Abstract
One of the most important potential benefits from the process of international financial integration is the opportunity it offers for diversification of macroeconomic risks internationally. In turn, the cross- border diversification of portfolio holdings is widely considered to be the major driving force behind this process. The present paper offers a complement to this literature. It identifies workers' remittance flows to developing countries as an important channel through which the process of international risk-sharing might take place. Using a panel dataset that includes most developing countries during the period 1990-2000, this study demonstrates that countries which receive above-average levels of workers' remittances achieve higher degrees of international risk-sharing in consumption. Moreover, this effect is not uniform across different groups of developing countries, being the strongest in transition economies.