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THE IMPACT OF WORKERS' REMITTANCES ON ECONOMIC DEVELOPMENT OF PAKISTAN

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Abstract

This study endeavors to give a logical response to the vital economic issue of whether workers' remittances added to economic development in Pakistan amid the period 1980 to 2010. The quantitative evidence demonstrates that workers' remittances had all the earmarks of being a critical wellspring of economic development. It has been suggested for policy suggestion that Pakistan ought to empower and rouse the stream of workers' remittances and embrace such arrangements that demand remitter to mail cash through appropriate channel so that these streams can be used better for economic development and growth.

Introduction:

Cash inflows are the workers' remittances originating from remote nations as a result of outside workers' transferring or remitting cash to their habitat. These wealth inflows have been growing rapidly in developing nations. The historical conditions of exchanging money by foreign workers to their residence are exceptionally noteworthy and can't be ignored as these remittances have influence on economic development. Various researches have been directed recently to discern the effect of remittances on economy and still there is a blend supposition about the association of workers' remittances and economic development.

Workers' remittances assumed a vital part to upgrade economic development. As contrast with other outside capital inflows (Foreign Loans, Foreign Direct Investment and Aids) workers' remittances are regard as a solid source to help economic development in view of their steady nature. The streams of workers' remittances in emergent and developed nations are becoming quickly in optimistic bearing. The workers' remittances exchanges through right channels have come to $440 billion in 2009.

Workers' Remittances influence economy in developing nations yet remittances are not the procedure for reasonable development in light of the reality that the majority of the remittances are depleted on consumption rather on sparing and speculation in this manner government ought to break the cycle of reliance on remittances for development and growth (Vogiazides, 2008). Workers' remittances can be used efficiently to guarantee economic development (Jawaid & Raza, 2012). Workers' remittances and wealth inflows are great just for long run economic development nations ought to expand exports rather than workers' remittances (Waheed & Aleem, 2008).

Pakistan is known for its workers' remittances and lofty migration as other development countries. It is contended that this lofty migration is the consequence of poor economic states of the nation in light of the fact that the country is confronting such a large number of issues like joblessness, absence of education, inflation, poverty, and bombing and so on. The common inhabitants of Pakistan are relocating to outside nations looking for occupation and to modify their prospect for everyday comforts. It is likewise contended that because of the irregular situation of joblessness, people are moving to another countries to acquire the employment for their children and brain drain is the issue created by this unemployment.

Pakistan is the seventh crest displacement nation with 4.7 million emigrants and eleventh top remittance getting nation with 9.4 billion USD (World Bank, 2011). Workers' remittances have been vital wellsprings of outside trade for a considerable length of time and these remittances are giving backing to the adjustment of installment as well as aiding in poverty decline and financial development through various ways (Pakistan Economic Survey, 2011–2012).

Observing in every one of the truths, significance and criticalness of workers' remittances, this work will recognize the affiliation between economic development and workers' remittances. The effect of workers' remittances on economic development of Pakistan's economy by examining time series data of thirty one years (1980 to 2010).

Stracture of the paper:

This paper comprise of seven sections taking after introduction, section two comprise of some literature, section three comprise of problem statement, section four comprise of modeling framework, section five comprise of results and interpretation, section six comprise of conclusion and gives some policy implications, section seven comprise of a few restrictions of the research furthermore give a few headings to further research.

Literature Review and theoretical background:

Jawaid & Raza (2012) assemble the statistics of seven years of 113 nations to inspect the relationship amongst remittances and economic development and presume that there is direct relationship between workers' remittances and economic development. It was additionally distinguished that workers' remittances are causative more in high income nations. Jongwanich (2007) utilizes the GMM to look at the relationship of economic development and poverty with workers' remittances. Yearly information from 1993-2003 of 17 developing Asia Pacific nations have been utilized. Outcome proposes the critical positive effect of workers' remittances on poverty diminution. Then statistically positive relationship is found between economic development and workers' remittances.

Siddique et al. (2010) directed a significant study on remittance and economic development on south Asian nations i.e. Sri Lanka, Bangladesh and India, and after investigation they found that remittances have a significant impact on economic development. In Bangladesh remittance is not the reason for economic development and same is the situation with India where causal connection is found between remittance and economic development however in Sri Lanka, a two way causal relationship is found among remittance and economic development. Irfan (2011) inspected the study on remittances and poverty linkages in the wake of dissecting data from 1975 to 2009, acknowledged that GDP is the element with remittance which rapids poverty reduction and economic development.

Error correction model is used by Ahmed et al. (2011) to research the effect of workers' remittances on economic development in both short and long run. Yearly time series information from 1976 to 2009 have been utilized. He suggested that workers' remittances have noteworthy positive effect on economic development in both short and long run. Yasmeen et al. (2011) utilize the yearly time series information of period from 1984 to 2009 of Pakistan to distinguish the effect of workers' remittances on private venture and total expenditure. She found that workers' remittances have noteworthy positive effect on private investment and total utilization.

Karagoz (2009) utilizes the data of Turkey from the period 1970 to 2005 to experimentally recognize the influence of workers' remittances on economic development in long run by utilizing co-integration method. He infers that there is statistically negative and significant relationship between workers' remittances and economic development. ARDL was apply by Qayyum et al. (2008) in a way to discover the relationship between workers' remittances with economic development and poverty in Pakistan. Yearly time series information is utilized from 1973 to 2007. Results recommend that workers' remittance has positive and noteworthy commitment in economic development and poverty reduction. Wakayama (2011) composed a proposition on remittance and GDP development in developing nations and after analyzing the Europe and central Asian nations inferred that there is no association in the middle of remittance and GDP per capita progress along these lines remittance can't state GDP accurately in nations whose share of remittance to GDP as recommended by center.

Problem statement/research questions:

Problem statement:

The high migration rate demonstrates the poor economic states of a nation and this lofty movement is bringing about high workers' remittances in this way it being referred to that are these remittances truly creating economic development.

RQ: What is the impact of workers’ remittances on economic development of Pakistan?

Conceptual framework:

The research design of this study will be extraordinarily impacted by the works of Karagöz (2009). The exploration will try to give a clarification on the connection between workers' remittances and economic development. An illustrative outline will help us give a clarification on the affiliation between workers' remittances and economic development. The study will cover one and only nation, for this situation Pakistan.

This study will depend absolutely on secondary yearly time series information. The information will be gotten from the World Bank database and handbook of statistics. The examination of the information will be completed by OLS (Ordinary Least Squares) technique.

The Estimated model is:

$$GDPPCt = b_0 + b_1 WR_t + b_2 X_t + b_3 RINV_t + b_4 RFDI_t + e$$

Where $GDPPC_t$ is per capita GDP_t, WR_t is ratio of workers’ remittances to GDP, X_t is ratio of exports to GDP, $RINV_t$ is ratio of gross domestic investments (include both private and public sectors fixed capital investments) to GDP, and $RFDI_t$ is ratio of foreign direct investment inflow to GDP. ε_t is error term which includes the effects of omitted factors.

Results and discussion:

Descriptive statistics

Table 1: Descriptive statistics

Variables	Observations	Mean	Standard deviation	Min	Max
GDPPC	31	426.49	18.673	402.18	468.7
WR	31	2.668	1.708	.3814	5.83
X	31	26.30	4.206	20.169	38.90
RINV	31	19.72	3.268	15.00	25.44
RFDI	31	17.01	1.3976	14.48	19.80

From the table 1, the GDP per capita for Pakistan has a mean of 426.49 with a standard deviation of 18.6 over a period of 31 years. From 1980 to 2010, GDP per capita had a maximum value of 468.7 and a lowest value of 402.1. Workers' remittances over the same period had a mean of 2.668 with a standard deviation of 1.7. This variable had a maximum of 5.83 and minimum of 0.38 with 31 observations. Exports had a mean of 26.30 with a standard deviation of 4.26. With 31 observations the variable had a maximum of 38.9 and a minimum of 20.169. Gross domestic investments had a mean of 19.72 with a standard deviation of 3.268. It had a maximum value of 25.44 and a minimum value of 15.00 with 31 observations. Finally foreign direct investment had a mean of 17.01 with a standard deviation of 1.39. It had 31 observations whereby the minimum value was 14.48 and the highest value was 19.80.

Pearson Correlation

Table 2 Correlation Matrix

Variables	GDPPC	WR	X	RINV	RFDI
GDPPC	1				
WR	0.0926*	1			
X	0.9642	0.7625	1		
RINV	0.0491**	0..17***	0.7725	1	
RFDI	0.1410	0.0383**	0.2704	0.0004***	1

The correlation matrix shows the connection of all the variables with each other. The association of employed workers remittances and economic development (WR and GDPPC) is 0.0926 which shows strong positive bond. The association of exports and economic development (X and GDPPC) is 0.9642 and relationship of foreign direct investment and economic development (RFDI and GDPPC) is 0.140 which shows insignificant connection while the association of gross domestic investment with economic development (RINV with GDPPC) is 0.0491 which shows positive association.

Time series Regression Results

Having conducted the necessary diagnostic tests, we regressed real GDP per capita as the dependent variable on the first difference of workers' remittances, exports, gross domestic

investments and foreign direct investments in Pakistan. The regression results are presented in table 3 below.
Number of obs=31, F (7,28)=6.75, Prob>F=0.0001, R-squared=0.5419
The dependent variable is GDPPC:

Table 3 Regression

Variables	Coefficients	Standard Error	t	P>|t|	95% coefficient intervals	
WR	7.8455	1.8190	4.31	0.000	4.10638	11.58463
X	.13312	.6499	0.20	0.839	-1.202936	1.469182
RINV	3.6944	1.1133	3.32	0.003	1.405877	5.982947
RFDI	2.1447	2.4355	0.88	0.387	-2.861567	7.150966
CONS_	292.69	44.566	6.57	0.000	201.0846	384.2985

From the Table 3 depicting the OLS regression results, the F statistic is 6.75 with a P value of 0.0001 implying that the independent variables, that is, Workers' remittances, exports, gross domestic investments and foreign direct investments jointly explains the dependent variable, GDP per capita.

The R squared which is a measure of goodness of fit is 0.5419 and a root mean standard error of 15.464 implying that 54.19 percent of the variations in the real GDP per capita are elaborated by the independent variables; Workers' remittances, exports, gross domestic investments and foreign direct investments.

We found a positive and profoundly huge relationship between workers' remittances and real GDP per capita, demonstrating that high economic development is connected with higher remittances. The coefficient of Workers' remittances, 7.8455, is significant with a P estimation of 0.0000 inferring that a one unit change in the rate of workers' remittances to GDP will cause 7.8455 unit change in Pakistan GDP per capita. These outcomes appear to bolster the discoveries of different studies like Nyamongo et al (2011), Fayissa and Nsiah (2010) and Iqbal and Satter (2005) who likewise found a positive and huge effect of Workers' remittances on economic development.

Our outcomes show that exports have positively affected economic development yet its effect is statistically insignificant. This could be clarified by the way that the exports environment in Pakistan is not helpful and that the ease of working together is low because of corruption, political instability and different other issues.

We found a positive and noteworthy relationship between Gross domestic investment and Economic development in Pakistan. The coefficient is 3.6944 as appeared in table 3. This infers a one unit change in the rate of Gross domestic investment to GDP will cause 3.6944 unit change in Pakistan GDP per capita. Foreign direct investment has a positive sign and does not have noteworthy effect on economic development.

Conclusion and policy Implications:

In this article we explored the effect of workers' remittance on economic development. This study is incorporated through time series data and empirical regression and correlation are being applied as statistical techniques. it is recognized that workers' remittances have impact on economic development of Pakistan and there exists a statistically significant positive association between workers' remittances and economic development of Pakistan. besides all of the negatives of lofty migration and the elements which are bringing on high movement like poor financial conditions, joblessness, poverty and so on it is suggested that Pakistan ought to make strategies that support and spur the inflow of remittances through legitimate channel since a few remittances are still sent through hundis because of non-well disposed approaches. Pakistan ought to use these inflows of remittances effectively for economic development and expansion. Pakistan ought to concentrate on these remittances as these are a wellspring of economic development as well as these remittances are decreasing poverty and also these remittances are a noteworthy wellspring of foreign trade and beating the issue of balance of payment. On the off chance that these remittances are used legitimately in productive way these could help in beating the issue of brain drain and lofty migration and the successful usage of these remittances can aid in accomplishing practical development.

Suggestions:

Relationship ought to be used effectively

01. Pakistan ought to use these inflows of remittances effectively for economic development and growth as well.

02. Pakistan ought to concentrate on these remittances as these remittances are a wellspring of economic development as well as these remittances are decreasing poverty too.

03. These remittances are a noteworthy wellspring of foreign trade and conquering the issue of balance of payment.

04. On the off chance that these remittances are used legitimately in productive way these could help in beating the issue of brain drain and lofty relocation and the viable usage of these remittances can aid in accomplishing maintainable development.

Direction for Future Research:

This research has been directed on time series data of thirty one years just of Pakistan economy by expanding the information (no of years) it can be approved further. A similar study can likewise be directed by utilizing the information of the developing nations i.e. Pakistan, India, Bangladesh, Sri Lanka, and so forth to recognize and accept the effect of remittance on economic development broadly. Further researches can be directed on the effect of workers' remittance on poverty reduction, savings, and balance of payment, education, health, investment and livelihood standards to recognize the general significance and centrality of workers' remittances.

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