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# Remittances, growth and poverty: New evidence from Asian countries

Katsushi S. Imai [a,*], Raghav Gaiha [b], Abdilahi Ali [a], Nidhi Kaicker [c]

[a] School of Social Sciences, University of Manchester, UK
[b] Department of Global Health and Population, Harvard School of Public Health, Boston, USA
[c] Faculty of Management Studies, University of Delhi, India

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**Abstract**

The present study re-examines the effects of remittances on growth of GDP per capita using annual panel data for 24 Asia and Pacific countries. The results generally confirm that remittance flows have been beneficial to economic growth. However, our analysis also shows that the volatility of capital inflows such as remittances and FDI is harmful to economic growth. This means that, while remittances contribute to better economic performance, they are also a source of output shocks. Finally, remittances contribute to poverty reduction – especially through their *direct* effects. Migration and remittances are thus potentially a valuable complement to broad-based development efforts.


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## 1. Introduction

In 2010, migrants from developing countries sent over $325 billion to their origin countries, far exceeding the official development assistance received. This does not include the unrecorded

* Corresponding author at: Department of Economics, School of Social Sciences, University of Manchester, Arthur Lewis Building, Oxford Road, Manchester M13 9PL, UK. Tel.: +44 0161 275 4827; fax: +44 0161 275 4928.
*E-mail address:* Katsushi.Imai@manchester.ac.uk (K.S. Imai).

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flows. The increase in remittances to developing countries has been due to more number of people settling abroad, and easier, faster and cheaper modes of transmitting money to another country.[1]

Empirical results on the impacts of migration on growth and poverty levels of a country are mixed. While the resulting remittances increase the income of the recipient country and consequently decrease poverty, there are social costs not accounted for in these higher incomes.[2] On the one hand, remittances reduce work efforts and dampen long term growth, and on the other, they improve financial sector development and thus stimulate growth. Remittances have a positive impact on the credit rating of a country, provide a large and stable source of foreign currency that can curtail investor panic, help deal with balance of payments crisis, and can be used for development projects (Ratha, Mohapatra, & Scheja, 2011).

Remittances reduce poverty through increased incomes, allow for higher investments in physical assets and education and health, and also enable access to a larger pool of knowledge. Inflow of workers' remittances results in physical capital accumulation through increased access to finance, although this depends on the recipients' marginal propensity to consume. For instance, in Nepal, one third to one half of the reduction in the poverty headcount ratio from 42 per cent in 1995–1996 to 31 per cent in 2003–2004 is attributed to the increases in remittances (World Bank, 2006). In rural Pakistan, temporary migration is associated with higher female and total school enrolment (Mansuri, 2006). On the other hand, migration of high skilled workers can result in a brain drain (Adams, 2003; Docquier, Lohest, & Marfouk, 2007) that could have a negative impact on the growth of the country in the long run.[3]

Many of Asia and the Pacific countries recently enjoyed a surge of remittances until the beginning of the global financial crisis and experienced economic growth as well as poverty reduction at the same time, but none of the studies, to our knowledge, have assessed the impacts of remittances on economic growth and poverty in these countries. The present study attempts to fill this gap. The objectives of the present study are (i) to assess the relationship between remittances and growth of GDP; (ii) whether volatility of remittances is harmful to growth; and (iii) whether remittances reduce poverty, and (iv) what sort of government policies can help the country promote growth and reduce poverty. The econometric methods we employ correct for endogeneity of remittances and other variables, and robust results are obtained, based on a cross-country panel of Asia and the Pacific countries.

The remainder of the paper is structured as follows. Section 2 discusses the impact of the financial crisis of 2008–2009 on remittances. Section 3 reviews the recent literature on the relationship between remittances, economic growth and poverty. Section 4 is devoted to a review of the data and discussion of the econometric specifications used. The results are discussed in Section 5. Section 6 concludes with observations from a broad policy perspective.

## 2. Financial crisis and remittances

The global financial crisis has had a dampening effect on the remittances received by developing countries. ADB (2011) shows that since the onset of the financial crisis, remittance flows to Asian

[1] Transfer fees have been falling since 2009, when the G8 group of rich countries promised to reduce them by five percentage points in five years. This has put more than $30 billion into migrants' pockets (The Economist, 2013).

[2] These (remittances) also come at the risk of psychological stress and adverse emotional impact, both for the migrant as well as his/her family.

[3] However, the effect of the brain drain could be positive if migration prospects foster investments in education because of higher expected returns abroad (Beine, Docquiera, & Rapoporta, 2001).