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Possible Economic Impacts of Falling Oil Prices, the Pandemic, and the Looming Global Recession onto Overseas Filipinos and their Remittances

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POSSIBLE ECONOMIC IMPACTS OF FALLING OIL PRICES, THE PANDEMIC, AND THE LOOMING GLOBAL RECESSION ONTO OVERSEAS FILIPINOS AND THEIR REMITTANCES

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Abstract

Billion-dollar remittances from an estimated 10.3 million Filipinos in over-200 countries and territories will be a major economic lifeline for the Philippines, given today's global pandemic due to SARS-CoV-2 and COVID-19. However, the new coronavirus and the resultant area quarantines and lockdowns are already as globally dispersed as the overseas Filipino population. Countries are now rolling out economic stimulus packages for citizens and critical economic sectors. Foreign workers like Filipinos will be affected by these economic disruptions. Add the prevailing drop of global oil prices and the looming global recession to these ongoing woes facing countries and the Philippine economy's reliance on remittances.

This paper projects two short-term trends that will affect Filipino overseas work and dollar remittances. One, cash remittances will visibly decline —from US$30 billion in 2019 to about US$ 24-to-27 billion this year (that being the steepest year-on-year decline of remittances in Philippine migration history). And two, about 300,000 to 400,000 overseas Filipino workers will be affected by lay-offs and salary cuts worldwide. The Philippines is the world's most organized migration bureaucracy among migrant-origin countries. However, the COVID-19 pandemic may well be the most challenging crisis facing the responsive migration management system of the Philippines.

Keywords: Overseas Filipinos, remittances, pandemic, COVID-19, The Philippines, recession

JEL codes: E20 (general), F01 (global outlook), F22 (international migration), F24 (remittances), F62 (macroeconomic impacts of globalization), F66 (labor impacts of globalization)

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The setting

The COVID-19 pandemic may well be the most challenging crisis facing the responsive migration management system of the Philippines. The global dispersion of overseas Filipinos (estimated to be at least 10.3 million, in over-200 countries and territories [Commission on Filipinos Overseas, 2019]) meets up with the global spread of the viral disease. Countries receiving overseas migrants are now trying to survive, unleashing stimulus packages or rescue funds to meet the needs of their citizens. Origin countries of migrants, like the Philippines, are also trying to survive economically while responding to compatriots who are likely to be affected by COVID-19's economic wrath abroad. Foreign dollar flows from abroad are literally a major economic lifeline for the Philippines. This lifeline will then backstop whatever public funds the Philippine government is now unloading to meet urgent survival and social protection needs of Filipinos.

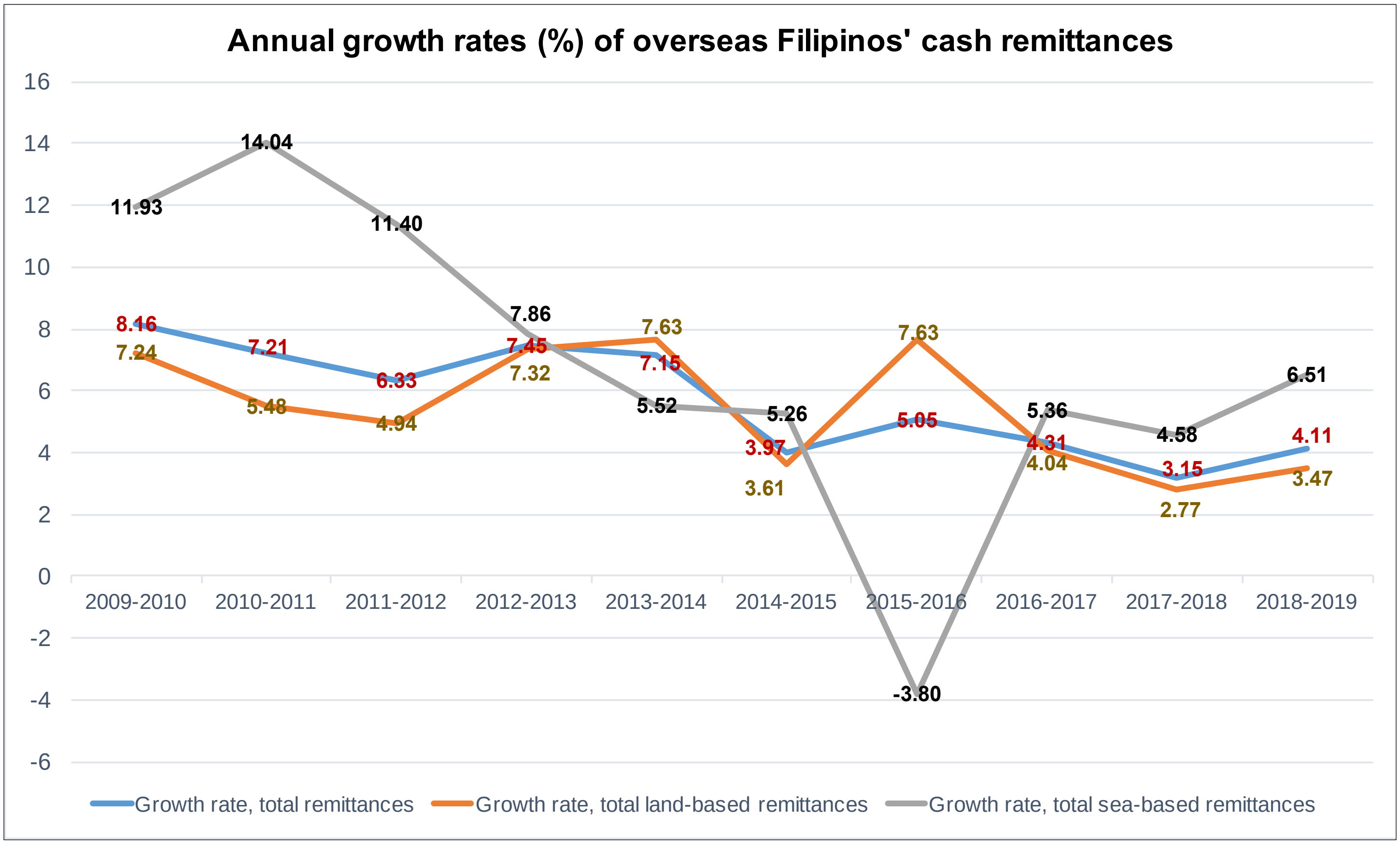
Around nine percent of all Filipino households have at least one family or household member who was out of the country, referred to here by the 2018 *National Migration Survey* (Philippine Statistics Authority and the University of the Philippines Population Institute, 2019) as *Overseas Filipinos* (covering Filipino citizens working and living permanently overseas). Meanwhile, the same survey said some 12 percent of all Filipino households "have or had an OFW [overseas Filipino worker] member" [Philippine Statistics Authority and the University of the Philippines-Population Institute, 2019: p. 9]. That is the scale of Filipino households who will have to continually receive foreign remittances as their social protection —under this COVID-19 global regime.

Declining oil prices as of the past few weeks may not even help to mitigate a looming decline global economic activity that will surely impact on the incomes to be sent by compatriots abroad.

Will remittance flows decline in 2020?

Overseas Filipinos' cash remittances have been the major source of foreign exchange for the Philippine economy. From 2010 to 2019, overseas Filipinos had sent home US$ 274.52 billion to the country's formal financial system. However, since 2009, the level of year-on-year growth of these cash remittances has gone to below five percent (or below "double-digit" figures as in previous years prior to the 2008 global economic crisis) [*see Figure 1*]. Filipinos abroad sent about US$ 30.13 billion in cash remittances in 2019. That is higher than the 2018 total figure of US$ 28.94 billion by some US$ 1.19 billion (4.11%).

Figure 1: Levels of remittance inflows from overseas Filipinos



source: Bangko Sentral ng Pilipinas (2009 to 2019 cash remittances data)

Nevertheless, the actual amounts of cash remittances are still on the uptick. That is because the global dispersion of Filipinos has seen the Philippines spread the risk of seeing lower amounts of (global) total cash remittance inflows. According to the 2018 Survey on Overseas Filipinos[1] (SOF), there are about 2.3 million Filipinos working overseas [Philippine Statistics Authority, 2019]. Meanwhile, in terms of actual stock of overseas Filipinos (total of some 10.3 million according to the latest data available, 2013), there are about 4.2 million temporary migrants (migrant workers), about 4.8 permanent migrants, and 1.2 million irregular migrants [Commission on Filipinos Overseas, 2019].

If these stock estimates still hold, the SOF estimates [*see Table 1*] capture about half of all OFWs but excluding the irregulars and the permanent migrants. Meanwhile, in terms of cash remittances, overseas workers in the Middle East still make the lion's share of remittances [*refer to Table 1*].

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[1] Since the SOF is just a rider to the October round of the quarterly Labor Force Survey (LFS), we are just taking samples of the bigger universe of overseas Filipino workers (OFWs).

Table 1: Destination countries of Filipino temporary migrant workers, and their remittances

A. Global presence of overseas Filipino workers		
Place of Work	**Share to total (%)**	**Estimated number of overseas Filipino workers**
Africa	0.01%	207
Asia		
• East Asia	18.70%	429,913
• Southeast and South Central Asia	9.00%	206,910
• Western Asia (Middle East)	54.90%	1,262,151
Australia and the Pacific	2.10%	48,279
Europe	7.80%	179,322
North and South America	6.60%	151,734
B. OFWs' remittances: Share by place of work, and average amounts		
Place of Work	**Share to total remittances (%)**	**Average remittances (in US$)**
Africa	2.1%	3,888
Asia		
• East Asia	17.5%	1,522
• Southeast and South Central Asia	8.2%	1,490
• Western Asia (Middle East)	46.8%	1,390
Australia and the Pacific	3.7%	2,620
Europe	11.6%	2,410
North and South America	10.1%	2,620

source: Survey on Overseas Filipinos (SOF), Philippine Statistics Authority (2019)

These migration and remittance trends are happening in *normal* times. COVID-19's spread has now reached 196 countries, literally the entire planet. As of April 2, over-940,000 people have been infected with COVID-19 worldwide (including some Filipino migrant workers, permanent residents and naturalized citizens) [http://ncov2019.live].

On top of COVID-19, a corollary challenge at present is *declining oil prices*. During the 2008-2009 global financial crisis, oil prices did not go down to its present level: about US$ 22 per barrel. Nonetheless, the global financial crisis hit the United Arab Emirates in relation to financial transactions, as well as Taiwan due to weak exports and trade.

The impact of the 2008-2009 global financial crisis on OFWs were not as severe as initially anticipated. Many OFWs remained in their working countries, adjusting by deskilling (e.g. an engineer laid off, continued to work as an electrician) and by coping and riding through the short-term impacts of that crisis. Workers were still physically mobile at that time.

In the current scenario, all of the oil producers in the Middle East are at risk with falling oil prices. Note that nearly half of our OFWs are based there [*refer to Table 1* (Philippine Statistics Authority, 2019)]. If the trend of falling prices continue, the Middle East might be forced to stop oil production and possibly lay off many workers including Filipinos. This will compound the world's economic woes given the pandemic.

This *double-barreled economic impact* will lead to *a base-to-worst case scenario of about 13-to 20 percent* of all OFWs being affected. This will result to the following:

a) Cash remittances can *potentially decline from US$ 30 billion in 2019 to US$ 24 billion (base case) to US$27 billion (worst case).* That is roughly 10-to-20% or US$3 to US$6 billion less, year on year). This is assuming that significant parts of the global economy continue to be in some sort of a lockdown; and

b) About *300,00 to 400,000 OFWs* will be affected by lay-offs and pay cuts, not to mention that some of them may need to be repatriated.

The last time cash remittances fell year-on-year was in 1999: overseas Filipinos sent some US$ 6.021 billion, or some US$ 1.315 billion less (18.2%) than in 1998 (total: US$ 7.367 billion) —at the height of the 1997 Asian financial crisis. Note that that crisis affected mainly the economies of East and Southeast Asia, and little of the Middle East. Considering that this current pandemic is worldwide, the projected base-to-worst case scenario of a 10-to-20 percent decline in remittances will become the steepest drop of remittance inflows in Philippine migration history.

A geography of 'declining' remittance inflows

With Filipinos abroad also feeling the economic pinch and immobility of area quarantines and lockdowns in their countries and communities (e.g., the United States), it will not be surprising that remittance transactions will be delayed and will be in smaller amounts. These cash remittances include those from seafarers, also feeling the brunt of how the pandemic had grounded global shipping. (Filipinos provide the world's largest number of merchant marine fleet.)

This is where we look at the per-country remittance inflows from Filipinos in those countries [Opiniano, 2020]. The 2019 remittances dataset of the Bangko Sentral ng Pilipinas (historical, with monthly figures] shows that Filipinos *in at least 121 countries and territories* have sent lesser remittance amounts that year, versus in 2018 [Opiniano, 2020].

Last year's lesser amounts of remittances from at least 121 countries and territories are estimated to be around US$ 1.36 billion. Some US$ 1.33 billion of that total comes from only 22 countries [Opiniano, 2020]. The top six countries [Opiniano, 2020] are even major destinations of temporary migrant workers and are the major oil producers (the United Arab Emirates, Qatar, Saudi Arabia, Italy), as well as major destinations of permanent residents and emigrants (Italy as well, Germany and New Zealand) [*see Table 2*].

Table 2: Destination countries of Filipinos with the largest amounts of lesser amounts of cash remittances sent between 2019 and 2018 (in million US$)

Destination country	Remittance amounts sent less (2019 versus 2018), in million US$ [1]	Number of confirmed COVID-19 cases (as of 2 April 2020) [2]
United Arab Emirates	442.845	664
Qatar	249.943	835
Saudi Arabia	131.768	1,720
Germany	97.580	78,801
Italy	68.898	110,820
New Zealand	59.299	797
People's Republic of China	43.498	83,095
Greece	33.913	1,415
Switzerland	28.821	17,785
Russian Federation	23.279	2,777
Denmark	19.269	3,280
France	18.819	56,989
Ireland	17.712	3,447
Hong Kong SAR	14.763	766
Belgium	12.165	13,964
Bulgaria	11.768	422
Spain	11.484	104,118
Angola	10.420	8
Thailand	9.767	1,875
Macau SAR	9.460	41
Isle of Man	8.289	68

sources: [1] - Bangko Sentral ng Pilipinas; [2] – http://ncov2019.live

These base-to-worst case scenarios are significant numbers hitting the economy externally and then internally. With overseas Filipinos' cash remittances fueling national consumption, we will easily lose 20 to 40 percent of consumption due to the pass-through effect of remittances (i.e., dollar remittances used for local purchases).

What can be done?

The Philippine government and its migration-related agencies may need to carefully figure out how to respond to this additional challenge already knocking at our doors. Below are some suggestions:

Diplomacy

- Philippine diplomatic posts may have to anticipate and monitor expected job displacements affecting Filipinos in their countries of jurisdiction. If Filipino ambassadors, consuls-general and labor attaches will be allowed, they can negotiate with ministries of labor some possible steps. These steps concern keeping foreign workers' jobs and, to the extent possible, include them in their countries' social protection programs. An example here: Diplomatic officials can negotiate that Filipinos and foreign workers be retained in their jobs under reduced salaries. When the situation normalizes, the pre-COVID-19 salary levels of these foreign workers can be retained.

- Labor and foreign officials may have to start monitoring and informing the public how many overseas Filipinos will be displaced from their jobs. This monitoring mechanism was done by the Department of Labor and Employment (during the Gloria Macapagal-Arroyo administration) during the 2008-2009 global economic crisis.

- Embassies and consulates must promptly and quickly inform the Departments of Labor and Employment (DOLE) and Foreign Affairs (DFA) if host countries will be giving employment assistance packages, unemployment insurance and/or benefits, and portable social security benefits to overseas Filipinos who are *both* temporary migrant workers *and* permanent residents. Surely, host countries will exhaust these employment-related resources —as part of their economic stimulus packages— so as to mitigate the adverse impacts of country-level economic recessions onto their labor forces.

  Thus, globally-mapped information on these arrangements must be tracked. That way, these resources from host countries will give overseas Filipinos and their families some wherewithal *apart* from what migration and non-migration government agencies back home will be giving (e.g. social amelioration program funds under the Bayanihan to Heal as One Act). Resources coming from host countries will buy relevant Philippine government agencies (e.g. Overseas Workers Welfare Administration [OWWA], Social Security System [SSS], Philippine Health Insurance Corp. [PhilHealth]) some time.

  For example, Portugal's government has given migrants and asylum seekers the same full set of rights as accorded unto Portugese citizens during the COVID-19 crisis. This gives foreign workers and asylum seeks "full access" to the country's health services, at least until June 30 (Alberti and Vasco, 2020).

- If a working group team from DOLE and DFA may be formed, such team may have to use the channels of the annual Global Forum on Migration and Development (GFMD) to think of "emerging practices" to help distressed migrant workers, refugees and asylum-seekers affected by the pandemic. These channels also include backdoor negotiations with the International Organization for Migration (IOM), the International Labor Organization (ILO), and the regional consultative processes (RCPs) that bring together origin and destination countries to the negotiating table.

Repatriation and reintegration of displaced overseas workers

- The Overseas Workers Welfare Administration (OWWA) may have to offer temporary shelters, apart from its OWWA Hostel, as 14-day quarantine facilities for displaced returning overseas workers. With current enhanced community quarantine measures in place, the temporary shelters may have to be based in Metro Manila.

- Since PhilHealth will be covering hospitalization expenses of COVID-19 cases, this should also apply to returning overseas workers who may unfortunately have been infected with SARS-Cov-2. This coverage can be part of the agency's Overseas Workers Program (OWP).

- OWWA has been handing out P10,000 to OFWs affected by COVID-19, be it stranded in their intended overseas departures, or displaced from their work sites abroad. While this may have to continue until the pandemic's economic impact persists (*at least* until year's end), OWWA may have to expect that its accumulated welfare fund resources will be nearly exhausted —including allotted funds from its other programs.

  OWWA's ongoing work together with its regional offices and with partner local government units is a good example to broaden the geographic network of providing OFW assistance.

- The SSS has an OFW membership program. The pension agency should allow its OFW members to avail of the benefits of membership at this critical juncture.

- Prior to going overseas, OFWs are compelled to pay accredited private insurance companies insurance premiums. This will cover OFWs facing repatriation. That development being said, this arrangement must now be activated by the private insurance companies concerned.

  This arrangement is also tied with the Joint and Solidarity Liability (JSL) clause in previous and existing versions of the Migrant Workers and Overseas Filipinos Act (now Republic Act 11299, signed 17 April 2019). As for recruitment agencies, the national government may humbly appeal to their sense of generosity to help COVID-affected OFWs.

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