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INTERNATIONAL REMITTANCES TO INDIA: EVIDENCE FROM SELECTED COUNTRIES

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ABSTRACT

This paper attempts to construct estimation of remittances to India from abroad for the period 1990 to 2015. It is now widely acknowledged that foreign remittances play a crucial role as constant source of income to developing countries than other private flows and foreign direct investment, and decisions by migrants to submit a share of their income to their country of origin are affected less by international financial and market crises than by the decisions of private investors and speculators. Two major waves of emigration have been responsible for the bulk remittance receipts to India post 1970's. Added to this, macroeconomic policies favoured to mobilize remittances during post liberalization in 1991 that triggered the flow of remittances to India through official channels. Remittances form a significant share of not just national gross domestic product (GDP) around 4 per cent of the national GDP but of state domestic products (SDPs) of Kerala, Goa and Punjab.

KEYWORDS:

foreign remittances, labour migration, remittance flows

INTRODUCTION

In recent years, international labour migration has become a top socioeconomic and political issue worldwide. This increasing interest not only in the steady spread of the phenomenon and its developmental impacts for both origin and destination countries. Second, these impacts are likely to occur at the country, community, family and individual levels. In a way, labour migration is termed as triple win situation: a win for labour destination countries that support economic activity with foreign labour, a win for labour origin countries as it decompress unemployment and brings remittances, a win for for migrant labour as remittances increase migrant household disposable income ,improves consumption ,increase in health status and educational attainment.(ILO).

DATA BASE AND METHODOLOGIES

The present study focuses on size of remittance flows and their sources with special reference to India based on secondary data collected from National and International documents such as from World Bank, Reserve Bank of India, Ministry of External Affairs of India and Ministry of Overseas Affairs of India.

INTERNATIONAL REMITTANCES: A GLOBAL PERSPECTIVE

Migration, through the impact of remittances, is an integral part of the processes of development and has a significant role and implications for the development of labour exporting countries It is evident that remittances are more evenly distributed among developing countries than other sources of hard currency flows (Ratha,2005). Global flows of migrant worker remittances were estimated at US$601 billion in 2015 from US$182 billion in 2004. Developing countries received an estimated US$441 billion workers' remittances in 2015, registering an double growth compared to 2005.World Bank remittances 2016 report that developing countries receive about 73 percent of worldwide migrant remittances representing as single largest source of external financing than foreign direct investment (FDI) excluding China and nearly three times the amount of official development assistance in developing countries. Top recipient countries are typically large countries such as India and Mexico. Remittances as a share of gross domestic product (GDP) are large in small countries such as Tajikistan, Kyrgyz Republic Tonga and Philippines,

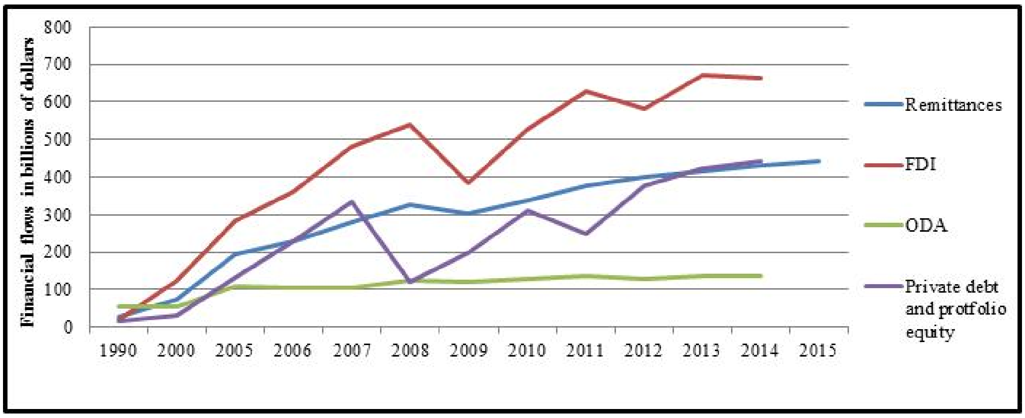
High-income countries are the main source of remittances. The United States tops with an estimated $ 56.3 billion outflows in 2014. Saudi Arabia ranks as the second largest, followed by the Russia, Switzerland, Germany, United Arab Emirates, and Kuwait. The six countries of Gulf Cooperation Council accounted for $98 billion in outward remittance flows in 2014. In general terms, remittances are international money transfers sent by migrant workers from the destination country where they are working, to people in the country origin from which they have come and it includes cash and gifts sent for household purpose as well as charity and other contributions by the migrants (World Bank, 2016).

Table 1. Remittance flows to developing countries US$ billions

Year	1990	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Remittances	29	73	194	229	280	325	303	336	378	401	416	431	441

Source: World Bank (2016)

Figure.1 Remittances to Developing countries versus Other External Financing Flows.1990-2015

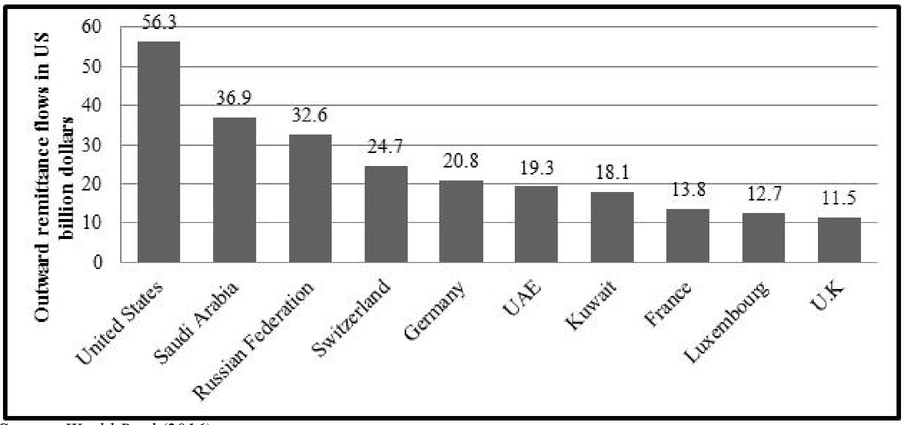


Source: World Bank(2016)

REMITTANCES: INDIAN PERSPECTIVE

Migration plays a pivotal role in the socio economic scenario of states at macro level and household at micro level as well. Developing countries like India characterized with high population and unemployment rates, low levels of per capita income . Migration has two advantages: first, migration outflow addresses the issue of unemployment; and second, it brings in vital foreign exchange, necessary to address the persistent current account deficit. In a way, increasing remittances help stabilize the value of Indian rupee against the US dollar (Kholi, 2014). And unlike other monetary flows, remittances are counter cyclical and form as a insurance for helping families to weather external shocks. The inflow of foreign remittances is more than any other external sources like FDI and external aid in many developing countries including India. In addition to these, remittances increases the home country creditworthiness and can borrow more .Since 2009,the World Bank has revised its analysis of how much debt a country can borrow based on high remittances inflows. Remittances also appear to be the least controversial aspect of the overheated debate on international migration (Ratha, 2013).

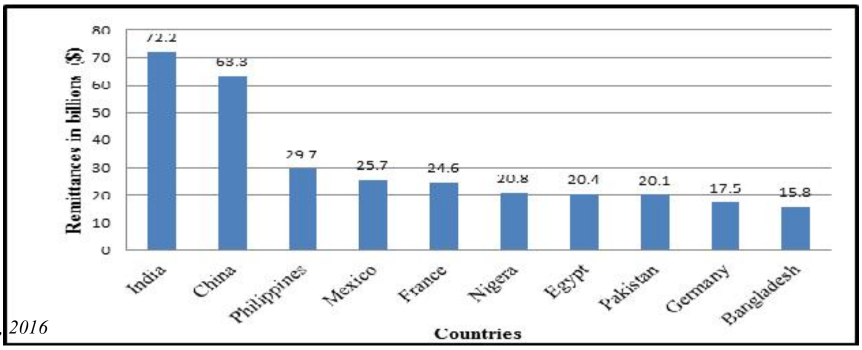
Figure.2.Top Sources of Outward Remittances, 2014 (Billions of Dollars)



Source: World Bank(2016)

Note: This figure shows remittance payments to developing countries as well as advanced countries.

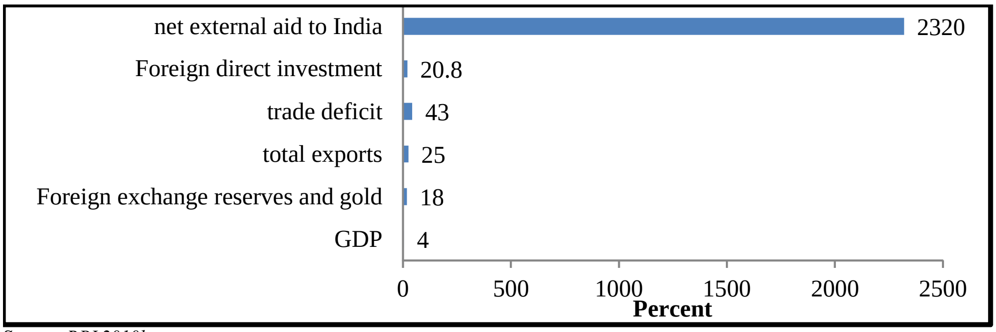
Figure 3: World Top Ten Remittances Receiving Countries in World, 2015



Source: World Bank, 2016

According to World Bank estimates, 2016, India received highest remittance from the abroad about 72 USD billion in 2015, followed by China, Philippines, Mexico and France. It's almost contributing 4 per cent of India national GDP and other financial flows to India as in figure 4.

Figure.4 : Remittance Inflows as a Share of Selected Financial Flows and GDP, 2008-2009

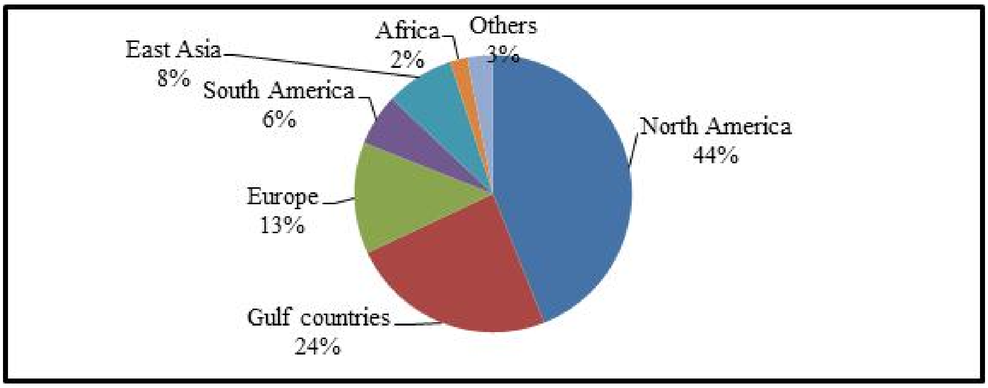


Source: RBI 2010b.

SOURCE OF REMITTANCES

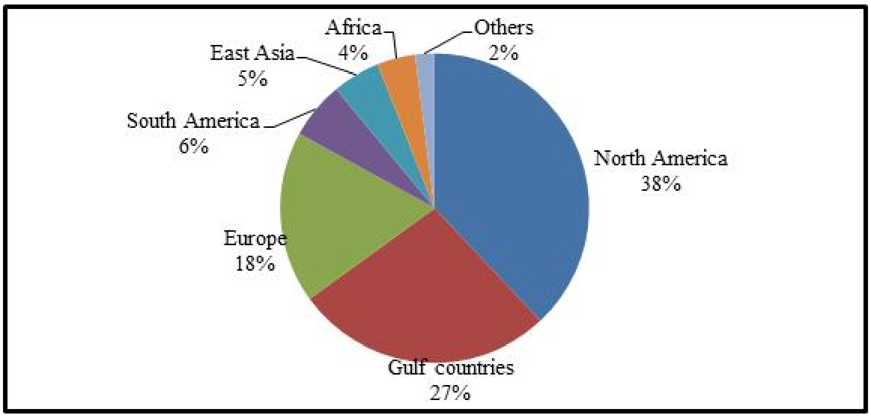
High-income countries are the main source of remittances as shown in figure 5 and 6. The RBI estimates that around 44 percent of total remittances to India in 2006 originated from North America reduced to 38 percent in 2009 while 24 percent originated from the Gulf countries increased to 27 percent in 2009 This could be due to the fact that global financial crises originated in United States and had limited impact on Gulf region. Gulf countries remain the top destinations for Indian migrants and the fact that most of the migration to these countries is temporary and migrants tend to send most of their savings. back home whereas migrants to the United States are permanently settled and come from families that need less support; hence they tend to send relatively lower remittances.

Figure 5: Source Regions of Remittances Inflows to India, 2006



Source: Chart sourced from 'Invisibles in India's Balance of Payments, Reserve Bank of India Bulletin, November, pg.1366

Figure 6: Source Region of Remittances inflows to India, 2009-2010



Source: Chart sourced from "Remittances from Overseas Indians: Modes of Transfer, Transaction Cost and Time Taken", RBI Monthly Bulletin, April 2010, p. 787,

TRENDS IN REMITTANCE INFLOWS TO INDIA

India has consistently been the top recipient of remittances for 15 of the past 23 years, including successively for the last five years. India's remittances grew from $2.08billion in 1990 to $62 billion in 2016. These official figures, however, represent only a portion of true remittances. Transfers through informal channels such as *hawala*[1] are believed to be large, but are not reflected in official statistics (Ratha,2005).**(notes**[1] ***Hawala or Hundi*** *is an informal value transfer system based on the performance and honor of a huge network of money brokers, which are primarily located in the Middle East, North Africa, the Horn of Africa, and the Indian subcontinent*

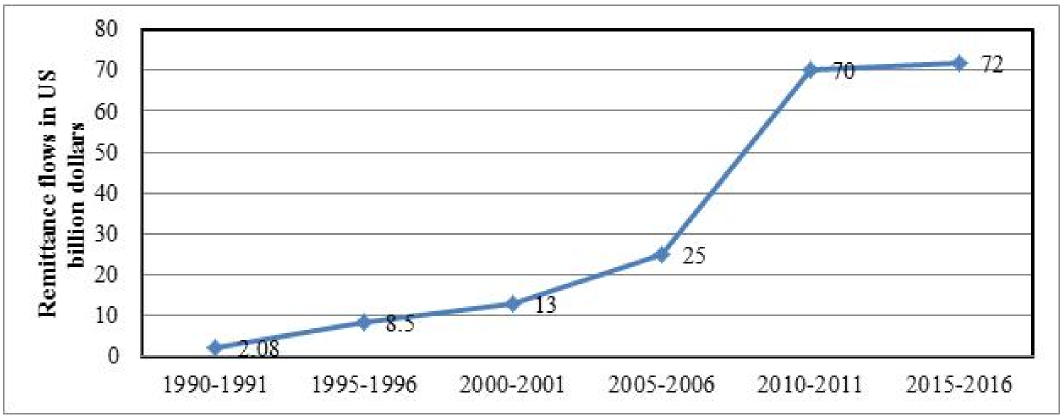
Table 2: Annual remittance flows to India, 1990-2016

Year	Remittances (US $ billions)	Year	Remittances (US $ billions)	Year	Remittances (US $ billions)
1990-1991	2.08	1999-2000	12.2	2008-2009	46.9
1991-1992	3.7	2000-2001	13.0	2009-2010	53.9
1992-1993	3.8	2001-2002	15.8	2010-2011	55.9
1993-1994	5.2	2002-2003	17.2	2011-2012	70.0
1994-1995	8.1	2003-2004	22.2	2012-2013	67.2
1995-1996	8.5	2004-2005	21.1	2013-2014	71.00
1996-1997	12.4	2005-2006	25.0	*2014-2015	70.00
1997-1998	11.8	2006-2007	30.8	*2015-2016	72.0
1998-1999	10.3	2007-2008	43.5	*2016-2017	62.7

*Source: Author's calculation based on Reports of Ministry of Overseas Affairs and Rajan and Zacharaiah,2014, *Estimates of World Bank,2015;*

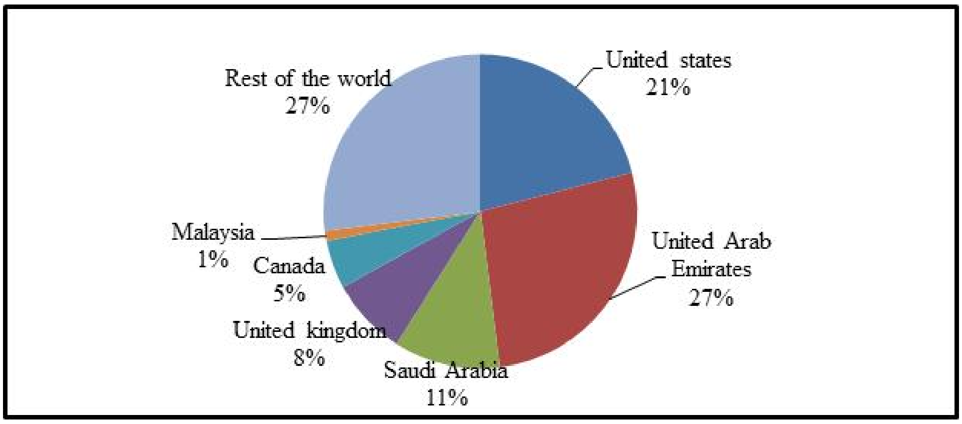
Remittances form a significant share of not just national gross domestic product (GDP) around 4 per cent of the national GDP but of state domestic products (SDPs) .For example, Kerala remittances stood for 36 per cent of net SDP in 2014(Rajan and Zacharaiah,2015). Two major waves of migration have been responsible for the bulk remittance receipts to India post 1970's. The first was the huge exodus of semi-skilled and unskilled labour force to Gulf countries following the oil boom during the nineteen sixties and seventies due to raise in oil prices and thereby boom in their economy. Many of them left their families behind in India and remitted savings towards family maintenance and investments (Nayyar, 1994). The migration of software engineers and information technicians are considered as the second wave or 'IT wave' during post 1990, mainly to high income OECD (Organisation for Economic Cooperation and Development) countries characterized by flows of highly skilled IT workers (Jadhav, 2003; RBI, 2006). Added to this, macroeconomic policies favoured to mobilize remittances during post liberalization in 1991 that triggered the flow of remittances to India through official channels (RBI, 2006).

Figure.7: Remittances flows to India, 1990-2015



Source: Same as table.2.

Figure 8: Leading nations sending remittances to India,2007

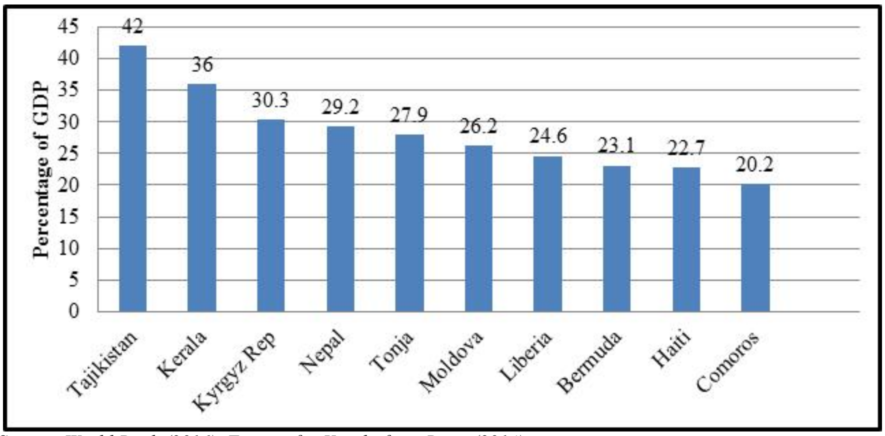


Source: Ratha and Shaw (2007)

REMITTANCES FROM THE GCC TO INDIA

The GCC region is source for nearly 12% of the global remittances, which is equivalent to USD 61 Billion. Of this, approximately 50% is remitted to India (Baskar,2013).Remittances to India reached USD 67 billion in 2012 ,of these approximately USD 33 billion was remitted by Indians in the GCC region comprising of the UAE, Saudi Arabia, Oman, Qatar, Kuwait and Bahrain. This is equivalent to 47% of the total remittances received in India compared to 27% in 2009 as per RBI estimates (Gurucharan, 2013). The increased remittances gulf countries is due to remittances from larger numbers of blue-collar workers has gradually been increasing and failure of indigenization polices of gulf countries and high-value remittances being sent by a relatively smaller but increasing number of professionals in the region. A large number of unskilled and semi-skilled workers migrate from India to various destinations in the Gulf every year on an average 6-7 lakh migrate every year under the Emigration Clearance Required (ECR) category, with as many as 7.47 lakh migrating during 2012 according to data collected bythe Ministry of Overseas Indian Affairs . Economic growth in GCC region and geographical proximity from South Asia has attracted many migrants to gulf countries. The rapid growth of the GCC economies in manufacturing, construction and trade, has attracted a large outflow of unskilled and semi skilled labourers from India. Global economic crises of 2009 has impact on oil prices , declining trade and private investment flows which in turn affected the GDP growth of the Gulf countries, which in turn affected the flow of migrant labour to and from them and remittances from them(Rajan,2010). However, limited effect of the financial crisis on remittance flows to India can be attributed to many reasons. First, India became an attractive investment destination for migrants' savings because of falling asset prices, rising interest rate differentials, and the depreciating rupee. Second, some Indian migrants returned home with their savings or stayed in their destination countries, but sent their families (and savings) home to cope with economic uncertainty(Afaram,2015). Further tightening of fiscal policy in 2016, economic activity slowed down in GCC countries and slowdown led to job losses as well as delays and cuts in wages for migrant workers. Subsidy reforms increased the cost of living, and thus decreased the amount that migrants could remit (World Bank, 2017)

Figure 9: Top 10 Remittance-receiving countries vs. Kerala State , 2014 percent of GDP



Source: World Bank (2016). Figures for Kerala from Rajan(2014)

Figure shows that if the Kerala state counted as country, then it would figure among the top remittance-dependent economies of the world.

HIGH DEPENDENCE ON REMITTANCES

Though India is the largest recipient of international remittances, it is not considered to be a major international remittance-dependent economy. According to World Bank (2015), the remittance to Gross Domestic Product (GDP) ratio in 2014 was 4. % in India compared to Nepal nearly 29% and 11% in Bangladesh and Philippines. However, remittances are concentrated in certain States and the remittance dependency ratio was above 10% in Punjab, Goa and Kerala.

Table 3: Top 10 Remittance-Receiving States in India, 2010

Sl. No	State	Percentage of NSDP
1	Kerala	40.67
2	Goa	27.30
3	Punjab	16.48
4	Tamil Nadu	6.89
5	Delhi	6.32
6	Maharashtra	4.87
7	Rajasthan	4.42
8	Karnataka	3.75
9	Andhra Pradesh	3.75
10	Gujarat	3.49

Source: Anshul and Aggarwal (2015)

From the above table 3, it can be seen that international remittances to Kerala amount to almost 40% of the NSDP of Kerala, which is highest compared to other Indian states. Goa and Punjab which have international remittances equivalent to 27% and 16% of the NSDP, follow Kerala. The importance of remittances in Kerala's economy further indicate that the remittances were 1.2 times the revenue receipt of the Kerala Government and over 5 times the amount the state gets from the Centre as revenue transfer. It is 1.5 times the Government's annual expenditure. It is 60 percent of the state's public debt .The impact of remittances on Kerala is manifested in household consumption, saving and investment, the quality of houses, and the possession of modern consumer durables. Remittances also play a major role in enhancing the quality of life and contribute to a high human development index for Kerala in terms of education and health, along with the reduction of poverty and unemployment.(Rajan&Zachariah,2014; Anshul and Aggarwal 2015).

FINDINGS AND CONCLUSION

Hence, from an overview of remittances to India, starting from sources to flows of remittances and the relative stability discussed in the above sections, certain points that emerged were as follows: Contemporary migration patterns from India provide useful insights to study the flow of remittances. Patterns of migration from India have experienced important shifts due to changing global requirements. But migration to the Gulf countries, from mainly the Southern states, especially Kerala, Andhra Pradesh and Tamilnadu continues to show an increasing trend since 1970's and recent times northern Indian states Uttar Pradesh Bihar and Punjab, shows the considerable positive trend of generation of unskilled and semi-skilled emigrant workers to various destinations in the Gulf every year making the region one of the prominent destinations to workers from India. Decadal growth rate of remittances show phenomenal increase during the

decade 2000-2001 to 2010-2011 and continue to remain high, reflecting the effects of shift in migration patterns, favorable liberalization policies and easing the methods of transfer of remittances. From the above points, it is clearly evident that the crucial waves of migration have been responsible for the bulk remittance receipts to India during the post 1970's and again post 1990's making remittances as a crucial component of India's BOP that has both direct as well as indirect positive impacts on the national economy.

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