

The Impact of Remittances on the International Migration and Economic Development

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Abstract: *Migration does not only affect the processes of human development through individual social and financial remittances, but also the entire political and social life in the countries of origin, in a broader sense. Migrants and their children often tend to remain engaged with the countries of origin, through business, investment, common return visits or collective initiatives to promote the development of the places of origin. Migrants often plays an important role in civil society of the countries of origin, but many States have had ambiguous attitude toward immigrants. Over time, many States have viewed migration as a safety valve to reduce effectively the unemployment, poverty and political turmoil. From this, one can argue that migration and remittances may become a tool to relieve the pressure for structural reform and can effectively support the position of the elite groups, rather than to lead to change and emancipation of minority groups.*

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1. Introduction

In order to assess the extent to which remittances contribute to economic development, two elements must be considered: the effects at the microeconomic level and the overall impact on the economy and society at large. The first is positive because financial flows from abroad have provided a livelihood security for migrant families. Many people enjoy a higher standard of living, which would not be possible without remittances. However, the second impact depends in large part on whether remittances flows have been transformed into productive investments. On the one hand, there is an availability of potential migrants to invest. On the other hand, the business environment is unattractive, and often even hostile, leading to failed efforts by migrants. Sometimes repeated failures make migrants lose their trust and hope in the success of their businesses. Thus they are forced by circumstances and the lack of alternatives to return to migration CIVIS, IASCI(2010, p.25).

2. Analysis of Romania's Income from Migration

International attention is paid to the revenue derived from migration (remittances) showing that they can have many benefits for the development process. Submissions are invaluable sources of income and gain from foreign exchange for many countries, particularly to those that have barriers in terms of international trade. Among these developing countries, faced with a decline in the labor market, labor export in exchange of money is an important component of the development strategy.

Remittances of money carried out by migrants in the country of origin constitutes an important source of foreign exchange revenue for some developing countries and a

substantial contribution to their GDP. Submissions may be used for imports of capital goods, or provide funds to entrepreneurs for investment. Submissions may also increase the income necessary to purchase family consumer goods and services.

Economic effect of remittances depends mainly on how they are used. Earnings from working abroad have a multiple destination:

- domestic consumption of the host country for the maintenance and restoration of work capacity: food, housing, clothing, miscellaneous goods for personal hygiene;

- transfers in the country in the form of currency. It will be used for various purposes:

- for current consumption - maintenance of the family, including children's education, health care. These are the household consumption expenditure, incurred on the domestic market. They can be found (not explicitly) in the final consumption of the population;

- savings and investment in durable goods: housing, land and other assets (household equipment, automobile, machinery and agricultural implements). Some of these (housing) contributes to increased national wealth;

- initiation of micro-business or to establish familial association with lucrative purpose (agro-tourism, cultural tourism, the use of local natural resources-Wicker, various types of services in rural and urban-repairs, maintenance, collection of agricultural products and their processing in micro-breweries are located in rural areas etc.).

It is well known that most of these remittances are consumed in Romania for current household expenses, stimulating domestic demand for goods and services, but concentrate on account of imports and not domestic products less competitive in quality and / or price .

The sums which the Romanians working abroad send to relatives in the country currently are smaller, but there are more. The economic crisis has affected Romania and so many fellow countrymen have decided to "spend" the crisis abroad, where, although incomes are lower compared to the boom period, are still above the average in the country. According to a survey published in the CCSB FES-2011, over 40% of households interviewed claimed that a good portion of the family's income comes from relatives who work across the border and that this money helps a lot.

The value of remittances has increased strongly during the period 2005-2008, from 4,733 billion dollars in 2005 to 6,718 billion dollars in 2006, 8,542 billion dollars in 2007, namely 9,381 billion dollars in 2008. Subsequently, the amount has decreased sharply to 4,928 billion dollars in 2009, i.e. a level of 4,517 billion dollars in 2010, due to the economic crisis. Thus, Romania was overtaken in terms of remittances of Ukraine, Ukrainian remittances sent home surpassing \$ 5 billion each year. According to the World Bank, more than 6.5 million Ukrainians are living abroad. The Poles have sent home 53,817 billion dollars during the period 2005-2010; approx 3,102 million Poles, or 8.2% of the population living outside the country.

Romanians working abroad have sent during the period 2005-2010. 38,819 billion u.s. dollars in the country, the best years being the 2007 and 2008, and the lowest of 2010, according to World Bank estimates (Mediafax) The number of emigrants was of 2,769 million people in 2010, accounting for 13.1 percent of the total population. The amount remitted to the country in 2009 of workers gone to work abroad accounted for 4.4% of GDP. Hungary has attracted during the period 2005-2010 11,67 submit billions of dollars, so Bulgaria has obtained 10,05 billions of dollars from this source, and the Czech Republic 7,372 billion dollars. Submissions to Slovakia totaled 8,812 billion dollars during the period 2005-2010 and in Serbia have entered 31,25 billion dollars. Moldova registered entries over 8 billion dollars in the period

under review, given that, in 2010, 21.5% of the population living outside the country, and the value of remittances in 2009 represent 23,1% of GDP.

Recent analyses of the National Bank of Romania shows that remittances of Romanians from abroad increased in 2011, but is one-third below the level before the crisis. The entries on the money transfers, i.e. mainly remittances, reached in about 4 billion euros. Further about 2.8 million romanians living and working abroad at the moment, show the latest World Bank data. Before the crisis, remittances from them in the country represented a genuine motor for consumption, but the eurozone crisis nearly halved submissions.

In the first 11 months of the year 2012, the entries on the money transfers, mainly submissions have increased by nearly 10%, to 3.8 billion euros, according to statistics from NBR. The value is, however, more than one-third below the level of 2008, over 6 billion euros. Compared with 2008, when remittances sent home by migrants have reached a maximum of 6.6 billion euros in 2012, submissions are over 40% smaller. If in the years of economic boom Romanian workers from abroad commit, from the salary received, to put some money aside, now, hardly manage to send money to the families left behind to cover current expenditure amounts. In 2005, the Romanians sent back from overseas in the country more than 30 billion euros, show the data of the Central Bank (Adevărul, 2012). Despite the persisting crisis in countries with large communities of Romanians, those who leave to work abroad have managed to adapt to the new conditions, so that remittances sent to the country have increased in 2012 for the first time in the last four years.

Current transfers from abroad to Romania, except public administration – the majority done by Romanians working abroad – they arrived in 2012 to 3.85 billion euros, according to data published by the National Bank of Romania (BNR, 2012). The value is higher with only a little over 3% over the level registered in 2011, but this is the first advance after three years of consecutive declines.

There are two views on the effects of remittances for Romania: one negative – which highlights the dependence induced the country of origin of the foreign remittances and distortions in the development process; the other, positive – submissions are a strong element of avoiding poverty and a source of economic development Taylor, Edward (1999, p.63).

Both the level and destination of remittances is determined by the strategies of migrants with regard to mobility and intentions to return to the country, which, in turn, depend on their expectations regarding the evolution of policy and economic environment in Romania.

Reverse flow of remittances-money sent by immigrants in Romania – even if they record low values are not neglected. Especially since most of these outputs are determined by citizens belonging to third countries, they must not be neglected, the citizens of third countries probably will lose as a result of subsequent amendments to the EU's immigration policy.

Transfers from various categories of income from work differentiates on two main sources: income derived from work on the basis of bilateral agreements between Romania and other countries, concluded between the institutions concerned, and income derived from work by direct/indirect forms of employment relationships (legal/semilegal) or from other sources, transferred into the country through the banking system.

National Bank of Romania highlights the group cash flow of income from work (if the sender has specified amounts of origin provision explicitly an activity based on an employment contract) or in the category of private transfers.

Transfers of work abroad are much stronger if we take into account informal

transfers. Absent information system in the field, especially the "restrictions" of the banking system (a poorly developed banking system and nonstimulating for deposits/money transfers conducted by individuals) and tax (taxation of income from work) discourages the full statement of income, so the statistical count is about 2-3 times lower than those actually obtained. But even in these conditions, the total amount of transfers has exceeded the volume of FDI. We therefore appreciate that, in the short term, for the national economy and the people involved is more effectively to 'export' temporary work force. This situation is not a feature for Romania, it is seen in other states also IOM (2003). The decision to send home money through formal or informal channels depends on a number of factors. One factor is the cost of the monetary transfer, along with the speed and reliability of delivery. Migrants use, in most cases the official channels for sending money back home, especially the rapid transfer services. It is mentioned the existence of a public shuttle service, with global, regional and local effects on the respective budgets. According to the legislation in force in the host country and of the bilateral agreements between the States and specialized bodies, will induce, most likely in Romania, a reduction in the volume of transfers to social security, as a result of a reduction in the number of taxpayers.

3. Economic and Social Effects of Remittances

The economic impact of the transfers result from the method and effectiveness of their use in the countries of origin. Most of them are used to satisfy the primary needs of sustenance, followed by spending money for education, investments in securities business, the purchase of durable goods and starting small businesses. All of these uses of the transfers have a favourable impact on economic growth, either through positive influence on aggregate demand and production through consumption, either by achieving savings and investments, which, in the end, will contribute to increasing per capita national income.

One of the most important positive effect of remittances is to increase incomes of the population of the country of origin, given that a portion of the proceeds of a migrant's private profit, received from work carried out abroad – remittances, transfer the address to members of his family-the citizens of the State of origin of the migrants. There is a positive correlation between receiving financial flows related to migration and the perception of a person to be able to cover their basic needs. Income families with migrants who send money home is about two times higher than that of families that do not receive remittances. Compared to families without financial flows from abroad, these families will allocate more money in their budget to purchase consumer goods (such as food and clothing), debt repayment and the renovation or construction of houses. Remittances could also have a negative impact, although in most cases they lead to higher-income households for beneficiaries. Higher income is often accompanied by a trend towards more spending, especially for consumer goods. However, most consumer goods in Romania, such as electronic devices, are not produced in the country, but are imported from abroad. This increased demand for imports, often leads to an increase in local prices, higher inflation and dependence on imports CIVIS, IASCI, (2010, p.25).

While increasing revenue and reduction takes place, the proportion of people living in poverty and extreme poverty, by covering consumer demand of families. It is important to note that remittance flows are responsible for reducing rural poverty. Also, we consider important to mention that external economic migration, with its complex characteristics, contribute, in a broad sense, to the eradication of poverty in accordance with the concept of human poverty promoted by the United Nations, which

examines poverty as a component of income poverty, stressing that equity, social inclusion, empowerment of women and respect for human rights are important for poverty reduction.

Saving behaviour of migrants is changing in time, being very well defined at the early stage of migration, migrants often sacrifice their standard of life, to be able to save and submit more. Once it has been saved a certain amount of financial capital, migrants are starting to change their behavior of saving and remittance. This change is influenced by the fact that migrants are living in an environment with living standards obviously higher than the ones you know from home (particularly in the case of European migration destination), but also because of remittance recipients when they reach a certain level of wealth, the family put less value on the money sent. In general, migrants are starting to save more and to remit less. After the consumption of families demand containers, remittances end up being saved, thus leading to an increase in savings. However, for reasons various, mostly psychological reasons, only some of the savings are being saved in the banking sector. Some migrants are accumulating savings in cash and/or banking systems in place of migration. It is estimated that these withheld savings come to hundreds of millions of euros per year. Providing appropriate incentives, guarantees and regulatory frameworks, these resources could be channeled into savings and investments in migrants' home countries, ultimately contributing to development.

Remittances exerts a positive influence on the current account of the balance of payments. Major inflows of remittances offsetting the deficit of the current account of the balance of payments, thereby reducing the likelihood of a balance of payments crisis. It is a well-established fact that remittances have less volatility than other financial flows (portfolio investment, direct investment, official assistance) and may even be counter-cyclical (remittances increase when the economy is in recession). In sum, the remittances may increase the stability of the whole economy. Remittances increase aggregate demand, particularly the demand for non-tradable goods, leading to an increase in inflation, the appreciation of the national currency and the deterioration of the trade balance.

Private transfers have a pretty big influence in reducing the current account deficit at the level of Romania, their influence being approximately 20% of all the elements that determine this indicator.

These transfers counteracts the negative consequences of globalization of economies, namely the opening of markets and liberalization of the economy. Offsetting the additional currency demand, the result of developing foreign trade, remittances support maintaining the stability of the exchange rate of the national currency and may even lead to the appreciation of the domestic currency. At the same time, remittances offsetting (partially) the effect of procyclic of the economy, because they maintain and even grow and during periods of economic decline of countries. While foreign direct investment, portfolio investment and other capital flows to the developing countries grow and decline cyclically, remittances have demonstrated remarkable stability over a long period of time, and have even increased in response to economic crises. As an example, remittances to developing countries have continued to grow steadily, from 1998 to 2010, when private capital flows have fallen. The difference in the stability of flows is even more striking. When we analyzed the recipient countries of remittances, it was observed that 107 of 135 countries, the stability of remittances was larger than that of private capital flows; in 70 countries – compared to official assistance flows, while 62 countries-stability in remittances was larger than all capital flows.

Remittances flows replace foreign financial assistance, including foreign loans, and according to the world statistics, remittances are not only greater than the flows of external financial assistance but, at the same time, more "effective" than these, because they are distributed directly to those in need. And they- independent citizens decide to use them for truly urgent needs. At the same time, remittances cannot replace foreign financial assistance.

At the same time remittances can contribute to increased tax receipts for local firms operations and profits and intermediates, which provides goods and services migrants and remittances to beneficiaries in the country and help boost economic development. This effect is caused by the momentum of increasing savings, but it is necessary to correlate the monetary policy of the State to be credited to an efficient economy. The increase in demand is taking place at a number of specific services and as a result – development sectors: communications, transport (air, rail and car), educational services (higher education), medical services, etc. At the same time, the increase in demand for educational services stimulates quality improvement, which supports the promotion of economic and social development and the development of educational systems in developing countries.

Remittances have positive influences on the investment. And this not only because it offers opportunities to invest remittances and the smallest business actors, such as individual entrepreneurs, businesses with two to three founders, whom have limited access to credit (in most cases, from a lack of credit insurance), but also from the fact that remittances affect not only the absolute amount of investment, but also their quality. May manifest itself and the development of trade between countries of destination and of origin of migrants, both in the form of export and import.

This is due to the experience gained abroad by migrants-investors or training by the migrant families in the country to invest, or because migrants know better the conditions and investment opportunities in the country than foreign investors. The share of remittances that could be directed toward investment projects through financial and banking institutions, is extremely small compared with capital flows of migration, and compared to the trend to save income from remittances.

One of the objectives and priorities of the remittances of migrants is the education saving. They send money to finance their children's education, their brothers/sisters education or saving for their own studies. Cost of undergraduate increases each year, the amount that many families can not afford without financial support from outside the country. Some parents finance their child migration in order for them to learn and to acquire experience abroad. Children, especially in urban areas, have access to education and extra-curricular activities. On the other hand, local experts and migrants also speak about the negative impact of migration and remittances on the education and training of children. In fact, the overall opinion shows concern about the negative effects of migration and remittances, rather than noting the positive side of migration Bagasao (2005).

A consensus that has been reached in the existing literature is the necessity to invest a sufficient portion of money transfers for migrations to have a positive impact over the long term economic development.

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