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Do remittances promote economic growth in the Caribbean Community and Common Market?

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ABSTRACT

The paper investigates the economic importance of remittance flows to the Caribbean Community and Common Market (CARICOM). Utilizing panel cointegration tests, the results show that there is no evidence of a long-run relationship between remittances and real GDP per capita or investment but some evidence of a long-run relationship between remittances and consumption. This suggests that remittance inflows to the CARICOM region are used for consumption purposes rather than productivity improving spending.

1. Introduction

Remittance flows to the Caribbean Community and Common Market (CARICOM)[1] have increased significantly over the last two decades. Fig. 1 depicts the financial flows into the CARICOM region

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[1] CARICOM consists of 15 member countries in the Caribbean region which are relatively small island economies. The community was established in 1973 for regional integration in trade and in monetary and fiscal affairs. Members of the community include Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and Grenadines, Suriname, and Trinidad and Tobago.

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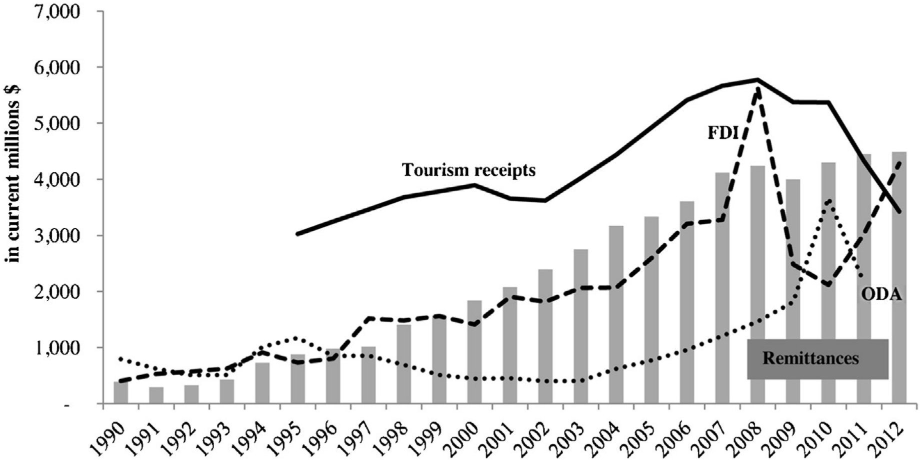

Fig. 1. Financial flows to 13 countries in the CARICOM region. *Source*: Personal remittances calculated by the authors from World Development Indicators online. *Note*: Remittance flows are represented by the bars while other resource flows are represented by the lines.

over the period 1990–2012. Remittances have well exceeded the official development assistance from mid-1990s and surpassed foreign direct investment (FDI) from early 2000s except year 2008 when the financial crisis started. Remittance flows to the region declined by 12% in 2009 due to the crisis. The decline was drastic in Barbados, Jamaica, and Trinidad and Tobago where remittances fell by about 33%, 13% and 14%, respectively, while the rest of the member countries experienced a slight decrease of about 2 to 4%. While international tourism receipts fell drastically after the 2008 crisis, the remittance flows recovered remarkably and have remained resilient compared to other flows.

According to World Bank (2013a,b), global remittances are expected to exceed $707 billion by 2016. The flows to Latin America and the Caribbean (LAC) are expected to grow at a rate of 10 to 11% annually; reaching approximately $84 billion by 2016. The main source is the United States which accounted for 76% of total remittance flows into the region. Though the remittances received by the CARICOM region amounted to roughly $4.5 billion in 2012, only 7.5% of total amounts received by the LAC region, the per-capita receipts are substantial in most countries. Fig. 2 shows the top 10 per-capita recipients of remittances in 2012. St. Kitts and Nevis, Jamaica and Guyana ranked among the top 10 per-capita recipients, receiving $842, $791 and $590, respectively. St. Kitts and Nevis and Jamaica are high income countries with PPP real GDP per person of more than $9000 while the PPP per capita income in Guyana, a lower middle income country, is roughly $4477 in 2010 (World Penn Table 7.1). They were followed by Dominica, Barbados, Grenada, St. Vincent and the Grenadines, Belize and Antigua and Barbuda, lower middle income and upper middle income countries with PPP income per person of more than $7000, which received well more than $200 per person annually. St. Lucia, an upper middle income country, and Haiti, a low income country, got about $150 while Suriname, also an upper middle income country, was the least recipient.

Despite the significant increase in remittances to the CARICOM region, the long-run macroeconomic impact of the flows is still a debate. More specifically, if remittances are used to invest in small- and medium-sized businesses or to help finance kids' education, both human and physical capitals are accumulated, thus leading to higher development. On the other hand, if remittances are spent mainly on (conspicuous) consumption[2], they might spur growth in the short run, but at the expense

[2] For instance, World Bank (2006) shows that remittance-receiving households in Jamaica spend more on durable goods such as housing improvement.