Remittances reduce poverty in Asia

Remittances to developing countries in Asia help improve their economies with the net gains from exporting labor, and improve the lives of the poor people forced to work overseas—often for decades—because jobs are lacking at home.

A small gain in the contribution of remittances to gross domestic product has led to huge declines in poverty in 10 developing countries, notably Bangladesh, India, Nepal, Pakistan, and Sri Lanka in South Asia; and the People's Republic of China, Indonesia, Malaysia, the Philippines, and Thailand in East and Southeast Asia.

A one percent rise between 1981 and 2014 parallels with a 22.6 percent decline in the poverty gap ratio and a 16.0 percent decline in the poverty severity ratio—taking into account the average poor household's spending and the minimum income needed to pay for basic everyday needs.

This means the incidence and depth of extreme poverty has declined almost a quarter and the degree of inequality among the poor has narrowed by one-sixth.

While remittances are the second most important source of external funding for developing countries after foreign direct investment, the effect of the inflow on reducing poverty is huge.

The World Bank estimates that remittances to developing countries reached $436 billion in 2014, with the largest share going to East and Southeast Asia, and the second largest to South Asia. Remittances are South Asia's largest source of external resource flows and have been increasing more than foreign direct investment and foreign aid.

To further reduce poverty, remittance-receiving countries need to lower the costs of sending money home and encourage senders to use formal rather than unofficial channels. But international transfer services are expensive, acting like a tax on small remittances of as much as 10 percent. Banks are under pressure to review their fees on international transfers.

One way to reduce transaction costs is to encourage international banking services and remittance transfer operators to partner with each other. Another is to lower the cost of remittances by using secure Internet-based networks.

This was based on a blog post by ADBI Dean Naoyuki Yoshino, Keio University economics professor Farhad Taghizadeh-Hesary, and Miyu Otsuka, a graduate student of economics at Keio University in Tokyo and Science Po University in Paris.

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