# India top receiver of migrant remittances in 2007, followed by China and Mexico

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INDIA beat China, Mexico, the Philippines and France to become the top recipient of migrant remittances in 2007, the latest *World Bank Migration and Remittances Fact book 2008* reported. India received $27 billion from Indian expatriates last year, followed by China ($25.7), Mexico ($25 billion), the Philippines ($17 billion) and France ($12.5 billion).

"In case of India and many other countries, remittances provide a very large source of foreign exchange to finance critical imports such as oil or even food. So there is a huge impact at the macroeconomic level. But at the individual and household levels, the impact is even more striking because for a lot of poor people, remittances are usually all they have," said Dr Dilip Ratha, senior economist, Development Prospects Group, and manager, Migration and Remittances, The World Bank, who co-authored the Fact book with economist Zhimei Xu.

Ratha added that it remains to be seen to what extent the remittance surges would impact India's exchange rate. Empirical economic research has determined that remittances lead to real exchange rate appreciation in the receiving country. This is especially true in the case of smaller, developing economies.

While South-South migration nearly equals South-North migration, wealthy countries are the main source of remittances, led by the US at $42 billion in 2006, the Fact book stated. Saudi Arabia ranks as the second largest followed by Switzerland and Germany. For 2007, remittances flows worldwide are estimated at $318 billion of which $240 billion went to developing countries. These flows do not include informal channels.

The study was based on data from the International Monetary Fund (IMF) *Balance of Payments Statistics Yearbook,* which in-turn directly receives data from the Reserve Bank of India (RBI). "In the case of India, the two relevant variables are workers' remittances and compensation of employees. We add the two," said Ratha.

Workers' remittances are remittances made by migrants who are residents of foreign countries for at least a year. Migrants who have been abroad for less than this period are categorized as non-residents, and therefore providers of labor services on an export basis. Their remittances are classified as compensation of employees. The bulk of remittances to India were in the former category, while the latter consisted of less than $0.5 billion for 2007, Ratha said. "But both have the same sort of impact on development," he said.

Ratha said the study did not include demographic categories such as the age, gender and skill-set of individuals who remit funds back home, primarily due to the unavailability of such information on a global scale. "The impressionistic, anecdotal facts are that there is more mature migration in the West. There are a lot of Indians who have been coming to the United States or Europe for a long time, and they are well established. They tend to be highly skilled like doctors, scientists, economists, engineers and now, of course the IT types," he said.

In contrast, in the Gulf region, another major destination for Indian migrants, the skill-mix is more skewed towards relatively unskilled workers who are employed in the construction and service sectors, Ratha pointed out. Most migrants to the Gulf are not given immigrant status even if their children are born there. "That implies that when they leave their jobs, they have to go back to India. When they do that, all their assets and savings they have accumulated over time also become remittances," Ratha said.

**Dr Dilip Ratha, senior economist, Development Prospects Group, and manager, Migration and Remittances, The World Bank**

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But even the historically immigrant-friendly West faces an increasing trend in out-migration by Indians who are returning to their country of origin in the wake of a booming Indian economy and lackluster economic outlook in the US. Indian immigrants in the US are also channeling their savings to India for investment purposes.

"There has been a very big upswing in remittances to India from the US because more people are servicing their wealth management needs in India," said New York-based Dave Majumdar, head of marketing for South Asia, Western Union Company. "In the past year, there has been a growth of between 15 and 20 per cent in remittances to India through Western Union. I've not seen any impact of the US recession on remittances to India or other South Asian countries."

In line with the surge in funds transfer, the company expanded its agent locations in India by nearly four per cent in the last year to more than 50,000 locations. Western Union charges customers a fee of $10 per transfer, which increases by $5 for each additional transfer of $500. "The money transfers in minutes," claimed Majumdar.

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According to Mumbai-based Sanjay Nair, global head of HSBC NRI Services, "There has been a marked increase in NRI remittances from the US. The volume of remittances from the US has gone up by 60 per cent in the first two months of 2008 compared to the same period last year."

Currently, the bank has more than 17,000 NRI customers in the US. "HSBC has made it quite convenient for NRI customers to send money home through its free remittance offerings such as Fastcheque, Fastclick etc. Competitive exchange rates offered by HSBC also act as an attractive proposition to NRI customers," Nair said. "Both our customer base as well as the value of remittances have seen a steady increase driven by our acquisition strategy and focus on the free remittance proposition."

At ICICI Bank, whose Money2India remittance service is offered free of cost to the customer, technology-enabled products that ride over traditional correspondent banking channels have helped reduce costs while introducing convenience. The bank has seen an upswing both in an increase in the volume of funds sent by existing customers as well as an increase in its NRI customer base. "The growth in the US-India remittance market (for all players) is believed to be in the range of 40 per cent last year," said G.V.S. Ramesh, New-York-based head of ICICI's NRI Services, US.

"Remittances through us has gone up by at least 30 to 40 per cent in the last year," said Pradeep Kumar, head of NRI Services in the US, State Bank of India (SBI) in New York. Currently around 10,000 individuals in the US transfer funds through SBI to India. "A large amount in the last two years are for investment purposes in India," Kumar pointed out.

This year, SBI is set to tie-up with more Indian banks across the US to provide the customers of those banks with money transfer services.

According to Ruchika Kohli, director of marketing at San Francisco-based *Xoom.com*, India is one of the key countries for the firm for remittances. "We have a very robust growth projected for the coming year," she said.

*Xoom.com* claims to transfer money within 48 hours to India with pay-out options such as bank deposits at any bank in India, money pick-up at over 4,400 locations (set to increase in the current year), and home delivery. Remittance fees start at $5 and all transfers above $700 are free for users of the firm's value service.

Ratha commended the Indian Government for reducing barriers to remittances. He referred to the liberalization of outward remittances for current account purposes. "Individuals can send money abroad to their child for education, for purchasing airline tickets etc. The access to the dollar has improved. That means the incentives for NRIs to send money home have increased as well because if need be, they can take the money (out of India)," Ratha said.

In February 2008, the Federal Bank launched Fed-India Remit Service, a web-based service for remittances from NRIs in the US. More information is available at *https://www.fednetbank.com/fedremit/fedremit_help.htm.*

### Impact of remittances on India's current account

According to a Reserve Bank of India press release, despite India's large merchandise trade deficit, higher net invisible surplus, mainly emanating from private transfers, contained the current account deficit at US $10.7 billion in the first half of 2007-08.

According to GDF working estimates, remittances to India last year amounted to 56 percent of net Foreign Direct Investments (FDI), private debt, and portfolio equity, which amounted to a combined $48.3 billion for the period. Remittances surged steadily from $12.9 billion in 2002.

A December 2005 International Monetary Fund (IMF) working paper titled *Macroeconomic Determinants of Remittances: Evidence from India* authored by economist Poonam Gupta, formerly with the IMF, stated that "The buoyancy of remittances has been instrumental in substantially reducing the current account deficit in the past few years. They have also been one of the most stable flows in the balance of payments accounts of India."

The paper analyzed the macroeconomic factors that might explain the dynamics of remittances to India and concluded that the surge in remittances during the 1990s was partly due to an increase in the number of migrants to countries such as the US, Australia, and Canada.

Prachi Mishra, an IMF economist in Washington, D.C., said remittances would continue to remain strong, going forward. "The US economic recession could be a factor in a surge in remittances for investment purposes because the Indian economy is doing well," she explained.

Ratha added that since remittances bypass inefficiencies associated with flows from intermediaries like official aid or even foreign investments, they reach the right person at the right time.

Ratha, 45, should know. His own life experiences make him the antithesis of the armchair economist who merely espouses economic theory. Born in the tiny village of Sindhekela in Orissa, Ratha obtained a master's degree from Jawaharlal Nehru University in New Delhi, after which he aspired to come to the US for a Ph.D. But at the time, his younger brother had graduated from the village high school and needed funds to go to college outside the village. "I had to take a job or else my brother could not have gone to college," said Ratha, who was awarded a teaching assistantship by the Indian Statistical Institute, from where he obtained a Ph.D and eventually moved to the US on a fellowship.

"The reason my family escaped from the modest lifestyle of Sindekela to something better was entirely due to my ability to send remittances first from Delhi, and later from the US. It helped to educate my brother and then my sister, and (pay for) medical expenses for my parents and also for the purchase of a house in the village," Ratha said. "This house is now on Google Earth! I can't believe it!" he chuckled.