CHAPTER 4.

MIGRATION, REMITTANCES AND THEIR IMPACT ON ECONOMIC DEVELOPMENT IN TURKEY

by

Ahmet Içduygu,
Director, Migration Research Programme,
Koç University, Istanbul

Introduction

This chapter outlines the major points discussed in the workshop organised by the OECD and Koç University on Migration, Remittances and the Economic Development of Turkey, held in Istanbul on 21 December 2004. It not only sets out the main issues of remittances in the Turkish context, but also relates them to the wider context of the migration-development nexus. It also presents the changing perceptions on the links between remittances and development in the relatively long-established history of Turkish emigration. While the issues of remittances and their impact on economic development are regaining importance on the international agenda, the Turkish case provides us with an interesting setting, for three main reasons: first, the scale and scope of remittances have been important for Turkey for the last four decades; second, Turkey had its own method of receiving remittances throughout this period; and third, there seems to be less attention being paid to remittances than in the past: initially they were considered as a vital economic input but ultimately they were viewed as one of the ordinary elements of the country's economy. Meanwhile Turkey, as a country of both some "old" and some "new" emigration, keeps its significant position in the ongoing regimes of the flows of emigrants and remittances. Therefore, the Turkish case presents a rich study area for the issues of migration, remittances and development. In fact, what remains clear is that for decades Turkey has been one of the top ten remittance recipients among the developing countries.

Background on emigration from Turkey

It is now more than forty years since the start of large-scale emigration from Turkey to other parts of the world. The growth of this movement is impressive. Starting from a few in the early 1960s, by the early 2000s, when the population of Turkey itself was almost 70 million, there were over 3 million Turkish workers and their dependants in Europe, more than 100 000 Turkish workers in Arab countries (without dependants, who are not accepted), nearly 300 000 settlers in Australia, Canada and the United States, and nearly 50 000 workers in the commonwealth of independent states (CIS) countries.[1] Thus, at any one time during these years, some 6% of the Turkish population was living abroad. Taking into consideration that some 30-40% of the early emigrants returned permanently to Turkey, it would appear that a sizeable minority of the present Turkish population has had direct experience of emigration, and an even larger proportion has had indirect experience, through the emigration of a close relative or friend. However the potential influence of these movements on Turkey is more than a function solely of numbers; it is also a question of contacts. From the beginning, Turkish emigrants appear to have kept in touch to a particularly high degree with family and friends in the homeland – through letters, telephone calls and remittances – and many have visited Turkey from time to time on holiday, to attend weddings, or due to the sickness or death of a relative. At the very least, it seems likely that this combination of massive emigration and the maintenance of a high level of contact with those who remained behind could be an important stimulus to change in Turkey's economic and social life.

A great deal of research is carried out on the various aspects of Turkish emigration, but relatively little is known about its consequences for the country’s development. In examining the question of remittances as a consequence of international migration for the country, there are three main issues: first, the real volume of remittances; second, the determinants of the flows of remittances; and third, the impact of remittances on the economy at various levels, such as individual and family, community, and national. Research findings on these questions are very limited. Some of these poor research results are due to the lack of data and good methodology, and some to theoretical shortcomings, which do not fully take into account the changing characteristics of migration processes. It should be noted that the nature of remittances very much depends on the wider context of migration, in which the consequences of international migration are experienced at three main levels: the migrants themselves, the country of origin, and the country of destination. These are the three main elements which affect the nature of international migrants’ remittances. The interdependence among these three elements is also an important dimension in remittances. In the Turkish case, there are important historical and structural dimensions. For instance, over the last 40 years many changes have taken place, both in the flows of migrants from Turkey and that of remittances to Turkey. Therefore, any evaluation of remittances issues of and their relation to development should not ignore the changes which have occurred in migration regimes over the years.

Reasons for remittances

Generally speaking, there are many different factors behind the reasons why migrants remit, including economic and saving policies in the host and home countries, exchange rates and risk factors, and the availability and efficiency of transfer facilities.[2]

1. See İçduygu, A. (2004), “Demographic Mobility over Turkey: Migration Experiences and Government Responses”, *Mediterranean Quarterly*, Vol. 15(4), pp. 88-99.

2. There were three main sessions at the Istanbul Workshop. The first focused on the remittance infrastructure and the new financial products, and the second considered the impact of remittances on economic development. The third session tackled the policy issues which brought together national and international scholars, experts, practitioners and civil society representatives. The main determinants of workers remittances were examined. It was argued that three main sets of variables account for the flows of remittances: those related to migrant-sending countries, to the migrant themselves, and to migrant-receiving countries. It was also emphasised that studies of remittances are often constrained by the scarcity and poor quality of data. Indeed, it is difficult to design a research project which will fully cover the main sets of the variables affecting the flows of remittances.

Specifically, two main set of variables explain the main motives behind remittances: the dynamics of family ties, which implied consumption and are related to social status, well-being and risk-sharing by the individuals involved (migrants and their relatives); and macroeconomic stability and investment prospects, which are determined by a set of factors such as inflation, growth, interest rate differentials and exchange rate. Although the consumption motive dominates in the short term, macroeconomic variables significantly affect workers' remittances in the longer term. This indicates that governments of the labour exporting countries can influence the inflow of remittances by means of appropriate macroeconomic policies. It suggests that sound exchange rate policies, and economic and political stability may have an important influence on the flows of remittances.

Remittance infrastructure and new financial products

According to the figures of the Central Bank of Turkey, over USD 75 billion have been remitted to Turkey since the early 1960s, an average annual figure of USD 1.9 billion. However, the annual flow of remittances in this period has fluctuated from year to year, but as far as the long-term trend is concerned, it has increased steadily until the late 1990s. The average annual figure of the flow of remittances in the 1970s was around USD 1.5: this rose to USD 2.3 in the 1980s and to USD 3.3 in the 1990s. In the last thirty years, overall remittances have been of a sizeable scale, but their relative contribution to the economy has been in decline. For instance, while in the 1980s, remittances accounted for over 65% of the trade deficit on average and for over 2.5% of GNP, in the 1990s, these figures were less than 40% and less than 2%, respectively. Generally speaking, the flows of remittances have not declined considerably as migration streams diminished in Turkey, but the country has received relatively less in remittances than in tourism, exports and other income sources. It is often repeated that official figures may underestimate the size of remittance flows because they fail to capture the informal transfers. The increasing level of global transactions such as frequent travel, largely contributes to these types of informal money transfers. Furthermore, the official figures may also not include some money formally sent by migrants back to Turkey. It is also claimed that remittances are generally under-reported around the world. Turkey is not an exception.

The Turkish banks are the major remittance channels which carry the deposits to Turkey (see Chapter 6, Köksal and Liebig). The Is Bankasi and Ziraat Bankasi are the two important banks who are considered to account for more than half of remittance transfers to Turkey. The original aim was mainly to attract foreign currency. Therefore, the Turkish banks offered considerably lower fees than their foreign counterparts. Although the importance of attracting foreign currency has declined, the Turkish banks now profit from large scale economies. Compared to the transaction costs cited by other studies around the world (the total cost might be above 10% of the total amount sent), the cost of transferring money to Turkey via Turkish banks is relatively low (for instance, EUR 5-6 for a transfer under EUR 5 000). In addition to the Turkish commercial banks, the Central Bank of Turkey plays a significant role in channelling workers' remittances to the country. The bank provides two specific bank account opportunities to individual migrants: 1) Foreign Currency Deposit Accounts, and 2) Super FX Accounts. With the latter offering higher interest rates than the Turkish commercial banks to these special accounts opened by the migrants themselves, the bank has aimed to channel remittances into savings and investment in Turkey. The total amount of remittance deposits in the Central Bank of Turkey reached nearly EUR14 billion in 2004. As far as the long-term perspectives of the central bank is concerned, the very unique operation on remittances is seen as somewhat outside the principal duty of the Bank, and therefore viewed as an element which may be removed from the liabilities of the bank in the long term.

Remittances are quite difficult to measure, as they are sent in a variety of ways. While formal channels such as banks and money transfer services are used, there are also informal channels such as carrying remittances home or sending cash and in-kind goods home with returning migrants. Meanwhile, as far as the informal channels of remittances are concerned, there is anecdotal evidence that some religiously-oriented companies or networks (often entitled "Islamic" or "green" capital) are involved in transferring remittances informally to Turkey. Of course, this is only one of the informal channels used for remittances. Concerning new financial products, there are only limited possibilities, one of them being the special offers of selling some shares of Turkish Airlines to the emigrants in the context of the privatisation process of this company.

Impact of remittances on economic development

Although the flows of remittances to Turkey from the estimated over 3.5 million Turkish emigrants living abroad are continuing and presumably account for a sizeable part of the country's economic development, it is still no easy task to pinpoint the dynamic nature of the link between remittances and economic development. Certainly, among the main consequences of labour emigration for a sending country like Turkey are the beneficial impacts of incoming workers' remittances. As a developing country, Turkey has always needed external capital to support development projects, and has always faced perennial shortages of foreign funds to pay for imported goods and services, and foreign debts. From this perspective, workers' remittances greatly contribute to the country's economy. Although it is argued that the amount of emigrant remittances Turkey has been receiving is rather small in comparison with the total saving potential of these migrants, the scale of remittances attributable to labour migration to Europe is considerable, and remains an important source of foreign exchange. Workers' remittances increased from a modest USD 93 million in 1967 to a peak USD 1.4 billion in 1974 and then declined to USD 893 million in 1978. Turkey showed a more or less consistent level of annual remittance receipts of around USD 1.5-2.0 billion between 1979 and 1988. In this period, almost a quarter of Turkey's annual total import bill was financed by remittance receipts. During the late 1980s and early 1990s, the country had annual remittance receipts of about USD 3 billion, which increased to USD 3.4 billion in 1995. In the 1990s, remittances were equivalent to around one-third of the trade deficit, but were well below 3% of GNP. In short, since the 1960s, workers' remittances have greatly contributed to meeting the import bill of the country, but their relative importance with respect to GNP has been limited.

Another aspect of the workers' remittances is the type of investments made by the migrants. Money coming from abroad often finds its way into the maintenance of the family left behind or is spent as investment in equipment, real estate, a car, or possibly as part of the migrant's attempt to set himself or herself up in a trade or another kind of new enterprise. Certainly much of the incoming money has gone directly into the family or local community of a migrant, often to maintain dependants left in Turkey. In the frequent cases where migrants abroad do not return to their place of origin in Turkey, much of the remitted money is more often spent on consumables for the new home. It seems that remittances do not help to reduce imbalances between regions in the country, though it is clear that improvements are made possible by remittances. According to Koç and Onan (2004),[3] for instance, remittances have a positive impact on household welfare, as is shown by the fact that households receiving remittances are found to be better off than non-remitting households. Although a considerable amount of the related literature argues that remittances are not mostly spent on "productive investments" that would contribute to long-term development, it may be argued that improvements in the living conditions of migrants such as access to better nutrition or allocation of more resources to education are also forms of productive investment.

It is suggested that specifically designed household surveys in various emigration regions in the country are needed to obtain information on the flows of remittances and their impact on the economy. Two well-known migration studies in Turkey in this respect are: the 1976 Bogazliyan study by Abadan-Unat *et al*. and the 1996 Turkish International Migration Survey (TIMS-96). According to the TIMS-96 findings, 12% of households received remittances and 80% of these households used remittances to improve their standard of living. These findings also confirmed that regional differences in the kind of remittances received by households seem to be substantial. Households located in less developed regions are more likely to receive remittances than households in the developed regions. Consistent with these findings, households with recent migrants have a tendency to receive more remittances in all regions, regardless of their development status.

Remittances in the form of savings have a greater potential to be channelled into economic development. When remittances are saved in financial institutions, it is thought that the probability of using them for various types of investments increases, and consequently they may have a positive impact on development. A growing number of migrants have tended to send remittances through formal channels, and more and more of them tend to save their remittances in banks, implying a process in which remittances are indirectly contributing to the development of the country to which these savings are attributable. This, however, may also be the host country. It is argued that the effects of remittances on regional development are more difficult to assess, but they are no longer simply seen as a negative factor in the development of various migrant-sending regions in the country.

Maximising the benefits: best practices and policy implications

Although various active policies and practices were in operation in the 1970s and 1980s to attract remittances and channel them to specific economic actives, they have not been successful. In the 1970s, the Turkish authorities tried to channel remittance savings into employment-generating activities in order to maximise economic growth, with three unique development programmes linked to emigration. First, in order to channel the funds to the less developed areas, starting from the early period of emigration, the Turkish authorities supported the establishment of workers' joint stock companies that would invest in the less developed regions of the country. It was believed that the investments of these companies would provide job opportunities to returning migrants and at the same time would serve as a vehicle for the economical use of their savings. This was regarded as an efficient way of industrialising the regions of origin. More than 600 workers' companies were created, with varying capital and numbers of shareholders. Although the workers' companies aim at achieving a certain social goal by developing the under-

3. Koc, I and I. Onan (2004), "International Migrants' Remittances and Welfare Status of the Left-Behind Families in Turkey", *International Migration Review*, Vol. 38(1), pp. 78-112.

developed regions in general, they cannot avoid the important, productive, economic considerations. Workers' companies have run into various problems such as project identification, financial and technical planning and management, and inadequacy of communications. Hence, their role in fostering the development of less developed regions has been limited. There are currently some 20 to 30 functioning worker's companies in Turkey.

Another aspect of the official policy of reintegrating the return migrants' savings into the local economies was to support the creation of village development co-operatives. However, because many of them sought to secure jobs for their members rather than to realise productive investments in the villages through remittances, most of the co-operatives were instead used as a vehicle to facilitate more migration. The third method for attracting the savings of the migrants was the establishment of the State Industry and Workers' Investment Bank in 1975. The bank advocated mixed enterprises organised by the state and private capital, including workers' remittances. However, this effort has not been successful either for the enterprises overall or for channelling the investment resources into the less developed regions.

In the four-decade history of Turkish emigration, the following policy objectives, measures and practices have been employed, in order to enhance the development impact of remittances: 1) stimulating transfers through formal channels via foreign currency accounts, premium interest rate accounts and remittance bonds, 2) contributing to migrants' collectives or associations via matched funding, public-private ventures and competitive bidding for development projects, 3) setting up particular banks, 4) securing future remittances via promoting continued migration, promoting transnationalism and diaspora management. Although the government policies are often viewed as one of the main factors behind the changing volume of remittances and the ways in which they are transferred, it seems that currently there is no likelihood of major initiatives to channel the flows of remittances from the government side. Indeed, that migrants' trust in long-term economic development is having a much more important impact on remittances than active governmental intervention.

Concluding remarks

Remittances to Turkey in the last three to four years have declined. This decline is continuing, partly due to the economic downturn in host countries like Germany that has led to rising unemployment among Turkish emigrants. Another reason that remittances are likely to fall is that more Turkish emigrants settle in the host countries and send less money home.

It could be useful to put the Turkish case of the remittances-development links into context by referring to some basic foundations of a sound remittances-related policy, such as recently discussed by Carling (2004):[4] 1) recognising the diversity of types of remittance, such as intra-family transfers, personal transfers, collective transfers and social security transfers; 2) acknowledging contrasting objectives: such as immediate versus future benefits; 3) considering the division of labour between actors: civil society actors in addition to governments and migrants themselves; 4) staying clear of undue interference with and attempts at social engineering of remittances; 5) paying attention to the relationships between migrants and persons who remain in the origin country; and

4. Carling, J. (2004), "Policy Options for Increasing the Benefits of Remittances", *Compas*, Working Paper No. 8, University of Oxford, Oxford.

6) appreciating the issue of credibility between the migrants, and the respective governments of sending and receiving countries. Finally, there is an apparent need for sound data and further studies on the links between migration, remittances and development.

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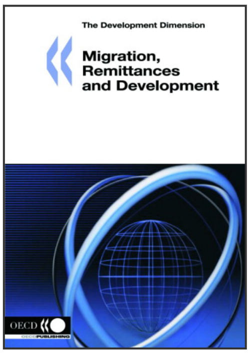

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