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STORIES THIS
WEEK

PESO DEPRECIATION PROVIDES OPPORTUNITIES FOR MIGRANT FAMILIES TO IMPROVE LIVES --- *study*

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[LSPC hosts the first
Phil - Cuba festival
of culture and arts](#)

The depreciation of the Philippine peso against foreign currencies has allowed families of Filipino migrant workers to improve their lives. With more cash in their hands, they are able to make more entrepreneurial investments and enroll their children in better schools, thus reducing child labor, according to a study of overseas Filipino workers released by the University of Michigan.

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[Los Baños celebrates
389th foundation
anniversary](#)

According to Philippine born Dean Yang, an associate professor of the University of Michigan's Gerald R. Ford School of Public Policy, the depreciation of the peso against the US dollar or the Saudi riyal, encouraged migrant families to take more risks in both investment and entrepreneurial opportunities.

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[Peso depreciation
provides
opportunities for
migrant workers to
improve lives](#)

Published in May 2004, Yang's paper "International Migration, Human Capital, and Entrepreneurs: Evidence from Philippine Migrant Exchange Rate Shocks" analyzed how migrants' households in developing countries responded to changes in economic conditions. The study took the 1997-98 Asian financial crisis as an example of economic change.

"The point of the paper is that international migration allows families to acquire financial resources to improve their own lives," Yang wrote. "Therefore, the government should be very careful not to do anything that makes it more difficult for migrants to go overseas."

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[Filipino children,
adults drink less
milk](#)

The Asian financial crisis. Many economies in Asia, which include South Korea and Malaysia, went into recession or bailout by multilateral agencies like the World Bank during the financial crisis.

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[Anao ylang ylang
farmers smell better
times](#)

The Philippine economy may have shown more resilience compared to these countries, but the peso depreciated by 73 percent against the US dollar, from P26 to US\$1 before June 1997 to P45 to \$1 in October 1998.

Yang's study showed that during the period, the peso lost an average 52 percent of its value against the currencies of US, Hongkong, Saudi Arabia, and United Arab Emirates. These countries were hosting 10 million Filipino migrant workers or half of the total overseas Filipino workers at the time.

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[Bamboo grows next
to timber in
importance](#)

On the other hand, the currencies of Japan, Singapore, and Taiwan, where some 450,000 OFWs worked, strengthened by 26 to 32 percent against the peso while the currencies of South Korea and Malaysia, which had more than 200,000 OFWs, fell slightly between one to four percent against the peso.

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During this period, according to the Commission on Overseas Filipinos, about 7 million Filipino migrants-- some 3 million contract workers, 2.15 million permanent residents, and 1.8 million undocumented workers-- were spread out over more than a dozen countries.

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Exchange rate matters. "In families whose migrants experienced more favorable exchange rate improvements (like those in Saudi Arabia, Hongkong, and the US), I found the greatest increases in remittances, child schooling and entrepreneurship, and the greatest declines in child labor," Yang said in an e-mail response to questions posed by OFW Journalism Consortium.

However, Yang found that "families" whose migrants experienced the worst exchange-rate changes (those in South Korea and Malaysia) had the smallest increases in remittances, child schooling, and entrepreneurship, the biggest increases in child labor."

Yang explained that for an overseas Filipino worker who is earning in foreign currency, "a depreciation of the Philippine peso against the dollar is a good thing, because her salary (in dollars) will be convertible to more pesos after the depreciation."

Yang claimed the depreciation of the peso against the foreign currencies or what he called "favorable shock to the migrants, has generally improved the quality of life of the migrant families.

He explained that a 20% improvement in the exchange rate (meaning the currency of the migrant appreciated by 20% vs. the Philippine peso) between July 1997 and October 1998, brought about the following improvements in migrants households back home: remittances rose by 4.8 percent of household income the probability of owning a vehicle (jeep, motorcycle, or car) rose by 2.8 percentage points.

No waste in remittances "In many interaction with policy-makers and migrant families in the Philippines, I have often heard the claim that remittances are 'wasted', in the sense that they are spent on conspicuous items like TVs, VCRs, refrigerators, etc. and not on things that would really improve their lives in the long run. Others claim the funds are dissipated by relatives and neighbors asking for handouts, so that the remittance recipients are not left with much in the end.

Yang shows in his paper that these claims are inaccurate, if not false.

Yang said when he analyzed the work hours of the children of migrants, he saw a decrease in working hours for both males and females. Girls aged 10-17 were 2.6 percentage points more likely to stay in school boys aged 10-17 worked 0.64 hours less per week.

He also saw that the household education expenditures rose 16 percent, leading him to conclude that children were more likely to stay in school and work fewer hours in the labor force.

Risky investments He said the households that experienced more favorable exchange rates and have previous experience in running businesses of their own placed their money in risky investments rather than waiting for their money to grow in risk-free investments.

"The more positive one's exchange rate shock, the more likely it is that a household will also take on more entrepreneurial risk," he wrote. He did not specify the riskier investment or enterprises that the household established.

However, he found that "households' entrepreneurial income becomes more volatile or fluctuates more with their migrants experience better exchange rate shocks. This is why I say households seem to be taking more risk."

The study used National Statistics Office's data of the Labor Force Survey (LFS), Survey on Overseas Filipinos (SOF), Family Income and Expenditure Surveys (FIES), and the Annual Poverty Indicator Survey (APIS).

LFS collects data on primary activity, which includes the students, hours worked and demographic characteristics of household members aged 10 and above. SOF collects information on the household overseas members, their location, the value of remittances, among others. FIES records all income sources including cash receipts from overseas. The AFIS records income sources, expenditures, and ownership of durable goods.

Increase in self-employment Yang said those families that had a favorable exchange rate shock also saw a dramatic increase-- by two hours a week-- in the total household hours worked in self-employment. However, this did not raise the household entrepreneurial income since the primary effect of a more favorable exchange rate shock on household entrepreneurial income is to raise its volatility rather than its level.

"These results may reflect the fact that more favorable economic conditions for migrants allow some households to engage in riskier productive activities. Households whose migrants experience worse shocks may reduce their exposure to entrepreneurial risk, and therefore experience smaller fluctuations in entrepreneurial incomes," he wrote.

This is also suggestive evidence that hours worked without pay in family-operated farms or businesses declines with more favorable exchange rate shocks."

The favorable impact, he added, was on households that had already some business activity before the financial crisis. A comparison of the data between those who had some experience in entrepreneurial activities and those who had not, showed that the income from the businesses of the former, was much higher.

compared with that of the latter, which was "substantially smaller or closer to zero".

As it turns out, the impact of migrant exchange rate shocks on households that already had some entrepreneurial activity in the pre-crisis period," he said.

According to Yang, risky entrepreneurship overtook risk-free investments during the period under study, with the migrant income remaining constant, resulting in a higher entrepreneurial labor supply but more volatile income from these investments.

His findings, he said, shed light on how developed countries' policies on migrant workers can affect households in poor countries. Rich-country policies that give employment opportunities for migrant workers can stimulate human capital investment and poor-country households. **VILLY G. Cabuag / OFW Journalism Consortium Inc.**

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