

CRITICAL EXAMINATION OF THE CONTRIBUTION OF MIGRANTS' REMITTANCES TO DEVELOPMENT; INSIGHTS FROM THE PROGRESS OF VARIOUS COUNTRIES

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Abstract

This paper critically examines the contribution of migrants' remittances to development in various countries. Migrants' remittances have emerged as an important drive for economic growth and social development in developing countries. Remittances provide considerable source of foreign exchange and household income, while their long term contribution to sustainable development remains contested. This paper probes the role of migrants' remittances in fostering development. It draws insight from the progress and economic condition of different countries across Asia. By means of comparative analysis and secondary data from international financial institution reports, the research explores the influence of remittances in poverty reduction, education, healthcare services, investment and macroeconomic stability. Moreover, findings of the study reveals that remittances often serve as a lifeline for households. It highlights that remittances reduce immediate poverty and enhance access to education and health sector. However, their impact on systemic change and long-term economic growth is constrained when not reinforced by good governance financial inclusion and developmental policies. Thus, the paper concludes that remittances can play a catalytic role in development only when effectively harnessed within broader institutional and policy frameworks.

Keywords: Remittances, Migrants, IMF, Foreign Direct Investment (FDI), Gross Domestic Product (GDP), Sustainable Development Goals (SDGs), Education, Health, Poverty

Introduction

The world has become interdependent. People cross the international borders in search of jobs and to develop businesses. People who leave the native countries and go abroad are called migrants. The money they send to their native countries is called remittances. There are two views about the role of remittances in the development and economic growth. The first school of thought is of the view that remittances play a great role in the development. They argue that on global level remittances are twice the aid and two-third of Foreign Direct Investment (FDI). Moreover, these help in the balance of payments, savings and investment. Similarly, it boosts the consumption, purchasing power parity and help the local producers. Similarly, it is considered an alternative to the debt. It also enhances the financial development and it is used as a pressurizing tool to convince government for constructive reforms. In the same way, it helps in poverty reduction by boosting small businesses, education, health and human development. It is a resilient income source. It is helping in achieving sustainable development goals (SDGs) in rural areas. In some countries, it is a large part of the Gross Domestic Product (GDP). There is another view about the remittances that puts that it does not help in development. They also argue that it does not help in sustainable economic growth. Moreover, they are of the view that it undermines productivity at the expense of high consumption. This essay would discuss the

importance of remittances in the development and economic growth. This essay would also present examples from various states that would confirm the positive role of remittances in development.

Understanding Migrants and Remittances

There is no fix definition of migrant in international law. However, many experts have defined migrant. According to one definition, a migrant is a person who leaves his native country by choice and not by force, to find better opportunities somewhere else (Anderson, et al, 2011). A migrant is free to return his native country any time. In globalized world, the movement of international migrants has increased specially from underdeveloped countries to the developing and developed states. Similarly, remittance can be defined as any transfer of money by a worker or a member of diaspora from a foreign country to native country for household expenses (Alfier, et al, 2006, Vol 4). It is basically the transfer of money from abroad to home. Remittances are in important part of international finance system as it contributes to global GDP growth.

Remittances Contribute in Development

Firstly, remittances are twice the international aid and two-third of Foreign Direct Investment (FDI). According to International Monetary Fund (IMF) the total volume of remittance across the world in 2019 was \$ 551 billion and this figure rose to \$ 597 billion in 2021 (Guermond, 2021). International aid is considered an important instrument of development especially in the less developed countries. According to the organization of Economic Cooperation and Development (OECD), the volume of international aid reached the highest value of \$ 152.8 billion in 2019 (Amevor, 2020). Similarly, Foreign Direct Investment is another important tool of development in the world. But, figures prove that the remittances are twice in number than in aid and these are the two-third of FDI. Therefore, international remittances play a vital role in the development and growth.

Secondly, remittances are used for the balance of payments, savings and investments. It is a major source of balancing the payments and maintaining the current account deficit. Similarly, the money received is used for national savings and investments in various sectors of the country. For instance, Pakistan received remittances in that made 5 percent of the GDP in 2009 and in 2019 it made 8 percent of the GDP (Salik, 2020). In the same way, remittances contributed 6.1 percent to GDP in Bangladesh in 2020 (Mahidud, et al, 2021, pp 1-12). This money is used as national savings. Similarly, the money sent from abroad is used for investments in various sectors of the country. For example, this money is used for purchasing property. While constructing a house or commercial building, a number of other businesses are in run which makes the economy healthy. So, the money sent from abroad is used for the balance of payments, national savings and investments in various sectors of development.

Thirdly, remittances increase the consumption and in return help the local producers. When more money is received from abroad for household expenses, it accelerates the consumption. As a result, the local producer gets an advantage because more indigenous products are produced and sold. Remittances help in making the local community prosperous. A major multinational money transfer organization (MTO), suggests that up to 15% of remittances sent to developing countries help in establishing new businesses or help an existing business grow (World Bank Blogs, 2021). These small businesses are started with the money received from abroad. It increases the consumption because prices are competitive and also help the local producers. Hence remittances are an important tool to enhance consumption and help local producers to grow.

Similarly, remittances are used as an alternative to debt in many countries. Current account is used for balance of payments. The trade transactions are done from current account. The a deficit occurs in the current account, then countries needs to borrow money from other states or international organizations like International Monetary Fund (IMF). Donor states or donor organizations provide loans with certain conditions, for instance institutional reforms. So, the remittances are an alternative to the debt taken by the states. For instance, The International Monetary Fund agreed to revive a \$ 6 billion bailout package for Pakistan (business-standard). On the other hand, the remittances received in Pakistan in 2020-21 reached all-time high \$ 29.9 billion. These are almost 5 times more than the loans Pakistan has taken from International Monetary Fund. Therefore, remittances are an alternative to debt in many countries of the world. Moreover, remittances are used to enhance financial development by pressurizing governments for financial reforms Pressure groups and interests groups exist in every country. They pursue their agendas through different means. Migrants also contribute to the economy of the state through remittances. So, they need reforms and facilities for their own needs. For instance, they need reforms for smooth flow of the remittance money, high exchange rates and proper registration of money exchangers, safe transfer of money and more similar reforms (Adenutsi, 2011). Their purpose is the enhancement of financial development. Thus, they pressurize the governments for taking steps and introducing various reforms to enhance financial development. For instance, Migrants in Saudi Arabia and other Middle Eastern countries pressurize Bangladesh government for creating new jobs and investment avenues abroad. Also, they call on government for visa facilitation centers and passport renewal centers. This would help them work peacefully and in smooth flow of remittances. Thus, migrants pressurize governments for initiating reform programs that help in enhancement of financial development.

In addition, remittances contribute in poverty alleviation. Poverty is one of the biggest issues in contemporary world. According to World Vision Organization, 689 million people in the world live in extreme poverty, surviving on less than \$1.90 a day (Li, et al, 2021, pp 012205). These people do not have access to basic facilities of life. For instance, they lack warm clothes in winter season, the do not have access to education and basic health facilities. Besides their wish, they cannot fulfill their needs because of no money. In such circumstances, remittance is the greatest source of poverty reduction in many parts of the world. It enables people to have access to high quality education, health and other basic facilities. Similarly, with the remittance money, they start small scale businesses which are another source of poverty reduction. Therefore, remittance money plays a vital role in the alleviation of poverty in many regions of the world.

Moreover, remittances help in establishing small businesses and in development of human capital. In modern world, human capital is the most precious source for economic boost. Young population in the developing and underdeveloped countries is swelling day by day. According to an article published in Foreign Policy Magazine, more than the half of labor force in Egypt is below age 30 (Krafft, et al, 2021). Similarly, in Pakistan, the youth population is 64% between the age 15 and 29 (Hdr.undp.org, 2021). Same is the case for Yemen, Afghanistan and other underdeveloped countries. If this population is not utilized prudently, it is the biggest security threat. Because militant and extremist organizations hire them for their illegal and terrorist activities, especially, in the fragile states. Where governments cannot afford to give education to the masses, remittance is the only reliable source to educate the masses. It helps in human development. It enables people to get technical education, learn new skills and play their part in

the development of the nation. Hence, remittances are the reliable source of investment in human capital development.

In the same way, remittances are the resilient source of income. These are immune to any disaster. In time of natural calamity in a state, the tourism industry vanishes. Other small and large businesses are affected. A country may face economic recession, trade imbalances, increase in poverty or any other economic setback. But, the migrants from a single country are spread all over the world. If the economic conditions of one state are not favorable so the migrants in other states may compensate the loss. Therefore, the flow of remittances is often smooth. It is not affected with the economic setbacks of few countries. For instance, during the COVID-19 lockdowns, many businesses were closed. But, according to World Bank, Remittance flows to underdeveloped countries are estimated to decrease by 7 percent, to \$508 billion in 2020 (Kassegn, 2021, p.1948665).Although, there is a decrease of 7% in the global remittances yet it is a small number. Hence, remittances are resilient source of come that are immune to economic shocks.

Similarly, remittances are a source of achieving Sustainable Development Goals (SDGs) in rural areas. The Sustainable Development Goals (SDGs), were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity. This document has 17 goals which are to be fulfilled before certain deadlines (Loughnan, et al, 2020, pp.577-592). Among these goals, most are related to money in one way or another. For instance, Goal 1 is related to poverty. So poverty can be alleviated with money. Remittances are the money received from abroad thus it helps in poverty reduction in rural areas. Similarly, the other goals are hunger, health, education and clean energy. All these goals can be achieved with the money received as remittance (Nurse, 2018). One of the most important goals is related to climate. Cutting of woods and deforestation in rural areas is a cause of climate change. People in rural areas cannot afford gas and electricity that is why they burn forest wood for house fire. So, remittance money helps them in buying gas cylinders and electricity heaters as a result environment is protected. Hence, remittance money helps in achieving Sustainable Development Goals (SDGs) set by United Nations.

Lastly, remittances make a big portion of Gross Domestic Product (GDP) in many countries of the world. Many sectors of economy contribute to GDP including industrial production, agricultural production, services sector and taxes. Remittances also contribute to the GDP and its proportion is huge. According to World Bank data, the remittances received by different countries in 2020 and it makes the percentage of GDP are Bermuda 22%, El Salvador 24%, Gambia 22%, Nepal 24% and Somalia 34%. GDP is an indicator of the development and remittances are an integral part of the GDP (Un.org.2021). These figures show that remittances make a huge part of GDP in these countries that is why remittances play a vital role in the development and growth of the country. Therefore, remittances are an important part of the Gross Domestic Product (GDP) and play a vital role in development.

Negative impacts of Remittances

Firstly, remittance money is spent on non-productive projects. The money sent from abroad is used on buying gold and sometimes on building houses. In business terms, these are called liabilities. These are non-productive projects. It consumes money and the profit earn is very low and often decrease its value. Therefore, money is wasted on such items. Besides, luxurious items are purchased which is the wastage of money. Expensive cars, precious watches, glasses, mobile phones, laptops and other similar items are purchased (Garcia, 2005). While buying these items,

money is spent on non-productive projects. Most often these products are sent from abroad too. It is again the money spent on non-profitable projects. Therefore, the negative impact of remittance is that sometimes this money is not used for development rather used on non-developmental projects.

Similarly, the culture of consumption is encouraged which results in dependency. It is a common practice in the underdeveloped countries that one person goes abroad then he earns and the other family members consumes what he sends. It promotes dependency culture (Chimhowu, et al, 2005, pp.83-102). It is again a very negative impact of the remittance. Dependency culture induces intellectual and physical paralysis of the society. People prefer other means of income other than hard work. It sometimes detracts the youth when there is sufficient amount of money. They indulge in activities that are not healthy for society and their own self. For instance, people indulge in gambling when they have enough money. This is another negative impact of the remittance that it induces dependency culture.

Moreover, remittances encourage international migration which results in brain drain. When the intellectual and educated class migrates from native country, this is called brain drain (Docquier, et al, 2012, pp.681-730). This is a discouraging phenomenon regarding development. The native country is abandoned and hence an intellectual deficit is created (Schiff, 2005). Less competent class is available to run the affairs of the state. Every sector is deprived of the experts and skillful people. There is a dearth of experts to run the affairs efficiently. As a result the wheel of the economic development slows down. The skillful migrant if stays at home, can benefit his country more than what he gives to his nation in the form of remittances. So, this is another disadvantage of the remittance that it encourages brain drain which is harmful for the native state.

Additionally, most of the remittances is sent through hundi or hawala (unregistered franchises used for sending remittances) in the underdeveloped countries. There are many disadvantages of this platform through which money is transferred. One of the disadvantages is that this money is often earned through corruption or illegal practices. This is undocumented money and its source of income is not known. Moreover, money received through hundi or hawala is often used for terror financing. According to Financial Action Task Force (FATF), hundi and hawala are the biggest sources of concealing corruption money and then this money is used for terror financing (Zia, et al, 2021). Remittance money is misused in many parts of the world. It creates problems for the native state as well as international financial institutions because it is difficult to trace the origin or the source of this money. Therefore, remittances are sometimes misused and the money is used in illegal activities.

In addition to this, remittances are always sent from abroad. The host country uses the remittances as a tool to pursue their interests and pressurize the native states of the migrants for accepting their demands. As the migrants send a lot of money as remittance, no state can afford that the diaspora be sent back to their native states. For instance, 4.7 million Pakistanis are working in the Middle East (Aslam, 2020, pp.24-25). The Arab countries use this as a tool to pressurize Pakistani government in various matters. The government of Pakistan wanted to attend a meeting in Kuala Lumpur –the capital of Malaysia-hosted by the Malaysian government (Wolf, 2021). The Arab states warned Pakistan that if the government of Pakistan participated in the meeting, all the diaspora would be sent back to Pakistan. As a result, Pakistan withdrew from the meeting. Therefore, sometimes remittances are used as a tool of blackmailing which harm the native states.

In the same way, migrants capture the jobs which create problems for the indigenous citizens. In many countries this problem has been observed that migrants occupy the key posts. And the citizens of the host country feel pressure while finding jobs. Most often the migrants are more educated and equipped with more advance skills are given jobs by the factories (Simon, et al, 1999). For instance, in the Middle East, local population is less educated. And the migrants are more educated. It creates hostility in the indigenous people against the migrants. Therefore it poses a threat not only to the local community but also to the migrants. Migrants feel insecure in such circumstances which affects the flow of the remittances. So, remittances make the migrants and their families prosperous but threaten the jobs of the host citizens.

Conclusion

To conclude the essay, we can say that there are two views about the remittances. The first school of thought argues that remittances are beneficial for the development of the state. Remittances play a key in the development of the country. Facts and figures prove that total volume of remittances is twice the international aid and two-third of the Foreign Direct Investment (FDI). These are used for the balance of payments, savings and investments. Similarly, it accelerates the consumption process and thus local producers are in advantage. It is considered as an alternative to the debt. It enhances financial development. Similarly, it is used as a pressurizing tool to convince government for financial reforms. It helps in poverty alleviation. It is used to set small scale businesses. It is a resilient source of income. In rural areas, it is used to achieve Sustainable Development Goals (SDGs). It also makes a huge portion of Gross Domestic Product (GDP) in some countries. All these points prove and confirm the role of remittance in the development of the country. On the contrary, there is an opposite view about the remittances. The scholars of this view argue that it does not play any role in the development. According to them, remittance money is used in non-productive projects. It promotes the culture of dependency. It is a source of brain drain which harms the native state. From the above discussion, the broader picture reveals that remittances contribute in the development of a country.

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