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The Impact of WorkersôRemittances on Private Investment and Total Consumption in Pakistan

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Abstract

To check the two Objectives of the study one exploring the impact of work remittance on economic growth and second is Impact of work remittance on private investment and total consumption, 25 yearsôtime series data collected from the Economic survey of Pakistan for the time 1984-2009. The methodology used for the analysis, is Regression model so for regression we have used OLS (ordinary least square model).the work remittance has positively related with the Private investment and total consumption which results increase in GDP and economic growth of Pakistan. This research favor the study of Burki (1991),Ahmad(1986), Charless (1989) Adam(1998) and Darry (2005) this research may be helpful for other low income countries, they can analysis the Workersôremittances impact on Private investment and Total consumption of their countries to encourage the workers remittance. Developing countries may request to developed countries to soft police for work

remittance in favor of their countries. This might boost their TC and PI which boost up the economy.

Keywords: Work remittance, total consumption, private investment, Pakistan and other developing countries, economic growth

1. Introduction

Remittances are transfers of money by foreign the workers to their home counties. Remittances are basically foreign exchange which is remitted through those individuals who are living abroad to their own countries. The different channels through which remittances are sent consist on commercial banks, the hundi market, direct imports of consumer goods on visits home or by family and friends and through other informal channels also. If we talk in general, there are two reasons for remitting money to home: for the aim of consumptions by dependents and for savings in parent country.

Remittances are transfers of money by the foreign workers to their home countries. Remittances contribute not only standard of living but also boost up the economic growth and to the livelihoods of needy people worldwide. Moreover, remittance transfers can also promote access to financial services for the recipient and sender, thereby increasing financial and social inclusion.

There remittances have a positive influence on Pakistanϕs economy through enhanced balance of payments position and decrease dependence on external borrowing. Important flows of remittances also assisted Pakistan to recover from the adverse effects of oil price shocks, decrease the unemployment problematic issue, and improved standard of living of recipient households.

A number of researchers have debated that even if remittances are totally spent on consumption of domestically produced good, imported goods and services, there is still advantage to the receiving countries. In the past, slight attention had been focused on the query of the effects of remittances on Pakistanϕs development. Additional, the collapse of world oil prices after 1983 and the completion of foremost infrastructural project also decline the demand for Pakistani workers in the Middle East. During the early of 1990s, the Gulf crisis (i.e. invasion of Kuwait via Iraq) also affected export of Pakistani employees to the Middle East. According to an estimate, more than 100 thousand Pakistanis come back from Kuwait due to the Gulf crisis. In the late 1990s, the Gulf situation, yet, improved and Pakistani employees at an average of 109 thousand per annum went abroad.

Pakistan received a significant amount of workers remittances during the last three decades, which are sent by millions of Pakistanis working in a foreign country. For capital deficient countries, like Pakistan, workers, remittances are considered a vital source of foreign exchange.

Remittances are playing increasingly large role in the economies if many countries, contributing to economic growth and to the livelihoods of needy people (though generally not the poorest of the poor). For example remittance receivers often have a greater propensity to own a bank account, remittance endorse access to financial services for the recipient and sender, an essential aspect of leveraging remittances to stimulate development. There are two Objectives of the study one exploring the impact of work remittance on economic growth and second is Impact of work remittance on private investment and total consumption.

2. Literature of review

Siddiqui and Kemal (2002) using 1993 HIES data, concluded that the decline in remittance inflows is a major contributor in explaining the increase in poverty in Pakistan. Aldeman (1996), using five yeas panel data for rural Pakistan, found that remittances were invested in land and buildings.

Burki (1991) concluded that workersô remittances have positive economic and social effects on live hoods and household receiving incomes from the Middle East.

Darry (2005) has analyzed remittances are an essential source of exchange earnings for low income countries. Current models emphasize the potential disincentive effects of intra-family transfers on work struggle and investment (see Chami et. Al. 2003). This paper highlight the model in which remittance to poor households can improve growth, decrease inequality and increase school enrollments. Panel estimates for 62 countries help the sum of their hypotheses. Remittances do seem to have larger impacts on poor and unequal states.

Effects of Remittances on Developing Countries On balance, remittances benefit developing countries. Maximum observers have resulted that on balance remittances are beneficial to developing countries. An obvious advantage is that a portion of most funds sent to home countries goes in the direction of the welfare and enhanced livelihood of the families receiving them. The recipients usually spend the funds on necessities like as health, education, food, and clothing. Remittances are also infrastructure in developing countries and financed in businesses -e.g., a $10 million hospital in Touba, Senegal, a fresh international airport in India, Kerala, and a metal bridge in jomulquillo, Mexico. Remittances may support to developing countries cop with improve their credit ratings, help raise external financing and economic crises.

Remittances may take four kinds: **(1) Potential Remittances;** are the savings obtainable to the migrant once all his expenses are met in the host country. **(2) Fixed Remittances;** is the smallest amount a migrant sent to fulfill his familyôs basic needs. **(3) Discretionary Remittances:** Is what the employeesô remittance over and above the fixed amount sent either by the official or unofficial channel. **(4) Saved Remittance:** are those retained savings are the amount not remitted. The employee can accumulate and remit them at any time.

3. Private Investment.

Private investment is considered as the engine of a long-run sustained economic growth. The strong positive association between investment and growth performance is a wll-established empirical fact in a number of recent studies, which show that the higher rate of investment (represnting an increase in physical capital stock) leads to higher rate of economic growth. For example, Clements, Bhattacharya and Nguyen (2003), Khan and Kumar (1997), Easterly (1993), Easterly and Rebelo (1993), barro (1991) , and khan and reinhart (1990) found that increasing rate of physical capital leads to higher rate of economic growth.

4. Gross Domestic Product.

The gross domestic income (GDI) or gross domestic product (GDP) is one of the measures of national income and input for a given countryȏs economy.

4.1. Measuring GDP

The maximum common approach to measuring and quantifying GDP is the Expenditure method.

GDP= gross investment consumption + government spending +

(Exports -Imports), or, DP = I +C+G+ (M -X).

The analysis based on the secondary data. It, is a 25 years time series data. The date has been collected from the Economic survey of Pakistan for the time 1980-2009. The methodology used for the analysis is Regression model so for regression we have used OLS (ordinary least square model) This time series data is based on following four variables GDP, Total consumption, private investment and worker remittance.

The relationship between the dependent and independent is following:

$PI= ɓ_0+ ɓ_1 X_1+ ɓ_2 X_2+\varepsilon i$
(Model 1)

$PI= 18535.617+ 5.243 X_1 + ɓ_3 7.1012 X_2+\varepsilon i$ (Model 1*)

$TC= ɓ_0+ ɓ_1 X_1+ ɓ_2 X_2+\varepsilon i$
(Model 2)

$TC= 47060.311+X_1 6.314+ .786 X_2+\varepsilon i$ (Model 2*)

PI= private investment, TC=Total consumption, X_1worker remittance and X_2=gross domestic product

As per above regression model 1 shows that Private investment depend positively on both the gross domestic product and worker remittance .**As per model 2** total consumption positively depend on gross domestic product and worker remittance.

5. Conclusion.

To exploring the impact of work remittance on economic growth and second is Impact of work remittance on private investment and total consumption, 25 yearsô time series data collected from the Economic survey of Pakistan. The methodology used for the analysis, is Regression model so for regression we have used OLS (ordinary least square model) the quantitative evidence shows that private investment is positively related to gross domestic production. Workerôs remittance appeared to be the third important source of capital for private investment in Pakistan. This finding suggests that right policies can channel remittance flows into more productive investment activities in the future. In the absence of workersôremittances, it was likely that exchange rate, monetary and fiscal policies could have come under great pressures. As a policy matter, the government should provide attractive investment opportunities to attract more remittance flows. Policies need to be devised to bring most remittance through formal banking channels. Similarly, other sources of capital like private investment contributed positively to output growth. In short, we found a positive and highly significant relationship between workersô remittances, real GDP and private investment and total consumption implying that higher remittances are associated with higher economic growth. The higher rate of private investment leads to higher rate of economic growth in Pakistan. There are two key finding from the literature review. Firstly, remittances seem to have a positive but marginal impact on private investment in Asia and the Pacific countries through the improvement of domestic investment and human capital. Secondly, remittances have a significant direct impact on poverty reduction through increasing income, smoothing consumption and easing capital constraints of the poor.

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