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Impact of Foreign Remittances, Foreign Direct Investment and Financial Development on Human Development of Selected Asian Countries

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ABSTRACT

Foreign remittances play a contributing role in determining the growth potential of the nations of the world. Considering its significant role, the existing research has analyzed the major factors affecting the economic growth of some selected Asian nations. The data was utilized from 2005 to 2020 in some selected Asian countries. Human development was used as the dependent variable. However, foreign remittances, financial development and foreign direct investment, trade openness and labor force participation rate were taken as independent variables. The OLS regression results indicated that foreign remittances, foreign direct investment, and financial development led to enhanced nations' human development. It was also found that trade openness and labor force participation also boosted the human development of the Asian economies. The findings suggested that the Government must focus on remittance inflow in concerned economies. These economies must have stable financial and political environments to attract more investment from foreign countries and have more production and human development. Finally, the Government should make credit facilities access and process very easy for the people of communities to increase investment, earnings, and economic growth.

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INTRODUCTION

A remittance is money the general public earns abroad that is sent back to their nation (Martin, 2016). Its role is vital in most nations' communal buoyancy and the progression of family well-being (Sikder and Higgins, 2017). Remittances more or less around the globe have been escalating and, at present, comprise more than thrice the official development assistance in low-and middle-income nations. The flow of remittances towards underdeveloped nations is a magnet for ever-increasing consideration due to their increasing size and their outcome on the economies being developed. In 2006, they were estimated to be US$221 billion, twice the official assistance developing nations received. Remittances through informal channels could be inserted as a minimum of 50% of the internationally verified flows (Gupta, et al., 2009). Remittances are essential to the financial sustainability of numerous families, villages, and economies. At the household level, such private transfers lessen poverty, add to health outcomes and education, and make possible asset accretion and business arrangements (Frank and Hummer, 2002; Yang, 2008; Zhunio et al., 2012).

The beginning of the Sustainable Development Goals has shaped a significant defy in financing the actions desirable to attain them (Frone et al., 2020). Hence, experts and researchers are paying attention to the significance of various monetary flows and their competence in determining objectives for sustainable development. Much significance has been noticed in the role of remittances and foreign investment in development (Comes et al., 2018).

High economic growth and development also depend on the flows of remittances in the nations of the world. For this reason, remittances also contributed significantly to escalating growth probability and more human development in developing countries. Rapidly increasing urban growth has provided much possible financial funding for neighboring managements, which made cooperation with the administration to make better urban transportation and prop up urbanization. Simultaneously, this funding proved favorable for local governments to launch local business and economic development by imposing cheap land strategies to appeal investments (Whiting, 2011).

Trade openness also affects sustainable human development by influencing almost all sustainable development goals and human development features. Trade enhances growth and production, makes advancements in technology, lessens poverty, and may have effects on the environment. Furthermore, globalization also led to improved economic development (Asongu and Odhiambo, 2020a; Jain and Mohapatra, 2024).

Foreign direct investment overflow influences make stronger competition, extend novel expertise, and arouse growth investment levels. Certainly, foreign direct investment creates growth chances and thus considerably affects the culture of a group. The theoretical base is relevant to the idea that foreign direct investment leads to better economic growth (Okada and Samreth, 2014).

The globalized world provides a high-quality chance for MNEs to do bigger business in overseas economies to maximize their profit. Globalization also provides good quality chances to underdeveloped nations in order to appeal to foreign direct investment, which is crucial for filling the gap between preferred investment and household saving for increasing growth and poverty reduction. Foreign development investment magnetism turned out to be subsequently necessary strategy in the developed policies in these nations and it has helped to a high foreign direct investment inflow in emerging nations since the 1990s (Mold, 2004) as the human capital and the transportation in emerging economies indispensable for appealing foreign direct investment have enhanced.

Foreign direct investment permits the transfer of technology mainly in the form of a novel assortment of capital inputs that cannot be attained with the help of economic investments or trade in goods and services. Foreign direct investment also promotes competition in the domestic input market. Beneficiaries of foreign direct investment frequently expand workers' guidance for starting new businesses, contributing to the host nation's human capital development. Profits earned by foreign direct investment also add to corporate tax revenues in the host nation (Loungani & Razin, 2001).

Research has been done on the causes of human development. However, current work highlights the role of foreign remittances in financial development, foreign direct investment, trade openness and labor force participation rate on human development. Human capital has enhanced economic growth and development. Considering the significance, Galor and Zeira (1993) presented a human capital investment model dependent on loan availability. However, emphasizing the positive role of financial development, Greenwood and Jovanovic (1990) model household portfolio selection indicated that utilization of monetary mediators normally improved family capital incomes. Similarly, Banerjee and Newman (1993) model pointed out the family's work-related option based on the credit facility.

Again, Levine (2005) generally highlighted that financial development led to increased growth by making available the effective allocation of capital and plummeting borrowing and financing constraints. However, Edwards and Ureta (2003) focused on the role of remittances on human development in El Salvador; the result showed that remittances positively affected household income and improved school attendance, especially in rural dwellings. Aid also affected the development of the nations of the world. Considering this, Shirazi et al. (2010) found that aid motivated and enhanced education, life expectancy, and human development.

Alcaraz et al. (2012) analyzed how remittances affected school attendance in Mexican migrant households using data from 2008 to 2009. It was concluded that remittances led to decreased school attendance and, to a certain extent, enhanced child labor, disturbing capital accumulation. Similarly, Borja (2017) focused on factors such as foreign direct investment and remittances that affect the growth of economies. It was found that controlling for corruption, both factors tended to enhance economic growth. Using data from 1961 to 2011, Le and Tran-nam (2018) have emphasized how trade liberalization affected economic development in Asia. The findings showed that trade and financial development influenced human development.

Aid also improved growth and human development by its proper utilization. For this, Yiheyis and Woldemariam (2020) found the effect of official development assistance and remittances on human development. The study result showed that foreign aid has increased the human development of African nations. Borja (2020) used data from 1985 to 2016 of 26 Latin American and the Caribbean countries. The findings showed that remittances had a great influence on human capital indicators. Similarly, Mohammed (2022) highlighted the role of institutions in human development by using data till 2018. It was found that remittance flow tended to boost development with better-quality of institutions. Mba and Chijioke (2024) revealed how the remittances influenced Nigeria's economic development. The author has used the least square method and ECM. The study result showed that remittances and foreign direct investment positively affected economic development, but the exchange rate decreased economic development.

Objectives of the study

The existing research has emphasized the effects of remittances, financial development, foreign direct investment, trade openness, and labor force participation on human development in some Asian economies. Furthermore, our work will make possible important ideas for policymakers on important variables affecting human development.

Research Questions

1. How do foreign remittances affect the human development of Asian countries?
2. What is the effect of financial development on human development among the nations of the world?
3. Foreign direct investment may influence human development.
4. How does trade openness affect human development?
5. What is the impact of the labor force participation rate on human development of Asian economies?

Hypothesis

H1: The foreign remittances are positively associated with human development.
H 2: Financial development and human development are positively linked with each other.
H 3: The higher the foreign direct investment, the higher the human development.
H 4: Trade openness is positively associated with human development.
H5: The labor force participation rate will lead to an increase in human development.

METHODOLOGY

We have emphasized how remittances improve the human development of Asian nations like Pakistan, Bangladesh, India, Sri Lanka, Indonesia, Philippines, Malaysia, Jordan, and China) by using data from 2005 to 2015. We have used major factors such as foreign remittances, financial development, foreign direct investment, trade openness, and labor force participation. The dependent variable was taken as human development. However, remittances, financial development, foreign direct investment, trade openness, and labor force participation were incorporated as explanatory factors. We have taken data on the major factors from world development indicators. Using the OLS technique, we have checked the effect of remittances with other control variables on the human development of Asian countries.

Model Specification

The study has highlighted the role of remittances, foreign direct investment, financial development, trade openness, and labor force participation in enhancing the human development of Asian countries.

The model is given as:

$$HDINit = \beta_0 + \beta_1 REMTNit + \beta_2 FDINVit + \beta_3 FDVPit + \beta_4 TRADOit + \beta_5 LFPRTRit + uit \quad (1)$$

As the subscript "i" indicates the chosen, accurate nations (i = 1 ...9 for a few developing nations), however, "t" signifies time requirement. HDINit highlights the human development index based on life expectancy at birth, literacy rate, and living standard indicated by GNI per capita. REMTNit is the foreign remittances; FDINVit shows foreign direct investment (% of GDP). FDVPit viewing the financial development index (bank deposit ratio, domestic credit to private sector, stock market capitalization % of GDP), TRADOit (exports and imports % of GDP) and LFPRTRit reveal labor force participation rate.

RESULT AND DISCUSSION

This section points out factors influencing the human development of selected Asian nations.

Table 1: Descriptive statistics

Variables	Observations	Mean	Standard deviation	Minimum	Maximum
HDI	144	0.674819	0.102244	0.471	0.849
RAMT	144	5.749618	5.052533	0.145990	21.58899
FDINV	144	2.614637	2.997643	-0.286256	23.53737
FDVP	144	-0.17274	0.911014	-1.211434	2.23587
TRADO	144	70.24109	43.19199	20.30423	210.3789
LFPRTR	144	30.79192	9.079956	13.99073	44.01919

Table 1 shows summary statistics of factors being utilized in the study. Large differences are observed in the case of foreign direct investment, with -0.286256 to 23.53737. On average, the human development index seems to be 0.674819 percent. However, on average, remittances have been observed to be 5.749618 percent in these economies.

The variable financial development index has large variances, -1.2114334 to 2.2358. Similarly, differences in human development index range from 0.471 to 0.849 in Asian countries. On average, labor force participation rate is 30.79192 percent.

Empirical Estimations

Table 2 highlights the results of the ordinary least square estimation technique.

Table 2: OLS Results, Dependent Variable is Human Development Index

Variables	Coefficients, Standard Errors, and T-values
RAMT	0.0083*
	0.0011
	(5.55)
FDINV	0.0037***
	0.0020
	(1.82)
FDVP	0.0583*
	0.0068
	(8.54)
TRADO	0.0003***
	0.0001
	(1.85)
LFPRTR	0.0066*
	0.0006
	(11.39)
C	0.4212
	0.0229
	(18.41)
F-Statistics	93.90
Probability	0.000
R-Square	0.77
Adjusted R Square	0.76

t- Values are in parentheses

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

In Table 2, we have revealed OLS results. Remittances always enhance the economic growth and development of the world's nations. Remittances lead to an increase in investment chances in almost all sectors of the economy. The public has a sound financial background, which makes their lifestyle impressive. All this results in improved human development of the nations of the world. Our results show that a one percent increase in remittances results in a 0.0083 percent increase in human development in Asian countries. The result is favored by the findings of Mba and Chijioke (2024).

Foreign direct investment is another important factor affecting the human development of the economies. Foreign direct investment also improves countries' economic growth, production, investment, and human development. Having more earning and investment chances, people become financially strong and improve their financial status and living standard of the family. Findings show that a one percent increase in foreign direct investment will cause an increase in human development by 0.0037 percent. The study result is supported by Mba and Chijioke (2024).

The role of financial development cannot be ignored in enhancing economic growth and development in Asian economies. Communities can improve their investment, production, and earnings by availing themselves of credit facilities and access to financial institutions. People may be more producers and traders by availing of banking facilities. This will increase the human development of the nations. Our results highlight that a one percent increase in financial development will increase human development by 0.0583 percent in Asian countries. The finding is supported by Banerjee and Newman (1993).

Trade openness also enhances human development. With the increased exports and imports, people improve their development, favoring the nation's economies. The result revealed an increased development of 0.0003 percent because of one percent increased trade openness in Asian countries. The study result is supported by Le and Tran-nam (2018).

In conclusion, the labor force participation rate has also been observed as increasing human development in Asian nations. The involvement of the workforce in the production process also increases the production, exports, earnings, and human development in developing nations. One unit increased the labor force participation rate, which has increased human development by 0.0066 percent in a few Asian countries.

CONCLUSION AND POLICY SUGGESTIONS

The existing research has highlighted the role of foreign remittances in boosting the human development of Asian countries. Using data from sixteen years shows how remittances with foreign direct investment, financial development, trade openness, and labor force participation have influenced human development. OLS results highlighted that remittances with other control variables have boosted the human development of the world's nations. The study concluded that financial development, foreign direct investment, and foreign remittances positively and significantly increased human development among nations. Moreover, trade openness and labor force participation also significantly enhanced the human development of Asian countries. The study suggested that the focus should be made on remittance inflow in Asian developing economies. There is also a need for a financial and political environment to attract more investment from foreign nations for positive growth. Finally, the Government should make credit facilities easy for people to access to increase investment, earnings, economic growth, and human development.

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