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Author(s): Hai Anh La and Suiwah Leung

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HAI ANH LA AND SUI WAH LEUNG

## Remittances from Migrants: Experience of Vietnamese Households

A number of macroeconomic studies confirm remittances to be an important part of national economies.<sup>1</sup> These studies show that the flow of international remittances forms a considerable percentage of a country's GDP, often exceeding aid flows and portfolio investment flows (that is, equities and other short-term flows) by a wide margin. In the case of Vietnam in 2007, international remittance inflows represented 8 percent of the GDP, more than three-quarters of foreign direct investment and more than double the aid flows for that year.<sup>2</sup> Macroeconomic studies also demonstrate a positive link between international remittances and international migration, and that international remittances are motivated both by altruism towards family members as well as profit (sending funds home for investment purposes or the so-called "exchange motive").<sup>3</sup> Furthermore, such studies identify international remittances as poor shock absorbers for macroeconomic disturbances.<sup>4</sup> For instance, if exports drop during a global recession, international remittances are also likely to fall and add to the funding strains of current account deficits.<sup>5</sup>

At the same time, the process of domestic migration (or urbanization) is as much a feature of developing economies as international migration, and the characteristics of domestic remittances could differ from international remittances. As macroeconomic studies of remittances use capital flows and balance of payments data, they tend to focus exclusively on international remittances.

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Thus, microeconomic studies are needed to gain some perspective on the differences between domestic and international remittances. Microeconomic studies using household survey data could also provide insight into how remittances can absorb negative income shocks, particularly to low-income rural and urban households—a somewhat different shock-absorbing quality than balance of payments deterioration.<sup>6</sup> Remittances can help prevent severe fluctuations in household income, and hence, in household consumption. This so-called “insurance role” of remittances takes on added importance in national policy-making in a post-global financial crisis era when increasing attention is being paid to consumption- rather than export-led growth. Likewise, in emerging economies such as Vietnam where social security policies are in the process of being developed, the extent to which public transfers might replace or “crowd out” transfers via remittances would also assume policy significance.<sup>7</sup> “Crowding out” is more likely to occur when remittances are motivated by altruism, but they may not occur at all when the profit or exchange motive dominates.<sup>8</sup> This study therefore examines in some detail the motivations behind remittances in Vietnamese households.

The study primarily uses data from the three Vietnam Household Living Standards Surveys (VHLSS) for 2002, 2004, and 2006.<sup>9</sup> In these surveys, remittances are defined as “[t]he amount of money and monetary value of in-kind benefits received by a household that do not require repayment.”<sup>10</sup> While each of the three surveys clearly distinguishes whether the remittances received by each household were sourced domestically or internationally, they did not collect information on senders. Therefore, the analysis was conducted from the viewpoint of the recipients, the implicit assumption being that the economic and demographic characteristics of the senders do not affect the remittance amounts. However, this study uses detailed information on the geographic source of remittances as well as some additional data on the characteristics of migrants, where appropriate, to interpret the results and alleviate the shortcomings of the VHLSS surveys. Unless otherwise noted, our calculations use sample weights to make the data representative of the entire Vietnamese population, both in urban and rural areas, and across different regions.

Section 2 provides some general data about remittances in Vietnamese households. Section 3 takes a closer look at altruism, exchange motives and the “insurance role” of remittances. Section 4 analyzes the issue of social safety

nets “crowding out” private remittances. Finally, section 5 stresses the need to take certain factors into account in the design of Vietnam’s social policies. As Vietnam begins to develop its social policies, targeting those most in need within an overall budgetary constraint is an important consideration. Hence, as much as possible, social safety nets should build upon existing private transfers within families, supplemented by public transfers where necessary and appropriate.

## Remittances in Vietnamese Households

### (A) REMITTANCES: A VERY PREVALENT AND IMPORTANT PHENOMENON

By 2006, more than 85 percent of all Vietnamese households received some form of remittances, an increase from about 72 percent in 2002 in both rural and urban areas (see Table 1). By far the largest numbers of households were recipients of domestically sourced remittances, with international remittances accounting for around 4.6 percent of rural households and 10 percent of urban households in 2006.

Not only are remittances prevalent amongst Vietnamese households, they are also an important source of income, constituting around 11 percent of pre-transfer income (income before remittances but after receipt of public transfers)

TABLE 1: Percentage of Households (HHs) Receiving Remittances and Amount of Remittances as Percentage of Income in Urban and Rural Areas during 2002–2006

	Rural Areas			Urban Areas		
	2002	2004	2006	2002	2004	2006
% HHs receive remittances	72.3	84.1	87.8	71.5	84.2	86.7
% HHs receive international remittances	3.7	4.1	4.6	8.5	11.0	10.0
<b>Remittances as % of income</b>						
- For all HHs	11.0	11.0	11.2	12.5	13.4	11.6
- For HHs receive domestic remittances	8.4	7.9	7.7	8.0	7.7	6.7
- For HHs receive international remittances	54.8	57.4	73.3	39.7	38.4	39.9

SOURCE: Authors’ calculations based on VHLSS 2002, 2004 and 2006, GSO, GVN.

of rural households and up to 13 percent of pre-transfer income of urban households (see Table 1).<sup>11</sup> Furthermore, because internationally sourced remittances are of a very high value, they become particularly important to the 4–5 percent of households in rural areas that receive them, constituting 73 percent of those households' pre-transfer incomes in 2006.<sup>12</sup> For the 10 percent of urban households that receive internationally sourced remittances, these constituted around 40 percent of their pre-transfer income in 2006. Domestically sourced remittances, while received by a much larger portion of households, are less dominant (although still important) in household incomes, constituting around 6–8 percent of pre-transfer incomes in both the rural and urban areas.

(B) ALTRUISM AND EXCHANGE MOTIVES IN  
SENDING REMITTANCES

In the absence of demographic and other personal information on the senders, one can initially infer altruism and exchange motives by observing the relationship between remittances and the pre-transfer income distribution of the recipient households.<sup>13</sup> Supplementary data on the characteristics of the migrants substantiate these inferences.

Figures 1a and 1b show that both rural and urban households in the lowest quintile of income distribution receive the largest share of both kinds of remittances—more than 30 percent of total domestic remittances and more than 25 percent of total international remittances. These shares fall sharply for the second income quintile, remain more or less unchanged for the third quintile, and then reverse to an increasing trend for the two highest quintiles. This is consistent with the altruism motive for both kinds of remittances for the lower income groups, as the remittances are presumed to be for the purposes of poverty alleviation. Since wealthy families have greater access to investment opportunities, remittances sent to these families are presumed to be for investment on behalf of the senders (that is, for the profit/exchange motive).

Evidence of the altruistic motive in remittances is further supported by the fact that Vietnamese migrants are generally young. The majority of domestic migrants have a median age of 25 years and most international migrants tend to leave the country between the ages of 17 and 30.<sup>14</sup> Given the cultural practice of supporting aging parents, it would seem credible that young people migrating for economic reasons (the most common scenario

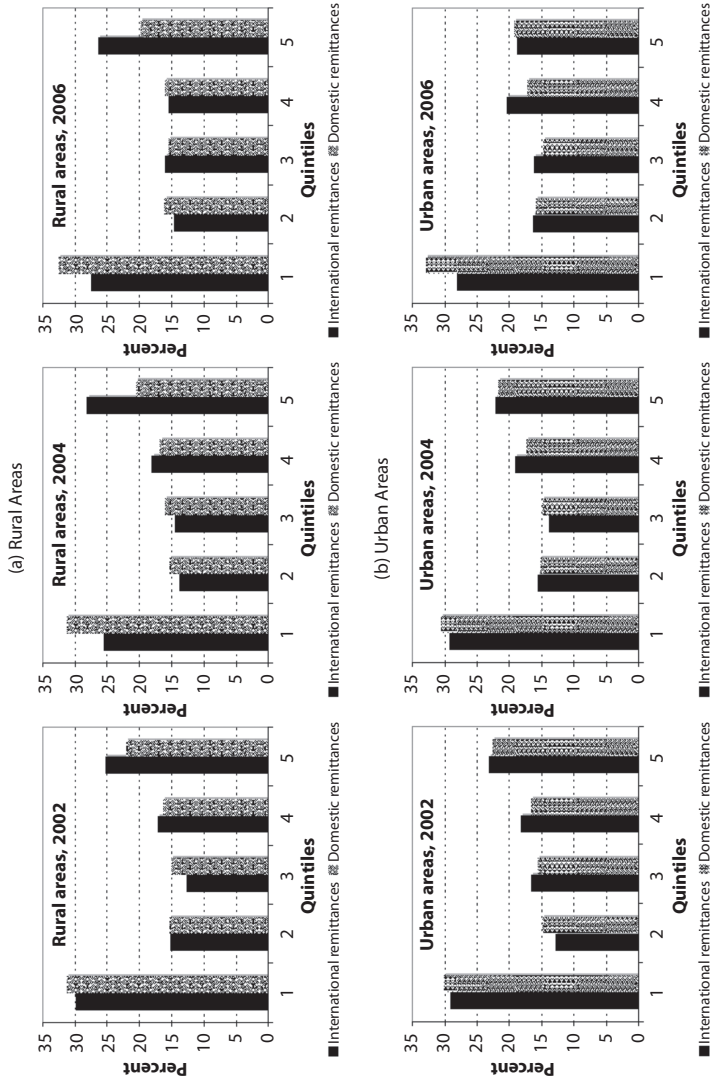


FIGURE 1: Percentage of Remittances by Pre-transfer Income Quintiles in Urban and Rural Areas during 2002–2006.

SOURCE: Authors' calculations based on VHLS 2002, 2004 and 2006, GSO, GVN.

according to the United Nations Population Fund and Nguyen Anh Dang, et al.) would send funds back to support parents living in poorer economic circumstances.<sup>15</sup>

Furthermore, migrants are generally found to be more educated and better trained in elementary technical and/or business skills than non-migrants. In particular, workers leaving for overseas employment were able to move from doing mostly manual work in the 1980s to jobs requiring semi-skilled and skilled labor by 2005. It is also likely that these better-educated young workers sent funds back to their families for investment in Vietnam's booming equities and housing market in 2006–2007.

(C) URBAN HOUSEHOLDS RECEIVE DOUBLE THE  
REMITTANCES OF RURAL HOUSEHOLDS

Table 2 provides information on the distribution of remittances between urban and rural areas of Vietnam. Three columns are shown for each survey year of 2002, 2004 and 2006. The first column shows the percentage of Vietnam's population in each area. The second column shows the percentage of remittances received by households in that area. The third column shows the ratio of remittances received by households in each area to the population in that area. Therefore, a ratio of greater than one indicates that households in the area received a disproportionately large share of remittances. The reverse is the case with a ratio of less than one.

Although accounting for about one-quarter of the Vietnamese population, residents in urban areas received 42–46 percent of the total value of remittances, making their ratios double those of rural households. For example, in 2006,

TABLE 2: The Urban/Rural Distribution of Remittances in Vietnam during 2002–2006

Region	2002			2004			2006		
	% of pop	% of remit	Ratio	% of pop	% of remit	Ratio	% of pop	% of remit	Ratio
- Rural	75.34	58.33	<b>0.77</b>	74.83	54.41	<b>0.73</b>	76.01	57.80	<b>0.76</b>
- Urban	<b>24.66</b>	<b>41.67</b>	<b>1.69</b>	<b>25.17</b>	<b>45.59</b>	<b>1.81</b>	<b>23.99</b>	<b>42.20</b>	<b>1.76</b>

SOURCE: Authors' calculations based on VHLSS 2002, 2004 and 2006, GSO, GVN.

the urban ratio was 1.76 and the rural ratio was 0.76. This is not surprising given the very large monetary value of international remittances and the fact that households in the cities are much more likely to have members that go abroad for work. The high value of remittances to urban households partly accounts for their much higher living standards.

(D) RURAL POOR LIVING NEAR BIG CITIES OF HÀ NỘI  
AND HỒ CHÍ MINH AND THE MEKONG RIVER DELTA  
RECEIVE LARGER REMITTANCES

Like Table 2, Tables 3 and 4 show the same ratios of remittances to population but break them down into eight geographical regions. The tables further classify these ratios according to low- and high-income groups in each region. Table 3 shows the situation in rural areas, and Table 4 concentrates on the cities.

Table 3 shows that for rural households living in the southeast (encompassing Hồ Chí Minh City), the Red River Delta (encompassing Hà Nội), and the Mekong River Delta, the ratios are at least one and often higher than one. These households therefore receive a disproportionately higher share of remittances. In particular, it can be seen that the ratios for the rural poor in these three regions range from 2.7 to 1.2, indicating that the rural poor living near the big cities of Hà Nội and Hồ Chí Minh as well as in the Mekong River Delta do particularly well from remittances. As for the high-income households in rural

TABLE 3: The Regional Distribution of Remittances For the Low and High Income Groups in Rural Areas during 2002–2006

Regions	2002		2004		2006	
	Low Income	High Income	Low Income	High Income	Low Income	High Income
Red River Delta	<b>1.2</b>	<b>1.0</b>	<b>1.2</b>	<b>1.1</b>	<b>1.4</b>	<b>1.0</b>
Northeast	0.4	0.7	0.5	0.9	0.6	0.9
Northwest	0.2	0.4	0.2	0.5	0.4	0.5
North-Central Coast	1.1	1.0	0.9	0.9	0.8	1.0
South-Central Coast	1.0	0.8	0.8	0.7	0.8	0.7
Central Highlands	0.5	0.5	0.3	0.6	0.3	0.5
Southeast	<b>2.0</b>	<b>1.4</b>	<b>2.7</b>	<b>1.3</b>	<b>2.4</b>	<b>1.4</b>
Mekong River Delta	<b>1.2</b>	<b>1.1</b>	<b>1.3</b>	<b>1.0</b>	<b>1.3</b>	<b>1.1</b>

SOURCE: Authors' calculations based on VHLSS 2002, 2004 and 2006, GSO, GVN.



TABLE 4: The Regional Distribution of Remittances for the Low and High Income Groups in Urban Areas during 2002–2006

Regions	2002		2004		2006	
	Low Income	High Income	Low Income	High Income	Low Income	High Income
Red River Delta	1.0	1.2	0.9	1.0	0.8	0.8
Northeast	0.6	0.8	0.6	0.8	0.6	0.4
Northwest	0.5	0.4	0.5	0.4	0.3	0.5
North-Central Coast	0.9	1.0	0.6	0.7	0.5	0.7
South-Central Coast	1.0	0.7	0.7	0.6	0.6	0.7
Central Highlands	0.7	0.6	0.6	0.4	0.4	0.5
Southeast	<b>1.5</b>	<b>1.0</b>	<b>2.3</b>	<b>1.3</b>	<b>2.7</b>	<b>1.4</b>
Mekong River Delta	1.3	1.3	0.9	0.9	1.0	1.0

SOURCE: Authors' calculations based on VHLSS 2002, 2004 and 2006, GSO, GVN.

areas, only those in the southeast (near Hồ Chí Minh City) seem to receive disproportionately larger remittances. For urban households both rich and poor, only those in the southeast (near Hồ Chí Minh City) seem to receive disproportionately larger remittances (see Table 4).

(E) HOUSEHOLD CREDIT AS A SUBSTITUTE  
FOR REMITTANCES

Table 5 also shows the ratios of remittances to population but classified them according to whether the household receives social security income, such as a pension, or whether the household has borrowings. As in the earlier tables, the information is broken down into rural and urban areas.

The following observations can be made from Table 5. First, regardless of whether a household is urban or rural, if it has borrowings, it receives a disproportionately smaller share of remittances, as the ratios are all below one. Second, both rural and urban poor households receive less remittances than rich households when they have borrowings; that is, access to household credit is likely to reduce remittances by a larger-than-proportionate amount for the poor than it does for the rich. The ratios for poor households are consistently less than the ratios for rich households. This could be due to the fact that borrowings by poor households are generally for consumption expenditures, and such borrowings could replace remittances sent with altruistic

**TABLE 5:** The Distribution of Remittances for the Low and High Income Groups by Receiving Public Transfers and Borrowing in Vietnam during 2002–2006

	2002		2004		2006	
	Low Income	High Income	Low Income	High Income	Low Income	High Income
<b>Rural Areas</b>						
Having social welfare income	0.9	1.1	0.9	1.1	0.8	0.8
Having pension	1.1	1.2	1.0	1.2	1.1	1.2
Having some borrowing	<b>0.4</b>	<b>0.6</b>	<b>0.7</b>	<b>0.9</b>	<b>0.6</b>	<b>0.8</b>
<b>Urban Areas</b>						
Having social welfare income	1.0	1.1	0.7	0.7	0.7	0.9
Having pension	1.0	1.0	0.8	1.2	0.8	0.7
Having some borrowing	<b>0.3</b>	<b>0.4</b>	<b>0.5</b>	<b>0.7</b>	<b>0.4</b>	<b>0.8</b>

SOURCE: Authors' calculations based on VHLSS 2002, 2004 and 2006, GSO, GVN.

motives. Rich households, on the other hand, would generally access credit for investment purposes. Third, access to credit is likely to reduce remittances more for the urban poor than for the rural poor. The ratios for the urban poor are consistently lower than those for the rural poor. Fourth, no clear substitution effects can be seen in Table 5 between pensions and social welfare income and remittances. The table reveals no consistent pattern of ratios. It is suggested that household characteristics need to be controlled before such a relationship can be observed. This is done in section 4 through econometric analysis, which measures the extent to which social security payments, in 2002, 2004 and 2006, reduce private remittances if household characteristics are held constant. Indeed, we observed pensions and social welfare payments replacing or “crowding out” private transfers through remittances after taking into account household characteristics (see section 4).

(F) VULNERABLE HOUSEHOLDS RECEIVE LARGER REMITTANCES

Table 6 shows the same ratios of remittances to population but they are classified according to household characteristics. It can be seen that regardless of

TABLE 6: Distribution of Remittances For the Low and High Income Groups by Household Characteristics during 2002–2006

Variables	2002		2004		2006	
	Low Income	High Income	Low Income	High Income	Low Income	High Income
<b>Rural Areas</b>						
Having sick members	1.2	1.1	1.6	1.5	1.0	1.1
Head is male, single	1.1	1.0	2.1	3.1	1.8	1.6
Head is female, single	1.2	2.5	1.3	1.5	1.6	1.3
Head living far from his wife	4.5	2.3	6.8	7.4	7.8	8.7
Head living far from her husband	3.6	4.0	5.5	6.4	4.6	4.9
Head living with his wife	0.7	0.8	0.6	0.8	0.7	0.8
Head living with her husband	1.1	1.1	0.9	1.0	1.0	0.9
Head is male, widow	2.0	1.5	1.8	1.4	1.8	1.3
Head is female, widow	2.0	1.4	1.9	1.5	1.6	1.3
Head is male, divorced	2.0	0.8	1.7	1.2	2.3	1.0
Head is female, divorced	1.4	1.3	1.4	1.2	1.3	2.2
Head is male, separated	1.8	1.0	2.0	1.5	1.5	2.7
Head is female, separated	1.0	1.5	1.0	1.7	1.4	1.1
Head is from 70 and above	2.5	1.7	2.1	1.5	1.9	1.3
Head is from 60 to 69	1.6	1.3	1.3	1.3	1.4	1.4
Head is from 50 to 59	0.9	1.2	1.1	1.2	1.0	1.3
Head is below 50	0.6	0.8	0.6	0.8	0.6	0.8
<b>Urban Areas</b>						
Having sick members	1.1	1.2	1.6	1.6	1.0	1.1
Head is male, single	1.6	1.3	5.1	1.0	2.6	1.7
Head is female, single	1.4	1.8	2.4	2.0	1.9	1.5
Head living far from his wife	2.8	2.8	4.0	2.4	2.0	1.9
Head living far from her husband	3.0	3.3	3.9	1.9	3.3	3.7
Head living with his wife	0.7	0.8	0.6	0.8	0.7	0.8
Head living with her husband	0.9	0.9	0.8	0.9	0.9	0.9

(continued)

TABLE 6: Distribution of Remittances For the Low and High Income Groups by Household Characteristics during 2002–2006 (*continued*)

Variables	2002		2004		2006	
	Low Income	High Income	Low Income	High Income	Low Income	High Income
Head is male, widow	1.8	1.1	2.3	0.7	1.6	1.3
Head is female, widow	1.5	1.2	1.4	1.5	1.5	1.3
Head is male, divorced	3.2	2.8	0.9	1.4	2.1	1.1
Head is female, divorced	1.3	1.4	2.5	1.5	2.0	1.9
Head is male, separated	2.5	1.3	1.4	0.9	2.3	2.3
Head is female, separated	1.8	1.3	1.5	4.6	1.6	2.9
Head is from 70 and above	1.8	1.4	1.8	1.7	1.7	1.6
Head is from 60 to 69	1.5	1.2	1.3	1.1	1.3	1.2
Head is from 50 to 59	1.0	1.0	0.7	1.0	0.8	1.1
Head is below 50	0.7	0.9	0.7	0.9	0.8	0.8

SOURCE: Authors' calculations based on VHLSS 2002, 2004 and 2006, GSO, GVN.

whether the household is in the countryside or the city, the ratios are larger than one for households that are more vulnerable—that is, households with sick members, with the household head living away from home, with only one household head through death, divorce or separation, and with an elderly head of household. Such vulnerable households receive a disproportionately larger share of remittances. Furthermore, the ratios are substantially larger than one for households with heads living away from home. This would indicate cases where the father or mother leaves home to work either in the city or overseas and send funds back to support the family.

In the subsequent sections, we examine the data using econometric analyses in order to better control for household characteristics when examining the altruistic and exchange motives behind sending remittances and the “crowding out” effect of public transfers.

### A Closer Look at Altruism, Exchange Motives, and the “Insurance Role” of Remittances

As the previous section pointed out, one can examine altruism and exchange motives by looking at the relationship between a household's pre-transfer

income and the amount of remittances it receives. At the same time, a number of other factors need to be controlled as they have independent impacts on remittances. These include whether the remittances come from an international or domestic source; whether the household is located in a city or a rural area; in which of the eight regions of Vietnam the household is located; whether the household receives a social security income, a pension, or some form of loan; and whether a household is vulnerable as defined by certain household characteristics. We therefore use regression analysis to examine the relationship between household pre-transfer incomes and remittances received, after controlling for the above-mentioned factors (for a summary of the regression analysis, see Appendix A). Furthermore, we employ nonlinear regression techniques as the relationship is expected to be negative for low-income households (altruism motive: as household incomes increase, remittances for the purposes of poverty alleviation fall) and positive for high-income households, but these remittances increase at a reducing rate (profit/exchange motive: as households become wealthier, investment opportunities rise and more remittances are sent for the purposes of making profits on behalf of the senders).

Table 7 summarizes the estimated change in remittances for a 1 percent change in household incomes in the year 2006 (see Appendix A for calculations for this year as well as for 2002 and 2004). The results are generally consistent throughout the three survey years.

This table shows that amongst rural poor with an average household income of 2.522 million VNĐ in 2006, for every 1 percent fall in household income there were estimated increases of 4,413 VNĐ from domestic remittances and 14,072 VNĐ from international remittances. Likewise, in the case of urban poor with an average household income of 5.4 million VNĐ, for every 1 percent fall in income there were estimated increases of 7,884 VNĐ in domestic remittances and 41,742 million VNĐ in international remittances. These estimates clearly indicate significant altruistic motives in sending remittances. However, the surprisingly high estimate of remittance increase to the urban poor is somewhat puzzling. One explanation could lie in the fact that when rural incomes fall, people resort to subsistence farming to supplement their consumption—an avenue that is not open to the urban poor. Hence, a fall in income amongst the urban poor could signify a proportionately much larger reduction in consumption, and therefore induce a

TABLE 7: A Summary of the Results For the 2006 Survey

<b>Rural Poor</b>	<i>(Average household income: 1% fall 2.522 m VNĐ)</i>	
- Domestic remittances	4,413 VNĐ	Increase in remittances
- International remittances	14,072 VNĐ	
<b>Urban Poor</b>	<i>(Average household income: 1% fall 5.4 m VNĐ)</i>	
- Domestic remittances	7,884 VNĐ	Increase in remittances
- International remittances	41,742 VNĐ	
<b>Rural Rich</b>	<i>(Average household income: 1% rise 8.422 m VNĐ)</i>	
- Domestic remittances	756 VNĐ	Increase in remittances
- International remittances	13,690 VNĐ	
<b>Urban Rich</b>	<i>(Average household income: 1% rise 19 m VNĐ)</i>	
- Domestic remittances	984 VNĐ	Increase in remittances
- International remittances	11,876 VNĐ	

SOURCE: Authors' calculations based on VHLSS 2002, 2004 and 2006, GSO, GVN.

greater increase in remittances both domestic and international, as a further indication of altruism.

Table 7 also shows that for the rural and urban rich, remittances increase when household incomes rise. This is consistent with indications of the profit or exchange motive. This relationship is quantitatively larger for international remittances. However, compared with the international remittances to the urban poor in response to a fall in household income, remittances to the urban rich for profit (exchange motive) seem surprisingly small, particularly in light of anecdotal evidence that a great deal of international remittances went into the real estate and stock market boom during 2006–2007. This could also indicate a bias towards underreporting of remittances on the part of the wealthier households in these surveys.

Given the very clear altruistic motive in both remittances sent to the rural and urban poor, together with some indications that disproportionately

large amounts of remittances go to vulnerable households, it seems reasonable to conclude that remittances in Vietnam could well act as a form of insurance, enabling poor households to maintain their consumption when disasters strike. In this context, it is useful to take a closer look at government social safety nets and how they may affect and interact with private remittances.

### “Crowding Out” of Private Remittances by Public Transfers and Access to Credit

In section 3, we established the altruistic motive behind remittances—that there is definitely a negative relationship between household pre-transfer income and remittances to both the rural and urban poor. As such, the issue of public transfers crowding out private remittances arises at least in principle. (Note that household pre-transfer income is defined as household incomes *before* remittances but *after* public transfers where relevant.) In other words, if increases in public transfers, in the form of social security payments and pensions, raise the income of the poor households, then private remittances are likely to be reduced by the amounts estimated in section 3. In addition, for any given amount of public transfer, the extent of the crowding out could be even larger if the household was to move from a situation of *not* receiving public transfers (probably due to lack of a social security system) to a situation of receiving them. One reason for this could be that in the eyes of the altruistic individual sending the remittances, the household has moved from being predominantly dependant on remittances to a situation where it has a “guaranteed” income from the government.

We explore the crowding out issue using regression analysis, which controls for the region in which the household is located as well as the household characteristics. The results are presented in Table 8.

Table 8 shows that for both rural and urban households throughout the three surveys, the impact of public transfers (social welfare income and pensions) on the amount of remittances received are consistently negative and statistically significant. In fact, in 2006, for a low-income household in the countryside already receiving public transfers, an increase of these transfers by, say, 700,000 VNĐ would result in a net increase of household income by only

TABLE 8: Remittances in Response to Public Transfers and Credit (000's VNĐ)

Amount of Remittances (000 VNĐ)	2002	2004	2006
<b>(i) Rural Areas</b>			
Having social welfare income	-77***	-119***	-168***
Having pension	-53**	-65**	-72
Having some borrowing	-222***	-122***	-139***
<b>(ii) Urban Areas</b>			
Having social welfare income	-43	-291***	-250***
Having pension	-74	-114	-263***
Having some borrowing	-492***	-419***	-330***

NOTE:  $p$ -values in parentheses (\*\*\*)  $p \leq 1\%$ , \*\*  $p \leq 5\%$ , \*  $p \leq 10\%$ .

SOURCE: Authors' calculations based on VHLSS 2002, 2004 and 2006, GSO, GVN.

around 187,000 VNĐ. This would be the case because the 700,000 VNĐ of public transfer would reduce private remittances by an estimated 513,100 VNĐ.<sup>16</sup> On the other hand, if there were no existing public transfers and a new social welfare system was introduced so that the household is to be given public transfers for the first time to the tune of 700,000 VNĐ, then Table 8 shows that this would *further* reduce domestic remittances by 168,000 VNĐ and international remittances by 250,000 VNĐ. In this example, international remittances would be reduced in total by 640,600 VNĐ. Hence, for international remittances at least, it would appear that the crowding out issue is a serious one.

These results do not argue against the institution of social welfare payments per se, but they do indicate that the design of such programs needs to take into account the offsetting effect they may have on private remittances. Further, the very large negative and statistically significant coefficients on household borrowings in Table 8 strongly point to credit as a substitute for remittances. Additionally, with the coefficients doubling and tripling in urban areas compared with rural areas, these results indicate that access to credit is likely to reduce remittances much more for the urban poor than the rural poor. Again, these results do not in themselves argue against programs such as microfinance that give the poor access to credit. They do, however, indicate that the design of such programs should be cognizant of the role of private remittances and what effect these initiatives would have on them.



## Conclusions

We have shown that a very large proportion of Vietnamese households received remittances in 2002–2006 and that these remittances constituted a significant share of household incomes. The majority of households received remittances from within Vietnam, but for those able to access remittances from abroad the amounts were much larger than domestically-sourced remittances.

In general, remittances do seem to play an “insurance role” for the poor, cushioning any sudden falls in household incomes. In particular, the seemingly altruistic motive behind the sending of remittances from abroad appears to be very strong with respect to the poor living in the cities. As for the rural poor, those who live close to the big cities of Hà Nội, Hồ Chí Minh City, and the Mekong River Delta received higher amounts of remittances than those living in more remote areas.

We have also demonstrated that public transfers tend to crowd out private remittances. The effect was more severe in cases where the household did not previously receive public transfers. The reason could be that for an altruistic family member sending funds back home to, say, elderly parents, the change in the parent’s status from being reliant on remittances to having some form of “guaranteed income” from the government could have a once-off negative impact on the amount of remittances the family member sends. In addition, we found that access to credit for low-income households acts as a substitute for remittances. The crowding out and substitution effects are by no means complete, and do not necessarily argue against the institution of social security payments or access to credit for the poor. Rather, they indicate that the design of any such schemes needs to take into account the significant role that remittances play in the household incomes of the poor.

Finally, there is some indication that amongst high-income households, remittances are sent for investment or exchange motives. However, the quantitative estimates appear relatively small. This could be due to underreporting on the part of wealthy households. Further research—first by comparing the survey data on international remittances with balance of payments data, and second by including data on migrant characteristics—is needed.

## Appendix A: Remittances in Response to Income Changes in Cities and Rural Areas

Table A.1 summarizes the results for rural households and Table A.2 for urban households. In each case, we examined domestic and international remittances separately. Full estimation results are available from the authors upon request.

It can be seen from Table A.1 that amongst low-income households in the countryside, both domestic and international remittances have a negative and statistically significant response to increases in household incomes (for 2006, the response was  $-.175$  for domestic remittances and  $-.558$  for international remittances). This means that keeping all other factors constant, for a 1 percentage *fall* in an average income of 2.522 million VNĐ amongst the rural poor in 2006, there would have been an *increase* in domestic remittances of 4,413 VNĐ ( $2.522 \text{ million} \times 1\% \times .175$ ) and in international remittances of

TABLE A.1: Remittances in Response to Income in Rural Areas (in Which Dependent Variable is the Amount of Remittances and Independent Variables are Incomes)<sup>17</sup>

Amount of Remittances (000 VNĐ)	2002	2004	2006
<i>Effects of income on domestic remittances</i>			
Low income group (000 VNĐ)	-0.183*** (0.000)	-0.156*** (0.000)	-0.175*** (0.000)
High income group (000 VNĐ)	0.026*** (0.000)	0.017*** (0.000)	0.009*** (0.001)
High income group squared/10,000	-0.006*** (0.000)	-0.003*** (0.000)	-0.001*** (0.006)
<i>Effects of income on international remittances</i>			
Low income group (000 VNĐ)	-1.170*** (0.000)	-0.916*** (0.000)	-0.558*** (0.001)
High income group (000 VNĐ)	0.294*** (0.000)	0.388*** (0.000)	0.163*** (0.001)
High income group squared/10,000	-0.050* (0.060)	-0.098*** (0.001)	-0.017*** (0.001)

NOTE: *p*-values in parentheses (\*\* $p \leq 1\%$ , \*\* $p \leq 5\%$ , \* $p \leq 10\%$ ); and all variables valued in Vietnamese *đồng* are adjusted regionally and according to December 2006 prices.

SOURCE: Authors' calculations based on VHLSS 2002, 2004 and 2006, GSO, GVN.

TABLE A.2: Remittances in Response to Income in Urban Areas

Variables	2002	2004	2006
<i>Effects on domestic remittances</i>			
Low income group	-0.163*** (0.000)	-0.157*** (0.000)	-0.146*** (0.000)
High income group	0.019*** (0.003)	0.023** (0.015)	0.009** (0.040)
High income group squared/10000	-0.001*** (0.001)	-0.002*** (0.006)	-0.001*** (0.006)
<i>Effects on international remittances</i>			
Low income group	-0.632*** (0.000)	-0.948*** (0.000)	-0.773*** (0.000)
High income group	0.139*** (0.002)	0.170* (0.065)	0.242* (0.069)
High income group squared/10000	-0.011*** (0.001)	-0.031** (0.053)	-0.047* (0.089)

NOTE:  $p$ -values in parentheses (\*\*\*)  $p \leq 1\%$ , \*\*  $p \leq 5\%$ , \*  $p \leq 10\%$ .

SOURCE: Authors' calculations based on VHLSS 2002, 2004 and 2006, GSO, GVN.

14,072 VNĐ (2.522 million  $\times$  1%  $\times$  .558). The altruistic motive is quite clear in both cases, and quantitatively more prominent in the case of international remittances.

Table A.1 also shows that for high-income rural households, the response of both domestic and international remittances to increases in income is consistently positive over the three survey periods and statistically significant. In order to capture the nonlinear nature of the response, a variable calculated as income-squared is used.<sup>18</sup> This variable shows a consistently negative coefficient for both domestic and international remittances. This means that for high-income rural households, as their incomes increase, both domestic and international remittances also increase but at a decreasing rate. This is much more prominent in international remittances. In general, amongst the high-income rural households, a 1 percentage increase in an average income of 8.422 million VNĐ in 2006 results in an increase of 11,275 VNĐ in international remittances, but only 756 VNĐ in domestic remittance.<sup>19</sup>

Both domestic and international remittances also exhibit altruistic motives towards the urban poor, as shown in Table A.2. In 2006, for example, a one

percentage *fall* in an average household income of 5.4 million VNĐ would have resulted in an *increase* in domestic remittances of 7,884 VNĐ ( $5.4 \text{ million} \times 1\% \times .146$ ), and in international remittances of 41,742 VNĐ ( $5.4 \text{ million} \times 1\% \times .773$ ). At least in 2006, people sending funds back to Vietnam from abroad seemed to have been much more generous towards the poor in the cities than towards those in the countryside. Part of this surprisingly large generosity could be explained by the fact that subsistence farming is not available to the urban poor. Hence, the fall in consumption due to a 1 percent reduction in income would be much more severe for the urban poor compared with the rural poor.

Similar to high-income households in the countryside, Table A.2 shows that rich households in the cities tend to receive increasing amounts of remittances as incomes increase. Indeed, for a 1 percent increase in an average income of 19 million VNĐ amongst the urban rich in 2006, it is estimated that the household would have received 11,876 VNĐ in international remittances, but only 984 VNĐ in domestic remittances.<sup>20</sup> This is consistent with the observation that a large amount of international remittances was channelled into the booming real estate and stock markets at that time, which indicates the profit or exchange motive behind the sending of remittances.

HAI ANH LA received her doctoral degree from the Australian National University (ANU). This paper derives from her PhD dissertation, on which she worked closely with her supervisor, DR. SUITWAH LEUNG, Associate Professor in Economics, Crawford School of Public Policy, ANU. Ms. La was formerly a staff member of the National Economics University in Vietnam. Since the award of her doctorate, she has taken up the role of researcher at the Vietnam Academy of Social Sciences. Ms La's study at the ANU was funded through the scholarship scheme of the Australian Agency for International Development (AusAID). The authors would like to thank AusAID for its financial assistance.

#### ABSTRACT

*By analyzing data from the three Vietnam Household Living Standards Surveys between 2002 and 2006, the authors found that a very large proportion of Vietnamese households received remittances during those years and that*

*these remittances constituted a significant share of household incomes. The majority of households received remittances from within Vietnam, but for those able to access remittances from abroad, the amounts were very much larger. In general, remittances do seem to play an “insurance role” for the poor, cushioning any sudden falls in household incomes. There is also some evidence that public transfers can crowd out private remittances, but the effect is by no means complete.*

#### Notes

1. For example, Claudia M. Buch and Anja Kuckulenz, “Worker Remittances and Capital Flows to Developing Countries,” *ZEW Discussion Paper* no. 04-31, Centre for European Economic Research (April 2004), <ftp://ftp.zew.de/pub/zew-docs/dp/dp0431.pdf>; Poonam Gupta, “Macroeconomic Determinants of Remittances: Evidence from India,” *IMF Working Paper* 05/224 (December 2005), <http://www.imf.org/external/pubs/ft/wp/2005/wp05224.pdf>; Erik Lueth and Marta Ruiz-Arranz, “A Gravity Model of Workers’ Remittances,” *IMF Working Paper* 06/290 (December 2006), <http://www.imf.org/external/pubs/ft/wp/2006/wp06290.pdf>.
2. United Nations Development Programme (UNDP), *Human Development Report 2009. Overcoming Barriers: Human Mobility and Development* (New York: UNDP, 2009), [http://hdr.undp.org/en/media/HDR\\_2009\\_EN\\_Complete.pdf](http://hdr.undp.org/en/media/HDR_2009_EN_Complete.pdf).
3. Ralitza D. Dimova and Francois-Charles Wolff, “Remittances and Chain Migration: Longitudinal Evidence from Bosnia and Herzegovina,” *IZA Discussion Papers* 4083 (March 2009), <http://www.econstor.eu/dspace/bitstream/10419/35526/1/598774912.pdf>; Claire Naiditch and Radu Vranceanu, “Migratory Equilibria with Invested Remittances,” *ESSEC Working Papers DR 09015* (April 2009).
4. Lueth and Ruiz-Arranz, “A Gravity Model of Workers’ Remittances.”
5. As was the case in Vietnam during the global financial crisis, exports fell by 9.7 percent in 2009 compared to 2008 (General Statistics Office of the Government of Vietnam) and international remittances also fell by 12.8 percent (according to the State Bank of Vietnam).
6. Macro studies rely on published data on formal transfers. In contrast, micro studies based on household surveys can also incorporate informal transfers.
7. World Bank, *Viet Nam Development Report 2008: Social Protection* (The World Bank, 2008). According to Jensen, crowding out has implications for the efficacy of public transfer or redistributive programs. In the case of complete crowding out, such programs may have no net effect on the incomes of the

- intended beneficiaries. See Robert T. Jensen, "Do Private Transfers 'Displace' the Benefits of Public Transfers? Evidence from South Africa," *Journal of Public Economics* 88, nos. 1–2 (January 2004): 89–112.
8. See Donald Cox and Emmanuel Jimenez, "Social Security and Private Transfers in Developing Countries: The Case of Peru," *The World Bank Economic Review* 6, no. 1 (January 1992): 155–169.
  9. For a discussion of the survey data, see manuals for the relevant years, General Statistics Office (GSO), Government of Vietnam (GVN).
  10. In theory, this could include gifts from neighbors and others who did not migrate from the household. However, more detailed data collected in the surveys during the 1990s indicates that such unrequited transfers were likely to be small, and they are therefore ignored in the present study. See Donald Cox, "Private Interhousehold Transfers in Vietnam in the Early and Late 1990s," *Policy Research Working Paper Series* 2853 (The World Bank, 2002).
  11. Pre-transfer income refers to household incomes before remittances but after public transfers where relevant.
  12. In reality, this could be an overstatement as the implicit income from subsistence farming is not generally included.
  13. Donald Cox, Bruce E. Hansen, and Emmanuel Jimenez, "How Responsive Are Private Transfers to Income? Evidence from a Laissez-faire Economy," *Journal of Public Economics* 88, nos. 9–10 (2004): 2193–2219.
  14. Dang Nguyen Anh et al., *Development on the Move: Measuring and Optimizing Migration's Economic and Social Impact in Vietnam* (Global Development Network, 2010).
  15. United Nations Population Fund (UNFPA), *Internal Migration in Vietnam: The Current Situation* (Hà Nội: UNFPA, 2007); Dang, *Development on the Move*.
  16. From Table A.1 in Appendix A, this would reduce domestic remittances by 122,500 VNĐ ( $700,000 \times 0.175$ ) and international remittances by 390,600 VNĐ ( $700,000 \times 0.558$ ).
  17. All variables valued in Vietnamese *đồng* are adjusted regionally and according to December 2006 prices.
  18. For justification of this use, see Cox, Hansen and Jimenez, "How Responsive Are Private Transfers to Income?"
  19. At an average income of 8.422 million VNĐ, the value of domestic remittances is 75,791 VNĐ [ $0.009 \times 8.422 - 0.001 \times (8.422^2/10,000)$ ]. A 1 percent increase in average income of 8.422 million equals 8.506 million VNĐ. This would result in domestic remittances of 76,547 VNĐ [ $0.009 \times 8.506 - 0.001 \times (8.506^2/10,000)$ ]. The increase in domestic remittances is therefore 756 VNĐ (that is, 76,547–75,791).

20. At an average income of 19 million VNĐ, the value of domestic remittances is 134,900 VNĐ [ $0.009 \times 19 - 0.001 \times (19^2/10,000)$ ]. A 1 percent increase in average income of 19 million equals 19.190 million VNĐ. This would result in domestic remittances of 135,884 VNĐ [ $0.009 \times 19.19 - 0.001 \times (19.19^2/10,000)$ ]. The *increase* in domestic remittances is therefore 984 VNĐ (that is, 135,884–134,900).