Do Remittances Supplement South Asian Development?

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Abstract

Remittance inflows have been recorded as the second major external source of finance after ODA and an important source of funds for growth in South Asian countries. This review paper examines the interaction between remittances and development in South Asia. Most receiving countries have experienced a major increase in remittance inflows and increase in growth of their GDP. The migration-development nexus is drawn, however, generally on the contribution of migrants’ remittances to the GDP of receiving countries. While this contribution could no way be undermined, the calculation of this contribution is largely done by excluding some significant factors such as loan taken to finance migration; opportunity cost; remittances fee; risks and life lost. There are arguments that the entire amount of remittances channeled into South Asian countries does not go to development. Though there is huge potential to contribute to the development, South Asia did not fully benefit from migrant remittances. This may be because of the fact that channelling remittances, uses of it and lack of financial sector development have thwarted the potential.

Keywords: remittances; South Asia; migration; development.

JEL Classification: F22, F16, F24

Introduction

Until the 1990s, there were very few studies dealing with remittances and development. Migration – remittance - development nexus did not matter much in development discourse. This was possibly because of the fact that remittances flows were insignificant compared to overseas development assistance and export earnings (Hugo, 2003; Acosta, Lartey & Mandelman, 2007). A few researches were conducted since the time migration came under academic

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investigation on the causal relationship between remittances and development (Stark, 1979; Stahl & Arnold, 1985; Greenwood & Hunt, 2003; Rahman and Yong, 2015). The literature so far seem to be biased towards praising the migration and remittances impact on development despite some criticisms (Ullah, 2016; Nijkamp, 2002; Russel, 1992; Sirkeci et al., 2012). For example, it is argued that migration and remittances offer triple wins as migrants have higher wages, receiving countries fill jobs, and sending countries receive remittances (Martin, 2016). This implies that objective analyses of the impact of remittances on development are needed.

As the volume of international migration increased exponentially over the recent decades so did the volume of remittances. From 1970 to 2015, remittances increased by more than 500 per cent (Figure 1). The total remittances overtake other international flows of finances (Sirkeci et al., 2012:2; Ratha & Sirkeci, 2010:126). The phenomenal growth of migration has changed the demography of the world. Migration has contributed to bringing a balance in skills shortage and unemployment by adjusting the demand and supply of labour force between and within countries. The large amounts of remittances received has rejuvenated economies in many countries around the world, especially in South Asia. Globally, remittances have appeared a significant component in the financial system. There is also evidence showing that many countries are heavily dependent on remittances. For example, in Tajikistan remittances form 41.7 per cent of the country’s GDP (Zotova & Cohen, 2016:7; Danzer & Ivanschenko, 2010) and small economies receive vital cash inflows through remittances (e.g. Pacific island nations: Chen & Jayaraman, 2016). Remittances received in India are almost three times as large as the inward investments made by foreign firms (Thorat & Jones, 2011; Gupta, 2010:214). Remittances formed about a third of GDP (about 29 per cent in 2010) in the Kyrgyz Republic (Akmoldoev & Budaichieva, 2012). The Republic of Moldova is one of the countries with highest inflows of remittances as percentage of the GDP (29.0 per cent). More than half of Tonga’s population lives overseas and 28.7 per cent of its GDP is made up of remittances (World Bank, 2015).

Though there are discrepancies in data estimates across various sources, still the growth of remittances globally is astounding (Martin & Sirkeci, 2017; Acosta et al., 2009). Global remittance flows to both developing and high-income countries, are estimated at $583 billion in 2014, and rose to $586 billion in 2015 and could rise to $636 billion in 2017 (World Bank, 2015). The volume of remittance flows enthused policy makers, stakeholders and researchers. The ‘migration-
remittance-development nexus has excited policy makers and researchers alike who regard migration as a catalytic force that can drive the development of the global South, especially South Asia (Rosewarne, 2010). Altogether, remittances amount to about 2.2 per cent of the GDP of all developing countries. However, due to transfers made through informal channels and real assets, the volume of remittances are estimated to be twice as high (World Bank, 2014).

Figure 1: Remittances growth from 1970 to 2015.


Remittances flow grew as the size of migrant population grew to about 250 million (or 3.3% of the world population) by 2015 (Sirkeci, 2016:2). It is increasingly more important to some recipient countries and have intensified the debate about the theories that underlie remittances flows, as well as their potential role in the economic development of the recipient countries (Opong et al., 2015). Debates also continue as to what entails remittances (Cohen & Sirkeci, 2012). Until mid-1980s, cash transfers from migrant workers were considered remittances. Recently, transfers of goods in kind other than cash have become important part of remittances as well (Boccagni & Decimo, 2013; Levitt & Lamba-Nieves, 2013). This is important to discuss because the impact varies depending on the type of remittances. For example, remittances in cash has direct and fast impact while remittances in kind may have indirect and slow impact. According to the IMF (1999), remittances consist of goods or financial instruments transferred by migrants to residents of the home countries. Economic remittances, the more dominant concept in migration literature, is used to describe tangible transfers from the
migrant to their home countries (Bilsborrow et al., 1997). In addition, as suggested by Ratha (2013) remittances are associated with greater human development outcomes across a number of areas such as health, education, and gender equality. There are also positive spill-over effects, with some of the expenditures and investments made by households (Ratha, 2013).

One of the most intuitive motivations for remitting is altruism which means migrants send money to improve the conditions of those left behind (Loschmann & Siegel, 2015; Basu & Bang, 2013; Stark, 1995). Playing role as a remitter becomes an important part in their life as altruism never dies down as they leave their homeland. Under the altruistic model, migrants derive satisfaction from the welfare of their relatives (Ratha, 2013). This suggests that migrants willingly sacrifice their own interest for the sake of the welfare of their relatives (Becker, 1981). Migrants living in difficult and precarious conditions think about a better life for their left behind families and friends.

There are abundance of literature highlighting positive impact of remittances on development. This review paper takes a position to objectively investigate the interplay between remittances and development in South Asia. I relied on a systematic review to write this paper. In order to do this, from a list of very relevant articles I narrowed them down so that they help answer the question. The review was designed to answer the question: “what is the effect of remittances on development – macro and micro”. There are some empirical researches conducted recently in different parts of the world. In reviewing them, I noticed that most of them have tended to investigate the impact of migration and remittances on asset holdings, consumption expenditures, education and credit constraint status of households in origin communities. This means researchers tried to look in the effect of remittances on specific areas such as impact on nutrition, impact on consumption pattern etc.

**Interplay between remittance and development**

Why do people remit? The economics of remittances highlights the relationship between remittances and the various economic variables such as growth, saving, income inequality, and social indicators. The discourse about ‘remittance-development’ explains why the nexus has been so widely accepted as a general proposition (Taylor, 1999). The conventional economic theory explains the interplay between migration and development. The neoclassical economic theory explains the rationales why people migrate and remit income to their home country (Abreu, 2012; de Haas, 2010; Massey, 1993; Taylor, 1999).

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According to utility theory, rational people seek to maximize their expected utility (Kahneman & Tversky, 1979) from the actions they undertake. To that end, they first weight each possible outcome that is expected by the probability of occurrence and sum this up over all the possible outcomes. Kahneman and Tversky developed prospect theory based on experiments on how individuals actually make choices in the face of risk (Kahneman & Tversky, 1979). This theory is grounded in psychological basis for individual decision making under risk and value. This is similar to value expectancy theory as under this tenet decisions are made from among many alternatives. Here comes the rationalization of choices (Ullah, 2010). A common reference point in the framing of remittance decisions is the social condition that they have left behind (Opong et al., 2015).

In line with Wallerstein’s world systems theory, the labour market is linked with the structure of the world market (Greig, Hulme & Turner, 2007). The implication is that migration becomes, “a natural outgrowth of disruptions and dislocations that inevitably occur in the process of capitalist development” (de Haas, 2008:445). de Haas goes onto argue that as capitalism expands, it penetrates poorer countries economically which creates a mobile population. These populations become potential international migrants, a direct result of capitalist market formation in the developing world (de Haas, 2007).

Remittance flows are unequally distributed in the world, with Asia receiving a significant share. Asia received 40-46 per cent of the annual remittance flows since 1996, followed by Latin America and the Caribbean with 17-22 per cent, and Central and Eastern Europe with 15 to 18 per cent (World Bank, 2015). This is not surprising, given the fact that Asia is the most populous region in the world and also has the most number of migrants and diaspora. South Asia received about $120 billion in 2015 (Rahman, 2013). There are also overall differences between countries in the South and the North, where the latter sends more remittances internationally (Pugliese et al., 2016:115).

The interplay between remittances and development has been widely researched and written about. Some studies suggest that neither Africa nor Asia proved to have been impacted by remittances at least at the micro level while some other studies argue that remittances brought economic empowerment to many families – enhanced purchasing power, enabled many families to send their children to school (Anyanwu, 2011). At the macroeconomic level, remittances as a source of foreign exchange
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has gained importance, but they have also grown in importance relative to the size of the economy (UNDP, 2011).

Development is a complicated, and vary across regions and countries. Therefore, investigating the link between remittance and development is not an easy task. It is important to see what variables of development has more impact of remittance than the other. Remittances grew faster in Asia and the Pacific between 1995 and 2010 followed by Africa. Estimates for that period showed an increase of 763 per cent was to be seen in remittances to Asia Pacific region, from $21 billion in 1995 to $177 billion in 2010 (UNDP, 2011).

**Development in South Asia and remittances**

The level of impact of remittances on development varies across regions. People’s livelihood strategies and ways of coping with economic, political, environmental change depend upon broad factors, including location, relative wealth, security regimes, kinship structure and other informal institutions, the nature of local governance and social network, access to land, food, roads, markets, water and other resources.

Most receiving countries have experienced significant increases in remittance inflows and in their GDPs (Meyer & Shera, 2016). Also in most South Asian countries, migration and remittances increased significantly since the late 1970s (Swatee, 2009; Ullah, 2010; World Bank, 2016). Migrant remittances work are the driving force behind the economies of many South Asian countries. None of the seven South Asian countries fall under the category of high income countries. Most of the countries have been facing political instability and violence for long time. Economic growth and political stability are deeply interconnected. Natural disasters have routinely been hurting South Asian economies. Religious and ethnic violence and fragile governance systems as well have been thwarting growth. NGO interventions, government initiatives, ODA and trade seem to have been performing far below expectations. Development indicators are not showing good performance. Disparities are widening day by day and nearly half of the total population is living below the poverty line. Under these circumstances, remittances obviously are an important source of income for South Asia. The following figure (2) shows the GDP growth and table 1 shows the size of economy for individual country and contribution of remittances to GDP.

Some empirical studies have been conducted on income distribution effects of remittances. Most of these studies applied the
Gini index to measure the parity or disparity. These researches found that remittances had an equalizing effect on income distribution which means remittances play a role in narrowing income disparity (Ahlburg, 996; Taylor & Wyatt, 1996; Taylor, 999). Some studies, however, confirm that remittances created and continue to create inequality (Stark, Taylor & Yitzhaki, 1986; Anyanwu, 2011; Garip, 2010). A strong perception about migrant and non-migrant family differences exists in rural areas in South Asia. Migrant families enjoy higher status (economic, social) than non-migrants families.

Figure 2: South Asia: real GDP growth


<table>
<thead>
<tr>
<th>Country</th>
<th>GDP (US$)</th>
<th>Remittances US$</th>
<th>% of remittances contribution to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>202 Billion</td>
<td>15.3 Billion</td>
<td>7.60</td>
</tr>
<tr>
<td>Nepal</td>
<td>21 Billion</td>
<td>7 Billion</td>
<td>33.0</td>
</tr>
<tr>
<td>Bhutan</td>
<td>1.99 Billion</td>
<td>12 Million</td>
<td>0.6</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>82 Billion</td>
<td>6.8 Billion</td>
<td>8.29</td>
</tr>
<tr>
<td>Maldives</td>
<td>2.5 Billion</td>
<td>3 Million</td>
<td>0.12</td>
</tr>
<tr>
<td>India</td>
<td>2.1 Trillion</td>
<td>69 Billion</td>
<td>3.40</td>
</tr>
<tr>
<td>Pakistan</td>
<td>271 Billion</td>
<td>19 Billion</td>
<td>7.01</td>
</tr>
</tbody>
</table>


Note: Data may vary from other sources. This is a calculated estimate from varied sources of the World Bank and the Central Banks of the respective country.
In order to understand the impact of remittances on development, types of remittances in South Asian context merit to be looked into. Rahman and Hossain (2015) in reference to Goldring (2004) elaborated two broad classifications of remittances which are family and collective remittances. Family remittances refer to remittance transfers that are sent in cash or kind from individual migrant workers to their families back home. Collective remittances refer to money collected by a group that is used for the benefit of the group or a particular community with which it is affiliated in the country of origin (Rahman and Hossain, 2015). This category may imply that family remittances are related to micro level development and the later to macro level. Some other previous studies have applied two approaches: first, remittance as ‘exogenous transfer’ (Stark, 1991; Stark, Taylor and Yitzhaki, 1986) and second, remittance as ‘potential substitute’ for household earnings (Zhu & Luo, 2010) to assess the impact of remittance on development and income distribution. The advantage of the latter approach is that it allows correlation between remittance income and household activities.

Development is often considered as a measurement of economic, social, cultural or technological conditions in one country relative to other countries. Human development (i.e. access to wealth, jobs, education, nutrition, health, leisure and safety - as well as political and cultural freedoms) and economic development (i.e. country’s wealth) are important aspects in measuring development (Illich, 2010; Esteva, 2010; Lummis, 2010; Berthoud, 2010). Role of remittances in development has been discussed extensively in the relevant literature. Development areas and contributors are shown in figure 3. Unemployment rate, per cent of population living below the poverty line, access to health and education, safety, human rights, income disparity, freedom, sustainability, conservation, and governance system are important indicators of development. These indicators are also reflected in countries' human development index scores.

Inward flows of remittances may boost national income, but GDP measures the output of a country. The effect of remittances on GDP growth, therefore, depends upon how the money is spent by the recipients.

There is empirical evidence showing that remittances contribute to economic growth, through their impact on consumption, savings, or

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1 Amartya Sen’s (1999) and Nussbaum’s (1999) work can also be used to frame this with reference to freedoms and capacities.
investment. Not all remittances received by South Asian countries are used for development. For example, on average, only 10 per cent of remittances is spent on education while majority portion (about 60 per cent) is spent on consumption. A number of researchers argued that migrant remittances impact positively on the balance of payments in many developing countries as well as enhancing economic growth, via their direct and indirect implications for savings and investment in human and physical capital (Lucas, 2004; Glytsos, 2002; Adams & Page, 2005; World Bank, 2008).

**Figure 3**: Major contributors in development in South Asia

![Figure 3: Major contributors in development in South Asia](image)

Source: Ullah & Routray, 2003; Rahman et al., 2012

**Table 2. Use of remittances in South Asia**

<table>
<thead>
<tr>
<th>Use of remittances</th>
<th>% of remittances spent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>10</td>
</tr>
<tr>
<td>House renovation</td>
<td>22</td>
</tr>
<tr>
<td>Consumption</td>
<td>40</td>
</tr>
<tr>
<td>Business</td>
<td>16</td>
</tr>
<tr>
<td>Buying land</td>
<td>6</td>
</tr>
<tr>
<td>Repayment of loan</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Calculated from Ullah, 2010; Mamun and Hiranya, 2010.
Has migration made development necessary or the other way around? Migration scholars and stakeholder seem to overemphasise the necessity of migration for development. The hypothesis of migration-development nexus is based generally on the contribution of migrants' remittances to the gross domestic products (GDP) of receiving countries. While such a contribution exists, there are also significant costs and risks involved in international migration such as loans with high interest; opportunity costs; remittances fees; and lives put at risk crossing borders.

Figure 4. Migration – remittances dynamics

Despite direct and indirect effects of migration on development, there is also evidence that development may make migration more likely.2 My argument, of course, does not essentially refuse this long-standing hypothesis of migration and development nexus. However, in order to assess the impact of migration on development, research needs to consider important features of contemporary human mobility such as costs of and risks taken for migration. Potential migrants often obtain finances from various and multiple sources (e.g. relatives, friends, banks, traditional money lenders [often on very high interest rates], NGOs, or by selling properties they own) for financing their moves. This may even make their migration a worthless venture because in some cases, migrants work years to

2 For a good example, see Turkish case where mid-level development increases migration propensity: Sirkeci, Cohen, Yazgan (2012).

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repay these loans. The psychological costs migrants shoulder (as well as their family members left behind) are not possible to measure quantitatively and accurately. For example, what would be the cost of being separated from the parents or children or spouse? Social costs such as the cost of parental care are also difficult to measure and take into account while estimating the benefits of migration or remittances. At the same time, had these migrants stayed in their countries of origin, they would have earned ‘something’—i.e. opportunity costs. In considering the benefits (and costs) of remittances, these factors are often overlooked.

Conclusions

Despite a shift and increasing diversity recently (Martin & Sirkeci, 2017: 314), because migrant sending countries have been historically from the developing world, studies on the impact of remittances on development also focus on the development in these countries. The direction of the impact is what needs to be questioned. The role of remittances in development is aptly explained by Skeldon (2003) who argues that migration can both cause and be caused by poverty.

The growing volume of remittances increases the attention among policy makers and researchers. While the impact of remittances on development is increasingly of interest to policy makers and researchers, assessment of the impact is notoriously difficult. This is primarily because isolating remittances from so many other factors moderating development is difficult. In South Asia, remittances alleviate current account deficits, stabilize exchange rates and reduce poverty. This suggests that remittances are a significant factor at macro level for South Asian economies. However, at micro level, development effect of migration is not that obvious. It is true that though remittances alone constitute one-third of net total private capital flows into the developing countries, there is need for better understanding of the ways in which remittances are used in more productive schemes than routine consumption as common in many cases. Some scholars argue that consumption is a waste while some other counter argue that consumption contributes to human resources while also indirectly contributing to the economy. However, there are also studies showing unwanted effects such as the Dutch disease (Acosta, Larney & Mandelmans, 2009). Assuming that remittances contribute to the development efforts but cannot lift people out of poverty alone, there is need for greater understanding.

Nevertheless, there are other impacts too. For instance, the impact of migration on separation of couples and its impact on the well-
being of children left behind warrants more research and better understanding. While long term migration of one of the parents may lead to permanent disruption of family unity and potentially result in having dual relationships (one in the country of origin and one in the country of destination) would cause reduction in the amount and frequency of remittances sent home. The dynamics in this family context needs further elaboration.

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