THE IMPACT OF REMITTANCES ON ECONOMIC GROWTH IN NIGERIA.

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Abstract

This research studied the impact of migrants' remittances on the Economic growth of Nigeria; it used annual time series data spanning from 1981 to 2012. The data analysis techniques used in this research include; Unit root test, Co integration test, correlation coefficient test and finally OLS estimation technique. The result of the OLS revealed that migrants' remittances has positive and insignificant impact on output in Nigeria while domestic private consumption has a significant and positive impact on output in Nigeria; in addition, the results of the correlation coefficient reveals a strong positive correlation between domestic private consumption and migrant remittance. On the basis of this findings, the researcher thereby recommended that government should; strengthen our internet banking system to ease foreign transfer of remittances even for local banks with limited network, reduce the cost of inward remittances for citizens, discourage the patronise of informal channels and make it easier for the informal players in remittances transfer to be licensed so that their activities can be easily monitored and accounted.

Key words: Globalization, Migrants – Remittances and Economic Growth

1.1 Introduction

The fact that globalization is happening for the third time today simply implies that, the benefits from globalization outweighs the loss from globalization or it implies that there has not been better option than globalization. Globalization normally happens through the following channels; international trade in goods and services, portfolio capital flows, foreign direct investment, contract for technology and labour migration. In the past, several researches have been carried out on the other channels of globalisation, some of these researches includes; Egwaikhide (2012), Awolusi (2012), Olusanya (2013), Okon, Augustine & Chuku (2012) etc. However, very few studies have been carried out on the impact of migrant remittances on the Nigerian economic growth. It is on the basis of this, that this research is poised to study the impact of migrants' remittance on the economic growth of Nigeria.

1.2 Statement of Problem

International migration has become a major aspect of international economic relations and an important component of a globalized world. In 2010 an estimated 215 million persons lived outside their country of birth or citizenship. It is estimated that over 20 million Africans lived outside their country of birth or citizenship; they lived in other African countries as well as in Europe, North America and the Gulf States. Estimates also indicate that in 2009 over 5 million Nigerians lived abroad. (FLMP, 2013).

It has been estimated that, the size of the Nigerian population in diaspora vary greatly and range from about 5 million to 15 million people (Nigerian Diaspora, 2016). Today millions of ethnic Nigerians live abroad, the largest communities can be found in the United Kingdom (500,000 - 3,000,000) and

the United States (600,000 - 1,000,000). There are also large groups in Canada, Portugal and many other countries.

Approximately 376,000 Nigerian immigrants and their children (the first and second generation) lived in the United States and Nigeria is the largest source of African immigration to the United States. The size of the Nigerian-born population in the United States which was estimated to be about 25,000 people in 1980 has now grown; Today Nigeria accounts for about 0.6% of foreigners living in the united states, most of whom arrived before the year 2000 (RAD, 2015)

These migrants often make remittances to family and friends at home countries, for instance it has been estimated by RAD (2015) that Nigerians in Diaspora in the United States transferred approximately $6.1 billion in remittances to Nigeria in 2012. Nigerians remittances totalled $20.6 billion representing 7.1% of the country's $262.2 billion gross domestic product (GDP). Nicholas (2015) reported that Nigeria is the sixth largest receiver of remittances in the world. According to reports, Nigerians in 2015 sent home $21 billion, with the United States being the top remittance sending country in the world followed by Saudi Arabia.

Considering the position of Nigeria in remittances received; the work studied the impact of such remittances on the Economic growth of Nigeria.

Objectives of the study

The broad objective of this research is to investigate the impact of migrants' remittances on the economic growth of Nigeria. However, this broad objective is further divided into the following specific objectives;

(i)   To examine the correlation between private domestic consumption and migrants' remittances in Nigeria.
(ii) To ascertain the kind of impact that domestic private consumption has on output in Nigeria.
(iii) To determine the kind of impacts that migrants' remittances has on output in Nigeria.

Hypothesis

In line with the above stated specific objectives, the researcher developed the following null hypotheses (H_0)

(i) H_0; There is no correlation between domestic private consumption and migrants' remittances in Nigeria.
(ii) H_0; Domestic private consumption has no impact on output in Nigeria.
(iii) H_0; Migrants' remittances in Nigeria has no impact on output in Nigeria.

Literature Review

2.1 Review of Theoretical Literature

Remittances as defined by World Bank (2007) is ``the sum of workers' remittances, compensation of employees and migrant transfers'' The international organization for Migration (IOM) (2006) broadly defined remittances as the financial flows associated with migration. International Labour Organization (ILO) (2000) defined remittances as the portion of migrant worker's earnings sent back from the country of employment to the country of origin. This research adopts the new economics of

labour migration as its theoretical framework. The theories of migration explaining the initiation and continuation of migration are given below;

> ➢ **Neo classical Economic Theory;** this is the oldest theory of migration, according to this theory wage differences between regions are the main reason for labour migration. Such wage differences are due to geographic differences in labour demand and supply, notwithstanding other factors also play role in determining wage differences between regions. Such factors can be labour productivity or the degree of organization of workers. Applying the Neo classical Economics theory to international migration it can be said that countries with a shortage of labour relative to capital have a high equilibrium wage whereas countries with a relatively high labour supply have a low equilibrium wage. Due to these wage differences labour flows take place from low – wage to high – wage countries. The first is a flow of low – skilled labour from low wage countries to high – wage countries. Secondly a capital flows from high wage countries to low – wage countries. The capital flow comprises mainly of labour – intensive industrial capital accompanied by high – skilled labour migration. The process continue until a new international equilibrium is created in which real wages are of the same level in all countries (Jennissen, 2004)

> ➢ **The New Economics of Labour Migration;** this theory was built on the approach of Stark and Bloom (1985) as cited by Jennissen (2004) they argued that the decision to become a labour migrant cannot only be explained at the level of individual workers; but wider social entities have to be taken into account as well. One of the social entities to which they refer is the household. One of the way of reducing the risk of insufficient household income is labour migration of a family member whom will be expected to send remittances back home. According to the New Economics of Labour Migration these remittances have a positive impact on the Economy in poor sending countries; as households with a family member abroad lose production and investment restrictions. However, there is no general consensus whether remittances have a positive or a negative influence on the sending Economy (Jennissen, 2004).

> Contrary to the neo classical economic theory on migration, the new economics of labour migration goes beyond looking at wage differences as the major cause of migration. In addition to that the new economics of labour migration gives emphasis to the concept of remittances as it is closely related to migration. The scenario explains by the new economics of labour migration properly capture the case of migration in Nigeria. Many Nigerian migrants are struggling outside their home countries today not because the wage in their country is little to sustain them, but because they need to shoulder family responsibilities and the wage they can earn in their country may not be enough to extend to the family. In many of the interviews with Nigerians in diaspora, deportees and illegal migrants caught by foreign authorities, reference is always made about the welfare of family members back home, which implies the fact that most of these migrants migrate to other countries in search of businesses and jobs with a view to sending remittances back home that will cater for the welfare of family members.

2.2 Review of Empirical Literature

Khalid (2012) carried out a research on the link between remittances and Economic growth in Pakistan. He made used of Auto – regressive distributed lag (ARDL) test and the error correction model (ECM) techniques to establish the long – run and short – short run relationship between

worker remittances and Economic growth in Pakistan during the period 1976 to 2010. his results demonstrate the existence of a positive and significant relationship between work remittances and Economic growth in the long – run and short – run in Pakistan.

Using dynamic data panel estimates on some selected developing countries; Natalia, Miguel, Matloob and Brye (2006) found out that remittances exert a weakly positive impact on long term macroeconomic growth; and they concluded that this long term developmental impact of remittances is increased in the presence of sound Economic policies and institutions.

In a research work carried out by Pia, Jesús, Madeline & Roberto (2010) on whether remittances boost economic development? Evidence from Mexican states concluded, that remittances lead to improved labour market conditions, with higher employment and lower unemployment rates. They also found out that remittances may shift the wage distribution to the right by reducing the fraction of workers earning the minimum wage or less.

Iheke (2012) wrote a paper titled ``the effect of remittances on the Nigerian Economy'' the paper made use of regression analysis in analysing the data and found out that remittances inflow has been on the increase over the past two decades. He also found that remittances have a positive and significant impact on output in Nigeria.

Simon, Sasi & Mark (2014) asserted that there is on average no association between remittances and growth in developing countries. There is a positive association in Small Island Developing States (SIDS). According to them their findings holds for SIDS located in Sub – Saharan Africa and the pacific but not for those located in Latin America and the Caribbean. They also presented evidence of negative growth in the absence of remittances receipts in pacific SIDS.

Waqas (2013) on the impact of workers' remittances on Economic growth of the Pakistan's Economy concluded that there exists a significant positive relationship between workers' remittances and Economic growth in Pakistan.

Hadeel (2012) did a work on the positive and negative impact of remittances on economic growth in MENA countries. The MENA countries here include; Algeria, Egypt, Jordan, Libya, Morocco, Oman, Syria, Lebanon and Tunisia. The researcher covered the period 2000 to 2010 and made us of panel data. The researcher asserted that all the MENA countries have experienced a major increase in remittances inflows, for most countries remittances represent the largest source of foreign exchange earnings and represent more than 10% of GDP. The research findings revealed that remittance is positively and significantly correlated with growth.

Abdennour, Mohammed, Lakhdar & Rima (2014) worked on the impact of migrant's remittances on Economic growth of Algeria, their research covered the period 1970 to 2010 and made use of Vector Error Correction Model (VECM). They found that remittances have a negative impact on Algerian Economy in both short run and long run.
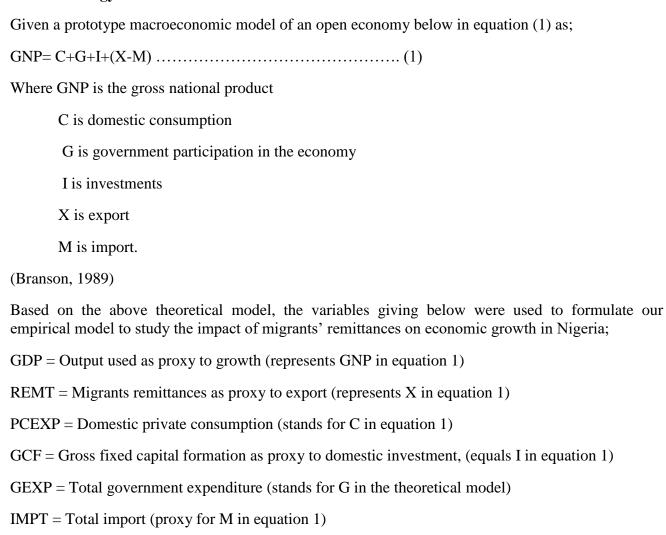
Nahla (2015) studied the nexus between remittances and economic growth with Empirical evidence from Kenya. He covered the period 1993 to 2014 and made used of Granger causality to investigate the causality between international remittances and economic growth in Kenya. In addition, he also made use of the Auto regressive distributed lag model to determine the effect of remittance on economic growth. The researcher concluded based on the findings that economic growth in Kenya is largely driven by international remittances.

Gap in Literature

Judging from the random sample of empirical researches on remittances and economic growth, which had been reviewed by the researcher, the following gaps exists.

(i) There is no complete convergence about the relationship between remittances and economic growth. While some researchers conclude positive and significant relationship others conclude negative and significant relationship.

(ii) There are no many researches done in Nigeria regarding remittances and economic growth. Only one among these empirical literatures reviewed was done in respect to Nigeria.

(iii) The scope varies from research to research and the methodologies also vary from research to research. While others used normal OLS, some used Granger causality, others used vector error correction model etc.

3. Methodology

Given a prototype macroeconomic model of an open economy below in equation (1) as;

GNP= C+G+I+(X-M) ……………………………………. (1)

Where GNP is the gross national product

> C is domestic consumption
>
> G is government participation in the economy
>
> I is investments
>
> X is export
>
> M is import.

(Branson, 1989)

Based on the above theoretical model, the variables giving below were used to formulate our empirical model to study the impact of migrants' remittances on economic growth in Nigeria;

GDP = Output used as proxy to growth (represents GNP in equation 1)

REMT = Migrants remittances as proxy to export (represents X in equation 1)

PCEXP = Domestic private consumption (stands for C in equation 1)

GCF = Gross fixed capital formation as proxy to domestic investment, (equals I in equation 1)

GEXP = Total government expenditure (stands for G in the theoretical model)

IMPT = Total import (proxy for M in equation 1)

Considering the fact that the researcher was dealing with time series data; it was paramount, that for him to obtain meaningful results and avoid spurious regression, the data analysis had to be carried out in the following order;

> Unit root test
> Co integration test
> OLS estimation
> Correlation coefficient

(Gujarati, 2004)

A further justification and exposition on the estimation techniques listed above are giving below.

Unit root test

In order to avoid the problem of spurious regression, the researcher exposed the research data to a stationarity test that is based on the Augmented Dickey Fuller test. The test is based on the following general model where Y stands for; GDP, REMT, PCEXP, GCF, GEXP & IMPT

$$\Delta Y_t = \beta_1 + \beta_2 t + \delta Y_{t-1} + \varepsilon_t \sum \alpha_i \Delta Y_{t-1} + \varepsilon_t \dots\dots\dots\dots\dots\dots\dots\dots\dots \ (2)$$

(Gujarati, 2004)

Co integration test

The essence of this test is to determine if long run equilibrium relationship exists among the variables, in other words the test aimed at finding the possibility of linear combination among the variables. Given a group of non-stationary time series variable, if a linear combination exists among them, then we can say that the variables are Co integrated (i.e a long run equilibrium relationship exist among the variables). The Co integration test used in this research is the Johansen Co integration test.

The Johansen Co integration test takes the starting point of Vector Auto regression (VAR) of order p given by the general formula below;

$$\Delta Y_t = \pi Y_{t-1} + \sum \Gamma_i \Delta Y_{t-i} + \beta x_t + \varepsilon_t \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \ (3)$$

Where Y and X are non-stationary variables (Eview, 2001; 528)

OLS Estimation

Given those variables earlier mentioned, an OLS estimation technique was fit to the data obtained in order to get the impact of migrants' remittances on growth. The empirical model in equation (4) below was derived from equation (1);

From equation (1) we produce equation (4)

$$GDP = \beta_0 + \beta_1 PCEXP + \beta_2 GEXP + \beta_3 GCF + \beta_4 REMT - \beta_5 IMPT \dots\dots\dots\dots\dots\dots\dots.. \ (4)$$

Where; GNP=GDP

C=PCEXP

G=GEXP

I=GCF

X=REMT

M=IMPT

Kenneth (2011) Logarithmically transforming variables in a regression model is a very common way to handle situations where a non- linear relationship exists between the dependent and independent variables and also a convenient means of transforming a highly-skewed variable into one that is more approximately normal. Equation (4) is not far from a theoretical model; to make it more empirical we will need to carry out it log transformation as advised by Kenneth (2011) so we can obtain more meaningful results at the end. The log transformation of equation (4) is given below;

$$LnGDP = \beta_0 + \beta_1 LnPCEXP + \beta_2 LnGEXP + \beta_3 LnGCF + \beta_4 LnREMT - \beta_5 LnIMPT \ldots\ldots\ldots\ldots \quad (5)$$

A priori expectation; PCEXP, GEXP, GCF, REMT>0 Meaning private domestic consumption, government expenditure, domestic investment and in coming remittances are expected to impact positively on output or economic growth.

IMPT<0 Meaning import will impact negatively on the output or economic growth of Nigeria. The reason being that the more import dependent we are, the more we give out our available resources that could be used to boast our economic growth to home countries of those goods we import.

Correlation coefficient

This measures the degree of linear association between two variables. The correlation coefficient of two variables say X and Y is given by ``r'' where r is given below;

$$r = \frac{Cov(X,Y)}{[VAR(X)\ VAR(Y)]^{1/2}}$$

Where r is the measure of the degree of linear association it is expected to lie between +1 & -1.

+1 means perfect positive association and -1 means perfect negative association. In this research the variable X and Y stands for PCEXP & REMT.

The essence of using the correlation coefficient is in line with our theoretical framework i.e the new economics of labour migration. It was earlier stated by the new economics of labour migration theory, that migrants are concern with sending remittances back home for family members, then one should expect in line with this theory that a strong positive correlation should exist between domestic consumption and migrants' remittances i.e the higher the remittances a country received the higher should also be it domestic consumption (the new economics of labour migration).

4. Presentations and Discussions of Results

The results of the data analysis and findings are given below in four sections as was the case of the methodology.

Results of Unit Root Test

The result is given in Table1 & Table 2;

Table1: Unit Root Test at 5% Level of Significance (At levels)

Variables	Augmented dickey-fuller At levels.	5% Critical level	Stationarity Status
GDP	3. 326049	-3.574244	Not Stationary at levels
PCEXP	-1.325101	-3.562882	Not Stationary at levels
GEXP	-0.259759	-3.562882	Not Stationary at levels
GCF	-1.132233	-3.612199	Not Stationary at levels
REMT	4.086249	-3.612199	Not Stationary at levels
IMPT	8.895606	-3.574244	Not Stationary at levels

Source: Authors computation using Eviews

Table2: Unit Root Test at 5% Level of Significance (At first and second difference)

Variables	Augmented dickey-fuller 1st Diff.	5% Critical level	Augmented dickey-fuller 2nd Diff.	5% critical level	Stationarity Status
GDP	-6.358130	-3.568379	-6.574852	-3.595026	Stationary at 1st & 2nd Diff.
PCEXP	-3.448519	-3.568379	-2.184232	-3,603202	Not Stationary at all levels
GEXP	-6.836218	-3.568379	-6.563842	-3.580623	Stationary at 1st & 2nd Diff.
GCF	-0.044586	-3.622033	0.394877	-3.632896	Not Stationary at levels
REMT	-4.473230	-3.568379	-4.841066	-3.622033	Stationary at 1st & 2nd Diff.
IMPT	1.957902	-3.580623	-15.05627	-3.580623	Stationary only at 2nd Diff.

Source: Authors computation using Eviews

Table 1 above, presents the unit root test results for all the variables at levels. The results in table 1 shows that all the variables are not stationery at levels at 5% level of significance. Table 2 on the other hand presents the results of unit root test at first and second difference; the results in table 2 showed that the variables; GDP, GEXP and REMT are stationery at both first and second difference at 5% level of significance. While the variable IMPT is stationery only at second difference, the remaining variables PCEXP and GCF are completely not stationery at first and second difference.

Considering the fact that four variables (GDP, GEXP, REMT & IMPT) out of six are stationary at second difference and the remaining two (GCF & PCEXP) are not stationary even at second difference; we shall however treat those two as stationary, reason been that a further differencing of the variables will results in loss of data and there is no justification for dropping the variables from the model. Thus all variables are considered I(2).

Bo (2008) ``Once variables have been classified at integrated order; I(0), I(1), I(2) etc is possible to set up models that lead to stationary relations among the variables and where standard influence is possible. The necessary criteria for stationarity among non-stationary variables is called co

integration. Testing for co integration is necessary step to check if your modelling empirically has meaningful relationship''

Spider Financial (2013) `` In time series we often encounter situations where we wish to model the non-stationary time series (Y_t) as a linear combination of other non-stationary time series $(X_{1,t}, X_{2,t,} ….. X_{k,t})$.

In other word a regression model for non-stationary variables; $Y_t = \beta_0 + \beta_1 X_{1,t} + \beta_2 X_{2,t} + \beta_k X_{k,t}$ gives spurious regression (nonsense) results and the only exception is if the linear combination of the (dependent and explanatory) variables eliminates the stochastic trend and produces stationary residuals''

Since our variables are considered to be integrated of order I(2), it simply means that those variables as demonstrated in table 1 were initially non-stationary, hence as stated by Spider financial (2013) the only way we can avoid a nonsense result from spurious regression is to find the linear combination between our dependent and independent variables. To find the linear combination we used a Johansen co integration, as stated by Bo (2008) ``The superior test for co integration is Johansen test. This is a test which has all desirable statistical properties''

Co integration Test Results;

Considering the fact that we are dealing with non-stationary series, the variables have to model as a linear combination else we shall obtain a meaningless result in our OLS estimation. The research went further to perform a Johansen co integration test. The result is given in table 3;

Table 3: Result of the Co-integration Test (Johansen Technique)

Eigen Value	Max-Eigen Statistics	Probability	Eigen Value	Trace Statistics	Probability
0.963368	99.20531	0.0000**	0.963368	95.75366	0,0000**
0.908501	71.74278	0.0000**	0.908501	69.81889	0.0000**
0.844507	55.83458	0.0000**	0.844507	47.85613	0.0000**
0.633181	30.08661	0.0021**	0.633181	29.79707	0.0000**
0.458371	18.39522	0.0105*	0.458371	15.49471	0.0004**
0.271222	9.491579	0.0021**	0.271222	3.841466	0.0021**

Source: Authors' computation using Eviews.
*(**) denotes rejection of the null hypothesis at 5% (1%) level significance

The results on Table 3 showed that both the Trace test and the Max – Eigen test revealed 6 co integrating equation at 1% and 5% level of significance, meaning the co integrating vectors are equal to the number of variables. This implies that the variables involved in this research have a long run equilibrium relationship among them. The variables are trending together, there is existing of linear combinations among our variables. Thus, our normal OLS estimation can yield meaningful result.

OLS Estimation Results

The estimated coefficients of the model in equation 5 are given below;

LnGDP =1.94 + 0.004LnREMT + 0.05LnGCF + 0.53LnPCEXP + 0.19LnIMPT + 0.09LnGEXP
t   (14.07932)   (0.654058)   (0.770324)   (5.034785)   (2.343860)   (0.766987)
R^2 = 0.996986   Adjusted R^2 =0.996407
S.E Regression =0.124132
F – Statistics 1720.308
Mean of Dep. Variable= 7.686723
D – W= 1.856005

The result of the estimation given above shows the t statistics in parenthesis and other relevant statistics from the estimation are also given below the t statistics. From the results both R^2 and the adjusted R^2 indicate that 99% variations in the dependent variable is explain by the independent variables. The F test, which is a test of linear relationship among the dependent and the independent variables past the test even at 1% level of significance. The Durbin Watson value clearly indicates the absence of positive or negative auto – correlation among the variables. The relationship between the mean of the dependent variable and the standard error of the regression shows that the regression is significance even at 1% meaning test of overall goodness of fit is very good and the predictive ability of the model is reliable. The t test shows that only private domestic consumption expenditure (PCEXP) and total import (IMPT) past the test of significance even at 2% level of significance. While the remaining variables representing; Remittances (REMT), Gross fixed capital expenditure (GCF) & Total government expenditure (GEXP) did not pass the significance test even at 12% level of significance.

All the signs of the parameters follow the a priori expectation as described earlier, except for the sign of the total import (IMPT) which was expected to have a negative correlation with the dependent variable. The remaining four variables [i.e private domestic consumption expenditure

(PCEXP), Gross fixed capital expenditure (GCF), Total government expenditure (GEXP) and Remittances (REMT)**]** as expected have positive correlation with the dependent variable.

The magnitude relationship between the dependent and independent variables in the model shows that; 1% increase in remittances will cause approximately 1% increment in output, 1% increment in gross fixed capital formation will cause 5% increase in output, 1% increase in domestic private consumption expenditure will increase output by 50%, 1% increment in import will increase Nigerian GDP by 19%, and lastly a percent increase in total government expenditure will cause 9% increment in GDP.

Correlation coefficient result

The result is given in Table 4;

Table 4: Correlation coefficient result

	REMT	PCEXP
REMT	1.000000	0.956778
PCEXP	0.956778	1.000000

Table 4 above shows that there is strong degree of positive association between remittances and private domestic consumption expenditure in Nigeria.

Discussion of Results

Notwithstanding the issue of insignificance of the parameter of remittances from the analysis, which may have come from error in data or even an unfit variable in the model, the major finding from the above analysis or estimation is the fact that migrants' remittances in Nigeria has positive impact on economic growth in the country. This major finding is further established by the result of the correlation coefficient, which shows a strong degree of positive association between remittances and private domestic consumption. This means that the higher the remittances we received from diaspora, the higher will our domestic consumption be and interestingly from the analysis domestic consumption tends to significantly affect economic growth positively by a magnitude as big as 50%. Considering the strong degree of positive association between remittances and domestic consumption in Nigeria, one can authoritatively infer from the result of the impact of domestic consumption on economic growth, that the more remittances we receive in Nigeria, the higher will always be our economic growth in the country.

In addition, this strong positive correlation established by the correlation coefficient result, also confirms the assertion made by our theoretical framework (i.e the new economics of labour migration) that one of the way of reducing the risk of insufficient household income is labour migration of a family member whom will be expected to send remittances back home.

The findings have refuted those three hypotheses earlier formulated.

5. Conclusion and Recommendations

Based on the findings of this research, I hereby conclude that the inflow of migrants' remittance is positive to economic growth in Nigeria. Thus, the following recommendations are very vital to the strengthening of migrants' remittance in Nigeria. The government should; strengthen our internet banking system to ease foreign transfer of remittances even for local banks with limited network, reduce the cost of inward remittances for citizens, discourage the patronise of informal channels and make it easier for the informal players in remittances transfer to be licensed so that their activities can be easily monitored and accounted.

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