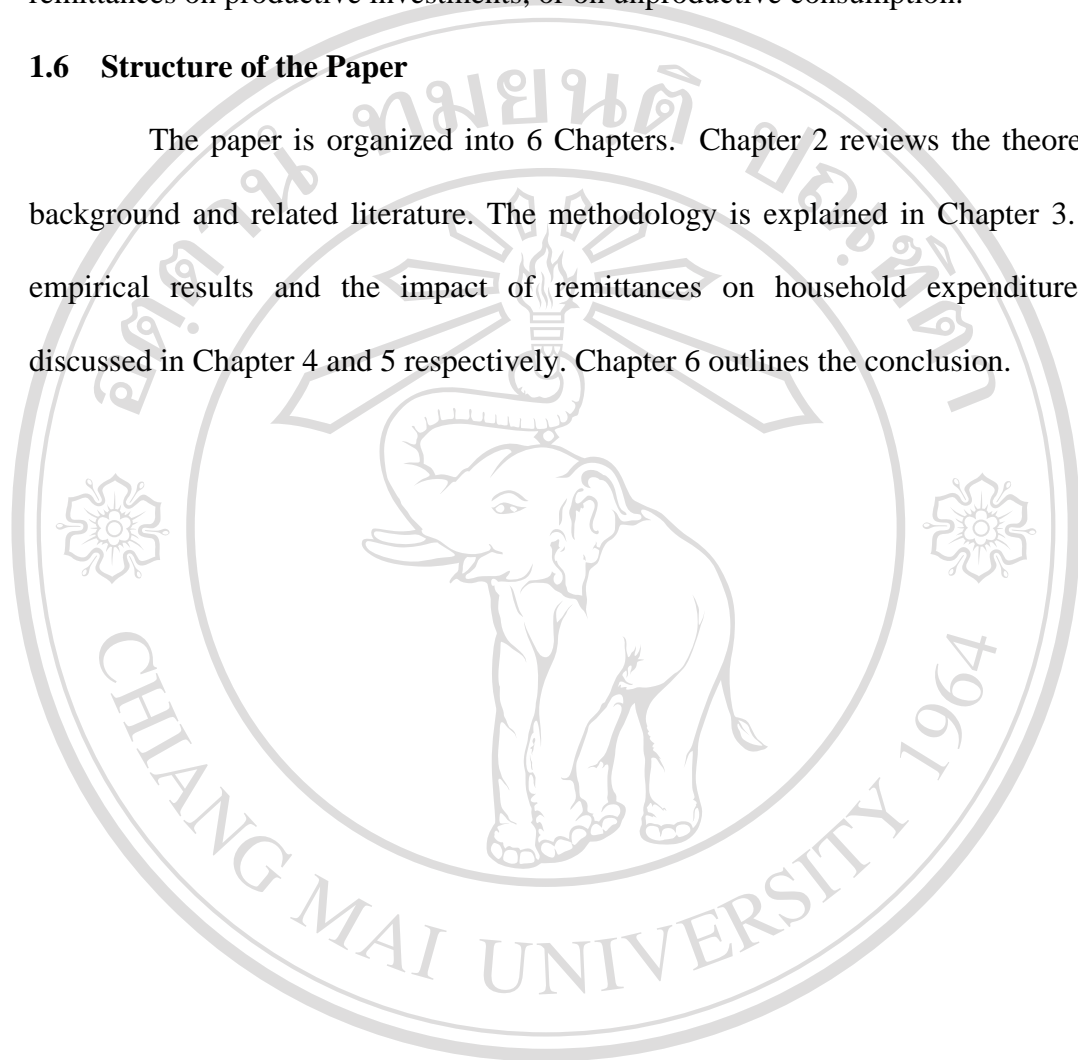
The results of this study may be useful for migrant families, NGO workers, and the current and future policy makers, with regard to how to increase the volume of remittance and their positive multiplier effects. Nevertheless, the findings of this study will be particularly useful for increasing understanding on the value of remittances of the Mon migrant workers working in Malaysia, and to increase the



awareness of the impacts of remittances in terms of whether their households spend remittances on productive investments, or on unproductive consumption.

### **1.6 Structure of the Paper**

The paper is organized into 6 Chapters. Chapter 2 reviews the theoretical background and related literature. The methodology is explained in Chapter 3. The empirical results and the impact of remittances on household expenditure are discussed in Chapter 4 and 5 respectively. Chapter 6 outlines the conclusion.



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