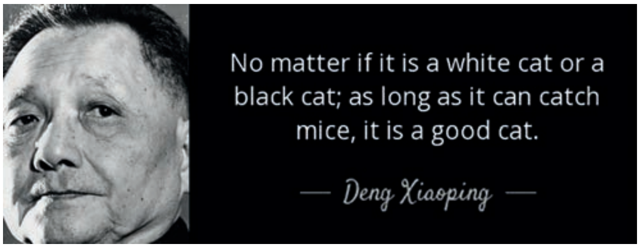
Inward Remittances to India's Rescue

■ *Dr. T. K. Jayaraman*

India's external sector is of some concern. Merchandise exports have not improved in recent months. India's share of world exports has been below the average rate of 2% of the previous decade despite the slowing down in the global pandemic of Covid-19 in recent months. In the first quarter of 2022, India's exports of petroleum products were given a big boost as the sanctions by advanced countries against Russia's exports of natural gas and fuel to European Union member countries worked to India's advantage. The EU and the West in general did not mind their indirect imports of the Russian crude refined products which were processed in India.

That runs parallel to the famous dictum of the Chinese by a paramount leader of the last century, Deng Xiaoping (1894-1967) who, re-interpreting the Karl Marx- Lenin- Stalin theoretical approach to Chinese variety of modern communism wrote: "It does not mater whether the colour of the cat is black or white, as long it catches the mice". He thus rationalised



the use of much detested capitalist tools of free trade and foreign investment as well international free enterprise and mobility of capital for promoting domestic communism. So too ignored was another notorious pronouncement by the US Secretary of State, John Foster Dulles during the cold war era that political neutrality in a bi-polar world of free world versus totalitarianism was nothing but "immorality". So all is fair, if it is good to one's own advantage.

Though India's share of global exports was below the previous decade average, India's share of oil products in total exports, rose from 17% in November 2021 to 23% by in August 2022., where other categories of exports were on the decline in the second half of 2022. On the other hand, India's imports touched a new high. By November, they were 3% of global exports against the global average of 1.8%. Furthermore, non-oil imports showed the sharpest increase, by going up from 45% 2021-22 to 70% plus in third quarter of 2022.

The merchandise trade balance continued to be in the negative.Although in the past services sector performed much better and helpful to meet trade deficit, the service sector, including tourism earnings, failed to repeat its previous good performance. The current account in the balance of payments rose from $11 billion in the second quarter of 2020 to as much as $83.5 billion in the third quarter of 2022.

Added to these woes, we witnessed outflows due to increase in outward payments on the "primary income" account. The latter is defined as the net payments made on capital income such as profit remittances and interest payments, which rose from less than $5 billion in the first quarter of 2020 to $12 billion in the third quarter of 2022.Further, in the past, India's current account deficit was financed by a steady flow of remittances from Indian workers abroad, as the major part of secondary income. These have indeed remained steady, and increased from $17 billion in the second quarter of 2020 to almost $25 billion in the third quarter of 2022. But this has not been enough to counter the growing deficits due to outflows of interest and dividend payments as well by those of the speculative, short term debt and equity funds By the third quarter of 2022, the current account deficit had crossed $36 billion.

The fickle minded flows of short term, "hot money", in search of short-term gains at the "click of the mouse" landed India, especially in the last quarter of 2022, in deep stress. In the past, all capital inflows, which are long term foreign direct investment (FDI), short term portfolio investment (PFI), overseas development assistance (ODA), popularly known as foreign aid, which is generally in free grants, but not entirely free from political motive, provided somewhat a comfortable cushion against the current account trade deficits as well as well providing critical, balance of payments support.

Remittances (REM) from India's migrant population working overseas and the Indian diaspora settled for generations to families back home are more reliable and regular. They were once named by IMF as "unrequited transfers", denoting they were free from any "quid pro quo" element. The migrant labour, mostly unskilled and semi-skilled working in the oil producing and exporting countries in the hot and dusty deserts in the middle east have been supporting Indian economy from the 1970s to date by remitting funds from their monthly or weekly savings back to the families month on a regular basis.They met the needs for food and medical help and assisting educational needs of young members of the extended families, who were all left behind. In the last two decades or so, highly skilled professionals have moved with their own young fami-lies to much greener pastures. Their remittances are not on a monthly or a regular basis and their funds transferred were smaller. They are mostly confined to helping aged parents back home as their own needs in new homes overseas were more demanding.

Annual inflows of ODA have been declining along with fluctuations in FDI inflows to lower-middle-income countries (LMICs). However, inward remittances (REM) were on the rise, which reached a new high at $529 billion in 2018 (World Bank, 2018), before the Covid-19 pandemic, an increase of 9.6% from $483 billion in 2017. Unlike foreign aid, which has been on a declining trend during the last two decades, and foreign direct investment, which is often subject to fluctuations, REM receipts by India are seen steadily rising since 2009. Inward REM rose from US$49.2 billion in 2009 to an estimated figure of US$83.1 billion in 2019, the highest among all LMICs.

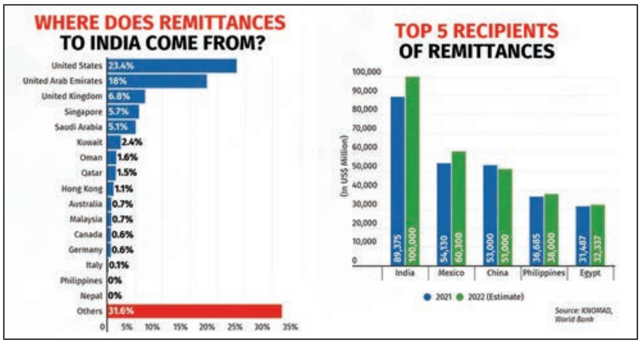
World Bank had categorised countries as follows: (i) low income countries are those with has gross national income (GNI) per capita being less than US$1,025 per capita; (ii) LMICs are with GNI per capita between US$1,026 and US$3,995; (iii) upper middle income with GNI per capita ranging between US$3,996 and US$12,375; and (iv) high-income countries with per capita GNI being $12,.476 and above.

The relentless spread of the Covid-19 pandemic from the first quarter of 2020 and the periodical emergence of new variants since early 2021 have caused a steep decline in economic activities in all countries. One of the early forecasts by international agencies including World Bank was that remittances on a global scale would decline by 20 percent in 2021; and to South Asia in particular would decrease by 25 percent. India, a low-middle-income country, which has been among the top ten REM recipient countries for last ten years or so, is expected to be adversely affected much more. However, actual data collected and reported a more pleasant news.

The latest figures released by World Bank's *Migtration and Development Brief 37* tell us that REM flows to low- and middle-income countries (LMICs) are estimated to have increased by 4.9% to reach $626 billion in 2022. The strong growth rate is noteworthy, coming as it does after a surge of 10.2% in 2021. For the world, remittance flows are expected to reach $794 billion in 2022. Remittances came to represent an even larger source of external finance for LMICs during 2022, relative to foreign direct investment (FDI), official development assistance (ODA), and portfolio investment flows. Excluding China, remittances stand as the premier source of external finance for LMICs since 2015, exceeding FDI flows and ODA

In 2022, India is estimated to have received $100 billion as REM inflows, the other nine top most recipient countries, behind India are: Mexico ($60 billion); China ($ 51billion); the Phillipines ($38 billion); Egypt ($32 billion); Pakistan ($29 billion); Bangladesh ($29 billion) and Nigeria ($ 28 billion).

An empirical study by (TK Jayaraman and Keshmeer Makun) published recently in an academic journal, *Remittances Review* (Transnational Press, London 2022) which covered a 30-year period examined the asymmetric effects of REM on India's per capita GDP by using a nonlinear methodology. Additionally, factors like ICT and the financial sector development are considered in an extended version of the remittance-growth relationship. The study findings reveal that the impact of the negative partial sum of decomposition of REM is higher than the impact of positive partial sum decomposition of REM, implying a greater adverse effect of declining remittances on per capita GDP growth. The study indicates measures for the future, as they seek to mitigate the adverse effects of fall in remittances due to unforeseen circumstances such as the pandemic and recession we faced in the past.



Above all, never think of killing the goose which lays a golden egg though only one a day. A central finance minister had wild thoughts of levying an annual tax on inward remittances some years ago. Had he done that, he would have gone down in the economic history of India how he "killed the goose that laid the golden egg a day thereby destroying a reliable and valuable source of income for ever". ■

— Dr TK Jayaraman, a former staff of Asian Development Bank, is a Visiting Research Professor, Faculty of Business, Accounting, Finance and Economics at University of Tunku Abduk Rahman, Kampar, Perak State, Malayisa. He is also the Honorary Adjunct Professor, Amrita School of Business, Bengaluru Campus. The views expressed are the author's own.