

Informal Channel: An alternative for Remittances and International Money Transfers between China and African Countries

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Abstract

Foreigners in different countries rely on different remittance channels for sending and receiving money. This paper analyses the privileged remittances channels that foreigners use in China to send money to their home country and to receive money in China. This paper explores foreigners' choices of remittance channels in China and the reasons for their choices. On the other hand, the paper aims to highlight the barriers and difficulties foreigners in China experience when sending and receiving money through a formal institution. To the best of our knowledge, this paper is the first to investigate the remittance channels used by foreigners in China; this is the innovation of this study. Using a questionnaire, we collected data from 105 foreigners living in different cities in China; and used descriptive statistics to analyze the data. Findings show that foreigners in China willing to use formal remittances channels face several barriers and therefore rely on informal channels to carry out their transactions of sending and receiving money. To render the formal remittances channels accessible for every foreigner, banks and formal Money Transfer Operators (MTOs) in China should promote English service for foreign customers and deal with computer system problems that reverse names and surnames. In addition, they should deal with the problem of restrictions for some nationalities, reevaluate the transaction amount limits, and offer less complex administrative procedures.

Keywords: remittance, informal channel, alternative, international money transfers

1. Introduction

Foreigners and economic actors commonly rely on international money transfers and remittances to send and receive money from abroad. The term remittance is any money payment transferred to another party. In other words, remittance is any bill or invoice payment. However, the term is most used nowadays to describe a sum of money someone working abroad sends to his or her family back home. On the other hand, international money transfer means the electronic transfer of funds requested by a sender to a designated recipient that an international money transfer provider sends.

The World Bank (2021) defines migrants' remittances as the sum of worker remittances, compensation of employees, and migrants' transfers as recorded in the IMF balance of payments. Remittances play a crucial role in development. One of the UN's Sustainable Development Goals (SDGs) in 2015 is the reduction of the transfer costs of remittances. Referring to the UN SDG report for 2016, the worldwide average rate of remittance fees was 7.5 percent. That is a decline from about 10 percent compared to the past few years (United Nations, 2016).

Moreover, the cost of sending US\$200 was still about 7 percent in early 2019. Similarly, the cost was about 10 percent in some African and Pacific islands (UN 2019). The average cost of sending US\$200 is 6.3 percent (World Bank, 2021, p.5). The UN SDGs have indicated a target of 3 percent for the Global Average to be reached by 2030 (World Bank, 2021, p.5).

A vast amount of literature explores the benefits of a continuous flow of economic remittances to migrants' native countries. In the same vein, several studies investigate the reasons for migrants to remit and the determinants of the remittances. (Rapoport & Docquier, 2006; Carling, 2008; Bounie *et al.*, 2013; Anneke & Robert, 2014; Martina *et al.*, 2019). Furthermore, Holst (*et al.*, 2008) and Bollard (*et al.*, 2011) also analyze migrants' reasons for remitting and their choice of a remittance channel. However, to our knowledge, few studies investigated foreigners' remittances channels in China.

Our paper is structured as follows. Section two discusses the channels for remittances, international money transfers, and migrants' choice of remittance channels in the literature. Section three presents the data and methodology used for this study. Section four discusses the results and section five concludes.

2. Literature Review

2.1 Channels for Remittances and International Money Transfers

In the academic literature, there are two channels for transferring remittances: formal and informal. Services offered by officially registered entities, such as post offices, money transfer operators, and banks, are considered formal channels. In this sense, informal channels are other remittance channels (Anneke & Robert, 2014). An informal channel does not necessarily mean an illegal channel. Physically carrying cash to the destination country is an informal but legal channel. However, any unlicensed service entities are illegal.

Moreover another distinction is the particular transfer channels used to distinguish between formal and informal channels. The first is to send money formally using bank-to-bank transfers between a bank in the sending country and a bank in the receiving country. The second is to send using registered money transfer operators. Generally, MTOs have a vast network of local branches migrants use to send and collect money. The most popular is Money Gram and Western Union. Recently, credit unions have also offered remittance services. Furthermore, traveler's cheques, credit, and debit cards allow travelers to withdraw money abroad.

Still, in an early stage of development, a third formal payment channel is web-based money-sending (Martina et al., 2019). Mainstream web-based transfer providers enable peer-to-peer money transactions. That means one device can receive money from another. There is a connection between rapid peer-to-peer transfers and traditional financial institutions. The most popular web-based international money transfer platform is the web application PayPal (PayPal, 2016). Since 2018, sending funds from M-Pesa wallets to PayPal and vice versa is possible when the wallet and account run under the same name (PayPal, 2019). Furthermore, two prominent players lead the online remittance segment: TransferWise and WorldRemit.

Referring to Martina (et al., 2019), mobile cash and Bitcoin-based transfer systems are alternative remittance channels. According to the authors, any payment system allowing users to send money from one mobile device to another is a mobile cash system. On the other hand, Bitcoin is referred to as a cryptocurrency or virtual currency scientifically and in the media.

On the other hand, there are informal channels for transferring remittances. Unlicensed MTOs characterize the informal channel's market. They are predominant in countries with low financial development levels (Anneke & Robert, 2014). In this sense, the basement for the services is low-cost technologies. Mobile phone shops, groceries, and travel agencies offer the services. Siegel et al. (2010) highlight two features of unregistered transfers: speed and low cost, contrary to banks and official MTO transfers.

Moreover, migrants rely on physical hand-carrying to remit money to their home country. For Pieke (et al. 2005), various institutions play a crucial role in this remittance channel: associations, churches, mosques, and other religious organizations.

2.2 Migrants' Choice of Remittance Channels

A large body of research finds that several factors influence the choice of remittance channels: cost, accessibility, and speed. De Luna Martinez (et al., 2006) argue that informal remittances are cheaper than licensed MTOs, and banks offer remittance services. Langan and Kilfoil (2011) find a similar result.

Regarding the accessibility of remittance channels, several factors impede migrants' use of formal remittance channels: language, cultural and institutional barriers (Pieke et al. 2005). Moreover, bank coverage is limited in poor areas (Puri & Ritzema, 1999). MTOs have some advantages over banks in terms of more minor administrative procedures. Furthermore, in terms of speed, informal channels and MTOs have an advantage over bank channels (Anneke & Robert, 2014). Another factor influencing migrants' choice of informal remittance channels over banks and MTOs is the anonymity of the transaction.

Several studies show that four factors influence migrants' choice of remittance channel: characteristics of the different remittance options, characteristics of the migrants, characteristics of the transaction, and the economic and institutional environment in both the home and host country.

First, the characteristic of the payment option is a factor influencing migrants' choice of remittance channel. Bolt and Chakravorti (2012) argue that the net benefice received from a payment channel influences the payment choice. Nonetheless, another factor also plays a role in migrants' choice of remittance channels: the possibilities and preferences of the recipient. Sander (2004) states that several factors negatively affect formal remittance

channels: financial literacy, banking policies, the degree of information transparency, and language and cultural barriers. Furthermore, scholars highlight essential parameters: speed, transfer costs, convenience, and security. Generally, cost, convenience, and speed are the main reasons migrants rely on informal remittance channels instead of formal channels.

Second, characteristics of migrants, such as a good understanding of the country of residence's financial system, are essential. Analyzing a database of Mexican immigrants who have resided in the United States, Amuedo-Dorantes and Pozo (2005) argue that migrants' use of bank services increases with networks of friends and family in the host country. Moreover, various studies show that illegal migrants prefer informal channels to formal channels compared to legal migrants (De Haas & Plug, 2006; Karafolas & Konteos, 2010). It may reflect that non-permanent and illegal immigrants have limited or no access to banking services.

Anneke and Robert (2014) surveyed 1600 migrants living legally in the Netherlands. The authors' findings link migrants' choice of remittance channels and their regular daily payment behavior.

Third, the transfer amount and the remittance frequency are essential when choosing a remittance channel. According to Orozco (2002), migrants with a high frequency of remittance rely on formal channels. The study of Freund and Spatafora (2008) suggests the same result. Furthermore, banks channel higher amounts. Informal channels often channel smaller amounts. For remitting small amounts, MTOs and banks often charge a hefty fee.

Fourth, any factor related to the institutional and economic environment in the host and home country influences channel usage. Beck and Martinez Peria (2011) state that institutional factors such as low levels of bank penetration in the receiver country and limited supply of financial services favor migrants' choice of informal channels over formal channels. On the other hand, other factors, such as the government's policies to channel foreign currency, favor the use of banks (Russell, 1986). In this sense, Whaba (1991) argues that domestic interest rates positively affect official channels' use. Moreover, Elbadawi and Rocha (1992) argue that migrants choose informal channels over formal channels when black market rates are lower than official exchange rates.

In summary, the current literature analyzing the factors influencing foreigners' choice of remittance channels highlights the importance of the channel's cost, speed, and accessibility. In addition, four main factors influence migrants' choice of remittance channels. However, the existing literature does not investigate the remittance channels foreigners use in China. In other words, empirical evidence from China is lacking. Additionally, the barriers and difficulties migrants face when receiving money in China and sending money to their home country remain unexplored.

Our paper contributes to the current literature by empirically investigating foreigners' remittance channels for receiving money in China and sending money to their home country. Our research also highlights the barriers and difficulties foreigners in China experience when sending and receiving money through a formal institution.

3. Methodology and Data

In this paper, the studies of Anneke and Robert (2014) and Martina (et al., 2019) are a reference for analyzing migrants' choices of remittance channels and the reasons motivating their choices. Formal and informal channels are the main groups for classifying migrants' remittance channels. Formal channels include banks, registered MTOs, web-based money-sending institutes, and mobile cash and Bitcoin-based transfer systems. On the other hand, informal channels include autonomously managed transfers and unregistered MTOs.

The data used in this paper are collected using a questionnaire. The population is every foreigner living in China for a short or extended period. The sample size is 105 foreigners (53 men and 52 women) from different provinces in China. All data collected are nominal.

Descriptive statistics of the sample

Table 1. Origin of the participants

Origin	Subtotal	Percentage
African	93	88.57%
American	2	1.9%
European	2	1.9%
Asian	5	4.76%
Other	3	2.86%
Total	105	

Table 2. Reason for staying in China

	Subtotal	Percentage
Study	91	86.67%
Work	10	9.52%
Tourism	0	0%
Other	4	3.81%
Total	105	

Table 3. Duration in China (years)

Duration	Subtotal	Percentage
[0-5[76	72.38%
[5-10[25	23.81%
[10-15[3	2.86%
[15-more[1	0.95%
Total	105	

4. Results and Discussion

4.1 Remittances' Channels Used by Foreigners in China

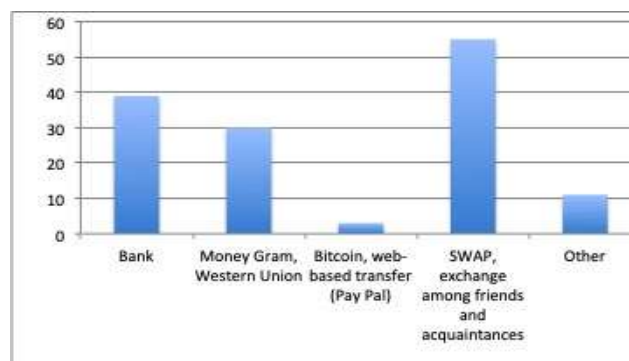


Figure 1. Channels used by foreigners in China to remit money back home

Findings show that 52.38% of foreigners often rely on informal channels, such as swaps and exchanges among friends and acquaintances, to remit money back home. In other words, foreigners in China prefer informal channels to formal channels to remit money in their home country.

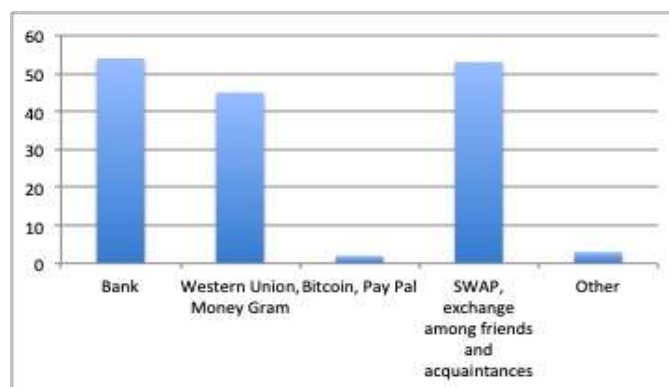


Figure 2. Channels used by foreigners to receive money in China

Findings indicate that 50.48% of foreigners rely on informal swaps and exchanges among friends and acquaintances to receive money in China.

4.2 Foreigners' Reasons for Choosing Remittances Channels in China

In terms of reasons for choosing remittance channels, findings are consistent with the literature. The main reasons foreigners in China choose remittance channels for sending money back home and receiving money in China are the cost, speed, and accessibility.

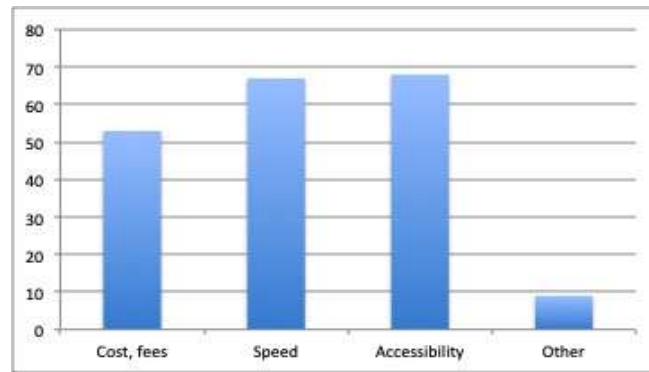


Figure 3. Foreigners' reasons for choosing a channel to receive money in China

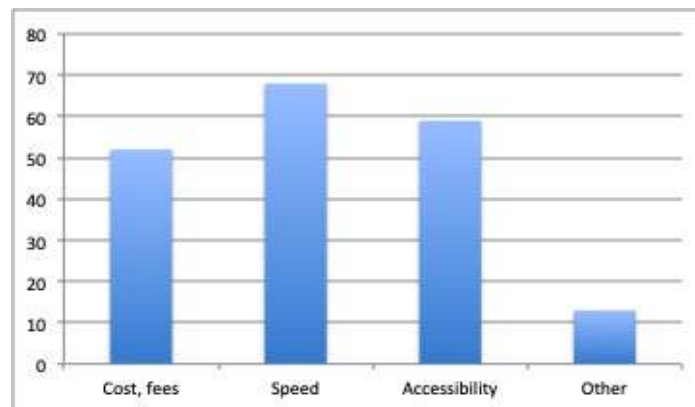


Figure 4. Foreigners' reasons for choosing a channel to send money back home

4.3 Barriers Faced by Foreigners in China Using Formal Remittances Channels

According to findings, foreigners in China do not rely on formal channels for several reasons: complex administrative procedures and language barriers, restrictions and limits on the transaction's amount, high cost, low speed and low accessibility, and computer system problems.

4.3.1 Complex Administrative Procedures and Language Barrier

Foreigners in China complain about the long and monotonous processes, many procedures, and many papers to fill out. On the other hand, the language is a barrier. On the side of the bank and formal MTOs, in many cases, the service is only in Chinese, which is a problem for any foreigner who does not speak and understand the Chinese language.

4.3.2 Restrictions and Limits on the Transaction's Amount

Restrictions and limits on the transaction amount are another reason foreigners in China do not rely on formal channels. In China, some nationalities do not have access to formal remittance channels. Moreover, there are limits on the transaction's amount in sending and receiving remittances.

4.3.3 High Cost, Low Speed, and Low Accessibility

According to findings, the cost of formal remittances channels in China is high, and the speed and accessibility are low. Furthermore, the service for sending and receiving money is not available everywhere.

4.3.4 Computer System Problems

Foreigners face computer system problems when sending and receiving money in China through formal institutions. On the one hand, when sending money, the computer system limits characters to input for names and surnames. Generally, Chinese names and surnames are not many; consequently, the system restricts the number of characters to input. Foreigners' names and surnames can be very long. In this case, there is no way to enter all the sender's information, which represents a problem for any foreigner willing to send money through a formal channel. On the other hand, when receiving money, the computer system reverses foreigners' names and surnames. In this sense, any foreigner willing to receive money has no solution because his/her names and surnames order on the ID/passport is not the same as the computer system.

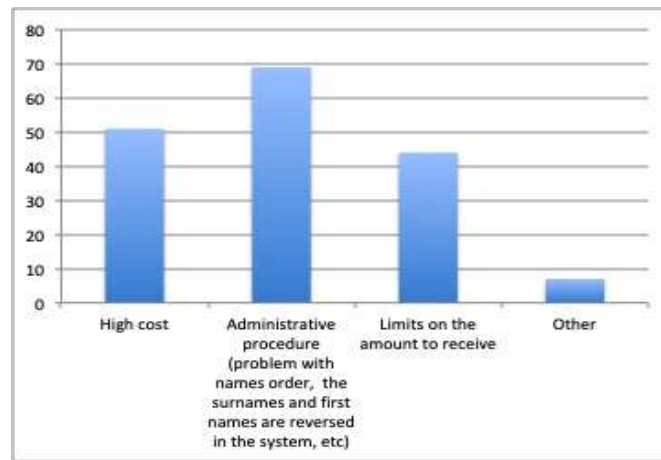


Figure 5. Barriers and difficulties experienced by foreigners receiving money in China

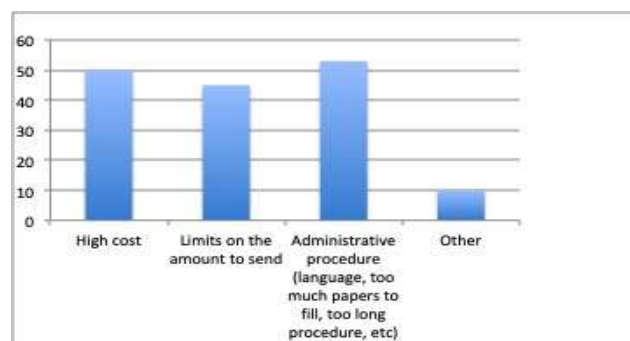


Figure 6. Barriers and difficulties experienced by foreigners sending money back home

5. Conclusion, Implications, and Further Research Directions

This paper analyzes the remittance channels foreigners use to receive money in China and send money to their home country. On the one hand, the study explores foreigners’ choices of remittance channels. On the other hand, it investigates the reasons for their choices and the barriers foreigners face when using formal remittances channels in China. Findings show that 52.38% of foreigners living in China rely on informal remittance channels to send money back home. Moreover, 50.48% of foreigners rely on informal remittance channels to receive money in China. These informal channels are mainly swaps and exchanges among friends and acquaintances.

Furthermore, results indicate that the reasons for choosing remittance channels are consistent with the literature: cost, speed, and accessibility. However, foreigners in China face several barriers when sending and receiving money through a formal channel. They have to deal with complex administrative procedures and language barriers, restrictions and limits on the transaction’s amount, high cost, low speed and accessibility, and computer system problems.

To render the formal remittances channels accessible for every foreigner, banks and formal MTOs in China should promote English service for foreign customers and deal with computer system problems that reverse names and surnames. In addition, they should deal with the problem of restrictions for some nationalities, reevaluate transaction amount limits, and offer less complex administrative procedures.

This study offers an essential contribution to the existing literature. It contributes to the literature on remittance channels used by foreigners by being one of the earliest studies investigating the remittance channels used by foreigners in China. Further research can focus on remittance channels used by migrants to remit to other continents. Another research can proceed to a comparative analysis of remittance channels used by foreigners in different countries.

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