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TRENDS AND PATTERN OF REMITTANCES FROM ABROAD TO INDIA

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Abstract

India has been largest recipient of remittances for long time. Remittances play important role in economic development of any country particularly under developed and developing countries because it is an important and stable source of foreign exchange reserve and external finance. Apart from minimising gap between demand and supply of capital, it also facilitates consumption of different kinds of goods and services to migrants` households. This paper broadly tries to analyse change in trends and patters of inflow of remittances in India and changes in source of Indian remittances over period of time.

Keywords: Remittances, Migrants, Emigrants, Exchange rate, Dollar regions, Sterling area.

1. Introduction

India has been the largest recipient of remittances in the world for a long time. According to the World Bank report of 2016, total inflow of remittances in India was 62.7 billion dollar followed by China with 61 billion dollar. This report also shows that Inflow of remittances to India constitutes around 12% of total remittances around the world and around 4% of total GDP of India. However, recent data on remittances flow shows a decline in inflow of remittances to India and China where it has gone down from \$70.4 billion in 2015 to \$ 62.7 billion in 2016 in case of India and \$ 64.1 billion in 2015 to \$61 billion in 2016 in case of China.[1] However, the remittances in India continued to be an important and stable source of external finance and foreign exchange reserve. According to the Ministry of Overseas Indian Affairs report (2015), 25 million Indian Diasporas living in rest of the world have sent remittances to India.

Remittances are that portion of international migrants' earnings which is sent back from the country of employment to the country of origin. International Monetary Fund (IMF)

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[1]Conservative policies of USA government and recessionary pressure in source region of remittances are the main reason for decline in remittances to India

maintains the record of inflow and outflow of remittances around the world. Apart from IMF, The Reserve Bank of India also maintains the records of inflow of remittances in India. However, the amount of remittances calculated by the RBI and the IMF is completely different because of conceptual differences. The RBI defines remittances as the sum total of three components i.e. inward remittances from Indian workers abroad for family maintenance etc, local withdrawal/redemption from non-resident deposits and gold and silver brought through passenger baggage. The IMF underestimates these inflows by classifying remittances routed through local withdrawal/redemption from non-resident deposit account under `other current transfers`. Remittances reported by the RBI or the World Bank confirms the value of remittances through formal channels only and hence underestimates the actual flow because migrants also remit their earnings through informal channels like hawala. Inflow of remittances around the world through informal channels is around 10 to 50 percent of total remittances (Puri and Ritzema 2000; El-Qorchi 2002). There may be decline in inflow of remittances through informal channels because of better use of technology and efforts of several governments to crack down money laundering through informal channels (Rath 2005).

Remittances have been one of the important and stable sources of external finance for developing countries. For example, while there was decrease in FDI and official capital flows to Asian countries in 2000-01 after the Asian financial crisis of 1997, there was increase in inflow of remittances to Asian countries during same time (Rath 2005). Even if we assume that the main purpose of sending remittance is investment, the emigrants are more likely to continue to invest in their home countries despite adverse economic conditions than foreign investors (World Bank 2001).

Remittances enhance income and foreign exchange reserves of the recipient country. If remittances are consumed, it increases employment and national income through multiplier effect and if remittances are invested, they propel growth (Arnold 1986). The benefits of remittances are more than its costs for developing countries. For example, the net fiscal loss because of emigration of Indian workers to the USA was estimated at 0.24 to 0.58 percent of Indian GDP in 2001 while inflow of remittances in India was amounted to be at least 2.1 percent of GDP for same period (Desai, Kapur and MacHale 2001). In case of emigration of unskilled and unemployed labourers, inflow of remittances to developing countries is clearly a net gain. In a country like that of India especially, inflow of remittances have offset the loss of human capital caused by emigration and have enhanced the per capita income of such countries (Jadhav, 2003). In addition to it, remittances have been proving to be counter cyclical at the time of any kind of economic problem at home countries of migrants (Gupta, 2005, Ratha, 2007 and Chami, et al, 2008). However, it cannot be generalized that remittances have been counter cyclical for labour sending countries because it depends on the condition of economic activities in the home countries and their individual characteristics. While remittances have been counter cyclical for countries like India and Bangladesh, it has been pro cyclical (increase in inflow of remittances at the time of good economic conditions) for countries like Jordan and Morocco (Sayan 2006).

In Indian context, the first important attempt to measure the impact of labour emigration from India to rest of the world was done by Nayyar (1994). In his study he found that financial flow in the form of remittances have been significant in terms of balance of payments which was supported by another study (Jadhav, 2003). There are several determinants of inflow of remittances in India out of which level of economic activities in the home countries is significant (Gupta, 2005). Being the largest recipient of remittances in the world for more than two decades, India has drawn the attention researchers and policy makers mainly after reform period because there was not only significant jump in inflow of remittances in India, there was also a change in source regions of Indian remittances after that. This present study is an effort to explain the factors that caused substantial jump in inflow of remittances in India and to track the changes in source regions of remittances in post reform period and hence it attempts to supplement existing literature on inflow of remittances. This study also aims at providing some kind of inputs to government for maximizing inflow of remittances in India because it is expected that there will be increase in working population and emigration from India in near future. Therefore, the main objectives of this paper are following-

- To trace top remittances recipient countries in the world together with top source of remittances in the world.
- To find out factors affecting inflow of remittances with special emphasis on relationship between exchange rate and inflow of remittances.
- To find out change in trends and patterns of source regions of Indian remittances over period of time.
- To look into policy initiatives this can maximize inflow of remittances in India.

To address the questions raised, this article is organized into five sections. Section 1 introduces the topic of remittances in India. Section 2 deals with the methodology and sources of the data for the study. Section 3 deals with main source of remittance worldwide and its top recipients. Section 4 contains analysis of factors affecting inflow of remittances while section 5 have detailed analysis of change in trends and patterns in source regions of Indian remittances. Section 6 deals with mode of transmission of remittances and section 7 is about conclusion.

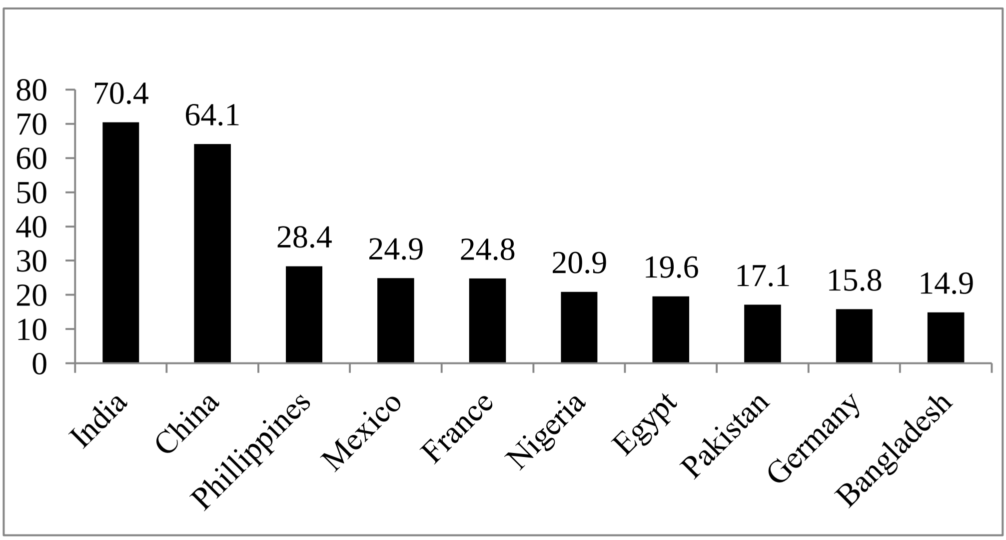
2. Data and Research Methodology

This paper is totally based on secondary data. Change in 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. Two axis graph were used to trace the relationship between the exchange rate and inflow of remittances in India. The current study confines to graphical analysis of trend of remittances in India and the study also uses tables to illustrate the remittances.

3. Source and Destination of Remittances around the World

World Bank report on Migration and Remittances 2016 shows that international migrants have sent $601 billion to their families in their home countries during 2016 out of which $441 billion (73.37%) went to developing countries. While USA has been largest source of remittances since long time, India is the largest recipient of remittances. For better and broader understanding we can have a look on the top ten recipients of remittances in the world in following diagram-

Figure 1: Top Ten countries Recipients of Remittances ($ Billions)

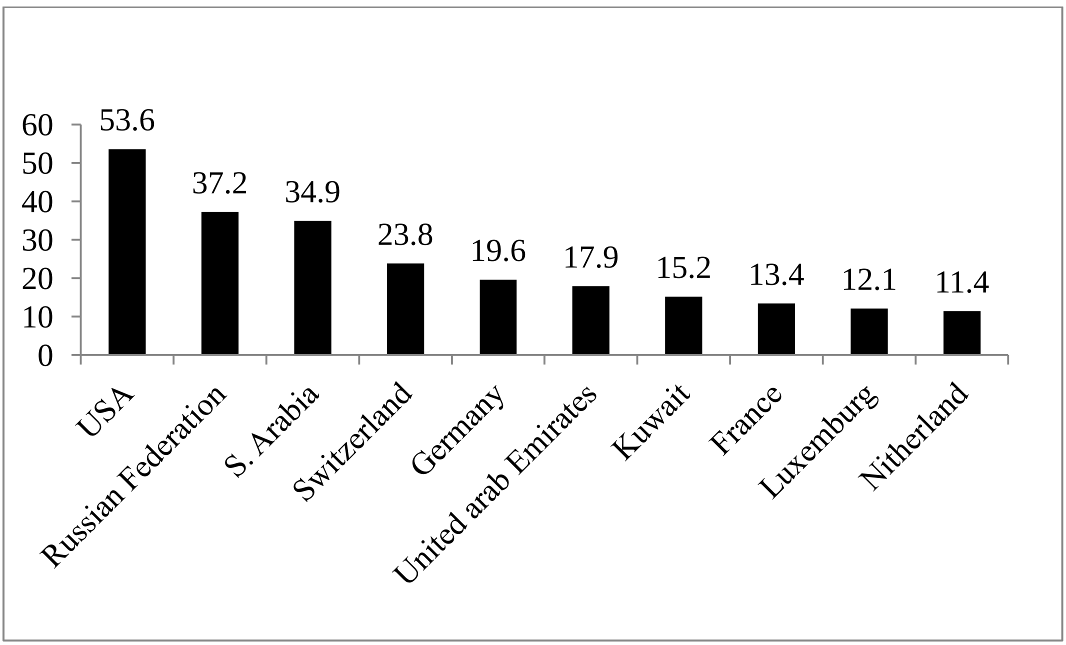


Source: World Bank, 2015

Broadly speaking, remittances reflect the monetary dimension that exists between the migrant Diaspora and the home countries. The main source regions of inflow of remittances for India are the United States of America, some countries of the Middle East Asia, the United Kingdom, Australia and some countries of Europe. A major chunk of total remittances in India comes from those workers who went for a short period of time and who were at the lower end of the income scale before their departure, as they have more incentive to remit their income.

USA and Gulf countries have been major source of remittances around the world. In recent years, Russian Federation has also emerged as an important source of remittances. The top ten sources of remittances in the world in recent time can be seen in following diagram-

Figure 2: Top Ten source of Remittances in the world-2015 ($ billions)



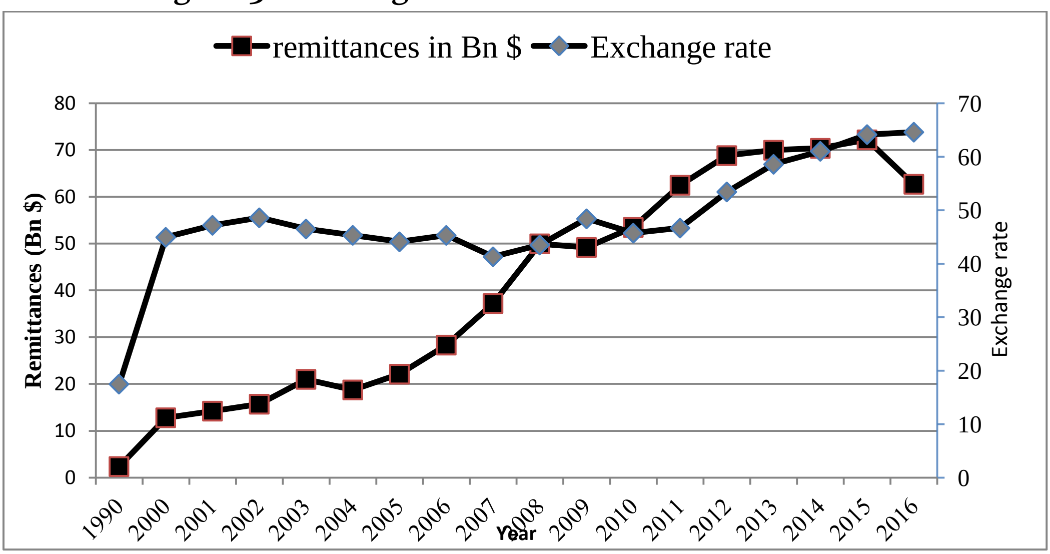
Source: World Bank, 2015

According to the report of the World Bank 2015- USA, Russian federation and Saudi Arabia are the largest source of workers' remittances in the world followed by Switzerland, Germany, United Arab Emirates, Kuwait, France, Luxemburg and Netherland.

4. Factors Affecting Inflow of Remittances

The size and frequency of total remittance flows is determined by several factors, such as the number of migrant workers, wage rate, economic activity in the host country, exchange rates, political risk, facilities for transferring funds, marital status, level of education of the migrants, whether or not they are accompanied by dependents, years since out migration, household income level, relative interest rate between labour-sending and receiving countries, nature of migration, etc. Some factors like the number of migrant workers, wage rate, educational level of migrants and economic activities in the host countries are directly related to the inflow of remittances in the labour sending countries. In other words, as the number of migrant workers increases, it will add to the existing amount of earning abroad and thus there will be an increase in inflow of remittances. Similarly as the wage rate increases, the earning capacity of workers will go up and hence remittances will increase. Likewise, when there is a boom in the host economy, labour demand and wage rates may go up which will ultimately result in increased amount of remittances. On other hand, there is likely to be an increase in the inflow of remittances if there is depreciation in the exchange rate of domestic currency. There is strong and positive relationship between exchange rate depreciation and inflow of remittance. However, there are some factors like political factor which causes some kind of hindrance in origin of remittances at place of destinations by reserving jobs for local. It can be seen in following graph-

Figure 3: Exchange Rate and Inflow of Remittances



Source: World Bank (remittances) and RBI (for exchange rate)

Though there is clear direct relationship between inflows of remittances and exchange rate depreciation for most of the years, there were some years like 2005 where there was increase in remittances when there was appreciation in domestic currency which can be attributed to factors like increase in number of migrants, increase in wage, etc. and 2016 in which there was decline in remittances in spite of depreciation in domestic currency which can be mainly attributed to protectionist move of newly elected president of USA and recessionary pressure in some other countries.

Likewise, if there are more and better facilities of remitting income accompanied by cheap and speedy transmission of money, if the migrant is married and his or her spouse, children and other dependents live in the country of origin, if the country of origin maintains higher interest rates and if the migration is temporary. With long term or permanent migration, there will be less or no incentive to remit earnings and hence there are chances of reduction in the inflow of remittances.

5. Trends and Patterns of sources of remittances in India

Remittances from overseas Indians have increased from around $ 3 billion in 1991 to $ 70.4 billion in 2015 which has recently declined to $ 62.7 billion in 2016. Workers' remittances are recorded under current private transfer by the thumb rule associated with labour whose actual or expected stay in the host country is for more than one year. However, if the period of residence is 11 months and 29 days, the earnings associated with same migrant labour enter the income account under 'compensation of employees'. By the same logic, labour earnings associated with a 13-month stay cannot find place under labour income and have to be relegated to unrequited transfers. As mentioned above, in India, workers' remittances comprise remittances towards family maintenance, as well as repatriation of saving which is in turn distinguished from capital transfers which involves transfer of ownership of fixed assets and forgiveness of liabilities by creditors. Since 1997-98, the official statistics have clubbed these disaggregated entries in to a general head `inward remittances from Indian workers abroad for family maintenance, etc'. A substantial portion of workers' remittances of small amounts is estimated on the basis of quarterly surveys.

With the institution of the market-determined exchange rate regime and current account convertibility in the early 1990s, workers' remittances recovered from the stagnation of the second half of the 1980s to cross US $ 8 billion by the late 1990s. As the premium commanded by the unofficial exchange rate declined significantly and trade and payment restrictions eased, workers' remittances started being channeled through the formal route in different forms. For example, with the liberalization of bullion imports (by allowing gold to be brought in as baggage by returning Indians with a nominal customs duty), remittances took the form of gold and silver which rose from US $ 1 billion in 1992-93 to nearly US$ 3 billion before being absorbed by the full relaxation of bullion imports under open general license. Another route of inward remittances from workers has traditionally been through local withdrawals from deposit accounts offered to NRIs.

Remittances in India's balance of payment statistics have traditionally been compiled on the basis of the currency areas of the post war period. Since the mid-1990s, the dollar area has emerged as the most important source of workers' remittances overtaking the traditional source the Sterling area. In the Sterling area, remittances from UK were dominant up to the end of the 1960s. Thereafter, remittances from the gulf region became important till the early 1990s. Since then, the inflow of remittances in India has been dominated by the Dollar area. We can see following table for better understanding of change trends and patterns of source of remittances to India.

Table 1: Source Region of Remittances to India: 1970-1997
(share in percent)

Year	Sterling Areas	Dollar Areas	OECD	Rest of non-sterling Areas	Total
1950-51	87	11.8	-	1.2	100
1970-71	45.1	37.7	13.4	3.8	100
1990-91	46.6	23.8	12.8	16.7	100
1993-94	52.57	25.3	11.4	10.7	100
1994-95	53.2	28.8	9.4	8.5	100
1995-96	52.6	30	10	7.4	100
1996-97	34.7	51.3	7	7	100

Source- Nayyar (1994) and RBI Bulletin 1999

Coverage-

1. Sterling Area- It was constituted in early post-war period following the Bretton Woods agreement and comprises the Commonwealth countries or those at one time were a part of the British Empire. It includes- UK, Ireland, Caribbean Island, some countries in East and West Africa like Kenya, Tanzania, Zambia, and Nigeria, the Persian Gulf countries in the Middle East like Bahrain, Kuwait, Oman, Qatar and UAE, South Asia and South East Asia like Pakistan, Bangladesh, Srilanka, Hong

Kong, Malaysia, and Singapore, Australia, New Zealand and Fiji.

2. Dollar Area- the Dollar Area includes USA, Canada, the Central American countries and few countries in Latin America like Jamaica, Guam, Marshall Islands etc.

3. OECD Area- It includes countries of Western Europe excluding UK and Ireland and including Turkey, Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Italy, Luxembourg, Poland, Mexico, Norway, Portugal, Sweden Switzerland, etc.

4. Rest of the non-Sterling Area- It comprises the remaining countries of the world including socialist countries of Western Europe, most of Latin American countries, a very large part of Africa and the Asian countries outside the Sterling area like Saudi Arabia, Iran, Iraq, Libya, etc.

Since 1997-98, regional statistics on workers' remittances are compiled on a continental basis, replacing the old currency areas. Following table-2 shows that there has been a structural shift in the regional sources during the 1990s and onwards. Remittances from the Middle East countries have slowed down and America and Europe have become important source of remittances for India.

Table 2: Continent wise flow of remittances in India: 1997-2003

(Share percent)

Year	Africa	America	Asia	Europe	Total
1997-98	2.3	37.1	31.3	26	100
1999-2000	1	45.5	31.9	20.6	100
2001-02	4.5	48.2	23	23.4	100
2002-03	0.6	51.1	22	25.8	100

Source- RBI Bulletin 2006

The major source of inflow of remittances in India has been North America, Gulf countries and Europe in post reform period. Contribution of each of the source regions are summarised in the Table 3.

Table 3: Source of inflow of remittance in India (%)

Year	USA	Gulf Countries	Europe	Others	Total
1970	30	5	40	25	100
1980	15	50	20	15	100
1990	20	40	20	20	100
2010	35	35	15	15	100

Source-Chinmay Tumbe, 2012

Most of the remittances coming to India are from USA and the Gulf countries. These regions are source of around 70% of total inflow of remittances in India. There was sudden increase in inflow of remittances from the Gulf countries in decade of 1970s and later on because of boom in the Gulf economies. Countries like United Arab Emirates and Saudi Arabia are main source of inflow of remittances in India from the Gulf countries. There was significant increase in inflow of remittances in India from USA in the decade of 1990s and later on when there was increase in emigration of skilled labour from India to USA. The share of Europe in terms of its contribution to total remittances flowing in India have gone down because of increase in relative share of USA and the Gulf countries. Britain is the main source of inflow of remittances in India from Europe.

6. Mode of Transmission of Remittances

There are two channels through which migrants send their earnings from host countries to the home countries. These are formal channels and informal channels.

a. Formal channels

The formal channel of sending money from abroad include- State banks, Foreign banks, Local banks, Money service businesses and the Post office. Today, India has a large number of nationalized bank branches in urban and sub-urban areas, which facilitates transactions of remittances.

Post offices are also important channels of remitting money to rural India from abroad. To strengthen their presence in the remittances market, post offices are now investing in infrastructure which can facilitate some services like electronic money orders, partnering with the money service business and internet. The potential benefits from postal involvement are substantial. With 154149 postal offices and 554 sorting offices, India has the most extensive postal network in the world. However, its client demand and usage remain low because of limited infrastructure while reliability, credibility and efficiency are essential to succeed in the remittances business.

b. Informal channel

Despite the growth of formal transfer mechanisms, substantial amounts of remittances continue to flow through informal channels, which are outside the purview of government supervision and regulation. Considering the cheap and speedy mode of money transmission, the actual amount of inflow of remittances through informal channels is supposed to be huge. Informal channels include courier services, in kind remittances and hawala (also called hundi or chit fund system) system. These are present all over world and originally developed at a time when conventional banking instruments were either absent or weak. The informal channels such as Hawala offer speedy, low cost, convenient, and accessible services. The convenience of door-to-door collection and delivery services are invaluable to the migrants who work for long shifts and recipient families in communities where financial services are either absent or weak.

7. Conclusion

India is the largest recipient of remittances in the world for long time. Remittances are the most important source of stable external finance and foreign exchange reserve. Once it comes inside domestic territory, it never goes out and can be used as permanent source of capital. Remittances in India are of great importance. It facilitates consumption of goods and services and provides additional source for capital formation. However, there is very limited research on use of remittances by migrants` households particularly in rural areas of India where there is low education and underdeveloped infrastructure. Looking at advantages of India in terms of demographic dividend, it seems that India will be continued to remain top recipient of remittances in the world in future also. Therefore, government should facilitates emigration of Indian labour by advertising vacancies around the world particularly in rural areas, should provide common platforms for potential employees and employers for negotiation, should create more infrastructure for facilitating remitting process through formal channels and should educate emigrants and migrants` households for better and productive use of remittance to derive maximum benefits out of emigration and inflow of remittances.

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