

# The role of financial development and institutional quality in remittance-growth nexus in Asia

## ABSTRACT

Workers' remittances represent up to 47 percent of gross domestic product in some Asian countries. Also, workers' remittances to the Asian region were estimated to reach \$256 billion out of \$483 billion received by developing countries. However, the growth effect of workers' remittance in Asia has, over the years, remained an open empirical question. To this end, this study examines the impact of workers' remittance and its interactive effects with financial development and institutional quality on economic growth. The study used a partial Gram-Schmidt orthogonalization procedure, which enable us to examine whether the marginal effect of workers' remittances depends on the degree of financial development and institutional quality. It also used a Pooled Mean Group (PMG) estimator on panel dataset for a period of 1984-2010 from fifteen (15) remittance-receiving Asian countries. The results of this study shows that, workers' remittance impacts positively on economic growth in remittance-receiving Asian countries. But, the growth effect is higher in Asian countries with improved financial development but relatively weak institutions. According to the findings a percentage point increase in per capita workers' remittance leads to a long-run increase in per capita income by 0.103 percentage points. Moreover, the marginal effect of workers' remittance on economic growth rises with increase in the degree of financial development. But it declines with improvement in institutional environment. The partial derivative of economic growth with respect to workers' remittance at the mean level of financial development is 9.733. Similarly, the derivative evaluated at the minimum and maximum levels of financial development are found to be 1.355, and 32.087 respectively. The proportions of these derivatives at different levels of financial development showed that the marginal growth effect of workers' remittances rises with increase in the degree of financial development in remittance-receiving Asian countries. However, the partial derivative of economic growth with respect to workers' remittance at the mean level of institutional quality is -12.068. But, the partial derivative computed at the maximum and minimum levels of institutional quality take the value of -15.945 and -6.785 respectively. This suggests that the better institutional environment is in a country the lesser will be the growth impact of workers' remittance. Overall, the result suggests that workers' remittance and financial development work as complements in enhancing economic growth. However, the former and institutional quality act as substitutes in promoting economic growth.

**Keyword:** Worker's remittance; Financial development; Institutional quality; Economic growth