

Economy-Wide Effects of Remittances

A Computable General Equilibrium Assessment from Vietnam

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Draft as of November 24, 2006

Abstract

Recently, the flow of money sent back from Vietnamese who are working or living abroad to their homeland has been increasing rapidly. Such financial inflow has become a stable and significant one comparable with other important traditional funding sources such as foreign direct investment (FDI) and official development assistance (ODA). By using computable general equilibrium (CGE) modeling techniques, this paper is the first attempt to investigate the effects of the overseas remittances on the Vietnamese economy *as a whole*. The paper includes four major sections. The first examines the real situation of remittances in Vietnam and recent literature dealing with this issue. The second briefly reviews the current state of the economics of remittances. The third section presents a standard CGE model for the Vietnamese economy with a focus in the appearance of the overseas remittances. The fourth section provides different scenarios to simulate the effects of changes in the remittances on various aspects of the economy. The results show that agriculture and small-scale sectors would expand by the increase of the remittances. It is also found that while interest rate may slightly fall due to the remittance inflow, the average level of rent for land and wage for labor in both rural and urban areas tend to rise.

Keywords: Vietnamese economy, overseas remittances, computable general equilibrium model

¹ I am grateful to Associate Professor Nobuhiro Hosoe (GRIPS) for his detailed instructions, helpful comments and stimulating suggestions on the construction of this paper. My special thanks to Mr. Bui Trinh for providing me valuable data.