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International Remittance Payments and the Global Economy

Bharati Basu with James T. Bang



ROUTLEDGE



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International Remittance Payments and the Global Economy

International Remittance Payments are described mainly as money sent by immigrants to their families and friends in their home countries. These payments provide an important source of income that is mostly used to provide for a variety of basic needs of the non-migrating members of immigrant families and thus remittance payments can be considered as a tool to reduce the poverty level of the labor sending countries. However, remittances are also used for asset accumulation by some families and for some countries they constitute a good part of foreign funds coming into the country. In spite of their increasing volume over the last few decades, a lot of things about remittances are not known and studies estimate that about half of these money transfers are not even recorded. Since these payments are shown to reduce poverty and help economic progress in the remittance receiving countries, a better knowledge about remittances would help the debates surrounding immigration, remittances and their relation to the global economy.

This book provides an overview of remittances in different parts of the world over the last thirty years. It looks at the labor sending and labor receiving countries separately. The text examines the trends, uses, motivations behind sending remittances, cost of sending them and how they are affected by the nature and the development level of different institutional factors.

The remittance flows are growing over time and they are used mostly for reducing the uncertainty of life in the less developed parts of the world. However, motivation for sending remittances could be improved and thus remittances could be more conducive to economic development if (1) the relation between the remittance decision and the migration decision is better understood and (2) the costs of international money transfers are reduced. More studies about those issues would benefit the international community. Efforts should be made in all fronts to encourage such international flow of funds not only to have a redistribution of income all over the world, but also to synchronize the efforts towards global economic development and a better integration of the world economy. This book is aimed at researchers, policy practitioners and post-graduates studying International Economics or International Economic Relations or Political Science or Economic Development.

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Foreword

Remittances represent the largest flows of the smallest amounts crossing borders and their role in enhancing finances and lives of those living in developing countries is undeniable. However, these remittance flows are not only relevant to the developing countries as one-third of the total volume ends up in developed countries. The scholarship in this field is heavily skewed towards studies on developing countries. This book does a fair job in bridging the two ends of the remittance flows while offering an analysis of the last three decades.

Remittances are the crucial link between migration and development and the total volume of remittances have reached beyond \$500 billion around the world and are estimated to reach \$770 billion within the next three years. About three-quarters of these flows are towards developing countries and they represent a strong competition to foreign direct investment and other financial flows. Hence directly or indirectly, remittances contribute to the development around the world. Besides, social remittances play a substantial role in spreading ideas, opinions and changing attitudes and cultures of consumption.

In some small economies, remittances represent about half of the GDP (e.g., Tajikistan), while the total volume in countries like India is much larger than the FDI receipts. Following India (\$71 billion), China (\$60 billion), the Philippines (\$26 billion), Mexico (\$22 billion), Nigeria (\$21 billion) and Egypt (\$20 billion) are the top recipients. In 2012, we have shown that remittances were resilient to the financial crisis in most parts of the world and argued that reducing the transaction costs would simply help and facilitate development in many developing countries. The high cost of sending money is still an obstacle and encouraging the use of informal channels. However, the overall political will is not there yet. Commercial concerns along with security issues such as money laundering and financing terrorism constitute a barrier for lowering the costs. The financial and human cost of international migration is not helping either. The authors clearly show here that cost of sending remittances simply encourages informal channels. These flows are estimated to be, accordingly, between 25 and 40% of the total flows to low income countries.

Therefore, understanding remittance patterns and behavior in relation to human mobility is ever more important. Basu and Bang present a much-needed effort to link migration history to remittance flows and remittance sending