How can overseas remittances are helpful to reduce the poverty in country and enhance the economic growth level

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ABSTRACT

The review concentrated on the significance of settlements inflow and its suggestion for monetary development and neediness diminishment in Pakistan. By utilizing ARDL approach we break down the effect of settlements inflow on financial development and neediness in Pakistan for the period 1973-2010. The locale shrewd investigation of destitution recommend that abroad relocation adds to neediness lightening in the regions of Punjab, Sindh and Baluchistan however NWFP is not depicting an unmistakable picture. The experimental proof demonstrates that settlements impact financial development emphatically and essentially. Moreover the review additionally finds that settlements have a solid and factually noteworthy effect on destitution lessening accordingly proposing that there are considerable potential advantages connected with universal movement for needy individuals in creating nations like Pakistan. So the significance of settlement inflows can't be prevented in wording from claiming development upgrade and neediness decrease that thusly enhances the social and monetary states of the beneficiary nation.

1. INTRODUCTION

Outside settlement is a vital wellspring of remote trade profit for Pakistan since 1970. Amid the previous four decade Pakistan got huge measure of settlements, notwithstanding, change were likewise seen in the inflow of settlements. Inflow of settlements influences monetary development emphatically by decreasing current record deficiency, enhancing the adjust of installment position and lessening reliance on outside acquiring (Iqbal and Sttar, 2005). Inflows of settlements increment the monetary development and diminish the destitution by invigorating the wage of the beneficiary nation, lessening credit requirements, quickening speculation, improving human advancement through financing better training and wellbeing (Calaro (2008);
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Jongwanich (2007); Stark and Lucas (1988); Taylor (1992); Faini (2002); Gupta et al.(2009)]. However Chami et al (2003) find that settlements impacts affect financial development of beneficiary nation on the grounds that a huge stream of settlements decrease work compel interest and work endeavors which brings down yield. In this manner, the effect of settlements on financial development and advancement of beneficiary nation has been disputable. If there should arise an occurrence of Pakistan, various reviews have been attempted at miniaturized scale and in addition full scale level that straightforwardly or in a roundabout way centered around the effect of settlements on development and improvement (Burney,1987; Arif, 1999; Adams,1998; Malik et al,1993; Nishat et a ,1993; Burki,1991; Kozel and Alderman,1990; Amjad,1986; Nishat and Bilgrami,1991).

The general finish of these reviews propose that settlements effete affect economy of Pakistan as far as total utilization, speculation, lessening in current record shortfall, outer obligation trouble and enhance training/aptitudes of the family units. Moreover, work movement is thought to be a valuable wellspring of outside trade income (Naseem, 2004). Siddidui and Kemal (2006) investigated the effect of decrease in settlements on welfare and neediness in Pakistan. The examination demonstrates that in Pakistan neediness ascends because of decrease in settlements amid nineties. Kemal (2001) finds that settlement inflow is real factor influencing the destitution levels both through change in pay and utilization level and in addition through increment in capital stock. Amid the present decade since the occasion of 9/11 the inflow of settlements in Pakistan has expanded pointedly that is US$1075 millions in 2000 to US$ 6000 million in 2007. This enormous inflow of settlements contributes in diminishing current record shortfall, expanding remote trade holds, balancing out conversion scale and lessening neediness. By and large past reviews depended on overview information and overlooked the relationship amongst settlements and destitution so this review adds to existing writing by observationally analyzing the effect of settlements on financial development and neediness. Whatever is left of the paper is sorted out as take after. Segment 2 displays a survey of writing. Segment 3 gives a review of abroad relocation and specialist's settlements in Pakistan. Besides region shrewd investigation of abroad movement and destitution is likewise displayed in this segment. Show detail, information and strategy are given in segment 4. Area 5 examines experimental outcomes, while the last segment closes the review.

2. LITERATURE REVIEW

A proper comprehension of settlement and development relationship can assist strategy producers with designing a reasonable monetary arrangement. Giuliano(2008) finds that settlements support development in nations with less created money related framework as it give
an option approach to fund speculation and decrease liquidity limitations. Laborers settlements additionally assume a critical part in human capital interest in the beneficiary nation through unwinding asset limitations. Calero (2008) investigated that settlements expands school enlistment and lessening the degree of youngster work. Additionally the review finds that settlements are utilized to back training when family units are confronting total stuns as these are connected with expanded work exercises. Global settlements likewise play out a vital part in lessening the degree of imbalance and neediness. Acosta et al (2007) displayed the family review base appraisals for 10 Latin American nations which affirmed that settlements have negative however moderately little imbalance and neediness diminishing impacts. Jongwanich (2007) looks at the effect of laborers’ settlements on development and neediness in Asia-Pacific creating nations. The experimental proof shows settlements significantly affect destitution lessening and inconsequential effect on development. Burgess and Vikram (2005) inspect the diverse channels through which settlements can influence financial action. The review does not unmistakably bolster the fleeting balancing out impact on utilization, however the more drawn out term financial impact of such streams is by all accounts questionable. Catrinescu et al (2006) investigated that settlements apply a pitifully positive effect on long haul macroeconomic development. Besides the review additionally bolsters advancement effect of settlements upgrades within the sight of sound macroeconomic strategies and establishment. Fayissa and Nsiah (2008) contended that settlements upgrade monetary development in nations where money related frameworks are not extremely solid by giving an option approach to fund venture and conquer liquidity limitations. Iqbal and Sattar (2005) demonstrates that genuine GDP development is emphatically corresponded to laborers' settlements amid 1972-73 to 2002-03 and specialists' settlements rose to be the third critical wellspring of capital for monetary development in Pakistan. Adams and Page (2005) utilized the information of 71 creating nations in their review on settlements, disparity, and destitution and inferred that settlements essentially diminish the level, profundity and seriousness of neediness in the creating scene. Lucas (2005) contends that settlements presumably contributed fundamentally to neediness lightening process if there should arise an occurrence of Pakistan. The effect of settlements on financial development and destitution has been a widely talked about issue both among scholastics and arrangement producers. In spite of the fact that this range of research has been investigated broadly and generally, yet additionally inquire about on this issue is still required to land at general judgment identified with the attractive quality of outside settlements for financial development and destitution lessening. On the premise of writing identified with influences of settlements on development and neediness, we can rundown the accompanying principle channels through which settlements upgrade development and eventually decrease destitution in settlements getting economy.
Overseas Migration and Workers Remittance: An Overview

Before continuing to observational investigation, it might be helpful to have a diagram of abroad relocation and improvement of specialists' settlements since 1970. Roughly 5 million Pakistan is 2 have moved to various nations around the globe amid 1970-2008. Lion's share of the Pakistanis have moved to the Middle East nations, for example, to Saudi Arabia (2.3 Million) and UAE (1.3 million). Other real fixations and assimilations are Oman and Kuwait. Pakistani laborers additionally relocated to a few different nations both creating and created the world over. In the decade of 1970s, the aggregate sum of settlements sent home by the transient laborers increments as the quantity of vagrant to Middle East increments. However settlement streams keep on declining in the wake of achieving a crest in 1982-83. The declining pattern in settlements keeps on continuing till 2001. The Pakistani abroad vagrant demonstrated a repeating and fluctuating conduct from 1971 to 2008.

Source: Bureau of Emigration and Overseas Employment

The high unemployment, gigantic destitution, desires for higher income abroad might be purposes behind over the time increment in the quantity of Pakistanis traveling to another country. Dominant part (i-e 3 million) of vagrant laborers are either incompetent or semi talented from low pay foundations which permitted their families behind to build up private venture, get hold of genuine resources and make impressive and broad upgrade and change in their way of life.

Overseas Migration and Poverty

Locale savvy examination of abroad movement and poverty3 for the areas of Punjab (Figure
5), Sind (Figure 6) and Baluchistan (Figure 8) affirms that rate of individuals underneath the neediness line are lower in those regions where the rate of relocated laborers is higher. Also 48.8 percent of abroad vagrant has a place with the area of Punjab which focuses to the way that settlement inflows from abroad might be the explanation behind lessening destitution in the locale of Punjab. However the locale shrewd investigation of NWFP is blended as the Figure 7 is not depicting an unmistakable picture and indicating the way that there may conceivably be some different elements that are adding to the event of destitution.

Table 1: Correlations

<table>
<thead>
<tr>
<th></th>
<th>Poverty</th>
<th>Overseas Migrant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty</td>
<td>Pearson Correlation</td>
<td>-3.69**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td></td>
</tr>
<tr>
<td>Overseas Migrants</td>
<td>Pearson Correlation</td>
<td>-3.69**</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.000</td>
<td></td>
</tr>
</tbody>
</table>

** Correlation is significant at the 0.01 level (2-tailed).

Moreover, connection between abroad vagrants and the rate of populace underneath the destitution line likewise shows that abroad relocation is making its commitment in accomplishing the target of neediness lightening and enhancing the way of life of subjects. If there should be an occurrence of Pakistan recorded settlements sent home by vagrant from abroad has come to $ 6000 million in 2007 from $1100 million in 2000. The correct size of settlements is accepted to be even ale including both recorded and unrecorded moves through formal and casual channels. Table An in informative supplement demonstrates that in decade of 1980s and after 9/11 occurrence settlements inflow were very high. Amid 1970s normal yearly inflow of settlements were 4.2 rates of GDP and amid 1980s normal yearly inflow of settlements came to at 7.5 percent of GDP. In the decade of 1990s settlements inflow declined at its most reduced level and came to 2.9 percent of GDP. After 2000 again settlements inflow begin rising and came to 4.2 percent of GDP in 2007.
Figure 8 delineates the positive relationship amongst GDP and settlements. Gross domestic product and settlements inflow demonstrate an expanding pattern till 1983; however after 1983 settlements inflow portray reliably declining pattern till 2000 and GDP increment at diminishing rate amid this period. After 2000 both arrangement move in the upward course. The figure makes it clear that over the time, slant in settlements and GDP development are nearly the same.

Figure 9 displays relationship amongst neediness and settlements for Pakistan amid 1973-2006. Right vertical pivot speaks to the settlements as rate of GDP and left vertical hub neediness (head tally) appraise. The figure demonstrates that destitution is contrarily identified with increment in settlements amid the time of 1973-2006 in Pakistan. In the decade of 1980s destitution diminished combined with increment in settlement inflows while diminish in settlement inflow amid 1990s is connected with increment in neediness with settlements achieving its most reduced point. However after the episode of 9/11 settlements inflow pointedly moves in upward course with neediness beginning to decrease also.
The above data analysis is also supported by the empirical finding in literature as Siddiqui and Kemal (2006) pointed out that increase in poverty during 1990s may be due to short fall of remittances in this decade. Therefore data and literature both support the hypothesis that remittance contributes to poverty reduction in Pakistan.

3. METHODOLOGY

Theoretical as well as empirical literature predicts that remittances contribute not only in the growth process of recipient country but also play an important role in reducing poverty. This study intends to explore the effect of remittances on real GDP and poverty in Pakistan, we specify following two independent models to deal with remittances, growth and poverty.

(i) Remittances and Growth

We specify an empirical to explore the impact of remittances on economic growth. The Model is as;

\[
\text{LRGDP}_t = \alpha + \partial_1 \text{REM}_t + \partial_2 \text{INV}_t + \partial_3 \text{HDI}_t + \partial_4 \text{OP}_t + \varepsilon_t
\]  

Where RGD, REM, INV, HDI and OP are log of genuine GDP, settlements as rate of GDP, gross settled capital arrangement as rate of GDP, human advancement index, OP is exchange openness, separately. \( \varepsilon \) is well carries on mistake term. Past reviews recommend that settlements impact the monetary development emphatically through diminishing the present record shortfall, outside obtaining and accessibility of remote trade (Iqbal and Sattar, 2005). The effect of human capital, speculation and exchange openness on yield is thought to be sure.

(ii) Poverty and Remittances

We used similar to the model suggested by Ravallion (1997), Ravallion and Chen (1997) and Adam and Page (2005) to explore the impact of remittances on poverty. The model is written as,

\[
\text{LP}_t = \alpha + \beta_1 \text{LRGDP}_t + \beta_2 \text{LIEQ}_t + \beta_3 \text{LREM}_t + \omega_t
\]

Where LP is a measure of neediness, LRGDP is genuine total national output, LIEQ is wage disparity, LREM is settlements and \( \varepsilon \) is very much carried on blunder term. The normal indications of \( \beta_1, \beta_2, \) and \( \beta_3 \) are negative, positive and positive/negative individually. To appraise both models in condition (1) and (2), Autoregressive Distributed Lag (ARDL) technique created by Pesaran et al. (2001) has been utilized. This strategy is more proper for little
example estimate and can be actualized regardless of whether the fundamental factors are I (0) or I (1). In this approach long run and short run parameters of the model are assessed at the same time. ARDL plan can be composed as take after

\[ \gamma = \beta_1 + \beta_2 Y_{t-1} + \beta_3 Z_{t-1} + \sum \beta Y_{t-i} + \sum \beta Z_{t-1 -i} + \varepsilon \]  

Where Y is reliant factors, Z is the vector of informative factors incorporated into the relapse condition 1 and 2. Limits testing methodology create by Pesaran et al (2001) is utilized to test the nearness of long run relationship among the variable in condition (3). The test in light of F test for co integration investigation. The invalid theory is that the coefficients \( \beta_2 \) and \( \beta_3 \) are together equivalent to zero. As it were the invalid theory expresses that there is no long run relationship between the factors in condition (3). The processed F-measurements is contrasted and the basic esteem limits of the F-measurement.

On the off chance that figured F-measurement higher than the upper bound of the basic estimation of F-measurement, the invalid theory would be rejected and the other way around. Yearly information from 1973 to 2010 has been utilized to examine the impact of settlements on genuine yield and neediness. Information on total national output (GDP), settlements and gross settled capital development intermediary for venture are acquired from World Bank (2008). Information on human improvement record (HDI) are taken from United Nations Development Program (UNDP)

4. **EMPIRICAL RESULTS**

Before estimation the time arrangement property of the information has been analyzed to decide their request of combination by utilizing Augmented Dickey Fuller (ADF) unit root test. The outcomes are accounted for in table 1 figured on the premise of three measurements of human advancement, driving a long and solid life, proficiency rate and school enlistment, and having a not too bad way of life measured by GDP per capita 5. ARDL strategy is settled in the writing and there is no compelling reason to give point by point account here.

Table: 1 Test of non-stationarity of Variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Constant/ Trend</th>
<th>Level</th>
<th>First Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>LP</td>
<td>c, t</td>
<td>-3.711*</td>
<td></td>
</tr>
<tr>
<td>LREM</td>
<td>c, t</td>
<td>-1.951</td>
<td>-4.55*</td>
</tr>
<tr>
<td>LRGDP</td>
<td>c, t</td>
<td>-0.927</td>
<td>-4.71*</td>
</tr>
<tr>
<td>LIEQ</td>
<td>c</td>
<td>-5.99*</td>
<td></td>
</tr>
</tbody>
</table>


Table 1 Test of non-stationarity of Variables
As can be seen from the table, LRGDP, REM and OP are non-stationary at level and become stationary after taking first difference. This implies that these three series are integrated of order one, i.e. I (1) while LP, LIEQ HDI are stationary at level, i.e. I (0). Table 1 shows that order of integration of all the variables is not same, therefore the mixed results obtained from the unit root test justify using ARDL technique to estimate the long-run and short-run relationship among the variables under investigation.

5.1 Remittances and Economic Growth

Condition (1) is assessed by utilizing slack length of request three which is chosen on the premise of AIC and SBC criteria. The last type of the model chose is liable to all the indicative tests. Aftereffects of symptomatic tests are accounted for in board B of table 2. Board An of table 2 reports the consequences of the unhindered blunder redress displaying. To decide the co integration relationship among the genuine GDP, settlements, venture and HDI, we test the speculation that the coefficients of the slack level factors are equivalent to zero. To start with contrasts of the factors clarify the short run impact of illustrative factors on the reliant variable. In light of the excess variable test, we got F-insights equivalent to 14.17. This esteem is higher than that the upper bound of the classified esteems .i.e. 4.32 (Panel C of table 2). Keeping in mind the end goal to locate the long run coefficients, we standardized settlements; speculation, HDI and openness by genuine GDP and results are exhibited in board (D) of Table 2. It can be apparent from Table 2 that over the long haul settlements are decidedly identified with financial development. In the short run the impact of settlements on GDP is negative; however the greatness of this variable is little and immaterial. Venture and human advancement list decidedly and altogether influence GDP in long keep running and in addition in short run. Comes about demonstrates that the exchange openness is negative yet immaterial, negative indication of exchange openness could be because of the reason that exchange will probably be founded on imports of utilization merchandise. In board (D) of table 2 the long run coefficient of venture and human improvement list are predictable with monetary hypothesis demonstrating their significance for development and advancement.

Table 2. Estimate of Growth and Remittances Equation

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>HDI</td>
<td>c, t</td>
</tr>
<tr>
<td>OP</td>
<td>c, t</td>
</tr>
</tbody>
</table>

Note:* indicate significant at 5% level. c, t denotes constant and trend
## A: Model

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>t-Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>$RGDP_{t-1}$</td>
<td>0.690345</td>
<td>2.986167</td>
</tr>
<tr>
<td>$LRGDP_{t-2}$</td>
<td>0.295166</td>
<td>2.250736</td>
</tr>
<tr>
<td>$INV_t$</td>
<td>0.870203</td>
<td>3.569036</td>
</tr>
</tbody>
</table>

## B: Diagnostic Tests

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>t-Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>$REM_{t-1}$</td>
<td>-0.926541</td>
<td>-4.256735</td>
</tr>
<tr>
<td>$REM_{t-3}$</td>
<td>0.567470</td>
<td>2.621423</td>
</tr>
<tr>
<td>$HDI_t$</td>
<td>0.235796</td>
<td>2.006562</td>
</tr>
<tr>
<td>$op_{t-3}$</td>
<td>0.151114</td>
<td>1.926871</td>
</tr>
<tr>
<td>$LRGP_{t-1}$</td>
<td>-2.555010</td>
<td>-7.799704</td>
</tr>
<tr>
<td>$INV_{t-1}$</td>
<td>0.910469</td>
<td>3.824714</td>
</tr>
<tr>
<td>$REM_{t-1}$</td>
<td>1.189132</td>
<td>6.566328</td>
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<tr>
<td>$HDI_{t-1}$</td>
<td>0.275218</td>
<td>3.299042</td>
</tr>
<tr>
<td>$op_{t-1}$</td>
<td>-0.137629</td>
<td>-1.237194</td>
</tr>
<tr>
<td>$C$</td>
<td>-17.40686</td>
<td>-3.057456</td>
</tr>
</tbody>
</table>

Adjusted R-squared: 0.81

DW: 1.94
Serial Correlation LM Test 1.3743 [0.2813]
ARCH Test 0.0819 [0.7767]
Jarque-Bera(2) 1.1647 [0.5585]
Ramsey RESET Test 2.3709 [0.1420]

C Cointegration Test
F-statistics (5,18) 14.177 [0.000010]

D: Long Run Coefficients

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>REM</td>
<td>0.465</td>
</tr>
<tr>
<td>INV</td>
<td>0.3563</td>
</tr>
<tr>
<td>HDI</td>
<td>0.1077</td>
</tr>
<tr>
<td>OP</td>
<td>-0.054</td>
</tr>
<tr>
<td>C</td>
<td>-6.81</td>
</tr>
</tbody>
</table>

Note: p-values are stated in [ ]. Breusch-Godfrey Serial Correlation LM and ARCH Test are based on F-statistics. While normality test is based on Chi-square test.

5.2 Empirical Results of Poverty and Remittances

To estimate equation (2), we used general to specific approach on the basis of AIC and SBC criteria, select lag length of order 3 and remove the insignificant variables from the model. After all the diagnostic checks (reported in panel B of table 3) we select the estimated model.

Table 3. Estimate of Poverty and Remittances Equation

<table>
<thead>
<tr>
<th>A: Model</th>
</tr>
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<tbody>
<tr>
<td>Variable</td>
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Dependent Variable: $L_{P_t}$
To locate the long run relationship among destitution, settlements, pay imbalance and genuine GDP, test the speculation that the coefficients of slack factors are equivalent to zero in light of the excess variable test. Aftereffects of cointegration test are exhibited in board (C) of table 3. The outcomes recommend that the invalid speculation of no long run relationship is rejected, on
the grounds that the processed F-measurements is profoundly huge. This infers the long run relationship exist among destitution, settlements, genuine GDP and pay disparity. We get the long run coefficients by normalizing the level logical factors and results reported in board (D) of table 3. The outcomes recommend that an expansion in settlements can specifically prompt to destitution decrease over the long haul. This might be because of the way that settlements specifically increment the wage of needy individuals, smooth family utilization and simplicity capital limitation. The short run effect of settlements on neediness is negative which may be because of the exchange cost connected with movement. The long run versatility of neediness concerning salary imbalance (Gini coefficient) is certain and huge which is as per desire. This positive and critical connection demonstrate that at a given rate of financial development, neediness decreases more in low imbalance nations, rather than high disparity nations, so the pay imbalance variable is certain and noteworthy (Adam and Page, 2005). Long run neediness flexibility concerning genuine GDP is certain and noteworthy which is steady with financial theory. The magnitude of the coefficient of long run variable is consistent with analysis of poverty reduction (Adam and page, 2005).

5. CONCLUSION
The review primarily centered on the significance of specialists' settlements inflow and its suggestion for financial development and destitution lessening. By utilizing the ARDL approach we investigate the effect of settlements inflow on monetary development and destitution. It is found that settlements impact financial development emphatically and fundamentally. Discoveries rise up out of this review settlements have a solid and factually huge effect on neediness diminishment and development in Pakistan. The finding of this review recommends that worldwide relocation of work has generous potential advantages for needy individuals in creating nations like Pakistan. Over the long haul the settlement inflow can prompts to economic development and welfare change and upgradation of poor families as the effect of settlement widen and extend over the time. So the legislature ought to detail the approach that improves the measure of settlements by diminishing the exchange cost of exchanging the settlements through formal channel.

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