Chapter 4

On the Evolutionary Interplay Between Remittances, Financial Development, and Economic Growth: Evidence From MENA Countries

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ABSTRACT

In this chapter, the authors attempt to investigate the interaction between remittances and financial development and its impact on the economic growth over the period 1980-2016. In this respect, they apply the autoregressive distributed lag bound test (ARDL) approach on cross-country of data series from 1980 to 2016 to study the short- and long-run relationship of remittances and financial development with economic growth. The empirical results show that the direct effects of shipments on growth are significant. On the other hand, the impact of remittances on economic seems to be more significant by means of the financial development. It also shows that these shipments are more efficient in the case of a less developed informal sector, a politically stable economy, and a developed financial structure.

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INTRODUCTION

Broadly speaking, remittances represent the cross-broader earnings that migrants send to their families staying behind (i.e. their countries of origin). According to Nyamongo et al. (2012), these transfers can be channeled via unofficial or official channels. Unofficial channels imply: 1. sending remittances by means of cash or in-kind transfers by carries (e.g. family members, friends); 2. funds remitted across unlicensed money transfer operators using traditional networks (e.g. hawala) and 3. money or goods taken by the migrant on her/his seasonal visits to her/his homeland. Official channels imply transfers using the money-transfer organizations and the banking system. Unofficial channels seem to be most attractive given that their cost of transactions is lower than the official channels and they do not require any complex bureaucratic procedures. As reported by Giuliano and Ruiz-Arranz (2009), remittances can be considered as an alternate to debt which can mitigate individuals’ credits in countries where micro-financing is generally unavailable.

Following foreign direct investment, remittances represent a key source of foreign financing in developing countries (Batu, 2017) and protrude official development assistance and portfolio investment in many developing economies (Ratha, 2003). Many researchers reveal that remittances diminish poverty and inequality (Adams and Page, 2005), promote investment (Woodruff and Zenteno, 2001), improve financial development (Aggarwal et al., 2011) and affect institutional quality (Berdiev et al., 2013). Remittances are spent on consumption goods, thereby serving recipients to enhance their welfare. This has consequently made remittances to gain prominence among researchers in economics, policy and migration studies.

Obviously, remittances make an important socioeconomic contribution via official and unofficial channels on different sectors of economy and utterly on the economy’s growth (Rao and Hassan, 2012). In this respect, Azman-Saini, et al. (2010), among others, external factors such as imports and remittances become essential for supporting economic growth, especially for the small developing economies.

Leafing through the literature on remittance effectiveness show mixed empirical findings. Adams et al. (2016) report that remittances contribute noticeably to GDP and household livelihoods in several developing countries. Glytsos (2002) indicates that remittances influence positively the economy by
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