



REMITTANCE FLOWS BETWEEN GERMANY AND TURKEY: A REVERSE TREND?¹

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EXECUTIVE SUMMARY

In a 2012 joint-paper titled “Causes and Consequences of the Downturn in Financial Remittances to Turkey: A Descriptive Approach,” together with my co-authors Thomas Straubhaar and Giulia Bettin,¹ I analyzed the changes in remitting behavior from the late nineties to today, the dynamics of Turkish migration as well as trends in workers’ remittances in the financial crises of 1994, 2000/1, and 2008.² The paper covered the remittance flows to Turkey until 2009. From 2009 to 2013, the amount of remittances fell even more and there was also a significant change in the direction of the flow.

This policy brief intends to shed light on this new dimension, in which remittances flowing from Turkey to Germany have significantly increased. The paper will analyze this fairly new phenomenon within the framework of another new pattern: migration flows from Germany to Turkey. The paper will conclude with a debate on the Turkish economy’s potential need for a renewed source of foreign exchange (in the form of remittances) in the near future. This debate especially gains traction amidst the looming financial crisis in Europe and Turkey’s doorsteps. In addition, the insufficiency of classical remittance theories in analyzing countries like Turkey will be explored, as Turkey, which used to be a remittance receiving country for more than fifty years, is recently becoming a country of remittance outflows. This policy note highlights the need for a new theoretical framework and calls for more qualitative studies looking into the profile of remitters, the motivations behind remitting behavior, and the remittance/savings portfolio.

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Financial Remittances to Turkey: A Gain or Loss?

One of the premises of Turkish emigration to Germany was that remittances of Turkish workers would lead to productive investments and employment-creating activities. In the empirical literature on the determinants of migrants' remittances to Turkey, it has been repeatedly argued that remittances failed to create positive externalities with regards to productivity. Instead, in the case of Turkey, a considerable amount of migrants' savings have been invested in small enterprises in the service sector. Except for a few studies that show the positive impact of money sent to households within the home country, which indeed improves living standards and reduces poverty, in general it is argued that the link between remittances and economic development has been broken in the case of Turkey.

Despite limited developmental effects and non-productive aspects, the remittances sent by Turkish citizens living abroad to support families and relatives they left behind have been one of the major sources of capital accumulation for the Turkish economy.

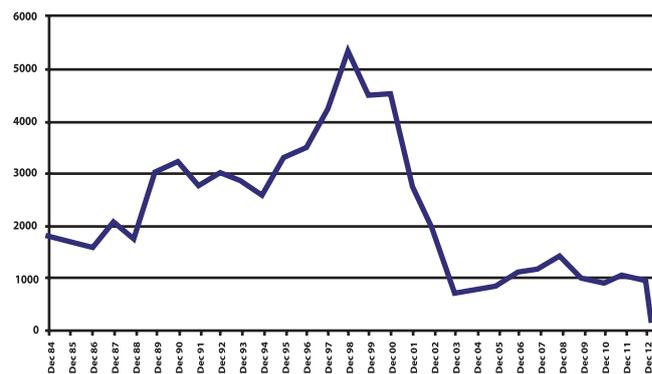
Turkey: Remittance Receiving and Sending Country

The aforementioned 2012 paper concluded that the decline in remittances might be due to a few different coexisting reasons: i) permanent residency in the host country and weaker attachment to the homeland; ii) changes in the socio-economic statuses of second and third generation immigrants, as they become entrepreneurs investing in their own business in the host country; iii) invisible /informal channels such as corruption of Turkish migrants' savings in the hands of Islamic foundations; iv) changes in the calculation of remittance data by the Central Bank of Republic of Turkey (CBRT); v) shift to the Euro in the EU and the crisis in Europe; vi) drop in

interest rates and rise in tax on remittances. In sum, the paper demonstrated that despite investment motives playing a certain role in determining remittance behavior, the instability of the Turkish economy and the consequent loss of reliability had probably played a key role in negatively influencing migrants' attitudes towards remittances.

Since the 2012 paper, the amount of remittances to Turkey plummeted even further. Moreover, until 2013 the causes of this downward slope remained more or less the same. Most of the extant reasons remained valid while yet some of them gained prominence. For instance, Turkish migrants are now facing even lower interest rates (0.25 in comparison to 9 % in 2001 and 3% in 2004).

Figure 1: Remittances to Turkey (1984-2012), million dollars



Source: Central Bank of the Republic of Turkey, Balance of Payments Statistics.

Although almost all determinants of remittances to Turkey still apply, currently, remittance outflows from Turkey to Germany have become remarkable. In a recent interview in Davos by Gillian Tett from Financial Times, Hikmet Ersek, CEO of Western Union, (who is himself Turkish), commented on how money transfers from Turkey to Germany have been increasing on a monthly basis, and how these transfers now account for 30 % of the total volume of incoming remittances from Germany.⁴ Similar information appeared across various sources in both Turkish and international media, initiating debate on the reverse flow of remittances from Turkey to Germany. However, the phenomenon is not only applicable to Turkey. As of late most of

the remittance receiving countries are gradually becoming remittance-sending countries. Turkey too appears to be par taking in this global trend.

Reasons behind the Current Trend

Even though this trend can be explained by various factors, two fundamental issues play a rather important role; i) emigration flows from Germany and Turkey, and ii) Turkish economic growth. According to a study conducted by TAVAK (Turkish European Foundation for Education and Scientific Studies), between 2007 and 2011, some 193,000 Turks living in Germany permanently returned to Turkey.⁵ Even if the numbers represent an increasing trend, one should be cautious about the data for various reasons. First, since the phenomenon is fairly new and there are few studies analyzing the trend, there are various ambiguities. Researchers have not yet come to an agreement on how to define the flow itself. Depending on the profiles of the migrants, it might be defined as return, mobility, circular migration, brain drain, or so on. Push factors for this trend include high unemployment rates in Germany, discrimination against Turks in the labor market, search for family roots etc. The question of whether this new form of movement is permanent or temporary remains uncertain as well. Despite the vagueness of this particular issue, Turkey's stable political atmosphere and profound economic welfare visibly helps Turkey shine as a preferred destination. Turkey has become a magnet country pulling migrants from neighboring regions. Hence, Turkey, a migration receiving country, has gradually become a remittance sending one.

Second, macroeconomic development of the Turkish economy in the last decade has also influenced the remitting behavior. Per capita income has almost tripled and reached \$10,524 in 2011, from the modest figure of \$3,500 in 2002. Turkey's GDP growth rate was almost 6 % on average during the 2002-2011 period. The global crisis has slowed down economic activity both in Europe and in Turkey. Yet, Turkish economy recovered from the crisis relatively fast and

achieved a growth rate of 9.2 % and 8.5 % in 2010 and 2011 respectively. Gradually, Turkish economy became the 6th largest in the EU, making it larger than 22 EU member states—the first five being Germany, the United Kingdom, France, Italy and Spain. Turkish economic growth is significant not only in comparison to EU member states, but also in terms of its global rank. Today, Turkey is the 17th largest economy in the world with a GDP of about \$800 billion in 2012. The 2013 target of the Justice and Development Party (AKP) is to become the 10th largest economy in the world.⁶

As a consequence of these developments, the savings of Turkish returnees increased and the share of money sent back to families in Germany in the total income also became larger.

A New Need for Remittances: Back to the Sixties?

Economic growth and the increase of GDP per capita as the main macroeconomic indicators do not give the entire picture of the current state of the Turkish economy. The unemployment rate (9.6 % in 2013 January) indicates that the benefits of growth have not been distributed equally and growth did not create new jobs. The sustainability of economic growth is under question as well. Construction and engineering having a significant share in the sectoral distribution of growth gave rise to questions about whether it is short run boom or not. Turkey is often placed at the bottom when it comes to social rankings.⁷ For instance, Turkey was the 90th country out of 187 according to the UN Development Index 2012.⁸ Similarly, Turkey was placed at 89th out of 142 in the Legatum Prosperity Index⁹ and 154th out of 179 according to the Freedom of Press Index 2013.¹⁰

Furthermore, the recent protests in Gezi Park¹¹ and the following anti-government movement in Turkey broke the link between political stability and economic stability. The immediate impact was reflected upon the Istanbul Stock Exchange (IMKB) that dropped almost 11 % on the third week of demonstrations.

This drop further stimulated volatility and risk in the economy, and had a negative influence on investors' behaviors. Tourism was among the sectors that were highly affected by the recent political uprisings in Turkey.

Considering that Foreign Direct Investment (FDI) and tourism revenues are two major components of Turkey's foreign reserves, potential losses in the Turkish economy in the near future may create a renewed need for workers' remittances. After a month of political unrest, Turkey is under high risk of a new financial crisis in which the Central Bank may need to seek new ways of re-attracting savings of Turkish migrants. A reasonable precaution would be to encourage Turkish entrepreneurs living abroad to channel their investments to Turkey. In the long run, advancement of new sources of foreign exchange including remittances will remain as one of the key policy challenges for Turkey.

Can Classical Remittance Theories Explain New Patterns of Remitting Behavior?

Remittance behavior is such a complex issue that it cannot be explained by a single theory. Instead of fitting a general theory of remittances, motivations can be a combination of varying reasons that might be affected by certain contexts, sociological and cultural factors.

Standard theories of remittances answer the question of "Why do migrants remit?" via perspectives ranging from pure self-interest, pure altruism and implicit family agreements to portfolio management decisions. Classical theories fall short of analyzing the Turkish case, in which a significant share of remittances flows back to Germany - a

contradiction from traditional patterns. Taking into account the new forms of mobility between Germany and Turkey, a new theoretical framework is needed with a special focus on transnationality and circularity.

In addition to these theoretical shortfalls, another drawback that is applicable to almost all remittances studies is the unrecorded flow of money that often takes place through informal channels. As a consequence, research on the subject can only analyze existing official data. A more specific gap in the literature on Turkish remittances is the lack of quantitative research looking at the profile of remitters, their motivations, and their remittance portfolio.

Conclusion

In the 2012 paper, the poor performance of aggregate remittance flows to Turkey in the post-1998 period was analyzed in its historical context from an economic point of view. The transformation of motives behind remitting decisions in the pre and post-crises periods was also presented. Since 2009, the remitting behavior gained a new dimension.

The Turkish migrants who returned from Germany began to send money to their families back in Germany. Reverse flows of migrants and their remittances are closely linked, yet there is a need for further research, especially for qualitative studies.

Taking the fragile and crisis-prone structure of the Turkish economy into account, this policy brief highlights the continuing importance of, and the need for remittance as an external source in the near future. With the unstable political atmosphere following the Gezi Park protests, strengthening the potential for economic instability, re-attracting remittances; so as to reach the pre-1990s levels, might cushion the impact of a potential crisis in the future. In conclusion, channeling the savings and investments of Turkish migrants towards Turkey, could play a crucial role in economic policy decisions.

END NOTES

1 | This policy brief is based on the author's presentation at a conference titled 'Zirkulare Migrationsbewegungen zwischen Deutschland und der Türkei in transnationaler Perspektive, held at the University of Hamburg, Germany, 21-22 June 2013.

2 | Prof. Dr. Thomas Straubhaar - Director of Hamburg Institute of International Economics (HWWI), and Dr. Giulia Bettin - Department of Economics, Ancona University, Italy.

3 | Seçil Paçacı Elitok, Giulia Bettin and Thomas Straubhaar, "Causes and Consequences of the Downturn in Financial Remittances to Turkey: A Descriptive Approach." in Turkey, Migration and the EU: Potentials, Challenges and Opportunities ed. Seçil Paçacı Elitok, and Thomas Straubhaar. (Hamburg: Hamburg University Press, 2012). This paper was presented at a conference on 'Debating Immigration-Integration Nexus in Germany and Turkey: Where to go from Here' at Boğaziçi University, September 2011.

4 | "Go west, east, north or south, young man.", FT Magazine, accessed July 31, 2013, <http://www.ft.com/intl/cms/s/2/e515bd92-70ba-11e2-85d0-00144feab49a.html#axzz2XVoV7LUf>.

5 | "193,000 Turks come back from Germany in 4 years.", Hurriyet Daily News, accessed July 31, 2013, <http://www.hurriyetdailynews.com/193000-turks-come-back-from-germany-in-4-years.aspx?pageID=517&nID=42932&NewsCatID=341>.

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9 | "A Unique global Inquiry into Wealth and Wellbeing", The Legatum Institute, accessed July 31, 2013, <http://www.prosperity.com/>.

10 | "Syria, Bahrain and Yemen get worst ever rankings", Reporters without Borders, accessed July 31, 2013, <http://en.rsf.org/press-freedom-index-2011-2012,1043.html>.

11 | The social movement, named the 'Gezi' protests, first started in early June 2013 in the form of a protest against plans to demolish the Gezi Park that is located in central Istanbul. After forceful intervention by police forces, the initial protests escalated to encompass larger themes of defending personal freedoms and choices against the increasingly conservative policies of the ruling party.

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3 | The Legatum Institute 2012, The 2012 Legatum Prosperity Index, “A Unique global Inquiry into Wealth and Wellbeing”, Accessed July 31, 2013. <http://www.prosperity.com/>.

4 | Paçacı Elitok, Seçil, Giulia Bettin, and Thomas Straubhaar. “Causes and Consequences of the Downturn in Financial Remittances to Turkey: A Descriptive Approach.” in Turkey, Migration and the EU: Potentials, Challenges and Opportunities, edited by Seçil Paçacı Elitok, and Thomas Straubhaar. (Hamburg: Hamburg University Press, 2012), Accessed July 31, 2013. http://hup.sub.uni-hamburg.de/opus/volltexte/2012/118/chapter/HamburgUP_HWWI5_Migration_BettinElitokStraubhaar.pdf.

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