



Microlevel impacts of remittances on household behavior: Viet Nam case study



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ABSTRACT

This paper examines the microlevel impacts of domestic and overseas remittances on household behavior such as consumption–investment expenditure patterns and propensity of households being engaged in business activities in the case of Viet Nam. The first part summarizes previous related empirical literature conducted in the Philippines, Bangladesh, Mexico, Pakistan, Albania and Guatemala, as these developing nations share more and less similarities with Viet Nam and are among the top countries receiving remittances. Secondly, employing the ordinary least square (OLS) regression and logistic regression models and utilizing the large-scale and nationally-representative household income and expenditure survey with the technical assistance of the World Bank and United Nations Development Program, this study contributes to the ongoing discussion about the link between remittances and Vietnamese household behavior by applying a microeconomic approach. First, as expected, households in receipt of remittances spend less at the margin on the key consumption normal good: food; or food is income elastic. Second, overseas remittances are associated with increased investment in education, which generates augmented human capital and has a future social return. Third, households in receipt of overseas remittances, especially those residing in urban areas, are more likely to channel funding towards productive business investment and capital gains in comparison with those without remittances. The findings strengthen the optimistic perspective of significant positive effects of remittances on household expenditure patterns in developing economies. The OLS method employed in this research, likewise in most previous studies, may affect the results of the estimated impacts of remittances on household behavior. The paper successfully proved international

evidence of the remittances and household behavior nexus in Vietnam as a case study.

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1. Introduction

The International Organization for Migration defines remittances as “monies earned or acquired by non-nationals which are transferred back to their country of origin”. While other capital flows tend to increase in times of economic boom and decrease in times of bust, remittances can be viewed as a countercyclical flow of income to recipient economies. Hence, remittances are considered to be an important injection for an economy, especially during times of economic depression for the recipient economy when remittances provide a significant source of income for recipient families. Considering remittances as an external income flow of income for developing countries, these transfers represent a key source of funds, which are considered to be more stable than other financial sources such as private debt, portfolio equity and private flows.¹ Researchers estimate that nearly one tenth of the world's populations are beneficiaries of the billions of dollars in migrants' earnings known as remittances (DeParle, 2008). The flow of remittances to developing countries, however, is non-uniform and difficult to quantify with any degree of accuracy due in part to the fact that remittances are rarely officially declared as income in the hands of the recipient and are therefore not recorded in official balance of payment accounts.

In 2013 Viet Nam was ranked as the ninth most important recipient country of remittances in the world with US\$11 billion; officially Viet Nam sees this source of income as playing an increasingly indispensable role in the growth of the economy recording the second highest recipient country of remittances amongst Southeast Asian countries. In addition, rapid urbanization, industrialization and high rates of unemployment in rural areas have led to a sharp increase in domestic migration and subsequent internal remittances since the early 1990s, making an important contribution to raising the living standard and household welfare of Vietnamese recipient families. Such migration is a positive and welcome development as long as remittances from overseas and domestic migrants continue to combat poverty and stimulate socio-economic development and therefore deserve further investigation.

The important role of remittances in the development process of Viet Nam draws the attention of governments, communities and families. Previous studies examining the impact of remittances in Viet Nam have focused on the volume of remittance flows at the macroeconomic level. Contemporary studies investigating the effect of remittances on the livelihood aspects of households in Viet Nam are not available. This study therefore contributes to the remittance literature by performing an examination of how domestic and overseas remittances are employed along with an examination of the microlevel impacts on the marginal household spending behavior. From the standpoint of economic development, the core question which this research addresses is whether Vietnamese households in receipt of remittances channel these transfers into productive investment activities or just simply spend this income on conspicuous consumption, as compared with non-recipient households. This study will contribute to our knowledge of the patterns of expenditure of migrants' remittances and transition to microentrepreneurs in Viet Nam; and therefore advance our understanding of the impact remittances have on the economic development of Vietnamese remittance-recipient households.

The rest of this research proceeds as follows: Section 2 provides a preliminary overview of the trends of migration and remittances in Viet Nam. Section 3 discusses both the theory and empirically related literature concerning the role that remittances play in determining expenditure patterns of remittance-receiving and non-receiving households. In Section 4 we examine important aspects of the dataset employed in our research, Section 5 introduces the methodology employed and presents the model specifications for analyzing remittances and household behavior in the context of Viet Nam. Section 6 discusses the empirical modeling and outlines the main findings. Finally, Section 7 presents concluding remarks, key policy recommendations and certain directions for further studies.

¹ Asian Development Bank, Enhancing the Efficiency of Overseas Workers Remittances Technical Assistance Report, November 2013 <http://www2.adb.org/Documents/TARs/PHI/tar-phi-4185.asp>.

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