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Remittances to the rescue

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Once again inward remittances have proved critical to developing economies in Asia and the Pacific region.

The latest World Bank report on remittances stresses the important role played by the funds regularly sent back home by migrant labour from highly populated countries, working in labour-short economies.

Global remittances are estimated to touch $550 billion this year, and reach a record $707 billion by 2016, says the Bank's Migration and Development Brief.

While China is accumulating trade surplus by exporting consumer goods to the rest of the world, the other emerging economies are struggling. Since their manufacturing capacity is nowhere close to that of China, trade deficits are growing.

For them, inward remittances are a big support. For small economies in the Pacific and the Caribbean, remittances have been high recently.

Remittances: automatic stabilizers

For India, 2012 and 2013 were bad years in terms in terms of high trade deficits due to rising fiscal deficits. The exchange rate was also under pressure following a premature announcement in May 2013 that America's central bank would taper its monthly money supply increase.

The Indian rupee depreciated dramatically. However, rise in inward remittances came to the rescue of India.

In 2013, India received US$71 billion of remittances, topping the global chart. The remittances were nearly three times the FDI it received in 2012.

The increase in inward remittances acted as an automatic stabilizer.

In 2013, the World Bank report says India's US$ 71 billion was followed by China (US$60 billion), the Philippines (US$26 billion), Mexico (US$22 billion), Nigeria (U$21 billion), and Egypt (US$20 billion).

Remittances in the Pacific

In the Pacific region, Fiji received in 2013 an estimated US$ 182 million as compared to US$174 million in 2012; Samoa US$ 139 million in 2013 with no increase from 2012 figure, which was also US$ 139 million; Solomon islands US$ 3 million in 2013 as against US$ 2 million in 2012; and Vanuatu US$ 22 million in 2013, with no increase from 2012 figure of US$ 22 million.

The support from remittances can be more appreciated when we calculate their contributions to gross domestic product (GDP). For Fiji, contribution of remittance to GDP was 4.5 percent. On the other hand for Samoa, remittance inflows mean much more. Its contribution was 20.6 percent of GDP. For Vanuatu the contribution was a modest 2.8 percent, while for Solomon Islands it was insignificant at 0.2 percent.

For China, inward remittances contributed to only around 0.7 percent to GDP. On the other hand to India, remittances mean a lot more: They were 3.7 percent of GDP.

That explains the concerns of the policy makers in India. An official committee, which was set up to study financial inclusion, focused on remittances.

Financial inclusion

The Indian official committee stressed the need for financial inclusion by offering incentives to cover remittances. The incentives would cover credit, savings and insurance facilities. Already, the Indian commercial banks are permitted to offer higher interest rates on foreign remittances when deposited with them. The interest rates are higher than the rates offered to domestic depositors. This is to encourage migrants to open accounts with Indian commercial banks in both rupee and foreign currency of their choice.

The white collar migrants have been remitting funds on a regular basis. But unskilled migrant labour working in Middle East have been depending more on informal channels of sending money back home. The objective is to promote financial literacy and provide incentives to migrant labour attracting them to choose banking channels.

Indian experiences will be useful to policy makers in the Pacific.

Pacific context

More importantly, for the Pacific region, the cost of remitting funds needs to be looked into. It has been reported that Australia was retaining more than Aus $30 out of an Aus $200 payment being sent. That is, the transaction charges amounted to 15 percent.

A recent study by Samoa's central bank says, the average cost for sending money from New Zealand to Samoa has come down to 10.1 percent in September 2013 as compared to 11.6 percent in August.

The objective before the policy makers continues to be the same: reduce the cost to 5 percent over the next five years.

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