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The Economic Implications of Remittances on Economic Growth:
The Case Study of Pakistan

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ABSTRACT: The objective of this research is to study the wallop of remittances on GDP in Pakistan. Overall domestic product is versatile dependent. Remittances, foreign aid and investments are independent variables. A data of Pakistan is collected of 30 years (1985-2014) from WORLD DVELOPMENT IDICATORS. The model equation used in this data collection is based on Ordinary Least Square (OLS) method. Analysis shows that foreigners play important role in enhancing economy of Pakistan. There is positive relation between remittances and economy growth in Pakistan. If remittances are increased by 1% then 6.68% growth economy will increase. R square is equal to .9798, which means that 97% variation in dependent variable is due to independent variables.

Keyword: Remittances, Foreign direct investment, Foreign Aid and Gross Domestic Product.

1. Introduction

In 1970, foreign aids and remittances from other countries were an important source of exchange for Pakistan. But in recent years Pakistan has received more remittances from foreign countries and a huge change in them is seen. Flow of remittances affects economic growth rate, decrease he current account shortage, enhances the situation for balancing payments and decreases the rate on foreign aid dependency. Pakistan has received a large number of remittances in last four years and variability is seen in there flow. Chest, and Pakistan were the main suppliers of migrant workers that enhance almost any corner of the world. Other countries rely heavily on remittances from its emigrants in the 19 and 20. The operational definition of the World Bank, remittances are "workers' remittances Compensation of employees + + remittances" that are obtained from the balance of payments of accounts receptors and transporters. Remittances are invested for improving education, health and nutritional status.

Remittances from Pakistanis living abroad have played an important role in improving economy rate in Pakistan. These remittances are sent by foreign living Pakistanis to their motherland. Remittances are funds sent by migrants to their countries of origin. remittances not only the performance of individual receiver; benefits from local and national economies. It also plays an important role in increasing foreign exchange reserves of a country that increases the value of the local currency.

Remittances in Pakistan: Recently, the influx of remittances has at home in Pakistan created a history by crossing the mark of $ 12 billionth The amount of remittances to Pakistan totaled $ 2880000000 in 1982-1983, with a constant upward trend. The amount of transfers dropped to 1991 $ 1.84 billion in 1990 and from 1996 to $ 1997 1.4 billion. The increase in transfers from 1997 to 1998 is $ 1.48 billion, and from 1999 to $ 2,000 0980000000th period of remittances was increased to $ 4.23 billion in 2002-03 and 2003-04 was lowered to $ 3870000000th The actual amount of outside the country to $ 12,069,000 in the first eleven months of the year 2011-12 course. While people in advance that the main reason adopted recently increasing amount of remittances increases in interest rates in the country. According to sources, it is estimated that the country can bring about $ 20 million on an annual flow of remittances has all in the country, according to official sources supplied parts.

These situations show positive economic growth ahead. This can have a positive impact on important areas such as the exchange rate, exchange rate, current account and the overall balance of payments. Although the data show that the trade deficit is also an increasing tendency, which is to set resulting in the country a negative impact on the positive situation of the increase in workers' remittances. The inflow of remittances into Pakistan was usually change over time. Using the government's efforts to help the process of transfer of funds through several formal channels, Pakistan was a contribution of the sixth largest recipient of remittances in the year 2011th

Types of Remittances: First deliveries of the Family Fund. It refers to the remittances sent from a migrant labor in places abroad to their families, relatives or friends in their country of origin. Other payment are municipal payments. It refers to the delivery, which is transmitted by individual immigrants in general, and also includes the delivery of various organizations of local associations and communities in their countries of origin published. Also methods of payment are remittances from migrant workers. The discount applies to remittances from migrant workers to raise money for the family, friends and relatives to send home. And in the end, it is the payment of social transfers nominees. These transfers are chiefly composed of several ideas and practical applications are keystone of pick flow from one to other nation. These transfer of remittances help in communicating nations through traditions, relate to the cultures and traditions of other communities.

Economic Growth: Steady growth in the productive capacity of the economy (economic growth). For comparison of economic GNP/GDP growth of a country's growth should be used as these differences they have on the relationship people between countries.

Economic growth helps countries to move in positive and proper direction. The improvement of society depends on how much you grow for your country. An improving economy in a better position to meet the new requirements and decide social and economic problems at national and international level is like a significant role in economy. A growing economy, by definition, enjoy a real annual increase in production, which can be used to meet the current demands more successfully or start new projects. It is most important keystone for the improvement of a society. This improvement helps in betterment and heighten quantities of goods and services. It helps in ameliorating standard of living.

Objective of the Study: Following objectives are for this study.

- The wallop of Remittances on ECONOMIC GROWTH
- To study contribution of remittances on Pakistan's GDP
- To study effects of foreign investments on Pakistan's GDP
- To study effect of foreign aid in GDP in Pakistan

2. Literature Review

Chamí et al (2003) investigated the transfers may not affect human capital investment and a growth factor important to the analysis. 1993-2003.They used data found a significant negative impact on growth and on remittances, so that human capital is an important factor affecting growth, noting that growth translates the negative impact of lower remittances and more the positive impact on the increase in some other countries. Woodruff and Zenteno (2004) human capital and investment in beneficial not only affect health transfers. They have the effect of short transfers investigated for long-term economic growth and significant careers significant growth. Spatafore and Nikola (2005) analyzed the impact of remittances on economic growth compared with secondary data from 101 countries during the period from 1970 to 2003. The authors out uses capita remittances and growth statistically significant associations between them against . E Iqbal Sattar (2005) examines the positive growth estimate higher remittances data and economic time series period 2002-03 to 1972-73 is used to analyze a thought. Finally, there was the appearance of the effects of macroeconomic factors on remittances from real GDP growth.

Giuliano and Ruiz-Arranz (2005) financial assets is a good development that positively to the country's economic growth is related transfers. Measuring asked the economic development of the company fixed amount of credit from the banking sector are available and the debt to GDP. The result shows that it has a different way with less developed financial systems with the MCO for the 1975-2002 period, as expected that remittances have positive wallop on economic growth of a country. Catrinescu (2006) described poitive relation b/w remittances and economic growth of a nation. Habib and Nourin found inverse relation b/w GDP and remittances in various countries. McCaffrey et al on April 10 (2007), that the impact on growth will have a positive effect. Therefore, the impact of higher cash transfers as regards the increases of GDP. Goldberg and Levi (2008) found that the impact remittances have a long and important history of colonization. Pradhan and. to. (2008) found that remittances have a positive impact in the countries. Fayissa and Nsiah showed (2008) that have a positive impact on economic growth for the period 1980-2004 remittances and institutional variables. And Uddin Ahmed (2009) found that shipments because of means of exports to GDP growth only in the short term, and the reason for the growth of GDP in the long-term import. And Naeem Hussain (2009) concluded that the long-term relationship is the positive impact on GDP remittances. Emmanuel and .to. (2010) found that the effect of enhancing effects of transfer of remittances to boost economic growth, use of conventional ground. Paul et al (2011) found that the long-term relationship between remittances and GDP in the Bangladesh use the ARDL method using the period from 1976 to 2010. Paul and Anupam (2011) study on the long-term or short-term relationships of the variables showed production will not transfer. Showed the GDP and transfer variables collected by the World Bank for the period 1979 to 2009 Shah et.al (2011) shipments are coming and the actual analog delay effect (YT 1) significant economic growth in the context of Pakistan, Qayyum al (2012) they found that international labor migration is significant potential benefits for the poor to provide for developing countries like Pakistan.

After the theoretical framework, there are four variables used in this study, remittances are foreign direct investment, foreign aid and domestic product. The dependent variable is the gross domestic product (GDP) and the independent variables remittances, foreign direct investment (FDI) and foreign aid. after transfer theories FDI (FDI) and foreign aid, they all have a positive relationship with GDP. As the remittance foreign direct investment (FDI) and increasing foreign aid to GDP also increased, and vice versa.

3. Methodology

Methodology of the study is the branch of philosophy that analyze the principles and procedures of inquiry in a particular discipline. And it is Comprised of statement of the issue, hypothesis which is to be tasted, some research inquiry questions, population size, size of the data, process of data collection, choose some specific model and variables' definitions that are included in research analysis process and some specific tools of estimation. As far as for the purpose to study the impact of remittances on economic growth in Pakistan, As influx of remittances affects economic growth by decreasing current account These situations definitely prove cases and positive and advanced economic growth of the country. An increase in remittances to growing economy is in a better position to meet new needs and improving investment. The study shall also go a step further to measure the impact of remittances on economic growth.

Data and Sample Size: Our recent studies use four variable data on remittances that are obtained from world's development indicators (WDI) while data on foreign aid, GDP and FDI are also obtained from WDI. We use secondary data from 1985 to 2014 for analyzing the wallop of remittances.

The above explain data sources have been selected because they are the most authentic one and mostly used by every researcher. We used secondary annual time serial data for the years of 1985 to 2014 to analyze the wallop of remittances on Pakistan's economy growth. No. of observation is 30.

The relationship between Gross Domestic Product and others variables:

Remittances: Specifically, the author finds no statistically significant link between international remittances and GDP output growth. The author also finds no significant link between remittances and foreign direct investment (investment/GDP), or between remittances and education. Economic growth and inflation are both positively or negative correlated. However, there are some dangers of foreign aid that need to be considered.

Foreign Aid: GDP is a measure of the aggregate production rate in the country of final goods and services in a given period. In literature, the researchers are interested in the speed with which countries the gap between their current positions and the desirability of long-term growth trajectory. A large number of researches have been done and have focus on the wallop of external aid on economy growth in Pakistan's case.

Many of the researches have concluded inverse and not a significant relationship between economy growth and external aid.

Foreign Direct Investment: A huge number of studies are taken that have affected on the wallop of foreign aid on economic growth in Pakistan. Most of the studies found its inverse relation b/w foreign aid and economic growth. the analysis of long and short term relation b/w FDI and GDP.

Results show positive relation b/w FDI and GDP overall. Remittances directly enhances the recipients' income and help FDI in human capital. Remittances contribute to the standard of living and FDI and boosts up economic growth. FDI increases GDP directly in long run and short term too. This study explores the aggregate wallop of remittances on economy growth of Pakistan.

Model Specification with Operational Definition of Variables: We use the following model in the form of equation to investigate the impact of gross domestic product along with the remittances, foreign direct investment, and foreign aid.

GDP=B_0+B_1 (AID) +B_2 (FDI) +B_3 (REMITT) +u

GDP=Gross domestic product measure as GDP (current US $).

REM=Remittances measure as worker remittances (current US$).

FDI= FDI measured as Foreign direct investment net inflows (current US$).

AID=Foreign aid measured as total foreign aid (current US $).

U=Error term

Estimation: This research's model is estimated by ordinary least square (OLS) method. OLS considered best linear unbiased estimators, which are more suitable for simple linear regression model.

4. Results and Discussion

The model equation for this analysis is done by simple least square method. The purpose of OLS is to possibly fit a function through the data by decreasing the sum of square errors from the data. OLS helps for calculation of results and to found out impact if remittances.

GDP= f (FDI, AID, REM)

Dependent Variable is GDP
Least Square Method used

Sample Size: 30

Ind-Variables	Betas	St.Error	T-Statistics	Significance.
C	9.55E+10	5.62E+14	0.000170	0.9999
AID	-36.39708	9.432347	-4.177027	0.0259
FDI	5.292254	1.613906	3.279159	0.0031
REMITT	9.682016	2.702353	3.582666	0.0406

R. Square	Ad-R. Squares	DW Stat
.9798	.9616	1.3834

Four variables are used in our present study. Gross domestic product (GDP) is the dependent variable and foreign direct investment (FDI), Foreign aid (AID), Remittances (REM), is the independent variables. We used secondary data from the period 1985-2014 and the total number of observations is 30.

Individual Coefficients and its Significant: Now, individual coefficient results in the use of regression to make quantitative to predictions of one variable from the values of another (regression analysis). First column shows standard value of coefficients. The second column shows the standard error of regression. Third column describe the value of T-test and level of significance shows in the last column.

B_1 is the coefficient of foreign aid and its value is -36.39708, negative sign, which describe that is 1 unit increase in external aid then 36.39 units declined in gross domestic product.

The standard error's value is 9.432347 and the T-value of it is -4.177. It is significant at level 5% and its value is 0.025, which shows that this variable has 93% confidence level. **B_2** shows the response of foreign direct investment and its value is 5.29, it shows positively and significantly affected to dependent variable (GDP). It shows that GDP will increase 5.29 units if 1 unit increases in foreign direct investment. The standard error of this variable is 1.6 and its T-value is 3.27. This variable is highly significant because its probability value is 0.003, which shows that it has 100% confidence level. The value of $\mathbf{B_3}$ is 9.68, which shows that there is positive relationship between remittances and GDP. If 1 unit increases in remittances, 9.68 units will increase in GDP. Value of probability of this variable is 0.04, which shows that this variable is 96% significant.

R square: R^2 shows that what is the total variation in dependent variable only due to independent variables and it is also describes the goodness of the model. Here the value of R^2 is 97.9 which shows that the model is 98% fitted and 98% variation in GDP growth only due to independent variables (foreign direct investment (FDI), Foreign aid (AID), Remittances (REM))

Adjusted R square: Adjusted R^2 of the R^2 is described the goodness of the model including degree of freedom which is more efficient than simple R^2. Here its value is 96.1. This shows that there is 96% variation in dependent only due to independent variables with adjusting the degree of freedom.

Durbin-Watson Statistic: The value of D-W test shows the autocorrelation. Here D-W value is 1.38 which shows that there is no autocorrelation in the model.

5. Conclusion:

The conclusion of this conduct to analyze impact of remittances on economy growth in Pakistan. In the same analysis, the affect of some other variables….independent variables. Time series data used from 1981 to 2010. model equations obtained by OLS. Finally obtained results "remittances have positive effect of gross domestic products in Pakistan. Results show that only 1% increases in remittances then 6.68 percent increase in gross domestic product. While the results of other variables are foreign direct investment has positive and significant effect on gross domestic product in Pakistan. However the of foreign aid has negative and insignificant effect on the gross domestic product in Pakistan.

The policy implication is that the remittances should be consider as the key tool with traditional growth engine same as exports and FDI in improving long run economic growth and success of the country.

Still, while remittances could have a significant impact on the growth of economy, governments in the purpose and source countries should aim to kindle the results of foreign flows.

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