Remittances for developing countries | research proposal

Background

Remittance is a major source of external funding for developing nations. It has been an important source of migrant workers in countries suffering from labour shortage, and it also helps these countries in building up their foreign exchange reserve that help them to meet the balance of payments and help stabilize the value of the local currency against the US dollar. It is almost inflow from developed to developing countries have received great attention among academician and policymakers, because that transfers in form of remittances undertaken by migrant workers to their countries of origin increased substantially in the last decades. The data had reported by World Bank in 2012, remittances flows to developing countries have more thanquadrupled since 2000. Global remittances, including those to high-income countries, are estimated to have reached $529 billion in 2012, compared to $132 billion in 2000. Developing countries is the largest share of remittances receiving. In year 2012, developing countries to receive it over 400 billion US dollar, an increase of 5. 3% over the previous year and are expected to increase at an annual average rate of 8. 8 percent in the next three years. They are also forecast to reach $468 billion in 2014 and $515 billion in 2015 of all flow to developing countries.

Remittances generally reduce the level and severity of poverty, typically leading to: higher human capital accumulation; greater health and education expenditures; better access to information and communication technologies; improved access to formal financial sector services; enhancedsmall businessinvestment; more entrepreneurship; better preparedness for adverse shocks such asdroughts, flooding, earthquakes and cyclones; and essentially reduced child labor. International labor organization had estimated that remittances sent home by migrants to developing countries are equivalent to more than three times the size of official development assistance and can have profound implications for development and human welfare. Remittances can contribute to lowering poverty and building human and financial capital for the poor. However the enormous amount of matter, amount of money that migrant workers sent home is only 13% of the income of such workers receive. This means that the income of the remaining 87% of migrant workers to remain in the host country. It is approximately 1 trillion, so that migrant workers have greatly helped boost the economy of the destination country.

Asian countries is the most important source of migrant workers, because most of countries are in the rank of top remittance recipients countries in the world (by the top recipients of officially recorded remittances in 2012) show that: India has become the largest recipient of global remittances, received $70 billion, and then China $66 billion, the Philippines $24 billion, Pakistan $14 billion, Bangladesh $14 billion, Vietnam $10 billion, and Lebanon $7 billion. However, as a share of GDP, remittances were larger in smaller and lower income countries; top recipients relative to GDP in Asian countries were Tajikistan (47%), Kyrgyz Republic (29%) and Nepal (22%).

Research problem

During the last three decades, remittances have become an important source of economic growth in many developing countries, especially in Asian countries. However, there are lots of literatures on how remittances impact to economic growth of receiving countries, but the result of them studies are conflicting. For instance, some academicians believe that workers' remittances have positive effect on economic growth of recipient countries (de Haas. 2005; Pradhan, et al. 2008; Fayissa & Nsiah. 2010; 2011; Khan, et al. 2012). Adding more scholars to explain that why remittances have positive effect on economic growth. There are lots of studies to explain that remittances help households move out ofpoverty (Adams, 2003), lower mortalityrates (Kanaiaupuni, 1998)and increase educationaland housing spending (Adams, 2005). Moreover, empirical studies show that remittances can stimulate economic activity andmotivate entrepreneurial communities (Durand et al, 1996 and Woodruff and Zenteno, 2007). According to Buch et al (2002), remittances can influence economic growth directly orindirectly. However, the degree of the latter channel strongly depends on supporting governmental policies and a supporting economic environment for investment activities. There are some recent empirical studies that have analyzed the relation between workers' remittances and growth. Giuliano and Ruiz-Arranz (2005) find a positive effect of remittances on growth, specifically for countries with lowerfinancial development. Ziesemer (2007) proposes a savings channel that relates remittances with growth. He finds that remittances have a positive impact on growth, due to the ability to increase saving rates in countries with a per capita income of less than US $1200.

On the other hand, other scholars highlight that workers' remittances have also negative impact on economic growth of origin countries (Jongwanich, 2007; Karagoz, 2009; Barajas, et al. 2009; Ahmed, 2010; Edwards, 2010; Rao & Hassan, 2011). For these scholars, there is no causal relationship between remittances and economic growth of developing economies. The reason why those workers' remittances have no a positive effect on economic growth, these finding may lie in the difficulty of disentangling the complicated links between remittances and economic growth. According to a study covers up to 113 countries over the period 1970-1998. This empirical had studied by Chami et al (2005) found that international remittances actually have a negative and significant effect on economic growth. Because of remittances do not serve as capital for economic development, but rather as a type of compensation for countries with poor economic outcome. However, in a similar study covering up to 101 countries for the period 1970-2003 had studied by Spatafara (2005). The author found that cautions that identifying the impact of remittances on these and other outcomes may be complicated by the problem of reverse causation, that is, remittances may both influence and be influenced themselves by economic growth, investment and education. In the literature it is sometimes argued that international remittances may harm economic growth by leading to real currency appreciation and a loss of competitiveness in tradable goods. This empirical had studied b Lopez et al (2007), the result show that's large scale remittances do lead to significant real exchange rate appreciation, which means that a 1% increase in the remittances to GDP ratio would lead to a real effective exchange rate appreciation of between 18 and 24 percent.

As discussed above, previous studies have propounded different results based upon different theoretical and empirical setups. However, in the same empirical study there is also different in the result, even though using the same theories. Like the empirical evidence from Bangladesh, India and Sri

Lanka had studied by Siddque et al (2010), they found that growth in remittances does lead to economic growth in Bangladesh; In India, there seems to be no causal relationship between growth in remittances and economic growth; but in Sri Lanka the result show that economic growth influences growth in remittances and likewise. So, it is difficult for one to conclude on the growth effects of remittances, especially in a region like Asian countries. *T his paper focuses on the impact of remittances on economic growth in Asian countries* . There is a need to examine the growth effect of remittances and answer the research question that follows: *“ H ow do remittances impact to economic growth of some selected sending countries in Asia? ”*

Hypothesis of the study

To investigate that how remittances impact to economic growth of recipient countries in Asia? I determine some of hypothesis to guide in this study follows:

Remittances have a positive impact on economic growth while a positive and statistically significant coefficient of remittances. This means that an increase in the amounts of remittances will result in increased to economic growth.

Remittances have a negative impact on economic growth while the statistical value has a negative and significant coefficient of remittances. This means that an increase in remittances will result in lower economic growth.

A statistically insignificant coefficient of remittances indicates that remittances do not have significant direct growth effect. Otherwise, each the positive or negative impact of remittances on economic growth will be depressed.

Significant of the research

According to the previous studies of remittances, there are many scholars have been studied on the relationship between remittances and economic growth in developing countries in general, especially in Asian countries, has not been enough studied. Because most of researchers have not been only studied in Asian countries, there are some mix together between Asian countries and the other countries. Fayissa & Nsiah (2011) estimated the macroeconomic impact of remittances and some control variables such as openness of the economy, capital/labor ratio, and economic freedom on the economic growth of African, Asian, and Latin American-Caribbean countries. Although Abdullaev (2011) investigated the potential impact of workers' remittances on long-term economic growth of recipient countries in selected Asian and Former Soviet Union countries. Some of empirical had studied specific only one country in Asia. For instance, Khan et al. (2012) investigated the impact of worker remittance on economic growth of Pakistan while Cooray (2012) examined the impact of migrant remittances on economic growth in south Asia. Very little has been done in the empirical studies analyze the workers' remittances in Asian countries, but the goal of them studies on relationship between remittances are different. The reason that is, Asia is a region that is characteristic in its. There are different on migration and remittances inflow patterns. Some of the available literatures on remittance in Asian countries is not fully focused on the growth effect of remittances. Jongwanich (2007) analyzed the impact of workers' remittances on poverty in developing Asia and the pacific countries while Katsushi et al (2011) analyzed of remittances, growth and poverty evidence from Asian countries. Vargas Silva et al (2009) examined the potential of remittances for promoting economic growth and reducing poverty in Asian countries.

Limited research has been undertaken from with this in consideration hence, previous literature has developed some theoretical and empirical understanding in this regards by considering the individual link between remittances and growth respectively. This paper intends to combine these two channels in a single framework and try to examine the relationship between remittances and economic growth in Asian countries by employing panel data estimation tools and methodology distinguish it from prior studies that had challenges in handling endogeneity between remittances and economic growth of period from 1990-2011 in 12 countries namely Bangladesh, China, India, Indonesia, Jordan, Malaysia, Pakistan, Philippines, Sri Lanka, Syrian Arab Republic, Thailand and Yemen Republic. Because these countries have remained an important source of expatriate worker and the number of expatriate has increased significantly over the years. Thus, these 12 countries offer a unique opportunity to examine the linkages between remittances and economic growth.

Structure of the research

The organization of the paper is as follows. Chapter 2 provides a review of selected literature on the growth effect and remittances; Chapter 3 describes a background for the countries of interested; Chapter 4 specifies of the research methodology, data and model specification while Chapter 5 presents empirical analysis for both the fixed and random effects regression accounting for both the country and time effects and some of diagnostic test results; and the final Chapter conclusion of research finding.