

## REMITTANCE IMPACT ON ECONOMIC GROWTH IN SOUTH ASIAN ISLAMIC COUNTRIES

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### **ABSTARCT**

*South Asian economies are largely based on remittances. Every year a large number of migrants migrate from their countries to different destination and they send remittances to their home lands. This research presents a strong relationship between remittances and economic growth of Islamic South Asian countries. Some of the researches have been conducted on the remittances in South Asia and most of them focused on two categories either on the migration or on the flow of remittances in the South Asian countries. But this study attempted to provide a view not only on the flow of remittances over the last decade but also established connections between flow of remittances and economic growth in South Asian countries. This research conducted on tow important Islamic countries of South Asia namely: Bangladesh and Pakistan. The main objective of this research is to determine inwards flow of remittances and its impact in terms of national and local levels on these countries. The expected finding of this research will be the facts that the selected countries' financial condition largely dependent on remittances sent by their overseas diasporas.*

**KEYWORDS:** *Migrants, remittance, economic growth, overseas diaspora.*

**INTRODUCTION:** A noticeable rise has been noted in the flow of remittances by migrants which brings change in the economy of origin countries also brings the positive prospects for the receiving countries. It seems very difficult to evaluate the impact of remittances because their outcomes are diverse at different levels. According to study : “Many analysts use the gross amount of remittances to developing countries to highlight their importance relative to official development assistance and other financial flows. But this is misleading, since the gross figures do not take into account the transfers that migrants make to rich countries, and those that take place between developing countries. When these “reverse flows” are taken into account, the net amount received by developing countries is much smaller”(IOM, 2005) .

Foreign remittances are the main source of foreign exchange particularly for those which countries which are considered financially weak where the inflow of remittance is more than the combined level of foreign direct assistance ( FDA) and foreign direct investment ( FDI) as per the study (Newland, 2005).Remittances have very important role to play in South Asian countries. It has found that there is wide acknowledgment of remittances by sending communities in economy and economic reproduction (Klooster, 2005).

The remittances have positive impact on the source country relating to balance of payment, increment of GNP which bring rise to import of luxurious and non-essential items. The constant inflow of remittances has been very importantin increasing export items,

enhancement of national income and relaxing foreign exchange restrictions. It is said that remittances are considered very much important in economic stability and development.

**Literature review:** It is analyzed that remittances can make increase in spending by increasing investment. It has found that remittance could bring economic development if it is channeled into productive development (Ratha, 2007). It has also found that remittances reduce credit constraints and work as alternative financial system in underdevelopment financial system (Paola & Ruiz-Arranz, 2006). In other sense, they are the source of financial investment reduce liquidity constraints.

The impact of remittances on economic growth has proved to be difficult to predict till now as per the empirical evidence. For instance, it has found that during the period of 1980 to 2004, there has been positive impact on economic growth as per the sample of 39 developing countries (Pradhan, Upadhyay, & Upadhyaya, 2008). It is also suggested that some studies found there is no impact of remittances upon economic growth, though not denying the poverty alleviation and consumption impact on recipient (IMF, 2009).

According to studies, remittance flow have offset large trade deficit and able to maintain current accounts surplus for some large receiving countries. (Mohapatra et al. 2010). There is contribution of big share of remittances GDP growth rate. That's why, most of countries opting for the source of capital from their Diaspora outside the country as there is now strong awareness relating to remittances as an established source of foreign currency country. The study found that some countries such as Srilanka, Nepal and Philippines considering the issuance of remittance bond (Mohapatra, 2010).

It has found that the flow of remittances has negative impact along with positive impact. On one hand, international migration income opportunity, rapid economic development, change in living conditions, infrastructural development, on the other hand, it bring about class distinctions, income disparity, and culture lag among remittance recipient and non-recipient countries. It has also been discussed in the development discourse of Bangladesh. In Middle East, severe economic crises occurred for South Asian countries. Despite the fact that their export to industrialized zone reduced, slowdown in import provide support to contain trade and current account deficit. In 2009, financial crises in the Middle East caused concern to all remittance recipient countries in South Asian region. Yet, this concern was short term due to strong resilience from remittance continued to remain strong (UNESCAP, 2010). In another study, also concluded that the volume of remittances stimulates economic growth for some receiving countries (Matuzeviciute and Butkus 2016) and (Meyer and Shera 2016). According to official data by the World Bank, the remittances

sent home by workers from developing countries reached in 2017 the amount of 466 billion USD representing over 70% from the worldwide flows (World Bank, 2016) .Some otherconsider that “If remittances are countercyclical, then they could help smooth macroeconomic fluctuations, and if they are procyclical, they could amplify business cycle fluctuations”..(De, Islamaj, Kose, and Yousefi 2016)

**Objectives:**

1. To study the remittances trends for Pakistan and Bangladesh in South Asia.
2. To study the impact of remittances upon economic growth of selective countries in South Asia.
3. To study of economic growth at micro and macro level.

Based on the particular objectives that have been researched, the following hypotheses were formulated:

**Hypothesis:** Hi: There has been increase in the volume of inflow of remittances

Hii: Increase in remittances hasmajor impact upon Gross Domestic Product (GDP) which is important economic indicator for economic growth.

**Methodology:** In the cross-sectional study, the descriptive model has been used with three different aspects including: inward remittances and impact of remittances of two countries namely Bangladesh and Pakistan has been discussed. The purpose of the study is to discuss the migration flow and remittances inflow and impact upon economies of respective countries. The study of qualitative analysis has been interpreted and discussed rising from both primary and secondary sources based on qualitative and quantities data. The selected study design for replying to the study objectives consist of mainly qualitative. It is important to mention that quantative aspect also highlighted in the study by showing migration and remittances trends with respect to objectives of the study.

In order to get more clear insight, it is imperative to mention that a questionnaire has been formulated and administrated personally and through email from the representatives of different such as State Bank of Pakistan, Dubai Islamic Bank, Applied Economics and Research Centre of Pakistan,Ministry of Overseas, Pakistan and Overseas Foundation Pakistan and their responses have been sought in terms of ‘Expert **Opinion** ‘regarding migration and remittances processes.

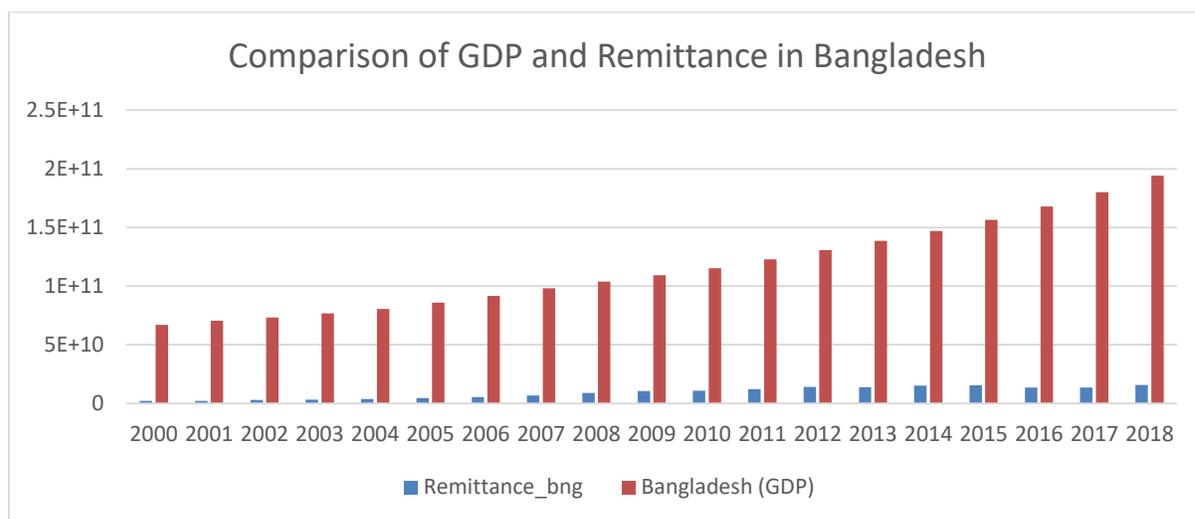
**Remittance trends in South Asia:** According to the literature, Indian is among those countries which received major portion of remittances in most of the South Asian countries. Bangladesh holds a prominent position in top remittance recipient countries in the world. Remittances sent by Bangladeshi Diaspora have major contribution to increase gross domestic product. In 1990, Migration outflow accelerated in but it got slow-moving in 2000 due to the occurrence of nine eleven. But again it got enhanced in the upcoming times.

There has been a notable rise in remittances which enhanced foreign currency reserves. This stabilized the Bangladeshi currency Taka exchange-rate. It also enabled the import of intermediate inputs necessary for investment. According to a World Bank report, Bangladesh has been recognized as the ninth highest recipient of remittances this year with \$15.9 billion with GDP ratio 7 % in 2018, which ranks third in South Asia—after India whose remittance is \$80 billion and Pakistan which ranked \$20.9 billion.

There has been increase in remittance inflow after nine eleven. The increase was observed significantly .In 2002; approximate \$ 2.3 billion recorded which was doubled than in the year 2000 and it reached up \$ 19.3 billion in 2015 according to World Bank. In 2018, Pakistan received \$ 20 billion according to the same sources. There was little pause observed in remittance inflow due to some economic down turn in Middle East, as a result, some Pakistani workers were lay off from their work. However, this impact was replaced by the migrant workers aspired for new destinations especially in emerging market. There is one more reason which conveys that global economic crisis did not impact the flow of remittances to Pakistan which is weakening of Pakistani currency implied the consumer's surplus increased when buying was done locally in Pakistan.

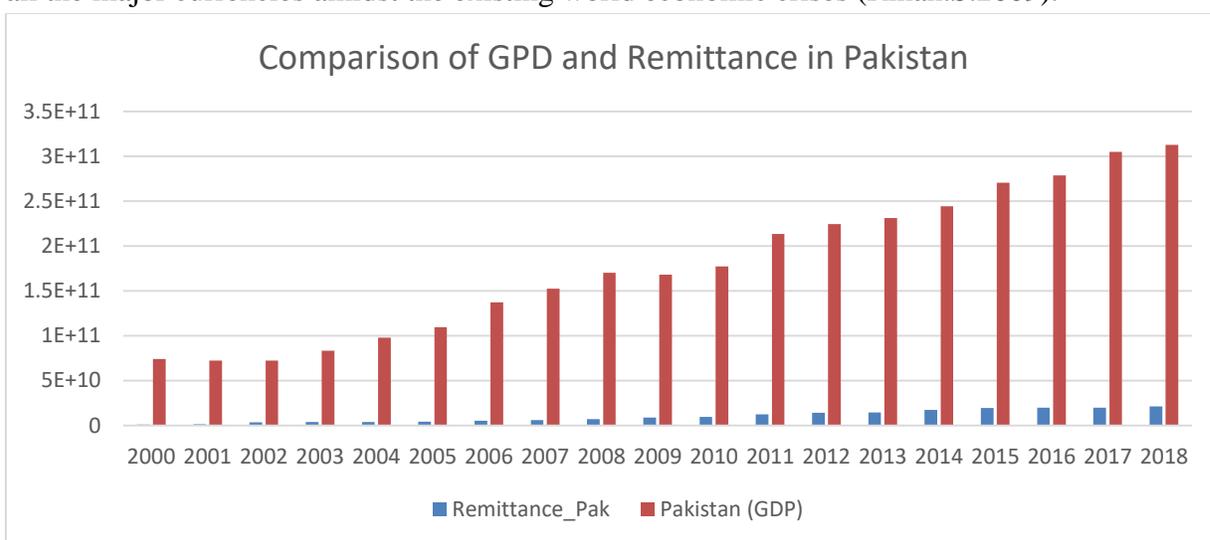
This particular explains that substantial amount of remittance diverted the purchase of durable goods in Pakistan.

#### Analysis of remittance trends:



**Source: Author's estimate** Bangladesh occupies seventh position in the list of top-receiving remittances countries of the world. A vital role was also played by remittances

for providing foreign currency and financing trade deficits. Bangladesh received \$1.9 billion in 2000. It increased steadily up to 2012 which was approximately \$ 14 billion. but there was little sluggish in the flow of remittances in 2013 which was 2.3 percent which was less than previous year. The reasons were explained by the political changes, eruption of civil war, unsound economic conditions of UAE and Libya. In 2014, remittances again increased and reached up to \$14.9 billion. Again, it got steady pace and reached up to nearly \$16 billion in 2018. According to study, Bangladesh is the only country in South Asia due to large official remittances where domestic -currency value has increased beside all the major currencies amidst the existing world economic crises (Rihan.S.2009).



**Source: Author's estimate** There has been increase in remittance inflow after nine eleven. The increase was observed significantly. In 2002, approximate \$ 3.5 billion recorded which was doubled than in the year of 2000 and it reached up approximate \$ 10 billions in 2010 and \$ 19.3 billion in 2015 according to World Bank. In 2018, Pakistan received \$ 20 billion according to the same sources and the due to increase in remittances, there was obvious increase in GDP ratio which is 5.79 5. There was little pause observed in remittance inflow due to some economic down turn in Middle East from 2007 to 2009, as a result, some Pakistani workers were lay off from their work. However, this impact was replaced by the migrant workers aspired for new destinations especially in emerging market. There is one more reason which conveys that global economic crisis did not impact the flow of remittances to Pakistan which is weakening of Pakistani currency implied the consumer's surplus increased when buying was done locally in Pakistan.

Despite the fact that there were financial crises in the world, Pakistan's remittances grew continuously. The workers were ready to go abroad and accepted the minimum wages for work because of depressed economic growth in Pakistan. In the whole scenario, the workers from Khyber Pakhtunkhwa were among those who accepted the lower wages and poor working conditions outside the country because of worst local security situation.

**Analysis, interpretation:** Among different regions, South Asia heading the list. The formal remittance has gone up to 115 billion \$ in 2014 to Remittances to South Asia are projected to increase by 13.5 per cent to \$132 billion in 2018, at a stronger pace than the 5.7 per cent growth seen in 2017, which increased from 16.13 billion \$ in 2000. Most of the South Asian countries depend heavily on remittance such as combating natural disaster, financial crises and financing the external funding sources. In addition to this, remittance has very important significance to impact the volume of GDP (Gross domestic product) in different South Asian countries. In 2000, Bangladesh received 1.9 billion \$ with share of GDP 3.6% and Pakistan had 1.07 billion \$ remittance with GDP 1.4 % from its Diaspora. As the volume of remittance increased with every passing year, there was also increase witnessed in the volume of GDP. Though there was some pause in flow of remittance towards South Asian respective countries on account of global financial crises and political instability across the region, there was slight difference on the flow remittance and it later on it got some stable position. For instance, in 2018 and Bangladesh 7%, Pakistan 5.79% respectively and flow of remittance towards these countries 80 billion \$, 16 billion \$ and 20 billion \$ (approximate) respectively. It is important to note that remittances inflow surpassed the net foreign direct investment inflow during 1996-2014 (annex). Another important role played by remittances is to finance trade deficit in South Asia especially in Bangladesh. For example, remittances accounted for 207.4% merchandise trade deficit for Bangladesh and 91.3% for Pakistan.

**Conclusion:** It is very clear that remittances and financial development have strong linkage to promote economic stability to the country. The remittances inflow is very much helpful in productive investment which promotes economic prosperity. It is very clear that remittances and financial development have strong linkage to promote economic stability to the country. The remittances inflow is very much helpful in productive investment which promotes economic prosperity. Pakistan, India and Bangladesh are some of the countries in South Asian where remittances have increased markedly during the last decade. The remittances are usually examined at micro and macro levels in the developmental impacts of remittances. Micro-level studies focus on the local effects of remittances, especially on the migrant families and their communities of origin, while Macro-level studies generally focus on national outcomes (e.g., foreign exchange and labor patterns). The World Bank

pointed out that an unexpected decline in home currency value caused a sharp increase in flow of remittance as migrants tend to send their saving to purchase durable assets e.g., houses and land etc. Moreover, if there is trust deficit in recipient families against the financial institutions, they could look for some other ways for saving. Even then improved financial institution may encourage recipient families to deposit in banks. In this way, this deposit is added to formal remittance flow which was not counted before.

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