ROLE OF FOREIGN REMITTANCES, FOREIGN AID AND FINANCIAL DEVELOPMENT IN DETERMINING HUMAN DEVELOPMENT OF SELECTED ASIAN COUNTRIES

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ABSTRACT

Foreign Remittances play a key role in improving growth and development in economies. The inflow of global remittance in developing economies has been observed as increasing extremely since 1990. This study analyzed the impact of remittances, foreign aid, and financial development on human development in selected Asian countries. We have used a random effect technique in this research. Our study results highlight that increased remittances and foreign aid have enhanced living standards and human development in the concerned Asian economies. Moreover, the role of financial development is to contribute towards human development along with increased urban population. Considering the study results, it is recommended that there should be much focus on remittances inflow in Asian economies. These countries must attract more aid by improving their growth and development policies. There should be more access to easy credit facilities for high investments and employment opportunities for the masses in these countries.

Keywords: Remittances; Foreign Aid; Financial Development; Human Development; Asian Countries.

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INTRODUCTION

It has been observed for many years that developmental policies were used by numerous countries to prioritize trade liberalization and financial upgrading. The Asian and Pacific region were not exceptional cases. The existing tremendous development in Asian economies’ financial markets, predominantly with the current expansions in credit markets, is definitely to endure. Supposedly, hard work to improve financial markets is required to substitute serious economic actions with the resource distribution procedure, monetary policy application, and administration borrowing (and expenses). Remittances also have a contributing role in high growth chances and more human development in economies. The inflow of worldwide remittance in emerging economies seemed to be increasing intensely since the 1990s, from US$30 billion in 1990 to US$325 billion in 2010, and it has arisen as the greatest significant basis of private capital flows for lots of such economies (World Bank, 2011). In line with the 2005 Human Development Report, there is an overall agreement that overseas aid's basic aim should be to improve human development. For human development, there should be increasing growth of the economies. South Asia’s economic growth observed over the past three decades has been distinguished by a threefold boost in GDP per capita. The economic output of the region has been observed to be very high and at a sustained rate.
This is due to being amongst the best ever-growing regions in the world. However, such improved growth has not been capable of completely interpreting enhanced human development outcomes, particularly those of South Asia’s most susceptible populations. Though aggregate human development measures like life expectancy, gross enrolment ratios, and infant mortality rates have become better, these are regional and sub-national variations. The region at a standstill takes a high load, with around half a billion deprived citizens (on less than US$1.25 a day) attached with increasing income disparity (HDSA, 2015).

The Human Development Index is a quantifiable size on human development familiarized by the United Nations Development Program for measuring living standards in numerous economies. UNDP established the three constituents of HDI that comprise an extended and fettle life, the option to obtain educational awareness, and having an approach towards resources required for better living standards. On the other hand, these constituents of indicators are life expectancy, literacy rate, and per capita incomes. The HDI index ranges from 0 to 1, with a low index value showing that the nation has a short life expectancy, low rates of adult literacy, and a low per capita income; however, a high index value shows the contradiction (Gormely, 1995). Dudley and Montmarquette (1976) familiarized three donor reasons for providing official development assistance. Initially, donors imagine beneficiary states to fund contributors’ benefits, principally in the sphere of global politics. Furthermore, beneficiaries may be involved in trading activities further with contributors, advancing the donors’ financial benefits. In conclusion, contributors may be content that their assistance benefits recover the living standards of inhabitants of beneficiary states.

Urbanization is important for high growth and development. Urbanization contributes much towards development. It is formally defined by the United Nations as “the crusade of persons from countryside to urban parts” at the commencement of the 21st century (Shen et al., 2011). Worldwide inhabitants have been rising speedily in recent decades, chiefly in underdeveloped economies, and urbanization is documented as a better resolution for dealing with huge global population growth (Tzoulas et al., 2007). Together with the firm development procedure, a quick aggregate number of persons are becoming metropolitans, and human beings are trusting further deeply fake in addition to normal arrangements of a metropolitan to live there (Oh et al., 2005). The attainment of maintainable development has been a centrally noteworthy objective for urban organizers and urban administrators (Singh et al., 2009). However, city executives and organizers frequently fail to assume timely and suitable valuations on the conditions of urban supportable development, mainly in emerging economies.

The present research explores the impact of overseas money transfers, international assistance, and economic growth on human well-being in certain Asian countries. Additionally, this work aims to offer insights for decision-makers about key elements that connect financial aid, remittances, economic progress, and enhanced human development.

**Hypothesis**

The major hypotheses of this research are given as:

H1: There is a positive relationship between human development and foreign remittances.
H2: There is a positive relationship between official development assistance and human development.
H3: There is a positive relationship between the financial development and the human development.
H4: There is a positive relation between urban population and human development.

**LITERATURE REVIEW**

Many studies have been made on the association of foreign remittances and human development. However, a link between other major variables and human development has been observed here in this section. Foreign aid has played a substantial role in enhancing and improving human development. Focusing on it, Lebovic (1998) and Poe (1992) have highlighted that political and military benefits contributed much to
promoting communal development aid policies. Financial development also promotes economic growth and development. For this, Rajkumar and Swaroop (2008) analyzed the role of financial development in determining human development by using data from 1970 to 1990 in developing countries. The study concluded that development was increased by increased financial development. Institutions played a significant role in enhancing development. Rajkumar and Swaroop (2008) also found that improved quality of bureaucracy and corruption has increased human development in economies. Lin (2008) highlighted the association of official development assistance and human and educational development in Southeast Asian economies. The authors have taken data from 1990 to 2004 and found that, overall, foreign aid has improved human development.

Aid is seen as essential for boosting economic growth. Considering the noteworthy role of aid, Shirazi et al. (2010) revealed that aid led to an increase in education, life expectancy, and human development. Poor nations can be developed due to improved basic infrastructure facilities. Ngwenyama et al. (2006) have investigated the role of health and education in improving development of African countries. They found that efforts for making better infrastructure like health have enriched the development here. Wei et al. (2015) highlighted urban development in determining sustainable development in China. It was found that urban development has enriched urban sustainability. The study suggested further development. Shah (2016) focused on determinants of human development. It was found that aid has boosted the development of countries. It was suggested that better policies must be made for further development.

Le and Tran-Nam (2018) used data from 1961 to 2011 and investigated the impact of trade liberalization, financial modernization, and economic development of Asian economies. The results indicated a positive link of trade, financial development, and human development. Lee et al. (2019) also determined the influential role of aid on human development by using data from 2006 to 2016 in 15 Asian countries. Findings revealed that ODA has a very effective role in the upgradation of human development. It was also found that aid for education and health effectively enhanced human development. Khan et al. (2019) focused on how ICT can affect human development by using data from 1990 to 2014. Findings showed that urbanization, foreign direct investment (FDI), and trade have promoted development in these economies.

Wang et al. (2019) also focused on the association of carbon emissions and human development in OECD economies. Findings indicated the unidirectional causality of globalization and human development index towards carbon emission. Yiheyis and Woldemariam (2020) have focused on how official development assistance and remittances affected human development in African countries. It was shown that such foreign aid has upgraded human development. Hornet and Desoysa (2022) have used OLS and the fixed effect method to focus on how women’s empowerment has affected the development of economies. Findings highlighted that women empowerment has increased human capital in Asian and African countries. Dash (2022) used data from 2004 to 2018 and showed how remittances may affect development. It was shown that remittances have increased human development and investment. Mohammed (2022) focused on how remittance institutions affect the human development of Sub-Saharan African economies. The data was drawn from 2004 to 2018. The result showed that remittances flow improved development with the help of some better-quality institutions.

Xia et al. (2022) showed human capital development in 10 major remittance receivers’ economies using data from 1980 to 2019. It was found that there is a positive link between remittances and human capital development. Lee et al. (2019) showed how remittance inflows affected human development in OIC countries from 1990 to 2018. The study revealed that a significant portion of the money sent from abroad has enhanced human development. Tatli (2022) used data from 1990 to 2017 and found the role of major variables in improving development. Results indicated that energy consumption, CO2, official development assistance, mean years of schooling, life expectancy at birth, and employment to population ratio have improved human development.
METHODOLOGY

The current study focuses on the role of remittances in improving human development in 9 Asian economies (such as Pakistan, Bangladesh, India, Sri Lanka, Indonesia, Philippines, Malaysia, Jordan, and China) from 2003 to 2018, concerning variables such as personal remittances, official development assistance, financial development, and urban population. The Human Development Index is used as the dependent variable to gauge the level of human development. Data on major factors is utilized from World Development Indicators. The random effects approach was employed to examine the impact of overseas remittances, foreign aid and financial development on human development across Asian nations.

Model Specification

Remittances and official development assistance enhance growth and human development based on the random-fixed effect technique (Sobiech, 2019; Yiheyis & Woldemariam, 2020). Following the methodology of Sobiech (2019), Yiheyis and Woldemariam (2020), and Kamalu et al. (2022), our study implies that how remittances, official development assistance, financial development, and urban population have boosted human development in Asian countries through using random effects.

For this, the model is considered as:

\[
\text{HDI}_{it} = \beta_0 + \beta_1 \text{REMT}_{it} + \beta_2 \text{OFDAS}_{it} + \beta_3 \text{FINDV}_{it} + \beta_4 \text{URBP}_{it} + u_i
\]

Where the subscript “i” reveals the selected, precise countries (i = 1...9 for selected Asian countries), however, “t” indicates time specification. Where HDI_{it} shows the human development index stated by life expectancy at birth, literacy rate, and standard of living measured by GNI per capita. REMT_{it} is the foreign remittances, OFDAS_{it} implies official development assistance ($ US million). FINDV_{it} shows the financial development index (bank deposit ratio % of GDP, domestic credit to private sector % of GDP, stock market capitalization % of GDP), and URBP_{it} indicates urban population % GDP.

RESULTS AND DISCUSSION

Here, we highlight the major factors contributing to the human development of selected Asian countries. Table 1 signifies the summary data of the apprehensive variables being used in existing research. There are large variances in the figures considered here. Regarding the human development index, the sample ensures economies partaking index ranging from 0.471 percent to 0.809 percent. On average, remittances through Asian countries were 5.7496 percent from 2003 to 2018. Likewise, variations are realized in the financial development index ranging from -1.2070 to 2.2358, together with other factors. On average, the log urban population is 46.4099 percent.

Table 1. Descriptive statistics of the variables used in the study.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Obs.</th>
<th>Mean</th>
<th>Std. deviation</th>
<th>Minimum</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDI</td>
<td>144</td>
<td>0.6748</td>
<td>0.1022</td>
<td>0.471</td>
<td>0.849</td>
</tr>
<tr>
<td>REMT</td>
<td>144</td>
<td>5.7496</td>
<td>5.0525</td>
<td>0.1460</td>
<td>21.5889</td>
</tr>
<tr>
<td>OFDAS</td>
<td>144</td>
<td>1.1018</td>
<td>1.8311</td>
<td>-0.2875</td>
<td>12.7956</td>
</tr>
<tr>
<td>FINDV</td>
<td>144</td>
<td>0.1723</td>
<td>0.9091</td>
<td>-1.2070</td>
<td>2.2358</td>
</tr>
<tr>
<td>URBP</td>
<td>144</td>
<td>46.4099</td>
<td>20.2152</td>
<td>18.196</td>
<td>90.979</td>
</tr>
</tbody>
</table>

Empirical Estimations

Table 2 shows the results of random effects, and the human development index is observed as the dependent variable. Hausman specification test signifies random effects as the probability of \( \chi^2 \) is 0.2203. Remittances play a significant role in determining high economic growth and development. A lot of private and public sector investments can be made possible. People make better their financial conditions and improve their quality of life. In this way, remittances play a major role in enhancing human development. The variable’s coefficient is on the up-and-up, showing that if remittances go up by just 1%, human
development in Asian economies bumps up by 0.0039%. This lines up with what Xia and their team found in 2022 (Xia et al., 2022).

Table 2. Results of Random Effects.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficients, Standard Errors and T-values</th>
</tr>
</thead>
<tbody>
<tr>
<td>REMT</td>
<td>0.0039* 0.0011 (3.43)</td>
</tr>
<tr>
<td>OFDAS</td>
<td>0.0061* 0.0017 (3.55)</td>
</tr>
<tr>
<td>FINDV</td>
<td>0.0262* 0.0091 (2.87)</td>
</tr>
<tr>
<td>URBP</td>
<td>0.0047* 0.0060 (7.93)</td>
</tr>
<tr>
<td>C</td>
<td>0.4427 0.0449 (9.86)</td>
</tr>
<tr>
<td>R-Square within</td>
<td>0.58</td>
</tr>
<tr>
<td>R-Square between</td>
<td>0.59</td>
</tr>
<tr>
<td>R-Square overall</td>
<td>0.61</td>
</tr>
<tr>
<td>Wald chi2</td>
<td>164.43</td>
</tr>
<tr>
<td>Probability</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Note: z-Values are in parentheses; *** p<0.01, ** p<0.05, * p<0.1; dependent variable is human development index.

Official development assistance variable also play a significant role in determining the human development of selected Asian economies. It makes improvements in the lifestyle and finances of people. Results show that a one percent increase in foreign aid is caused by 0.0060 increased human development in selected Asian economies. It reveals that such kind of aid is allocated towards sectors very appropriately and leads to enhancing human development. The finding is according to a study by Lee et al. (2019). Financial development is imperative for a growing economy. It contributes much towards high investment chances and development. People become entrepreneurs by approaching some credit facilities by banks and financially sound. They improve their earnings and living standards. So, it improves human development. It is found that a one percent increase in financial development results in a 0.0262 percent increase in the human development index. The finding is in line with the result by Le and Tran-Nam (2018).

Finally, the urban population also seems to be enhancing human development. In metropolitan areas, much of the population is skilled and educated and has much potential for availing jobs and earning incomes. Such kind of population is contributing much towards human development. One percent increase in urban population has led to enhanced human development by 0.0047 percent in selected Asian economies.

**CONCLUSIONS AND RECOMMENDATIONS**

We have emphasized on the role of remittances in improving human development in some selected Asian economies. This study also reveals how official development assistance with financial development and urban population has improved human development in Asian countries. Random effect results show that foreign remittances and official development assistance have improved human development in these economies. Moreover, financial development and urban population also play a positive role in determining
human development in these economies. It is shown that human development is upgraded and boosted due to remittances and foreign aid. It is concluded that increasing aid and financial development seem to be contributing much towards high human development. In view of the findings, it is suggested that a more stable economic and political environment attracts more investment in these economies. Much focus should be placed on equal, high, and free education for people to contribute to the workforce in metropolitan areas. The government must provide credit facilities and easy investment chances to people to improve human development. All such suggestions must be helpful in boosting human development in these economies.

REFERENCES


