ROLE OF REMITTANCE IN EMERGING AND DEVELOPING (EDC) ECONOMIES

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Abstract

This paper investigated the relationship between remittance and economic growth in selected countries in Asia using panel data analysis. The remittance becomes one of the major macro-economic factors which is highly significant to promote the long-run economic growth. The findings conclude that remittance is one of beneficial factor of economic growth. Nonetheless, the effects on the gross fixed capital formation are positive and statically significant. GDP indicates positive significant relationship in both fixed and random effect, at the same time we found a positive and significant relationship in the long run by utilizing FMOLS and DOLS model.

Keyword: Remittance, GDP, Asia, FMOLS, DOLS, Co-integration

Introduction

Remittances are the stream of money from migrants abroad to their families in their nation of origin (Koser, 2007). The flows of remittances have enlarged significantly during recent decades and are expected to continue increasing into the foreseeable future as more people migrate in response to globalization and increasing wage differences (Ratha & Maimbo, 2005). Contributions to the expansion in global migration include income inequalities between origin and destination country, low travel cost and a rise in South-west migration. The present magnitude of remittance flow and the expected increases, makes it interesting to test whether the remittance flow has an effect on the economy of the receiving country, or whether remittances, as a single factor, are a source of income for individual households.

Allowing for its large segment to the GDP, it could be thought that remittances may have a large effect towards economic growth in developing countries. In some countries, remittances may contribute to almost half of the GDP. If remittances can lead to growth, it gives a novel point of view in evaluating migration as another source of growth. Since the global financial crisis occurred in 2008, the negative effect of migration has been heavily debated and questioned. Developing countries in Asia also tend to show dependence on remittances, for example sending remittances in 2014 accounted for 42 percent of GDP in Tajikistan, 30 percent in the Kyrgyz Republic, and 29 percent in Nepal (Keelay, 2015). The magnitude of the increase in payment of remittance receipts during this period may be due to two significant factors. First, migration between developing and developed countries has increased dramatically in the last 20 years. Secondly, transaction costs are decreasing due to technological advances, enabling faster delivery, and a lower cost mechanism for international transfer payments among individuals (Siddique et al. 2010).

Global remittance inflow has become an important external source of financing for developing countries. In few developing countries, remittance inflows exceed the income, global trade, foreign aid, FDI, investment, and other assets inflows. These issues attract scholars, researchers, economists and policymakers to further investigate the impact of remittance towards overall economic sector in general. Although the topic is extensively explored previously, it becomes a motivating matter to further investigate the role of remittance especially in developing economics with high labour mobility. Previous studies had shown mixed results on the impact on economic growth. Some scholars supports the results positive impacts of remittance towards economic growth(Mughal, 2012), (Fayisa &