A Conceptual Study of Remittance Market in India

[1]Dr. Swati Srivastava, [2]Shreyanshu Singh, [3]Dr. Afeefa Fatima
[1]Former UGC SRF, Institute of Management Studies, BHU, Varanasi, UP,
[2]UGC SRF, Department of Applied Economics, Lucknow University, UP,
[3]Assistant Professor, Lal Bahadur Shastri Girls College of Management, Lucknow, UP,
[2]Corresponding Author

Abstract

Remittances to India are money transfers from non-resident Indians employed outside the country to family, friends or relatives residing in India. India is the world's top receiver of remittances, claiming more than 12% of the world's remittances in 2015. Remittances to India stood at US$68.968 billion in 2017 and India, indeed, has overtaken Mexico to become the world's foremost remittance destination.In times of crisis, whether natural or man-made, migrants tend to send more money to their families to help them survive or recover, whereas foreign investment and lending tend to dry up. The main objective this study was to understand the concept of remittance market in India.

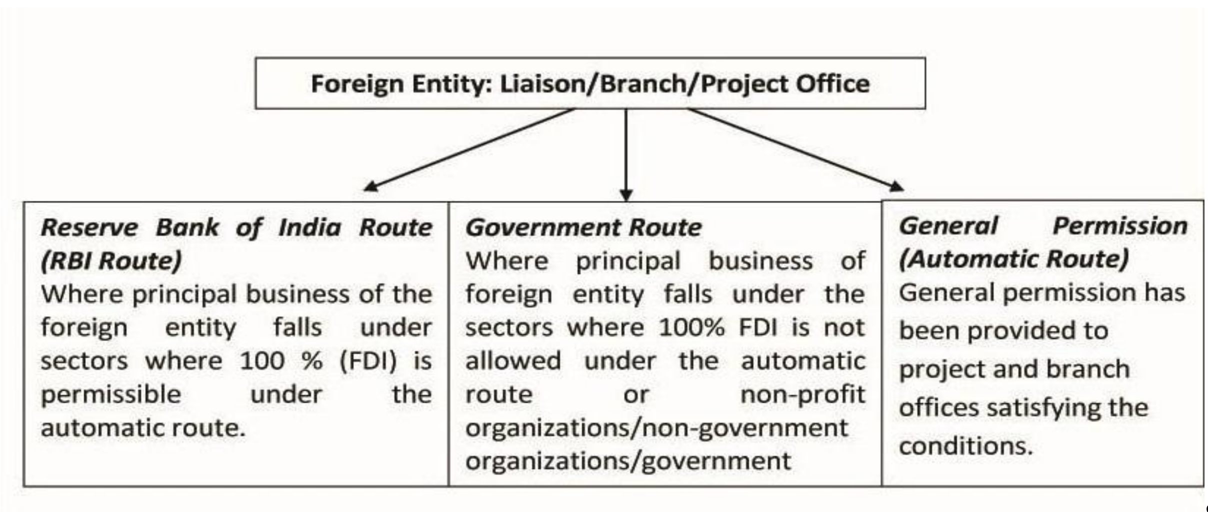
Keywords: Remittance, FDI, Development, Indian Economy.

Introduction

The Indian economy is diverse and encompasses agriculture, handicrafts, manufacturing, textile, and a multitude of services. Although two-thirds of the Indian workforce still earn theirlivelihood directly or indirectly through agriculture, service sector is a growing one and are playan increasingly important role of India's economy. The advent of the digital age, and the largenumber of young and educated populace is gradually transforming India as animportant back officedestination for global companies for the outsourcing oftheir customer services and technical support. India is a major exporter of highly talentedworkforce in software and financial services, and software engineering.

The question that begs for an elaboration is that is high growth and inflows of FDI solve structural imbalance of Indian economy and will it succeed in improving the lot of bottom section of the Indian economy, which are living in abysmally poor socio-economic conditions in the countryside. The employment elasticity in the agriculture and industrial sector has gone down in the post-reform period, therefore, the creation of employment opportunities will be a gigantic task for the policy makers. FDI has come in the most capital-intensive sectors; therefore, the required employment opportunities could not be created especially for the manual and the semi-skilled labour. High skilled workforce gained substantially. That is why high growth is called urban centric and thus has developed a wedge between the urban and rural economy. There is urgent need to fill this void. The process of Policymaking has matured in the democratic Indian polity since the independence. It is thus predicted that the growing problems will receive mature response and policy will be articulated in such a way to use FDI the way China has used to enhance economic growth while taking more and more investment to industrialize the rural sector of the Indian economy.

Figure 1:FDI investment route

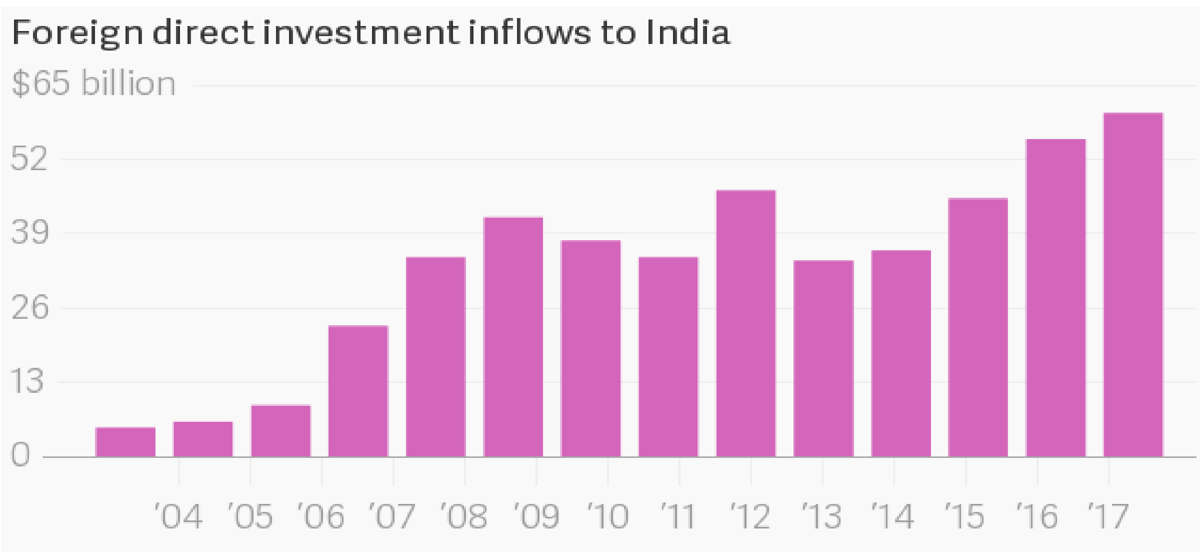


Source: World Bank report by Gabi Afram

Foreign direct investment in India

As the third-largest economy in the world in PPP terms, India is a preferred destination for foreign direct investments (FDI); India has strengths in information technology and other important areas such as auto components, apparels, chemicals, pharmaceuticals, jewellery and so on. Although India has always held promise for global investors, but its rigid FDI policies were a significant hindrance in this context. However, as a result of a series of ambitious and positive economic reforms aimed at deregulating the economy and stimulating foreign investment, India has positioned(projected) itself as one of the front-runners in Asia Pacific Region. India has a large pool of skilled managerial and technical expertise. The size of the middle-class population at 300 million exceeds the population of both the US and the EU, and represents a powerful consumer market.

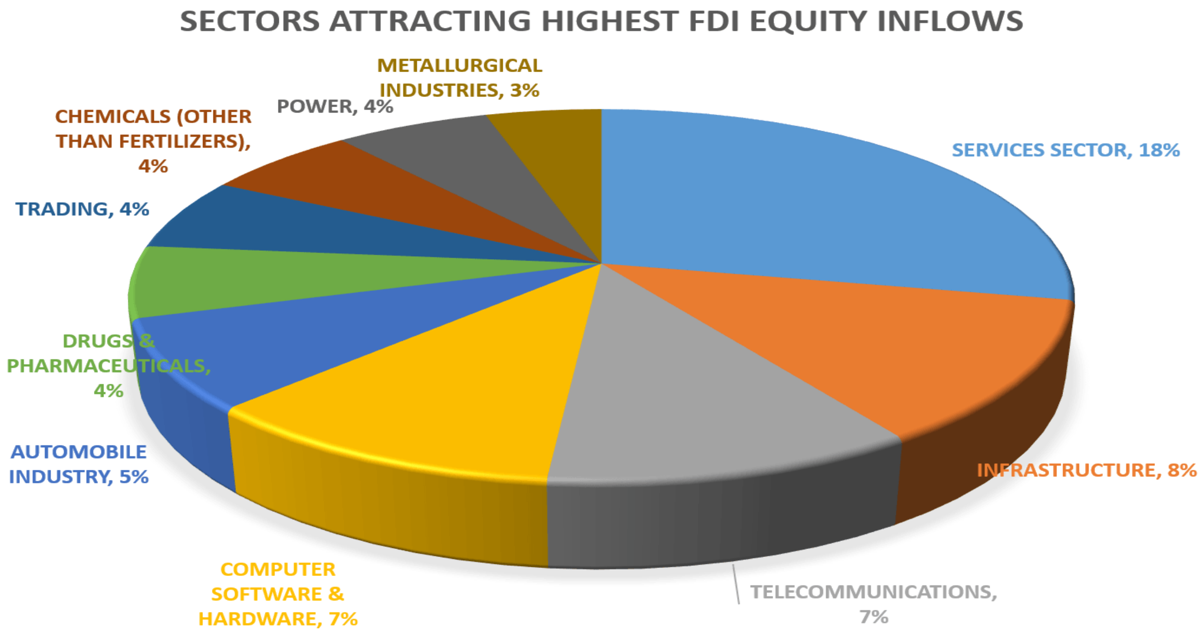
Figure 2- Foreign direct investment inflows to India



Source: DIPP

India's recently liberalised FDI policy permits up to a 100% FDI stake in ventures. Industrial policy reforms have substantially reduced industrial licensing requirements, removed restrictions on expansion and facilitated easy access to foreign technology and FDI inflows increased over the years in Indian economy . A number of changes were approved on the FDI policy to remove the cap in most of the sectors. Restrictions will be relaxed in sectors as diverse as civil aviation, construction development, industrial parks, commodity exchanges, petroleum and natural gas, credit-information services, Mining and so on. But this still leaves an unfinished agenda of permitting greater foreign investment in politically sensitive areas like insurance and retailing.

Figure 3: Sector Attracting Highest FDI Inflow



Source: RBI

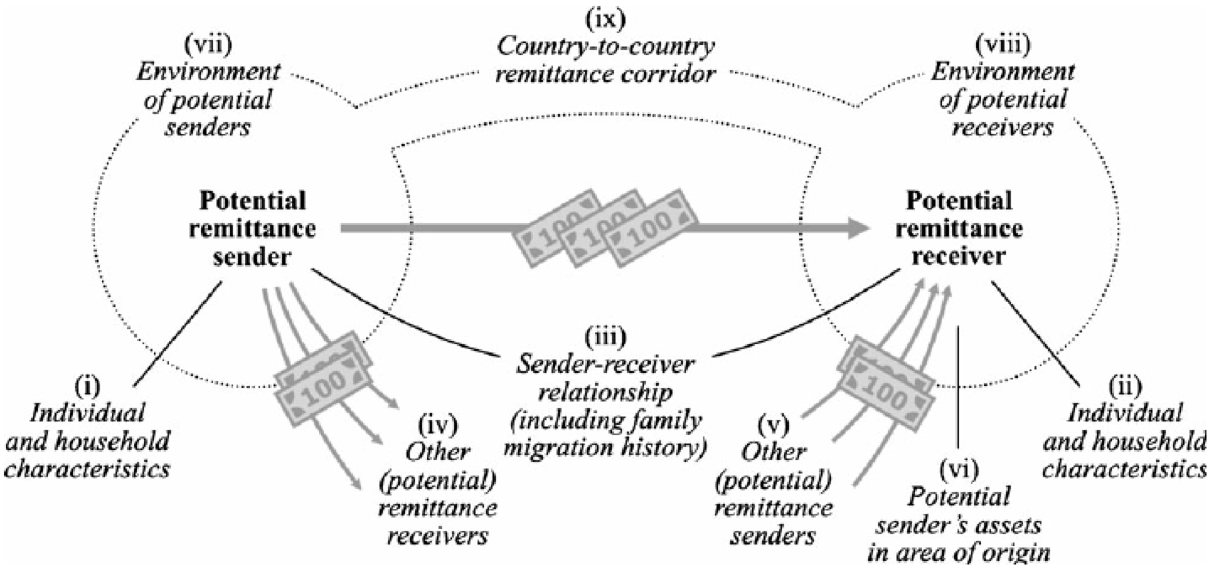
India is a major exporter of highly talentedworkforce in software and financial services, and software engineering.Thus the service sector attracted the highest FDI inflow.Indian Government has a key role to play as far as investment laws are concerned. In this regard it is noteworthy to highlight some of the positive reforms that have brought a positive growth in the Indian economy in terms of GDP growth.

1. Govt. has removed 10% voting limit in banks.
2. Higher ceiling in FDI in airport revamp ventures and real estate investment.
3. Revisit foreign shareholding norms in telecom is welcome change.
4. Removal of unwarranted restrictions on hindrances to foreign investments has exceptionally increased FDI in India.
5. Govt. of India has already allowed FDI up to 51% with prior government approval in the retail trade of "single brand" products.

Remittance Flows to India

Remittances to India are money transfers from non-resident Indians (NRIs) employed outside the country to family, friends or relatives residing in India. India is the world's leading receiver of remittances, claiming more than 12% of the world's remittances in 2015. Remittances to India stood at US$68.91 billion in 2015, accounting for over 4% of the country's GDP. As per the Ministry of Overseas Indian Affairs (MOIA), remittance is received from the approximately 25 million members of the Indian diaspora. India, while retaining its top spot as the world's largest remittance recipient, led the decline with remittance inflows amounting to $62.7 billion last year, a decrease of 8.9 per cent over $68.9 billion in 2015. A total of US$8.476 billion was made in remittances by foreign workers in India to their home countries.

Figure 5 : Remittances by foreign workers in India to their home countries

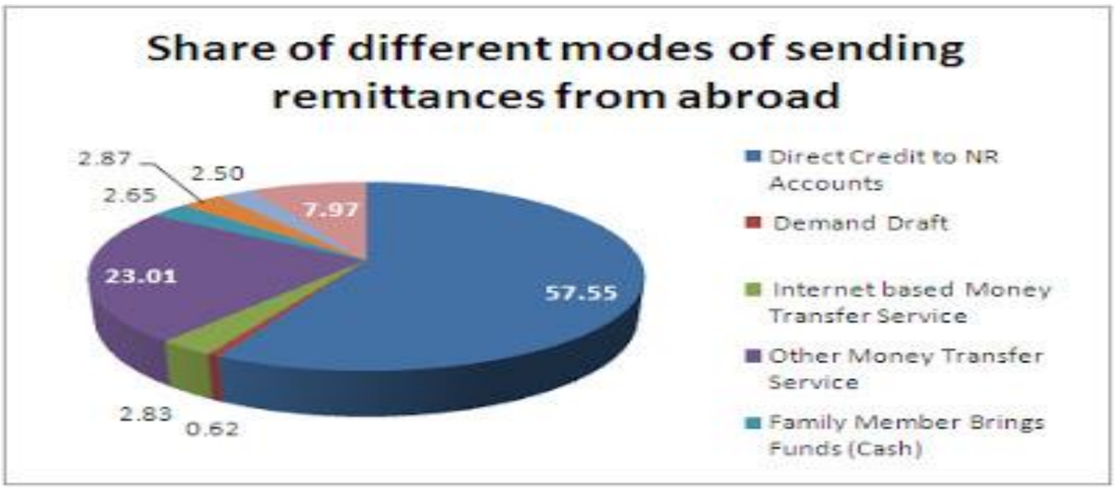


Source: World Bank report by Gabi Afram

Under the Foreign Exchange Management Act (FEMA) of 1999, Non Resident Indians (NRIs) and Persons of Indian Origin (PIOs) can open and maintain three types of accounts namely, Non-Resident Ordinary Rupee Account (NRO Account), Non-Resident (External) Rupee Account (NRE Account) and Foreign Currency Non Resident (Bank) Account - FCNR (B) Account.

Money is sent to India either electronically (for example, by SWIFT) or by demand draft. In recent years many banks are offering money transfers and this has grown into a huge business. Around 40% of the India's remittances flow to the states of Kerala, Tamil Nadu, Punjab and Uttar Pradesh which are among the top international remittance-dependent economies of the world.

Figure 6: Share of remittance by channels



Source: RBI Survey

In recent years a lot of Indian Immigrants abroad have started using online money transfer services to send money from overseas to India. A lot of Online and mobile companies have come up in recent years that have facilitated the transition to online remittances. Even some Indian banks have started offering such services in over last few years.

A study, by Reserve Bank of India revealed 30.8% of total foreign remittances was from West Asia, compared to 29.4% from North America and 19.5% from Europe.

Figure 3- SWOT Analysis -Remittance industry India

Conclusion

The Indian payment remittance industry needs to strive for more transparent system which protects the customer and needs to be supported by a sound legal and regulatory framework which ensures an equal competitive play for all new entrants. Continuous investments in IT infrastructure to strengthen payment systems are also necessary as well as effective risk mitigation responses for liquidity and credit risks. As far as opportunities go, in a country where 20% of the population remains unbanked and has an extremely large Indian diaspora with strong ties to their homeland, we have barely scratched the surface in terms of what we can do with deeper reach through mobile remittances and other breakthrough service models.

ISSN: 2394-2770, Impact Factor: 4.878, Volume 05 Issue 03, September2018, Pages:292-305

References

- Adams R. H. Jr. and Page, J. (2005): Do International Migration and Remittances Reduce Poverty in Developing Countries? World Development, vol. 33, No. 10, pp. 1645- 1669
- Chawla , T. R. , Mathur , H. P. & Srivastava, S.(2017) , " Foreign Direct Investment Inflow in India",InvertisJournal ofManagement ,Vol.9,No. 2, July – December2017,ISSN: 0975-6310,PP 45 –55.
- Chawla , T. R. , Mathur , H. P. & Srivastava, S.(2017) , "Impact of Remittances on Economic Growthin India", VIMARSH: An Endeavour to share Knowledge, A peer reviewed refereed Journal ,Volume58,IssueNo 2 ,July -December2017,ISSN 0976–5174,PP 16-21.
- Clarke, G. and Wallsten, S. (2004). Do Remittances Protect Household in Developing Countries against Shocks? :Evidence from a Natural Disaster in Jamaica. Washington, DC: Mimeo, World Bank.
- Gupta, P. (2005). Macroeconomic Determinants of Remittances: Evidence from India. IMF Working Paper WP/05/224. Washington, DC: IMF.
- IMF. (2011). World economic outlook database, April 2011. Available from: http://www.imf.org/ external/pubs/ft/weo/2011/01/weodata/download.as px , (Accessed: 30 June 2011).
- International Organisation for Migration, (2003). World migration 2003: Managing migration challenges and responses for people on the move.
- International Organisation for Migration, Geneva, Switzerland. Available from: http://www.iom.int/jahia/webdav/site/myjahiasite/shared/shared/mainsi te/published_docs/books/wmr2003/chap12p 215_238.pdf , (Accessed 10 February 2011).
- Jongwanich, J. (2007). Workers' Remittances, Economic Growth and Poverty in Developing Asia and the Pacific Countries. United Nations Economic and Social Commission for Asia and the Pacific Working Paper WP/07/01.
- Kumar,S.,Mathur,H.P.&Srivastava,S.(2016),"StrategicInvestmentFactorsAdoptedby

Investors in Indian Financial Sector",Invertis Journal of Management, Vol.8 , No. 1, 2016, ISSN :0975-6310,PP 58-63.

- Osili, U. O. (2007). Remittances and Savings from International Migration: Theory and Evidence Using a Matched Sample. Journal of Development Economics, Vol. 83, pp. 446–465.
- Portes, L.S.V. (2009). Remittances, Poverty and Inequality. Journal of Economic Development, vol. 34, No. 1, pp. 127-140
- Rao, B. and Takirua, T.B. (2010) The effects of exports, aid and remittances on output: the case of Kiribati, Applied Economics, Vol.42, pp.1387-1396.
- Srivastava, S. , Kumar , M. & Mathur , H. P. (2014), "Strategic Factor Analysis For Developing MicroAnd Small Enterprises (MSES)", VIMARSH: An Endeavour to share Knowledge, A peer reviewedrefereedJournal,Volume 5,IssueNo2,July'14-December'14,ISSN0976 –5174,PP28-37.
- Yang, D and Martinez, C. A. (2006). Remittances and Poverty in Migrants' Home Areas: Evidence from the Philippines. In Ozden, C and M Schiff (ed.) International Migration, Remittances and the Brain Drain. Washington, D.C. and New York: The World Bank and Palgrave Macmillan: pp. 81- 1 2 2
- https://www.rbi.org.in/scripts/BS_ViewBulletin.as
- http://chss.uonbi.ac.ke/sites/default/files14.
- https://www.imf.org/external/pubs/ft/weo/2015/01/weodata/index.aspx