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THE MIGRANTS' REMITTANCES TENDENCY

This article provides information on the grouping of countries in the world by economic indicators, the trend of migrant workers, major countries that send remittances and developing countries that receive remittances, as well as the share of remittances in counties' GDP. The article also provides a comprehensive overview of the impact of migrants' remittances on the economies of recipient countries as a result of global economic changes. The information in the article is presented in tabular and graphical form.

Keywords: migrant remittances, foreign direct investment, sustainable development, international capital flows, savings.

The economic condition of a country determines the welfare of its population, how well citizens live and what is the role of the country in the global economy. The economies of different countries are built on the manufacture of goods, mining and the provision of services. Many countries have a strong economy and a huge share of GDP in the world, while other countries have developing economies and poor people. In many countries, inequality in the population is clearly visible.

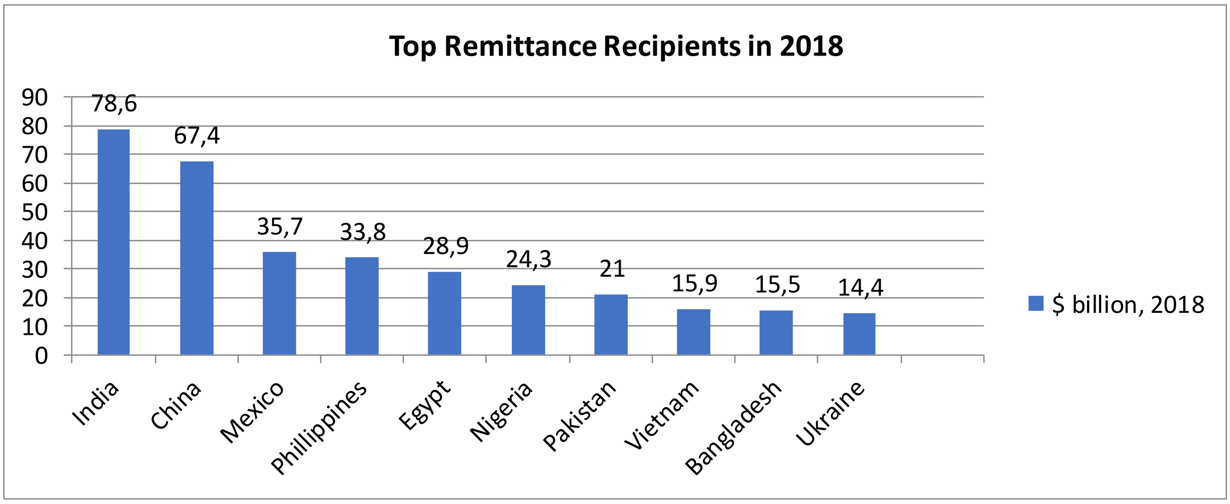
Countries with developed economies include states with a high gross domestic product (GDP) per person, highs standard of living and an even distribution of goods among all citizens. In the economies of such countries, services (education, healthcare, food, recreation, etc.) prevail over agriculture and industry, but highly developed industry provides countries with goods and affects economic growth. Such countries have a modern and high-quality infrastructure.

These countries have economic systems that support sustainable economic growth and prosperity.

Developing countries include those countries that have low gross domestic product and income per person, have some economic dependence on other countries (in terms of the financial system, trade and the need to export resources). Among the economically weak countries are characterized with low levels of economic development and generation of national wealth, the absence of large-scale production and a large share of the population below the poverty line.

The World Bank provides its own classification of countries by average income per person. In this case, countries are divided into 4 groups:

- Low-income countries (less than $ 1,035).
- With a level below the average (more than $ 1,036, but less than $ 4,085).
- With an average level (more than $ 4086, but less than $ 12,615).
- High-income (over $ 12,615). [1]

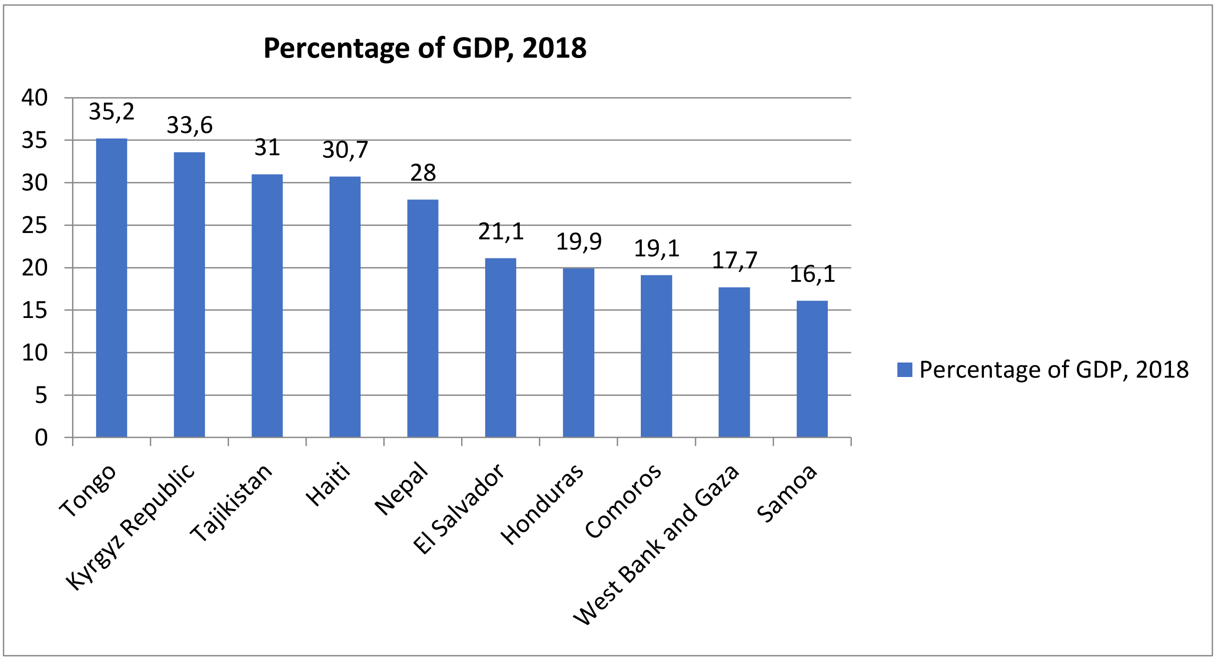


According to World Bank estimates, remittances remain as the main source of external flows of financial resources for developing countries, which significantly exceeds the official assistance provided under the socio-economic development programs [2]. Migrant transfers contribute to the socio-economic situation in their home country. The flow of remittances contributes to the growth of consumption, savings, as well as investments in the education and health of migrant relatives. Household poverty rates in recipient countries are declining. For donor countries, the remittance bonus is associated with attracting additional foreign labor and building up its influence in the countries of origin of migrants. For instance, the World Bank believes that the decline in absolute poverty in Tajikistan from 72% to 53.5%, and in Kyrgyzstan from 50% to 35% for 2003-2007, is also due to the growth in remittances from Russia. [3]

Remittances are now the largest source of foreign exchange earnings in the low-middle-income countries excluding China. They are more than three times the size of official development assistance. Moreover, since foreign direct investment has been on a downward trend in recent years, remittances reached close to the level of FDI flows in 2018. Even in China, remittances were significantly larger than foreign direct investment flows.

In 2018, the top five remittance recipient countries were India, China, Mexico, the Philippines, and Egypt (figure 1). [4] As a share of gross domestic product (GDP) for 2018, the top five recipients were smaller economies: Tonga, Kyrgyz Republic, Tajikistan, Haiti, and Nepal (figure 2).[5]

Figure 2.

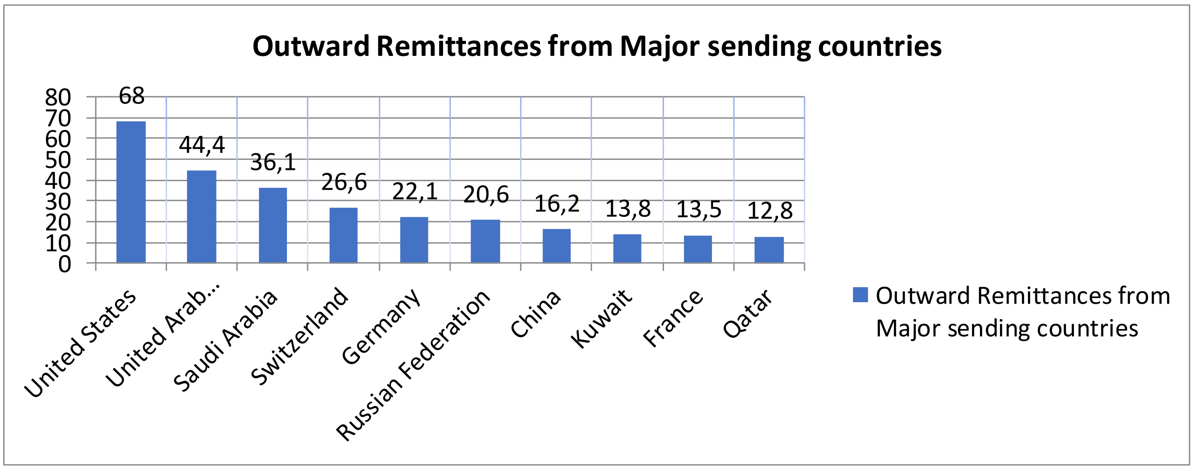


The largest remittance-sending countries are a mix of high-income countries from the Organization for Economic Co-operation and Development (OECD), Gulf Cooperation Countries (GCC), and large middle-income countries. The United States was the largest sender in 2017, recording around $68 billion in outflows, followed by the United Arab Emirates ($44 billion) and Saudi Arabia ($36 billion) (figure 3) [6]. Among middle-income countries, Russia is a large sender ($21 billion), given its sizable immigrant stock from the Europe and Central Asia region, while China also has large outflows ($16 billion) owing partly to amounts paid to expatriates working for multinational enterprises.

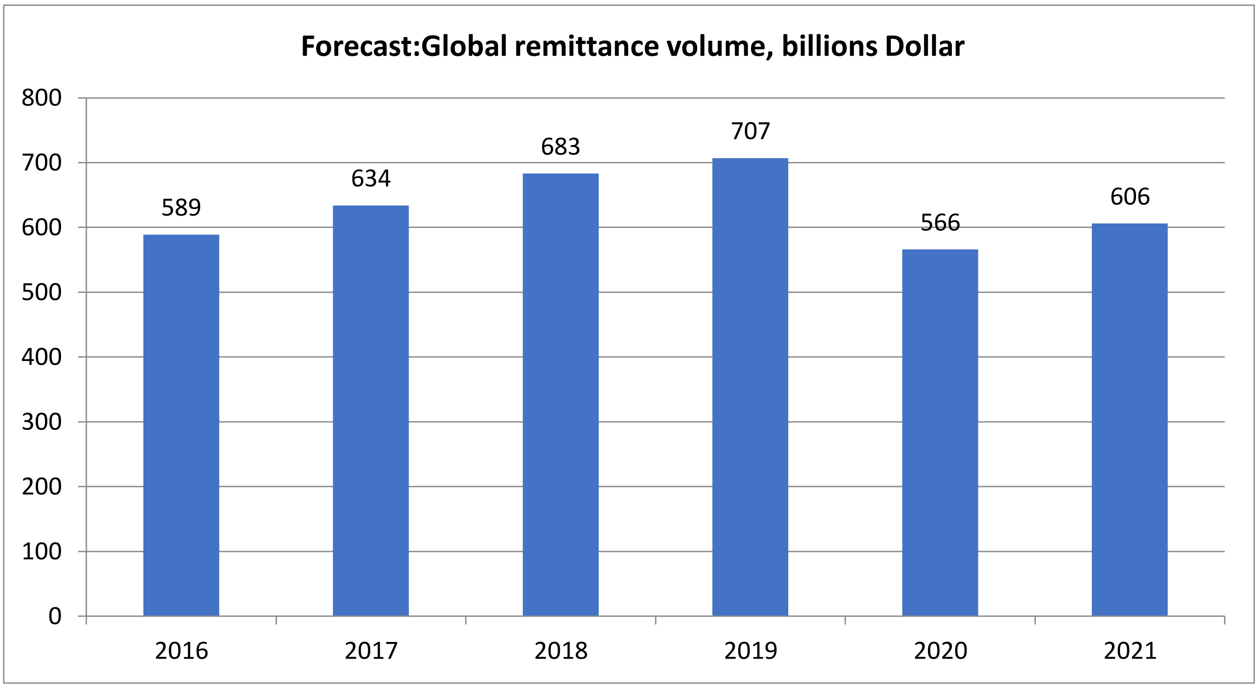
In fact, there are five countries where remittances from citizens abroad are equivalent to a quarter or more of all economic output (as measured by gross domestic product). Nepal received an estimated $6.6 billion in remittances, equivalent to 31.3% of its GDP, according to a Pew Research Center analysis of World Bank data for 2016. Kyrgyzstan from Central Asia received nearly $2 billion in remittances, equivalent to 30.4% of GDP; neighboring Tajikistan received about $1.9 billion (equal to 26.9% of GDP). Remittances from abroad also make more than a quarter of GDP for Haiti and Liberia; in nine other countries they were equivalent to between 15% and 25% of GDP. [7]

The significance of remittances to a country's overall economy depends not just on the amount of the remittances, but the size of the economy. According to the World Bank estimates, India received the most remittances in 2016: $62.7 billion, just ahead of the $61 billion received by second-place China. But those billions – most of which came from Indians working in the United States or in the Arabian Peninsula – were equal to just 2.8% of GDP, making them a just a drop in India's $2.3 trillion economic bucket.[8]

Studies have shown that remittances can reduce the depth and severity of poverty in developing countries, and that they're associated with increased household spending on health, education and small business. For the population of many developing countries that are implementing painful measures aimed at macroeconomic stabilization of the economy, migrant remittances are becoming an extremely important source of livelihood that helps to survive difficult times. A deficit in tax revenues, competition in real exchange rates, the need to maintain the normal functioning of financial markets, deregulation or privatization of production, which aim at macroeconomic stability and structural adaptation, are forcing governments to slow down economic growth, resulting in growing poverty and inequality. Tightening fiscal policies usually entails a significant reduction in government spending on education, health and social programs, massive layoffs of workers from public sector enterprises, a disproportionate reduction in wages and the destruction of important economic protection systems for the poor and disadvantaged. Under these conditions, additional funds coming directly to those who need them most can be truly saving.



The World Bank gives prognoses that global remittances will drop 20% in 2020, which may be the severe decline in recent years. The prediction based on impact of the coronavirus pandemic, which has declined wages and increased unemployment rate [9]. And these global changes can affect migrant workers incomes, in particular because they may be more susceptible to wage losses, making it more difficult for them to send remittances.



Source: Business Insider Intelligence estimates, April 2020: World Bank, 2019-2020

This decline tendency is expected to damage remittance volume around the world in 2020: Europe and Central Asia's volume is forecast to fall around 28%, Sub-Saharan Africa's volume is predicted to slide 23%, and South Asia's remittances are expected to go down 22%. Low-and middle-income countries (LMIC) are prognosticated to be heavily influenced as well, with their remittance flow forecast to drop 20% to $445 billion, which would connected with a massive blow to the industry because LMIC were projected to make up 78% of global remittance volume in 2019, per World Bank evaluation from October 2019.

A decline in transfers means a squeezing of socio-economic development opportunities for recipient countries. “The results of a household survey (Armenia, Moldova, Tajikistan, and Kyrgyzstan) show that due to remittances, consumption of durable goods, housing, and investments in own land plots increased,” experts of World Bank write. Thanks to transfers, retail and small business, mobile communications and the Internet have also developed.

Families receiving cash assistance from abroad invest more in their children's education and health care. Thus, the accumulated human capital in the country of origin of migrants increases, which gives a long-term macroeconomic effect. The drop in transfers, accordingly, inhibits the growth of human capital.

Usually remittances “alleviate poverty in low- and middle-income countries, improve the nutritional situation, are associated with higher education costs, and reduce the use of child labor in dysfunctional families.” "The reduction in remittances affects the ability of families to spend [funds] in these areas, since most of their finances will be directed to solving the problem of food shortages and meeting urgent necessities of life".

In a crisis, as noted by the World Economic Forum, the labor rights of migrants as a whole are not sufficiently protected. In addition, their access to state support in the host countries is limited (in South Africa, for example, the government initiative to help small and medium-sized businesses applies only to entrepreneurs who have citizenship of this country).

For the past few month the global economy changes dramatically due to the outbreak of coronavirus in the world, many countries have imposed transport restrictions, as well as suspended activities in a number of sectors of the economy, including those in which migrants work. In some cases migrant had to return to home country as recipient counties persevered sending migrants back. The result of the political activities of developed countries, migrants have become unemployed, subsequently it can affect the money flow tendency. However, The World Bank expects growth of remittance to pick back up to some degree in 2021, so firms that attract consumers with digital offerings in 2020 could rebound. It projects remittance volume to LMIC to rise 5.6% in 2021, and for the situation to improve in various regions as well.[10]

In conclusion, countries around the world (regardless of their position of development) are trying to save their economies from the crisis with minimal losses at a time of global socio-economic changes. The economies of developed countries are more stable developing countries, and their dependence on other countries is lower. However, for developing countries, which are donors of migrant workers, and at the same time have a significant share of remittances from migrants in the GDP, global changes will deepen the economic crisis. In particular, the labor force returning to their homeland is considered temporarily unemployed, and the flow of cash is stopped, which is important to him and his family members. As a result, the burden falls on the state. On the other hand, remittances from migrants are an important source of maintaining currency stability in the country, resulting in the devaluation of the national currency against foreign currencies. And it is possible to observe a sharp downward trend in money supply, which can turn into an investment.

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