Analyzing the Flux of International Remittances to India

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Abstract

In recent years, international labour migration has become one of the most important social, economic and political issues around the world. This growing interest is not only due to steady spread of this phenomenon but also its developmental implications for both countries of origin and destination. Secondly, these impacts are likely to occur at the country, community, family and individual levels. As such there is revival in interest in migrant remittances is largely due to the sheer size these flows have acquired in recent years. At macro level remittances increases foreign currency reserves of labour originating country, which enables a country to pay for imports and repay foreign debt. In addition, too great a volume of remittances can result in currency appreciation, which may affect the competitiveness of exports. At micro level, remittances increases standard of living, smoothes consumption and alleviates liquidity constraints .This paper attempts to construct estimation of Indian overseas remittances for the period 1990 to 2021 based on secondary data. Further proceeds to understand on Indian remittances from global perspective, starting from sources to flows of remittances to Indian states and the relative stability vis-à-vis other forms of external capital flows to India.

Keywords*: Migrant Remittances, Overseas Development Assistance, Foreign Direct Investment, Foreign Institutional Investors*

Introduction

One of the most pressing global social, economic, and political challenges of the last several years is the movement of people from one country to another for the purpose of finding work. This phenomenon's steady spread and its positive developmental impact for both sending and receiving countries are driving this increased curiosity. Second, these effects will most likely be felt at the national, local, familial, and personal levels. So, the massive size these transfers have acquired in recent years is largely responsible for the renewed focus on migrant remittances. At the macro level, remittances raise foreign currency reserves, which in turn allows the country of origin to pay for imports and repay foreign debt. Also, an excessive amount of remittances can cause the currency to appreciate, which can reduce the competitiveness of exports. Microeconomically, remittances improve living conditions, stabilise spending, and lessen the impact of cash flow shortages (Samuel et.al, 2005). International remittances, or money sent back home by a migrant who has found work in a different country, can take several forms, including monetary transfers, presents, and donations to loved ones back home (World Bank, 2016).

Data and Research Methodology

This research uses secondary data to examine the changing trends and pattern of inflow of remittances and source of remittances were traced on the basis of data published by the RBI, World Bank and IMF. This study aims to shed light on the dynamics of remittances and their relative stability in comparison to other types of external capital flows, as well as to comprehend the patterns in remittances sent home (India) from abroad around the world.

Growth rate of International remittances: A Global Perspective

Money sent back by migrants to their countries of origin plays an important part in economic growth and has far-reaching impact for those nations. It is without reasonable doubt that remittances constitute the most important source of foreign aid for developing nations, even when compared to other types of international flows (Samuel et.al. 2005). The overall sum of money sent back home by migrants around the world increased from $ 69 billion in 1990 to $751 billion in 2021. After the liberalisation and globalisation periods, there was a substantial growth rate registered in the amount of migrant workers' remittances to poor nations, which climbed from 31 billion US dollars in 1990 to an estimated 589 billion US dollars in 2021. With the exception of China, developing countries receive approximately 78 percent of all remittances from migrants around the world. These remittances represent the single largest source of foreign direct investment (FDI), and they provide nearly three times as much financial assistance as official development assistance (ODA) in low income countries. Often, the countries that get the most aid are major ones, such as India and Mexico. The Philippines, Tonga, the Kyrgyz Republic, and Tajikistan are examples of countries with small populations that have high levels of remittances as a percentage of their GDP.

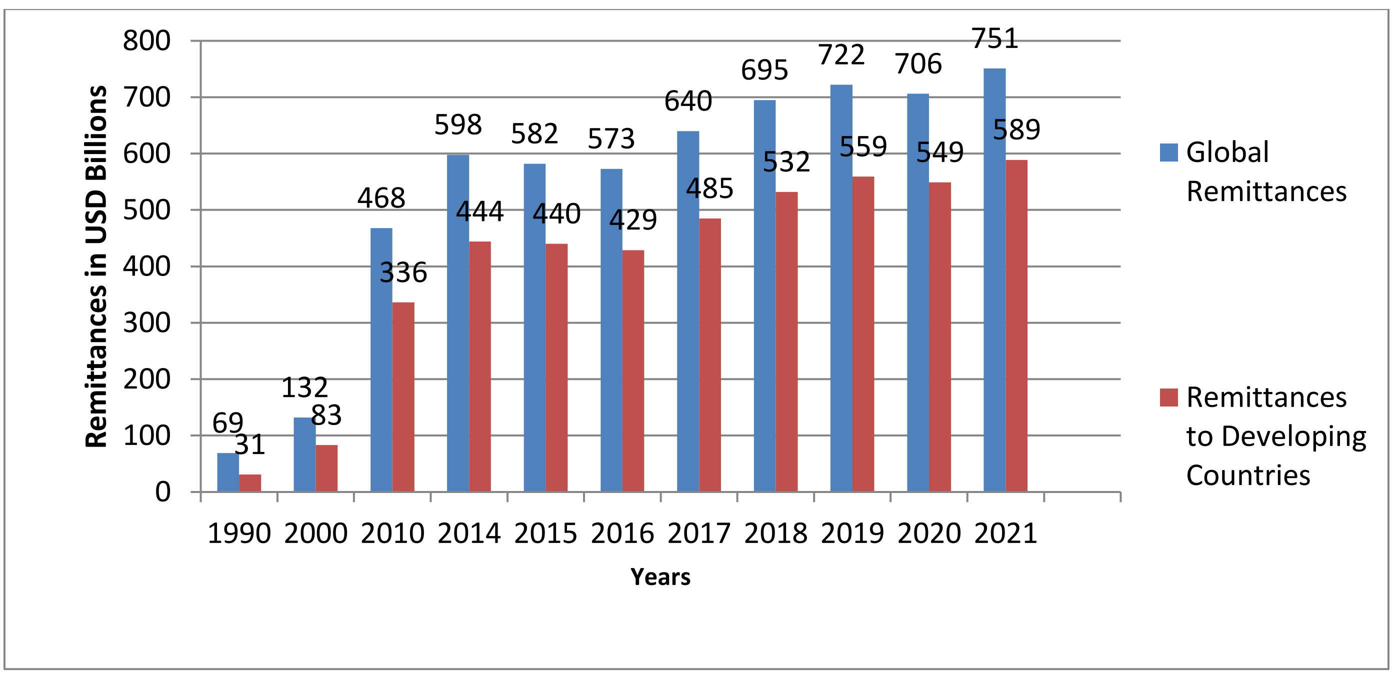

Figure: 1.
Migrant Remittances to Developing Countries in US$ billion

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Source: World Bank, 2021

It is evident from the above table figures that growth rate of remittances to developing countries supersede global growth rate of remittances except for the years 2015 and 2016. Decline of oil prices has led to sluggish growth of economy in Russia as well as Gulf states which account 20% of global migrant remittances. Migrant workers from South and Central Asia were the most affected by remittances slowdown. Coupled with weak economic growth in Europe and the depreciation of the euro and tighter immigration controls in many remittance source countries has led to dip of remittances in developing countries (World Bank, 2017b). 2020 experienced the wake of widespread lockdowns and travel bans, remittances dropped dramatically in 2020, but have since recovered and are expected to continue doing so in 2021.As a result of disruptions to the hand carrying of goods over international borders caused by travel restrictions and lockdowns, there was an increase in the usage of digital remittance channels. In many remittance corridors in the year 2020, there was a significant movement in flows from informal channels to formal channels. On the other hand, flows appeared to shift in the reverse direction in some remittance corridors.(World Bank, 2021). Signs of a reduction in COVID-19 cases in the advanced nations in the first few months of 2021 and loosening of activity limitations have boosted the global economy. A welcome increase in economic activity and work opportunities in key destination nations made it possible for migrants to demonstrate a willingness to support their families backed by unprecedented COVID-19 emergency fiscal stimulus and the accommodating monetary policy lead to recovery of remittances.

2021 Remittance Growth Factors

Transfers from developed countries to developing ones were impacted by a number of factors in 2022. A primary indicator of migrants' intent to provide for their relatives back home is the rate of increase in remittances. Second, when businesses in host countries gradually recovered from closures and travel disruptions caused by the pandemic, migrant workers saw increases in their pay, their number of available jobs, and the amount of money they could send home. Third, the impact of inflation on migrants' actual salaries and remittances was negative. Fourth, changes in currency exchange rates affected the amount of money being sent from one country to another. For example, once the Russian ruble appreciated significantly, more money was being sent from Russia to Central Asia. Finally, in many nations where there was a scarcity of foreign currency and a wide variety of exchange rates, official remittance flows decreased as money was sent through unofficial channels that offered higher rates of exchange.(World Bank,2021)

Table 1

Annual Growth Rate of Remittances (in Percentage)

Years	World Growth Rate	Developing Countries Growth Rate
2010	8.4	11.2
2014	3.7	3.8
2015	-2.6	-1.0
2016	-1.5	-2.4
2017	7.2	8.4
2018	8.5	9.7
2019	3.9	5.0

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2020	-2.3	-1.7
2021	6.5	7.3

Source: World Bank, 2021

Sources of Global Remittances

The United States tops list of remittance sending countries with $ 72 billion in 2021. Among the gulf states, Saudi Arabia, UAE and Kuwait are the major source of global remittances. States of Gulf Cooperation Council account $ 98 billion global remittance flows in 2014. This gradual decline is consistent with the longer-term trends in oil prices as well as policy measures that encourage the hiring of nationals in Saudi Arabia as well as other GCC countries The twin effects of a weak oil price and the depreciation of the source-country currency of Russia caused a 10 percent fall in remittance flows to Europe and Central Asia.

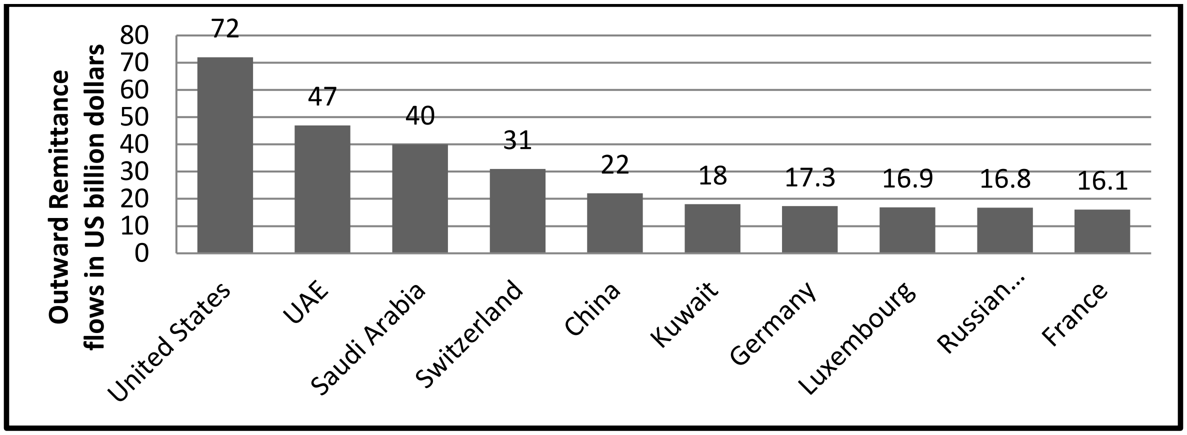

Figure 2.

Top Sources of Outward Remittances, 2021(Billions of Dollars)

Source: KNOMAD, Outward remittance flows, 2021

Remittances and its Relative Stability

Among the most important forms of foreign capital flows, migrant remittances have recently exceeded direct foreign investment and official development assistance in some low-income nations (Ratha, 2003). Three times as much money was sent back home to developing nations in 2015 than was given in official development assistance. When money sent by informal/Hawala methods is factored in, however, the total amount of remittances created by migrant's services is substantially larger (World Bank, 2016).

Differences exist between remittance flows and other types of foreign capital flows including ODI and FDI. It is important to stress that most development aid is fundamentally official, that FDI is primarily private institutional in nature, and that remittances are completely private household-level flows. Around a third of the Economy in some of the world's poorest countries comes from remittances (GDP). Also, they help people be more resilient when economic or humanitarian disasters strike. Figure 3 depicts the situation. In 2009, capital flows plummeted drastically by 32.94 percent, but remittances, which are more stable and less volatile than any other foreign flow, fell by only 5.27 percent. This shows that remittances can weather global headwinds during instances of global financial crises. Slow growth of 0.59 percent was seen in FDI in developing nations between 2009 and 2011 alone. Contrarily, over this time period, remittances to underdeveloped nations increased by 25%. (Ratha, 2013). Due to a decline in FDI in recent years, remittances in 2018 nearly equaled FDI inflows. 2018 saw much bigger remittances ($462 billion)

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to LMICs than foreign direct investment ($344 billion), even excluding China. To the exclusion of China, this means that remittances are the LMICs' primary source of foreign exchange revenues. The true size and social impact of remittances is substantially bigger if we include remittances through informal routes in addition to official recorded data on remmittances.(World Bank: 2021)

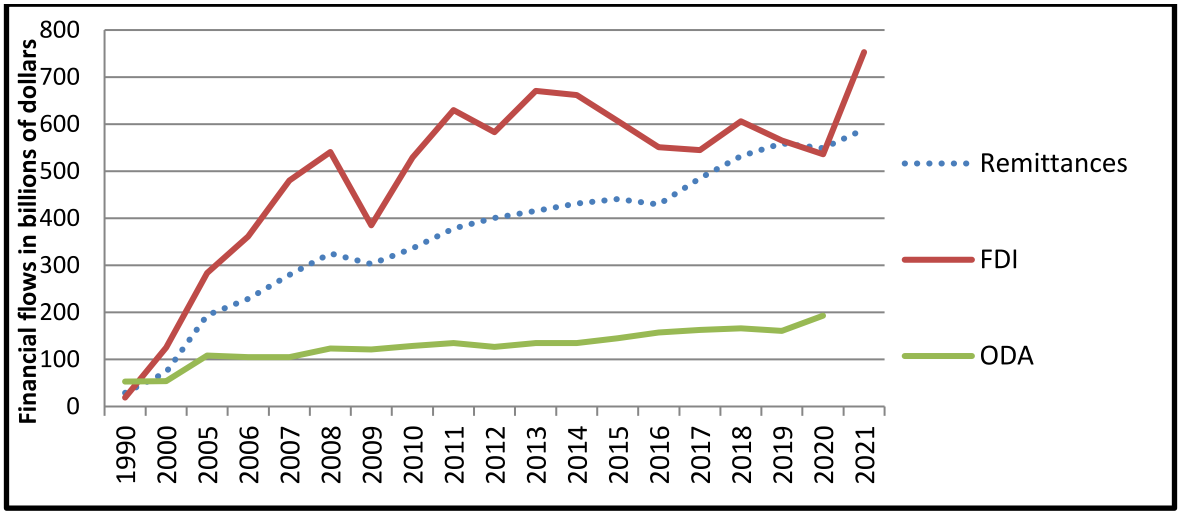

Figure 3.

Remittances, Foreign Direct Investment, and Official Development Assistance Flows to Low- and Middle-Income Countries,1990-2021(US Billion Dollars)

Source: World Bank, 2021

Remittances and GDP

Low-income countries have a disproportionately large reliance on remittances because of their lower GDP. Although some large countries were among the top recipients of remittances in absolute terms, smaller and poorer countries received a larger share of remittances relative to GDP. Countries in Central Asia (with ties to Russia), Central America (with ties to the United States), Lebanon (with a sizeable diaspora), and a number of island economies (Tonga, Jamaica, Samoa) where the volatility of tourism revenues (and natural disasters) necessitate substantial income augmentation due to reliance on remittances are among those with the highest remittance inflows as a share of GDP. For example, in Tajikistan, remittances make for 44% of the country's GDP, followed by the Lebanon (35 percent) were the largest recipients.

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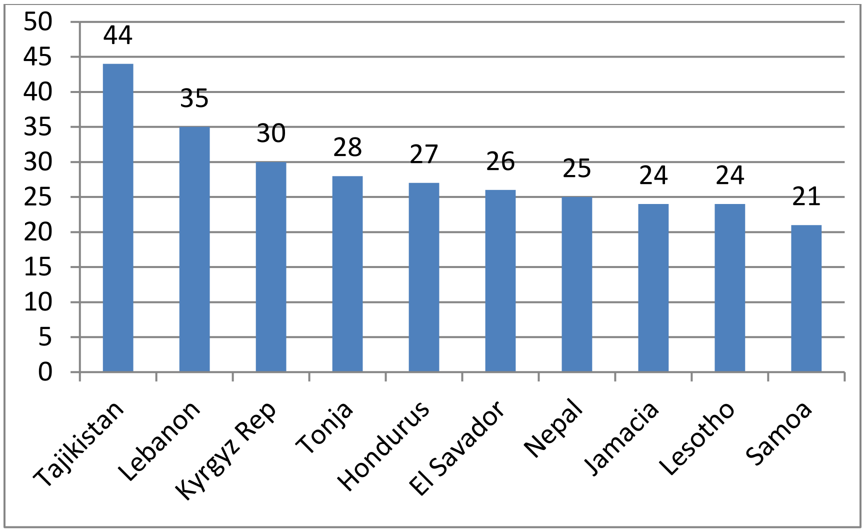


Figure 4.

Top 10 Remittance-Receiving Countries, 2021 percent of GDP

Source: World Bank, 2021

Remittances: Indian Perspective

Migration plays a key influence in the social economic environment of states at macro level and household at micro level as well. Developing countries like India defined with huge population and unemployment rates, low levels of per capita income. On the one hand, migration helps bring down the unemployment rate, and on the other, it brings in critically important foreign exchange reserves. Moreover, remittances improve the value of Indian rupee versus the American dollar (Kholi, 2014). (Kholi, 2014). Remittances, in contrast to other types of monetary flows, are anti-cyclical and serve as a form of insurance for families, allowing them to better withstand the effects of adverse externalities. In many developing countries, including India, the amount of money that is brought in by way of remittances from other countries is greater than that which is brought in by way of FDI or other forms of foreign aid. In addition to this, remittances boost the home nation creditworthiness and can borrow more. Since 2009, the World Bank has updated its calculations of how much debt a country may borrow based on strong remittances inflows. On the overall, remittances are deemed to be least problematic component of the intense debate on international migration (Ratha, 2013). (Ratha, 2013).

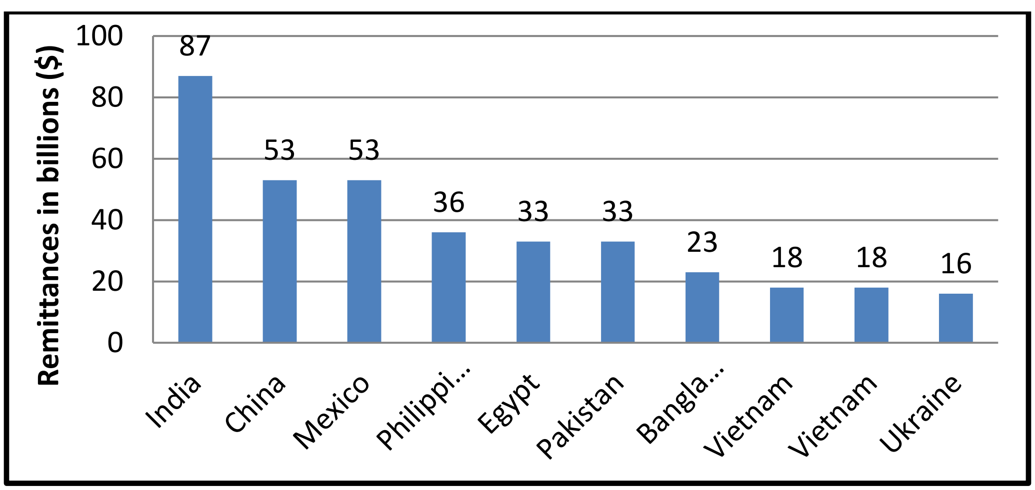


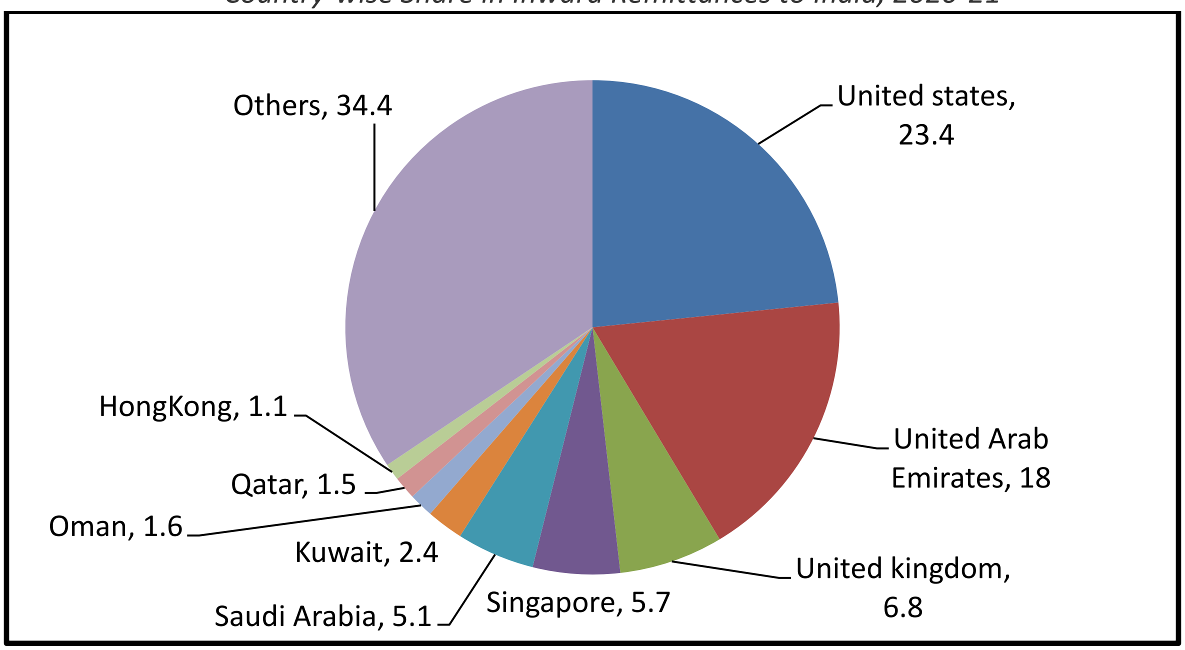
Figure 5:

High Remittances Receiving Countries in World, 2021 (US $)

Source: World Bank, 2021

According to World Bank estimates, 2021, India tops in remittance received from the abroad about 87 USD billion in 2021, followed by China, Mexico Philippines, and Egypt. It's almost contributing 4 per cent of India national GDP.

Country-wise Share in Inward Remittances to India, 2020-21



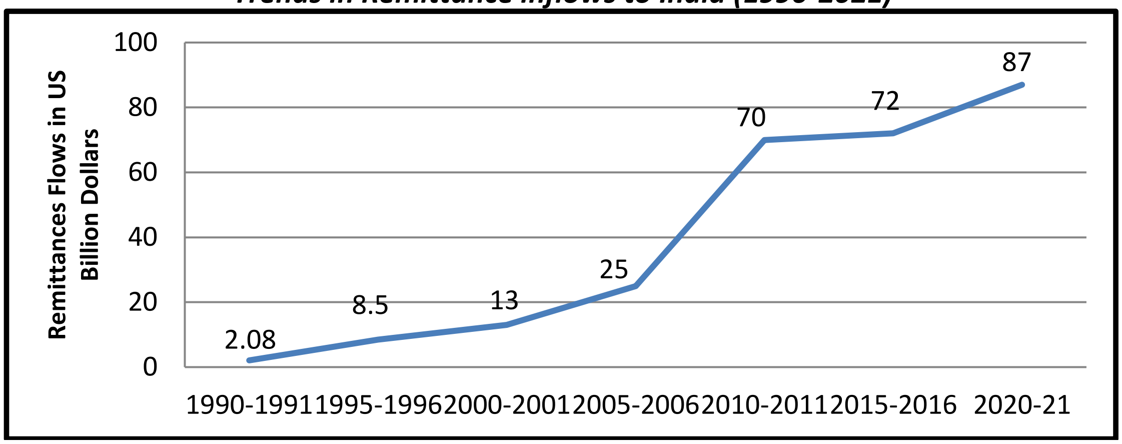
RBI Bulletin, 2020

Trends in Remittance inflows to India

India received a total of $87 billion in remittances for fiscal year 2021. Remittances to India have traditionally come primarily from the Gulf region, with the United States accounting for just over 15%. There has been a shift, however, in recent years. United States contributions to the total foreign inflow were 23%, more than those of the United Arab Emirates (18%). (RBI, 2022) Changes in employment and economic conditions in host countries are responsible for this reordering. However, due to slowing economy, falling oil prices, and tightening labour rules, the number of emigration clearances provided by Gulf countries to unskilled and semi-skilled employees has been on the decline since 2015. High-skilled white-collar workers have been driving migration to more developed economies like the United States, the United Kingdom, and Canada. The RBI report from 2022 indicates that this is good news for India's incoming remittances. From more than 53% in 2016-17 to less than 29% in 2020-21, the Arabian Gulf's share of India's remittances has decreased.

To help small firms pay their workers, the United States implemented many wage subsidy schemes during covid-19, such as the paycheck protection programme. The Indian diaspora was also able to better assist family members back home through individual cash remittances.

Trends in Remittance inflows to India (1990-2021)



RBI Bulletin, 2020

Since the 1970s, India has received the bulk of its remittances from two major waves of migration. The first is that the oil boom of the mid-1970s prompted a mass migration of unskilled workers to the Gulf, where they have been in high demand to help construct infrastructure and fuel economic growth. The vast majority of migrants were solitary people who had to leave their families behind and who used their earnings to support those left behind and to invest in their future (Nayyar, 1994). The change in patterns of emigration has led to a significant shift in the source regions of remittances to India. According to RBI, North America has replaced the Gulf states as the most important source for remittances. (Jadhav, 2003; RBI, 2006). Added to this, the growth of remittances in the 1990s attributed to globalisation resulting from the liberalised policies of the government during growing efficiency among commercial banks and money transfer units, the promising profile of recent emigrants could trigger the healthy inflow of remittances to India. A significant factor contributing to the remittance surge is simply the increased use of official channels for remitting money. Prior to 1993, the government of India strictly regulated the exchange rate of the Indian rupee, creating huge incentives to transfer money through informal, unregulated hawala networks. (RBI, 2006). Furthermore a rise in oil prices increases remittances to India. Since a larger share of migrants from India is in GCC countries, the oil price rise can increase their ability to send more money home.An estimated $4.6% increase in remittances to India in 2021 brings the total to $87 billion, reversing the flat trend seen in 2020. Remittances from the Gulf Cooperation Council (GCC), which account for about 20% of India's total, and the improving economy in the United States both played significant roles, especially in 2020 (World Bank, 2021).

Conclusion

India has certainly maintained a high level of remittances. Government and banking policy actions have yielded two key effects. To begin, most remittances are routed through legitimate channels. Second, a growing proportion of remitters are transitioning from pure "savers" to "investors."The regularity with

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which remittances are received reveals a strong bond between the diaspora and their home nation. Their contribution, however, might be expanded beyond the immediate assistance they provide to their family through remittances. Global lessons imply a link between emigration and local growth. The funds of the diaspora can be used to improve local economies and promote the integration of small communities into the larger national economy.

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