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The inflow of remittances to Bhutan: 'A blessing or a curse'

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**Declaration**

The thesis entitled “The Inflow of Remittances to Bhutan: ‘A Blessing or a Curse’” has been undertaken by me under the supervision of Dr. Lucie MACKOVÁ, Ph.D. at Palacky University Olomouc.

I declare that the information reported in this thesis is the result of my study and it has not been previously submitted to any other institution. All the material obtained from the work of others is appropriately referenced and cited.

Tshering Dorji

Olomouc, 2<sup>nd</sup> May 2023.

Signature.....

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## **Abstract**

This thesis explores the inflow of remittances to Bhutan and investigates whether they are a 'blessing or a curse' for the country. The study addresses two research questions: What are the positive aspects of remittances in Bhutan? And what are the negative aspects of remittances in Bhutan? The objectives of the study are to analyze the positive impact of remittances on Bhutan, assess the potential negative consequences of remittances, and identify best practices for maximizing the benefits of remittances while minimizing the potential negative consequences. The study employs qualitative research methods based on interviews with people involved in remitting, and thematic analysis is used to interpret the data. The findings reveal that remittances have positive impacts on the economy and society of Bhutan, including economic growth, poverty reduction, enhanced social dynamics, and family relations. However, there are also potential negative consequences, such as the risk of over-reliance on remittances, the loss of skilled labor through brain drain, appreciation of the currency, and rural-urban migration. The study provides insights and recommendations for policymakers and stakeholders to ensure that remittances are utilized effectively for the benefit of Bhutan's economy and society.

Keywords: Remittance, Bhutan, Impacts, Migration, Emigration

## **Abbreviations**

AHAD- Australian Home Affairs Department  
AUD- Australian Dollar  
BBS- Bhutan Broadcasting Service  
BCCI- Bhutan Chamber for Commerce and Industry  
BoB- Bank of Bhutan  
DESA- Department of Economic and Social Affairs  
DHI- Druk Holdings and Investment  
FDI- Foreign Direct Investment  
GDP- Gross Domestic Product  
GNH- Gross National Happiness  
IELTS- International English Language Testing System  
IFAD- International Fund for Agricultural Development  
IMF- International Monetary Fund  
IMS- Institute of Management Studies  
IOM- International Organization for Migration  
MoE- Ministry of Education  
MoESD- Ministry of Education and Skills Development  
NEIM- New Economics of Labor Migration  
NGO- Non- Governmental Organizations  
NSB- National Statistical Bureau  
NU- Ngultrum  
ODA-Official Development Assistance  
PAR- Poverty Analysis Report  
PHCA- Population and Housing Census of Australia  
PHCB- Population and Housing Census of Bhutan  
QAAD- Quality Assurance and Accreditation Division  
RCSE- Royal Civil Service Commission  
RIM- Royal Institute of Management  
RMA- Royal Monetary Authority  
UN- United Nation  
UNDP- United National Development Program  
USD- US Dollar  
WB- World Bank

## Contents

|   |    |
|---|----|
| 1. INTRODUCTION .....   | 1  |
| 1.1. Introduction .....   | 1  |
| 1.2. Background .....   | 2  |
| 1.3. Problem Statement .....                                      | 4  |
| 1.4. Research Questions and Objectives .....                      | 7  |
| 2. LITERATURE REVIEW .....  | 8  |
| 2.1. Definition and Nature of Remittances .....                   | 8  |
| 2.2. Theoretical Framework on the Impact of Remittance .....      | 8  |
| 2.3. Empirical Studies on remittance impact .....                 | 18 |
| 3. METHODOLOGY .....  | 26 |
| 3.1. Qualitative Methods .....                                    | 26 |
| 3.2. Interviews .....   | 26 |
| 3.3. Sampling Methods .....                                       | 27 |
| 3.4. Data Collection .....  | 28 |
| 3.5. Data Analysis .....  | 29 |
| 3.6. Ethical Considerations .....                                 | 29 |
| 3.7. Delimitations and Limitations .....                          | 30 |
| 4. RESULT .....   | 31 |
| 4.1. Status of Emigration .....                                   | 31 |
| 4.2. The inflow of remittances to Bhutan .....                    | 34 |
| 4.3. The impact of the inflow of remittance to Bhutan .....       | 36 |
| 5. DISCUSSION .....   | 40 |
| 5.1. The positive impact of remittances on Bhutan .....           | 40 |
| 5.2. The potential negative impact of remittances on Bhutan ..... | 45 |
| 6. CONCLUSION .....   | 53 |
| 7. REFERENCES .....   | 55 |

## List of Tables

|   |    |
|---|----|
| Table 1: List of Interviews .....                                 | 28 |
| Table 2: Top Countries (Bhutanese Abroad) .....                   | 32 |
| Table 3: Inflow of Remittances to Bhutan .....                    | 35 |
| Table 4: Top Remittance Inflow in 2020 Country-Wise (in NU) ..... | 35 |
| Table 5: Civil Servants Attrition .....                           | 39 |

# **1. INTRODUCTION**

## **1.1. Introduction**

Migration is a fundamental aspect of human history, with people moving from one place to another in search of better opportunities or to escape conflict and persecution. In recent years, the number of international migrants has continued to increase, reaching 281 million according to IOM World Migration Report (2020). Along with migration, the transfer of money from migrants to their home countries, known as remittances, has also grown in importance. For millions of households in poor nations, particularly those with sizable diaspora communities, remittances are a vital source of income. Remittances can be viewed as sums of money that people who work overseas send home to their families as a share of their earnings.

In recent years, remittances have become a critical source of external financing for many developing countries. Moreover, remittances have become a vital source of income for millions of households and countries worldwide, with millions relying on them to meet their daily needs. According to the World Bank (2020), remittances to low and middle-income countries reached \$540 billion, making them a crucial source of foreign exchange earnings for many countries. This demonstrates the important contribution that remittances provide to the economic growth of many developing nations.

Remittances can also be in the form of material and financial assistance that migrant workers who are employed outside of their place of origin provide to their relatives back home. Due to the enormous and continuing aggregate flow of remittances, has not only improved the living conditions of the recipient families, but also have a substantial impact on national economies and ultimately the global economy (Munzele, & Ratha, 2005). The scale of the phenomenon has increased to the point that the value of remittances has surpassed both official development assistance (ODA) and foreign direct investments (FDI) for the most vulnerable nations (World Bank, 2016).

The impact of remittances on the economy of developing countries has been widely debated, with proponents arguing that it has positive effects on poverty reduction, education, and health outcomes, while opponents suggest that it can lead to dependence and other negative consequences such as inflation, currency appreciation, and brain drain which will be discussed in the literature review. The impact of remittances on both the sending and receiving countries can be significant,



with potential benefits such as poverty reduction and economic growth, as well as challenges such as dependency and high transaction costs. The study will examine the positive and negative impacts of remittances on the socio-economic condition of Bhutan. It will also examine the most influential impacts of remittances in shaping the Bhutanese economy and society.

## **1.2. Background**

Bhutan is a tiny landlocked nation bordered to the south, east, and west by India, and the north by China. It is situated in the eastern Himalayas. According to World Bank (2021), Bhutan has a total population of approximately 777,486 people. Bhutan is one of the smallest countries in the world. Bhutan is known for its unique approach to development, which is based on the concept of Gross National Happiness (GNH) rather than Gross Domestic Product (GDP). GNH is a holistic approach to development that emphasizes sustainable economic growth, cultural preservation, environmental conservation, and good governance (Khandaker, 2022). Bhutan is the only nation in the world that uses GNH to gauge its progress. Bhutan's economy is largely focused on agriculture and forestry, with hydropower and tourism recently becoming significant sectors.

Bhutan has placed a strong emphasis on sustainable development and environmental preservation, which has been one of the main drivers of its economic success. The government has prioritized environmental sustainability, social well-being, and cultural preservation in its economic policies as a result of its emphasis on Gross National Happiness (GNH) as a gauge of development. Bhutan's rural areas and mountainous terrain have helped to provide a foundation for traditional subsistence farming. According to the National Statistical Bureau (2023), small family farms continue to dominate agricultural output. Agriculture and forestry jobs accounted for 43.5% of total employment, and 95% of this number is made up of self-employed or unpaid family members. 33 The amount of arable land is only 7.8% of the total area, and the average landholding is about 2-3 acres.

According to National Statistical Bureau (2023), the highest share of GDP by major sectors such as agriculture, livestock, and forestry contributed 19.23% followed by electricity and water supply with an 18% contribution to the total GDP in 2020. The expansion of the hydroelectric power sector has been a significant contributor to Bhutan's economic progress. The nation has a sizable amount of hydroelectric potential, and it has been able to take advantage of this to export energy

to India, a nearby country, to produce substantial amounts of income. Bhutan has also made investments in other renewable energy sources like solar and wind power in addition to hydroelectric electricity.

The country's distinctive culture, pristine environment, and emphasis on sustainable tourism have all contributed to tourism's emergence as a vital engine of Bhutan's economic growth. To preserve the integrity of the nation's cultural and natural legacy, the government has adopted rules to promote high-value, low-impact tourism and has limited the number of visitors who are permitted to enter the nation each year. The tourism earnings in 2019 were 88.63 USD million (NSB, 2023). Bhutan has experienced a steady increase in economic growth over the past few decades, driven by a combination of government policies, foreign investment, and the development of key sectors such as hydroelectric power, tourism, and manufacturing which is another revenue source for the Bhutanese economy despite its small size and limited natural resources. The government has prioritized the development of these sectors to promote economic growth and reduce poverty. The World Bank (2017) estimates that 12% of the Bhutanese population was poor in 2012 and the rate decreased to 8.2% in 2017. The GDP growth rate was at 4.1 percent in 2021 (World Bank, 2021).

Bhutan has made significant progress, but there are still several obstacles standing in the way of maintaining its economic growth. There are several of these, including a small domestic market, a labor shortage, and a reliance on imports of which migration is a complex issue in Bhutan, which has a unique demographic and cultural context. Bhutan has a relatively small population, and historically, migration has been limited due to its geographical isolation and cultural barriers. In recent years, Bhutan has also experienced an increase in labor migration, particularly to the Gulf countries, India, the USA, and Australia. According to the UN Department of Economic and Social Affairs (UN DESA, 2020), an estimated 53,600 immigrants lived in Bhutan in 2020. Many of these migrants come from Bangladesh and India as manual workers who cross the border to work in Bhutan's expanding construction sector. Emigration has been a significant issue in Bhutan, with many Bhutanese citizens leaving the country in search of better economic opportunities and living conditions. Young people from Bhutan are now traveling overseas more frequently, mostly for tertiary education. Bhutanese emigration reached 52,000 in 2020, with the top five destinations being Australia, the USA, Japan, the UK, Canada, and Singapore (State of the Nation, 2022).

Many Bhutanese workers migrate for higher-paying jobs, primarily in the construction and service sectors, but there are also concerns about the exploitation and abuse of migrant workers (Ansari, 2017). Remittances have become an increasingly important source of income for Bhutan, with many Bhutanese citizens working abroad in countries such as India, the United States, and Australia. According to World Bank data (2021), remittances to Bhutan have steadily increased over the past decade, from \$8 million in 2010 to \$73.3 million in 2021. However, the remittance inflow in 2020 which totaled \$ 58.14 million, was the greatest to date and contributed 2.4 percent to GDP (World Bank, 2023). The Royal Government of Bhutan has taken action to address the issue of emigration, implementing policies designed to foster economic growth and provide jobs domestically. Additionally, the government has worked to enhance infrastructure and living standards in rural areas, where emigration is particularly significant. However, it is anticipated that emigration will continue to be a substantial problem for the foreseeable future given the persistent economic difficulties Bhutan is facing.

### **1.3. Problem Statement**

Migration is an emerging issue in Bhutan receiving the highest policy attention. The movement from Bhutan to other developed countries is the dominant migration pattern these days. Bhutan is experiencing a substantial increase in people leaving the country for a variety of reasons, making the problem of international migration a major concern. Both immediate and long-term effects of this exodus of individuals include the potential loss of important human resources, brain drain, and detrimental effects on the nation's economic growth and development. Bhutan faces its own set of difficulties because of the growing influx of foreign employees and refugees, including social and cultural issues, a drain on the country's resources, and potential security risks. 32,258 Bhutanese people are living in 113 countries, according to the State of the Nation report (2022). In Australia, 10,911 Bhutanese are residing overseas, which is the greatest number. Yet, according to the Population and Housing Census of Australia, there are roughly 12,500 people who identify as Bhutanese (PHCA, 2021). According to data from the Australian Home Affairs Department, 6,497 Bhutanese received study visas to travel to Australia between July and December 2022. However, Bhutan is currently experiencing a high attrition rate because of the personnel leaving their positions for Australia or other countries, as well as losing a substantial portion of its youthful and economically active population to Australia.

The private sector lost almost 4,000 people, according to the Bhutan Chamber for Business & Industry (BCCI, 2023). Data from the Ministry of Education and Skills Development (MoESD, 2023), shows around 1,125 teachers quit their positions in 2022 for a variety of reasons. The medical and educational sectors are already being severely weakened by the loss of professionals. The losses in professions like engineering, accountancy, aviation, law, architecture, and many more are not taken into consideration by this loss of a huge number of recent graduates and newly minted professionals. Bhutan is losing a whole generation of potential business leaders, professionals, and leaders in other fields.

The migration of a highly skilled and economically abled labor force will put additional pressure on aging rural farmers leaving agricultural land fallow and residences in villages vacant. There is evidence that suggests that the developmental plans and activities were halted because of rural-urban migration (Lhendrup and Nidup, 2009). Numerous kinds of literature on migration point out both the positive and negative impact of migration on agriculture productivity and rural development. Return migration brings expertise and skills while remittances can directly help in the mechanization of farming (Ohajianya, 2006). For instance, a study in Ghana shows that 90 percent of the remittances received are invested in farm-related activities. However, migration in the short term has a direct impact on agriculture productivity through labor shortage. The aging of producers in the low capital-intensive agricultural sector could imply lowering the marginal productivity of the labor (Poungchompu, et al., 2012).

On the plus side, migration to Australia is of greater quality benefiting more migrants than that most of its South Asian neighbors since a significant portion of it goes seeking higher education. This implies that fewer people should produce more remittances. According to Sturge et al. (2016), both economic and social remittances are favorably correlated with migrants' talents. The authors discover that immigrants with greater levels of education and professional expertise are more likely to engage in economic remittances, such as investing and entrepreneurship, and are more likely to impart knowledge and information to their home communities. Also, migrants are more likely to participate in social remittances, such as passing down social norms and values, if they have better levels of social skills, such as language competence and cultural awareness.

Lamsang (2023) stated that the impact of remittances on Bhutan's economy has been positive in several ways. First, remittances contribute to the country's foreign exchange reserves, which can

help stabilize the economy and support the value of the Bhutanese currency. Second, remittances provide an important source of income for many Bhutanese households, particularly those in rural areas where agricultural income may be limited. This income can help reduce poverty and improve access to basic goods and services such as healthcare and education.

However, there are also concerns about the potential negative impacts of remittances on Bhutan's economy and society. One concern is that the reliance on remittances could lead to a "Dutch disease" effect, where the inflow of foreign currency leads to an appreciation of the Bhutanese currency, making exports less competitive and hurting the country's overall economic growth. Additionally, there may be social and cultural consequences to remittance inflows, including changes in family structures, increased materialism, and a potential shift away from traditional values. Moreover, Bhutan's food security and recognized values of Gross National Happiness are jeopardized by the influx of growing emigration. Agriculture and rural livelihoods are valued in each of the GNH pillars: fair and sustainable socio-economic development, cultural preservation and promotion, environmental conservation, and good governance. As people leave Bhutan, vibrant communities, cultural diversity, resilience, biophilic human-environment linkages, meaningful jobs, and food autonomy are compromised.

In recent years, there has been a lot of concern about how remittances affect Bhutan's economy and society. Although remittances are a source of income for many Bhutanese households, there are growing worries that they could harm the nation's social cohesion and economic growth. Remittances have the potential to increase household spending and investment, combat poverty, and improve a nation's balance of payments. The risk of over-dependence on remittances, on the other hand, might result in a reduction in productivity, competitiveness, and innovation. Remittances may also contribute to cultural change, social stratification, and income inequality. To design suitable policies that encourage the beneficial effects of remittances while limiting their possible negative repercussions, it is necessary to evaluate the impact of remittances on Bhutan's economy and society.

#### **1.4. Research Questions and Objectives**

This research poses two main research questions.

- 1) What are the positive aspects of remittances in Bhutan?
- 2) What are the negative aspects of remittances in Bhutan?

Furthermore, the objective of this research is to investigate whether remittances are a blessing or curse for Bhutan. Specifically, the study will aim to:

- 1) Analyze the positive impact of remittances on Bhutan, including their effect on GDP growth, poverty reduction, social dynamics, family relations, and community development.
- 2) Assess the potential negative consequences of remittances, such as dependence on external funding, currency appreciation, and brain drain.
- 3) Identify best practices for maximizing the benefits of remittances while minimizing the potential negative consequences.

## **2. LITERATURE REVIEW**

### **2.1. Definition and Nature of Remittances**

The term remittance is most often defined as “funds transferred by migrants abroad to their families at home” (International Organization for Migration 2005:24). According to World Bank (2023), “migrants' remittances are defined as the sum of workers' remittances, compensation of employees, and migrants' transfers as recorded in the IMF Balance of Payments”. International Monetary Fund (IMF, 2023) defines workers' or migrant remittances as the money or products that migrants send home as a portion of their wages to assist their families. Over the past few years, they have grown quickly and are now the main source of foreign money for many emerging economies. Remittance describes the act of someone (typically a migrant worker) sending money or other assets to their friends or relatives in another nation or region. Remittances can be transmitted using a variety of methods, including banks, money transfer companies, and online distribution hubs.

Those who have moved from underdeveloped countries to industrialized countries in quest of better economic prospects frequently send remittances. Remittances are frequently a sizable source of income for recipient households and can be used for a variety of things, including investment, consumption, education, and healthcare. Remittances can take many different forms based on the situation and the unique traits of the sender and recipient. Remittances might be regular or irregular depending on how frequently the transactions are made. Moreover, their size can vary according to the needs of the receiver and the sender's financial resources. Also, depending on the channels utilized for the transfer and whether they are recorded, remittances might be formal or informal.

### **2.2. Theoretical Framework on the Impact of Remittance**

Many theoretical frameworks can be used to examine the effects of remittances and reveal the mechanisms by which recipient households, communities, and nations are impacted. The theories on migration can be used to study the impacts of remittances and vice versa.

#### **2.2.1. Neoclassical Economy Migration Theories**

Neoclassical economics is a school of thinking that places a strong emphasis on how supply and demand affect prices and the distribution of resources in a market economy. According to Massey et al., (1993), neoclassical economics sees migration as a rational choice made by people who want

to optimize their possibilities for success and well-being on the job and in life. The human capital theory, one of the main neoclassical migration theories, contends that pay disparities between sending and receiving countries are what cause migration. More educated and skilled individuals are more inclined to immigrate in quest of better-paying employment opportunities in recipient nations. According to this idea, migration has advantages for both sending and receiving nations since it enables people to relocate to areas where their abilities are in demand while simultaneously boosting the output and economic development of receiving nations. Migration theories concentrate on how remittances affect sending and receiving nations on a macro level. According to these beliefs, sending countries might benefit from remittances by having a supply of foreign currency, enhancing investment and entrepreneurship, and encouraging the growth of human capital. Moreover, migration theories imply that remittances might benefit receiving countries by boosting investment, consumption, and economic growth (Ekanayake and Moslares, 2020).

In the case of remittances, the neoclassical economic theory contends that the flow of remittances in the context of migration is a reflection of the financial incentives that push migrants to leave their home countries in search of employment opportunities in other nations. Neoclassical economic theory states that the income disparity between the sending and receiving countries is what drives the flow of remittances (Massey et al.,1993). The authors stated that when the expected benefits of increased wages and better economic opportunities outweigh the costs of leaving their home country and the difficulties of settling in a new country, migrants are assumed to be rational economic actors who weigh the pros and cons of moving. Remittances are viewed as a method for migrants to help their families and communities back home while also maximizing their usefulness by spending on things like health care, education, and other worthwhile endeavors. Therefore, according to neoclassical economic theory, the flow of remittances is likely to rise as migrants integrate more fully into the labor markets of their host countries and earn higher wages, as the costs of sending remittances decline as a result of technological advancements, and as financial infrastructure gets better (Massey et al.,1993). The flow of remittances is, nevertheless, expected to be sensitive to economic conditions in both the sending and receiving countries, according to neoclassical economic theory. The flow and impact of remittances can be affected by changes in exchange rates, the state of the labor market, and political and economic stability, which can have an impact on the welfare of families and communities in the sending nations.



### 2.2.2. The New Economics of Labor Migration (NELM)

The relevance of social and household dynamics in influencing migration and remittance behavior is emphasized by the New Economics of Labor Migration (NELM), a theoretical paradigm. In contrast to neoclassical economic theory, which focuses on the individual decision-making of migrants, NELM contends that household and family decisions about migration are frequently made collectively and are influenced by more extensive social and cultural considerations. The framework aims to explain the reasoning behind people's decisions to leave their home countries in search of employment abroad as well as the economic and social repercussions for both the migrant and the society they leave behind (Massey et al., 1993). The NELM paradigm contends that migration is a rational choice made by people who consider the advantages and disadvantages of doing so, including potential earnings overseas, relocating expenses, and the emotional and social costs of leaving their current community. The framework also acknowledges that deciding to move is frequently a family matter, with members weighing the advantages and disadvantages of moving together (de Haas, 2020). The goal of migration, according to NELM, is to manage and diversify household income streams rather than just to optimize personal economic utility. Many times, families will send one or more people to work abroad to supplement income from other sources like farming or small businesses. The choice to move is frequently decided by the household as a whole, taking into account issues like the expense of moving, the potential hazards and rewards of leaving home, and the existence of social networks and support systems in the country of destination.

Remittances are viewed as a means by which migrants can fulfil their duties to their families and communities at home and preserve cross-border social and cultural relationships. In contrast to neoclassical economic theory, which stresses remittances' economic influence over their social and cultural importance, NELM highlights the social and cultural relevance of remittances in addition to how they affect individual utility. Remittances are frequently utilized to finance household spending as well as investments in social services that benefit the entire community, such as health and education. The influence of social networks and community-based organizations on migration and remittance behaviour is also highlighted by NELM. Social networks can offer vital information and assistance to immigrants, assisting them in finding employment and overcoming the difficulties of settling in a new nation. Through the provision of financial services, technical

help, and other types of aid to migrants and their families, community-based groups can also significantly contribute to the flow of remittances and the support of local development projects.

NELM framework is often connected to the economic model called a household model which aims to comprehend how households behave while making financial decisions. These models are frequently employed to research topics including labor supply, consumption patterns, and saving patterns. According to Graves & Linneman (1979), household models can shed light on how families decide whether to move, how to divide their resources between consumption and savings, and how to use remittances to assist household growth and well-being in the context of migration and remittances. The authors asserted that this unitary model, which posits that all members of the household have the same preferences and decide on resource allocation together, is one popular kind of household model. The unitary model assumes that household members will act in a coordinated and cooperative manner, making decisions about migration, consumption, and savings as a group. The collective model is another form of home model that acknowledges heterogeneity among household members as well as the possibility of varying preferences and levels of decision-making authority. The collective model underlines the role that gender and power dynamics play in influencing intra-household bargaining and negotiation, which in turn shapes decisions about the household. Additionally, household models can be used to research how remittances affect the development and well-being of households. Remittances, for instance, can boost household spending, enhance educational attainment, and lessen poverty and inequality in recipient countries, according to studies utilizing household models. These studies also imply that the magnitude, frequency, and distribution of remittances within households, as well as the larger economic and social context in which they are received, may all affect the impact of remittances differently. (Graves & Linneman, 1979). The micro-level effects of remittances on recipient households are the subject of household models. According to these models, remittances can raise the household receiving the money's income and consumption, which would raise living standards, boost access to healthcare and education, and lessen poverty. Household models also show that remittances may result in a shift in the power relationships between men and women in the home. This is because women may feel more powerful because of having more control over household finances (Lu, 2012).

### 2.2.3. Social Network Theories

According to social network theory, migratory decisions can be greatly influenced by social ties and relationships. This idea contends that people may be more likely to move if they are socially connected to or connected to those who have already relocated or who are preparing to migrate. Social networks can help people negotiate the migration process and find work and housing in their destination countries by facilitating the flow of information and resources (Stuart & Taylor, 2019). Strong social links with other migrants may also make people feel more a part of the community and more supported, which helps lessen the social and emotional costs of migrating. According to Massey et al. (1993), the social network theory further contends that the community's perceived social and cultural norms may have an impact on an individual's decision to migrate. As an illustration, migration may be perceived as a risky or disruptive behaviour in some cultures while serving as a road to social and economic mobility in others. The social and cultural background of migration is equally important, according to social network theory. People who migrate, for instance, with the backing of their family and communities may be more likely to enjoy the process and effectively acclimate to their new communities. Social network theories concentrate on how social networks facilitate remittance flows and how remittances affect social networks and relationships. These theories contend that remittances can strengthen social links and networks between migrants and their families, communities, and other groups and that remittances facilitate the transfer of remittances. Remittances may help bring about social change, including adjustments to gender roles and expectations, and may result in the emergence of new social norms and values, according to social network theories (Curran, Sara & Saguy, Abigail, 2001).

### 2.2.4. Institutional Theory of Migration

According to the Institutional Theory of Migration, social institutions including the family, the government, and the labor market have an impact on people's decisions to migrate. This theory places a strong emphasis on how social norms, laws, and regulations influence how people behave and how they can either help or hinder migration. According to Massey et al. (1993), the institutional theory of migration asserts that broader institutional circumstances as well as individual-level factors like economic possibilities and personal preferences have an impact on migration decisions. Family networks, for instance, can affect migration choices by supporting and assisting migrants, whilst government policies can either facilitate or restrict the cross-border

movement of individuals. Institutional factors also have an impact on migrants' destination decisions since people are more likely to relocate to nations where they already have social networks and cultural ties. Institutional elements like labor market laws and immigration rules can also influence migrant workers' employment prospects and their capacity to assimilate into the host society. The institutional environments of the sending and receiving nations, as well as the institutional frameworks governing the remittance process, have an impact on the behavior of migrants and their families. Government laws and regulations concerning migration and remittances, the accessibility and availability of formal financial institutions and services, the prevalence and efficiency of informal remittance channels, and other institutional factors can all have an impact on remittance behaviour. For instance, if migrants have access to formal financial services and institutions and these institutions can be trusted, they may be more inclined to engage in remittance activity.

#### 2.2.5. The Cumulative Causation Theory of Migration

Developed by the sociologist Gunnar Myrdal, it shows how a cycle of economic and social reasons reinforces itself, driving migration. According to this theory, migration is a continuous process that is influenced by a variety of variables that accumulate over time rather than being a singular occurrence. Migration is influenced by both push factors and pulls factors. Push factors are the economic and social conditions, such as unemployment, poverty, and political unrest, that force people to leave their native nations. Pull factors, on the other hand, are the economic and social elements, such as job possibilities, greater wages, and a higher standard of living, that entice people to move to a certain country. According to the cumulative causation theory, once people start migrating, their activities may have a rippling impact on the social and economic circumstances in both the sending and receiving countries. For instance, sending remittances back to their home countries can aid in lowering poverty rates and fostering economic growth. While they are overseas, competent employees may leave their home nations in search of greater opportunities, which could result in a brain drain. The combined effects of these factors may amplify the initial push and pull factors as migration persists over time, creating a cycle of migration that feeds off itself. As a result, diaspora communities may emerge, which could have a profoundly negative as well as positive social, economic, and cultural impact on both sending and receiving countries (Massey et al. 1993).

Remittances can help communities and individuals by opening up new opportunities for them. They can also have a positive effect on economic and social growth. Remittances can promote economic growth, according to this hypothesis, by giving families and communities access to more money for investments and by boosting their purchasing power. Remittances can also assist the expansion of small enterprises and entrepreneurial activity, as well as the creation of social infrastructure like hospitals and schools. According to the cumulative causation theory, remittance behaviour may continue to rise as economic and social development advances. For instance, if economic opportunities increase, more people can be inspired to move abroad to take advantage of them and subsequently remit money to their families and communities. The impact of remittances may also be influenced by the larger social and economic context in which they take place, according to the cumulative causation theory. Remittances can be used to fund group projects and community development; therefore, their influence may be larger in communities with strong social networks and social capital.

#### 2.2.6. Dual Labor Market Theory

This theory presents two separate segments of the labor market. According to the Dual Labor Market Theory, there are two different kinds of jobs: primary and secondary. Primary employment is thought to be well-paying, secure, and offers chances for promotion. These positions, which can be found in industries like finance, technology, and healthcare, often call for extensive education and training. On the other side, secondary positions pay less, are less secure, and provide little possibilities for promotion. Typically, these positions are located in the retail, hospitality, and other service sectors. The primary and secondary divisions of the labor market are divided by a variety of criteria, including variations in pay, working conditions, and career options. The idea contends that considerable obstacles, such as a lack of education and training, prejudice, and a lack of social networks, prevent those who work in the secondary sector of the labor market from moving into the primary sector (Massey et al. 1993). The idea has been used to explain a variety of labor market phenomena, including the enduring nature of poverty and income disparity, as well as the variations in employment results across distinct demographic groups. However, the theory has also come under fire for oversimplifying the labor market's intricacies and neglecting to take into consideration the markets' dynamic nature.

### 2.2.7. World System Theory

The world-system theory is a social, economic, and political theory that contends that the core, periphery, and semi-periphery countries make up the global economic system. Immanuel Wallerstein created the theory in the 1970s, and it aims to explain why there are political and economic disparities among nations in the world economy. The world-system theory holds that core countries have dominant economies that rule the world market and take advantage of the resources of peripheral and semi-peripheral nations. These core nations often have developed economies and cutting-edge infrastructure, and they regulate the flow of capital, goods, and services. On the other hand, peripheral countries tend to be less developed, with low levels of industrialization, inadequate infrastructure, and a reliance on primary industries like agriculture, mining, and fishing. Semi-periphery nations fall in the middle, having some infrastructure and industry but not to the same extent as core nations. According to world-system theory, the core countries are favored at the expense of the periphery and semi-peripheral countries by the way the global economic system is set up. This develops a worldwide economic hierarchy that sustains exploitation, poverty, and inequity (Massey et al. 1993). The theory has been used to explain a variety of political and economic issues, including why poverty persists in the global South, how multinational firms have shaped the global economy, and how globalization has affected individual national economies. The theory, nevertheless, has also come under fire for oversimplifying the complexity of the world economy and neglecting to consider the agency of specific players and nations in determining their economic fates.

This global economic order is reflected in the flow of remittances from migrant workers in peripheral and semi-peripheral nations to their relatives and communities in those same countries. According to world system theory, the unequal distribution of economic opportunities and resources between core and peripheral countries is what drives the flow of remittances. To access better economic opportunities, migrants from peripheral and semi-peripheral countries may be motivated to look for work in core countries. However, they may also send remittances back to their families and communities in their home countries as a means of supporting their loved ones and aiding in the development of their communities. Remittances may be used to support consumption and the import of goods from core countries rather than being invested in productive activities in peripheral and semi-peripheral countries, according to the world system theory, which also contends that the flow of remittances can reinforce and perpetuate the global economic

hierarchy. Furthermore, the world system theory contends that broader economic and political variables, such as the function of international financial institutions and the effects of neoliberal economic policies on international economic interactions, can influence how remittances are perceived. These variables may have an impact on the flow and effects of remittances, as well as the distribution of economic opportunities and resources.

#### 2.2.8. Altruistic Theory

A social and psychological theory called altruistic theory contends that people might be inspired to serve others without anticipating anything in return. The notion holds that people can act selflessly and make sacrifices for the good of others. Without anticipating any immediate rewards in return, migrants who send money to their families and communities in their countries of origin do so out of a desire to support their loved ones and contribute to the growth of their hometowns. The idea postulates that migrants who engage in remittance activity may do so out of a sense of obligation and responsibility to their families, communities, and roots, as well as a desire to uphold solid social links and connections with those origins. According to Antoniadou et al. (2017), altruistic actions in the context of remittances may benefit migrants as well as the communities where they were raised. Remittances, for instance, can aid in reducing poverty, enhancing access to healthcare and education, and fostering economic growth in the nations they are sent to. However, the complex dynamics and incentives behind remittance behaviour may not be adequately explained by the idea of altruism. The conduct of remittance recipients may also be influenced by other factors, including economic incentives, social conventions, and political issues (Antoniadou et al., 2017). Overall, the theory of altruism offers a helpful framework for comprehending the causes and possible advantages of remittance activity, but it should also be considered in conjunction with other theories and variables that may affect remittance behaviour.

#### 2.2.9. Self-Interest Theory

Self-interest theory is a social and economic theory that contends that people act and behave in ways that further their self-interests by maximizing utility and pursuing personal gain. Following this notion, people act in ways that give them the most advantages at the least expense. The pursuit of the highest-paying jobs, financial investments in the most successful businesses, and participation in business dealings all fall under this category. According to Mahmud (2020),

remittance activity among migrants may be motivated by the hope of gaining some personal advantages in return. To retain solid social links and connections with their cultural roots, for instance, migrants may send money to their families and communities in their countries of origin. This can give them a sense of identity and belonging. Remittances can also help migrants financially since they may be able to use them as leverage to secure financial investments in their hometowns or to secure future financial assistance from their families. It is crucial to remember that remittance action can have other motivations besides self-interest (Mahmud, 2020). Additionally, migrants may be driven by a sense of obligation and responsibility to their families, communities, or home countries, or by a desire to support the growth and well-being of those nations.

#### 2.2.10. Insurance Theory

According to insurance theory, remittances can serve as a type of insurance for migrants and their families back home. Remittances can be a safety net for families who could experience unforeseen expenses or financial shocks and can assist reduce the financial risks and uncertainties connected with migration (Agarwal & Horowitz, 2002). The idea is that migrants may be driven by a desire to protect and support their loved ones financially when they send money to their families back home. Remittances can assist pay for necessities like food, shelter, and healthcare. They can also provide a safety net for unforeseen costs like emergency medical treatment or natural disasters. Families' reliance on predatory lenders and other informal sources of finance, such as loan sharks, can be lessened with the aid of remittances. Remittances can assist families by giving them a consistent and predictable source of income, preventing them from taking out high-interest loans or going into debt. Overall, according to insurance theory, remittances can be a significant factor in reducing the risks and uncertainties connected to money and can offer a safety net for families back home. It is crucial to keep in mind that not all migrant families have access to remittance services and that other elements like political and economic instability can also affect how well-adjusted families are to withstand financial shocks (Agarwal & Horowitz, 2002).

In general, these theoretical frameworks offer a helpful lens for analyzing the effects of remittances and can guide programmatic and policy measures meant to maximize the good effects of remittances while limiting their possible negative effects.



### **2.3. Empirical Studies on Remittance Impact**

The nature of the influence of remittances on the economy of the recipient country might vary based on several factors. We will look at the effects of remittances on social and cultural transformation, poverty reduction, and economic development in recipient nations in this research study. Many studies have looked at how remittances affect economic growth. While some studies contend that remittances may have negative consequences, others contend that they may have favourable benefits on economic growth. However, several research has revealed that different nations and areas may experience different effects of remittances on economic development. Remittances are used to finance investments and create jobs in some nations, but they can also cause inflation and currency appreciation in other nations. The impacts of remittance can be further studied at the micro and macro levels.

#### **2.3.1. Studies on the impact of remittance on micro-level (*household*)**

This section reviews the research on the microeconomic effects of remittances from both the sending and receiving sides. The empirical articles frequently use extremely innovative methods to gauge the various effects of remittances. We must examine the microeconomic effects of remittances on households to better understand and identify relevant behaviours to respond to the research questions of this paper. Due to the lack of thorough data collection in this area, determining how recipient households use the inflow is particularly complicated. Several analyses mentioned below claim that the influx is primarily utilized for the direct consumption of commodities or investments in capital or human resources. Conflicting results were discovered in the literature we have read. These variations might be partially explained by the parameters taken into account or the various econometric models utilized in the corresponding analysis. Numerous studies and research have stated that remittances can lower poverty and raise household income. For instance, a study by Orozco (2006) discovered that remittances can aid in the eradication of poverty by facilitating greater access to necessities like food, healthcare, and education. It has been demonstrated that remittances significantly contribute to the eradication of poverty in receiving nations.

According to a study by the International Fund for Agricultural Development (IFAD, 2009), remittances improve the level of life for households in recipient countries improving the standard of living of the people. Remittances raise household income, which can then be utilized to boost access to important services like healthcare and education. A study by Hye (2017) found that

households that get remittances invest and consume at higher rates than households that do not. Remittances are also discovered to have a favourable impact on the welfare of recipient households. The pros and cons of remittance movements are delicately analyzed by Amuedo-Dorantes (2014). The author recognizes that remittances can be a vital source of income for families in developing nations, reducing poverty, and raising standards of living. Yet, several studies have also indicated that remittances might not necessarily result in a decline in poverty. Remittances, for instance, might have a detrimental impact on the labor supply, which could decrease labor force participation and possibly raise poverty levels, according to a study by Yang (2008).

Some of the potential negative effects of remittances on poverty reduction are highlighted by Ratha and Mohapatra (2007). They consist of the following five points; I. Remittances can exacerbate income disparities within recipient households or communities since some people may receive more of them than others. II. Dependency: Remittances may lead to reliance on recipient families or communities, which makes it harder for them to be motivated to engage in profitable economic activity. III. Remittances may result in the Dutch disease, a condition whereby an increase in foreign cash inflows causes the native currency to appreciate and the domestic economy to become less competitive. IV. Remittances may encourage skilled people to emigrate, which would result in a loss of human capital in the recipient nation. V. Labor migration: Remittances may encourage more people to migrate, reducing the labor force of the recipient nation and perhaps harming economic growth.

In the framework of international families, the 2019 book “Aging within Transnational Families” examines the practice of sending remittances by senior migrants. Families that are split up owing to movement across international borders are referred to as transnational families. The book looks at the experiences of elderly Filipino migrants who send money home to help their relatives. According to the author Horn (2019), sending remittances by these migrants serves as a means of keeping their familial ties and performing their duties as caregivers in addition to being a means of generating income. The problems in negotiating the remittance transfer processes, financial restraints, and social isolation faced by senior migrants when sending remittances are also covered by the writers. The study emphasizes how critical it is to comprehend remittances' social and emotional components as well as their function in preserving cross-border family ties.

On the contrary, Tachibana et al. (2019) investigated how remittances affected the mental health of earthquake survivors in Nepal. The study's conclusions showed that remittances had a favorable and significant effect on earthquake survivors' mental health, especially for those who had suffered more severe earthquake damage and had lower income levels. The study also discovered that better living conditions and social support offered by remittance receivers served as a mediator for the beneficial effect of remittances on mental health. The study finds that by giving survivors financial resources and social support, remittances can significantly reduce the detrimental effects of disasters on mental health. The report emphasizes the need for policies that address the issues of remittance dependency and long-term sustainability, encourage the efficient use of remittances in disaster relief and recovery efforts and support remittances as a source of income.

According to Sabur and Mahmud (2009), remittances from migrants can have micropolitical effects, particularly in developing nations where social and political institutions are frequently intertwined. The following political effects were noted in the paper: 1. Modifications in the power structure: Remittances may result in modifications in the power structure within families and communities. The person who sends the most money home may occasionally be given more sway and decision-making authority within the family or community. 2. Social status changes: Remittances may also cause social status changes within families and communities. For instance, receiving remittances may enable a family to invest in a new property or launch a new business, both of which might raise their social status in the neighborhood. 3. Reduced political engagement: remittances might also result in reduced political engagement, particularly among women. Remittances may make women less inclined to participate in politics because of their decreased dependence on the state. 4. Political impact of migrants: Those who send remittances back to their home countries may also acquire political power there. This may be especially true in nations where remittances account for a sizable amount of the national economy since those administrations may be more receptive to the demands and worries of immigrant groups.

A study by Petree and Baruah (2007) found that remittances have a strong beneficial impact on household well-being in Serbia. In particular, the study discovers that remittances are connected to an increase in household consumption spending, which denotes a rise in living standards. Remittances are also linked to higher household savings, which can act as a buffer against unforeseen shocks and promote long-term financial stability, according to the study. Moreover,

remittance-receiving households are also more likely to spend money on their children's education, which supports the study's conclusion that remittances have a favourable effect on education spending. Further, remittances are found to have a favourable effect on household health because they increase the likelihood that households will spend money on healthcare services. This result implies that remittances can help to enhance overall well-being, including physical health. (Petree & Baruah, 2007).

Similarly, remittances have a big influence on Ethiopian urban residents' spending habits. Gebregziabher (2016) discovers that remittances are connected to an increase in household consumption spending, which denotes a rise in living standards. Additionally, the study discovers that remittances are linked to higher education spending, which can enhance human capital and promote long-term economic growth. Javid (2017) continues to evaluate the findings of the household's use of remittances by assuming that remittances serve as a source of household income while holding all other factors constant. As the number of remittances increases, this assumption causes the budget restriction to move away from the receiving families. Thus, such a rise will have a favourable effect on household consumption. Similarly, a study on the effect of remittances on household well-being in Bangladesh by Syed and Amzad (2016) discovered that remittances significantly improved household welfare. They discovered that households receiving remittances had greater incomes, better access to healthcare and education, and higher living standards than homes that did not.

Furthermore, to examine the microeconomic effects of remittances in the face of altruism and the desire to inherit property, Grigorian and Melkonyan (2012) presented an overlapping generations model. According to the authors, remittances can improve household well-being by boosting spending, investing, and saving. Their analysis demonstrates that remittances may raise recipient households' consumption and investment, which may then boost economic growth. The desire for an inheritance, according to the authors, can magnify the beneficial effects of remittances on household welfare. It is also evident that remittance inflow, consumption, and human investment are all positively correlated. With the current studies, it is impossible to isolate a single common tendency. Further research should be conducted to quantify the usage of remittance inflow correctly because it varies from case to case and some elements need to be taken into account when doing so.

### 2.3.2. Studies on the impact of remittance on macro-level (*state*)

The literature on macroeconomic causes is listed below to have a comprehensive understanding of the remittance situation. The macroeconomic impacts brought on by remittance transfers have been the subject of numerous research in recent years. Numerous nations have been inspired by their local influence to support and safeguard the phenomenon more and more. Since the macroeconomic consequences of remittances from workers vary depending on the features of the receiving country and the type of remittance flow, this unfortunately presents a challenging problem. If this is ignored, it is simple to overestimate or underestimate the effects of these flows. Remittances have both good and negative effects on economic growth, according to literature that examines several countries over a few years. According to a study by Maimbo and Ratha (2005), remittances help recipient countries' economies flourish and remittances have a beneficial effect on recipient nations' GDP and per capita income growth. Remittances also give developing nations a reliable source of foreign currency, which can help maintain macroeconomic stability. The recipient country's economy may be significantly impacted by remittances.

Remittances can support economic expansion, the creation of jobs, and investment in the recipient country. According to Adams and Page (2005), for instance, a 10% increase in remittances causes the GDP per capita of poor nations to rise by 1.6%. Similarly, a study by Ratha (2003) discovered that remittances can aid in the development of small businesses, housing, and education in the recipient country as well as the creation of jobs. According to Serriño (2012), remittances have a favourable and statistically significant impact on the Philippine economy, particularly on GDP growth, consumption, and investment. The findings also show that remittances assist to buffer the Philippine economy from external shocks like changes in oil prices or shifts in world financial conditions. Remittances can, however, hurt the economy of the recipient country, according to some studies. For instance, a study by McKenzie and Rapoport (2010) discovered that remittances can result in a "Dutch disease" impact, where the appreciation of the local currency because of greater remittance flows can impair overall economic growth and make exports less competitive.

The potential for dependence on remittances is one of the major issues mentioned by Amuedo-Dorantes (2014). Remittances can cause countries to put less effort into developing other areas of the economy if they account for a sizable amount of their income. This may eventually result in a lack of economic diversity and increase the country's susceptibility to outside shocks (Amuedo-Dorantes, 2014). The so-called "Dutch disease" effect is another potential drawback noted by the

author. This happens when a rise in remittances causes the currency rate to appreciate, raising the cost of exports and lowering the competitiveness of the domestic economy. According to Amuedo-Dorantes, this effect can be especially potent in open, small economies. The author also makes note of the fact that remittance flows may have unfavourable effects that need to be considered. The author also points out that it is important to consider any potential advantages of remittance movements. Remittances, for instance, can promote financial inclusion in recipient nations by expanding access to financial services. Remittances can also give developing nations a reliable source of foreign currency, which can support macroeconomic stability.

Marchiori et al. (2009) claim that high-skilled labor migration from developing to industrialized nations causes a loss of human capital in the origin countries, which can have a detrimental impact on economic development and progress. The authors also mentioned that by raising household income and lowering the cost of raising children, remittances can improve fertility in the short term. Yet, over time, brain drain may cause the standard of healthcare and education in the nations of origin to drop, which may worsen household well-being generally and reduce fertility rates. A study by Lim and Khun (2022) says that depending on how they are spent, remittances can have both good and negative effects on the economies of the receiving countries. Remittances can boost investment and consumption, which could result in greater economic growth. Remittances, however, can also result in Dutch disease and rent-seeking behaviour, both of which have a detrimental impact on economic performance.

Remittances can also make a big difference in the recipient nation's efforts to fight poverty. It is crucial to keep in mind that there is conflicting and context-dependent information about these potential detrimental consequences of remittances on poverty reduction. To establish policies and measures to counteract these consequences, further research is required to better understand the possible detrimental effects of remittances on the fight against poverty. Serriño (2012), draws attention to some potential negative consequences of remittances on the Filipino economy, such as a potential rise in the value of the Philippine peso, which might harm domestic manufacturing and make exports less competitive. Remittances may also contribute to income inequality because some households may get more of them than others.

According to Stojanov et al. (2019), long-term economic growth is positively and significantly impacted by remittances while not significantly by development funding. The study also

discovered that nations with greater institutional quality, lower levels of corruption, and higher levels of human capital have stronger effects of remittances on economic growth. The study finds that remittances, particularly in those with greater institutional quality and human capital, can play a significant role in encouraging sustainable economic growth in developing nations. The report also emphasizes the need for policies that address the problems of remittance dependence and brain drain as well as the appropriate use of remittances in productive investment and entrepreneurship. Remittances can significantly contribute to economic growth in South Asian nations by serving as a reliable source of outside financing, increasing household consumption and investment, and allowing the spread of knowledge and technology (Meyer & Shera, 2017).

However, Kim (2007) did research to determine how remittances affected Jamaica's labor market. It is proven that remittances have a negative and considerable effect on households in Jamaica in terms of labor force participation and hours worked, especially for women and those with low levels of education. The study also discovered that the income effect, which occurs when recipients of remittances reduce their labor supply in response to the higher income from remittances, mediates the negative impact of remittances on the labor supply effects on things like poverty reduction and household consumption and their detrimental effects on labor supply and productivity.

According to Sutradhar (2020), in all four South Asian nations, remittances have a positive and considerable effect on economic growth. The author, remittances have a greater positive impact on economic growth in Sri Lanka and Pakistan than they do in Bangladesh and India. The author also discovered that the effect of different types of remittances on economic growth varied, with personal remittances having a higher favourable effect than employee compensation. Similarly, Cismas et al. (2020) found that remittances have a beneficial and considerable effect on Romania's economic growth, with a stronger effect seen during the country's recent economic crisis. Also, the authors discovered that remittances significantly contribute to lowering poverty in Romania, especially in rural areas. In addition, the study discovered that remittances had a favourable effect on investment in Romania since receivers frequently invest in real estate and other real estate-related assets.

A study by Ito (2019) found that remittances have worsened Georgia's Dutch disease, creating an unsustainable and unbalanced economy. The Georgian economy's exports of natural resources are

impacted similarly by remittances. The loss in the manufacturing and agricultural sectors is specifically attributable to the appreciation of the Georgian lari (currency) brought on by remittances, which has reduced the competitiveness of other exports. The study also discovers that this effect is more noticeable in areas that get more remittances. Similarly, remittances may worsen the Dutch disease effect in Pakistan, which would result in a deterioration in the manufacturing and agriculture industries. Other exports have become less competitive because of the rise of the Pakistani rupee brought on by remittances, which has caused a decrease in other economic sectors (Farid, 2010).

According to Ratha (2005), remittances are a reliable source of foreign cash and external financing, frequently serving as a crucial form of "social insurance" in nations hit by economic or political crises. Remittances can have a good or negative effect depending on several variables. Initially, the volume and regularity of remittance inflows are important. Remittances can raise household income and enhance consumer habits, which can boost the economies of nations that receive sizable inflows of remittances. Yet, intermittent inflows could not substantially impact the recipient nation's economic growth. Second, it is important to consider the transmission channels for remittances. By utilizing official channels like banks and money transfer companies, transaction costs can be decreased, and the economic impact of remittances can be increased. However, using unofficial networks like *hawala* and other unofficial routes can result in a loss of remittance inflows, which may lessen their impact on the economy. Thirdly, the impact of remittances on economic development can be heavily influenced by the institutions and policies of the recipient nations.

The "Macroeconomic Impact of Remittances" article by Eken (2006) investigates how remittances affect macroeconomic factors like economic growth, inflation, and the exchange rate. It discovers that while remittances have no impact on inflation or the currency rate, they positively affect economic development. Remittances, according to the author, can increase household income, encourage consumer spending, and make investments easier by acting as a conduit for capital. By raising the household income of recipients, remittances can also aid in reducing poverty and inequality. The paper also discusses some potential negative effects of remittances, such as the potential for increasing reliance on outside sources of income and the risk of a "Dutch disease" effect, in which an influx of foreign currency can cause the exchange rate to appreciate and the competitiveness of other economic sectors to decline.



### **3. METHODOLOGY**

#### **3.1. Qualitative Methods**

A Qualitative methods approach will be used in this study to investigate the impact of remittances on the Bhutanese economy. When conducting qualitative research, a technique called induction is used. Through the collection of data relevant to a certain field of study, the researcher then develops various notions and theories. As opposed to a quantitative approach, which is more structured, larger in scope, and more numerically based, a qualitative approach allowed for greater capacity to gain more depth and meaning based on an individual's experiences of the impact of remittances as well as their beliefs and feelings. This study begins with a socio-constructivist pre-understanding, or a perspective on a society in flux and a social reality that is created by its inhabitants (Bryman, 2016; 29-31). By examining the interactions between social actors, we can better comprehend a phenomenon from an ontological vantage point (ibid). Interpretivism is a method of understanding knowledge acquisition from an epistemological perspective that is frequently used in qualitative research. It departs from the notion that human experiences and perceptions are subjective and requires an approach that is different from that of natural science to allow for the exploration of people's subjective viewpoints and experiences (Bryman, 2016: 26). To collect information for the topic analysis in this study, qualitative methodologies were employed. To acquire information that would subsequently be analyzed, semi-structured interviews with a variety of subject-matter experts were undertaken. When trying to understand a social phenomenon more deeply, qualitative approaches are frequently used, and one advantage of these methods is that they provide multiple interpretations and insights into the same phenomenon (Ahrne & Svensson, 2015; 26).

#### **3.2. Interviews**

Key informant interviews were used to be able to learn more about the thoughts and experiences of the people involved in remitting, excluding the migrants. Participants for the interview were employees from the Royal Monetary Authority of Bhutan (RMA), Bank of Bhutan (BoB), Royal Civil Service Commission (RCSE), Bhutan Chamber of Commerce and Industry (BCCI), City Council (Thimphu Thromde office) and owners of the Real Estate companies. Interviews were chosen as the primary method of this research. One goal of qualitative interviews is to provide the interviewees with more freedom to express their opinions on particular subjects that are important to the study. In contrast to quantitative interviews, which place more of an emphasis on more

structured and straightforward questions and responses, open-ended inquiries allow researchers to ascertain participants' perceptions and beliefs more easily (Bryman, 2016; 466-467). In the case of this study, richer and more thorough responses from the informants would allow the researcher to analyze the attitudes regarding remitting more thoroughly and, therefore, provide an answer to the research questions.

An interview guide was created to direct the semi-structured interviews with the informants based on the research questions stated in the introduction and the theoretical ideas employed in this thesis. Three key subject areas made up the format of the interviews, (1) the status of emigration, (2) the inflow of remittances to the country, and (3) the impact of remittances under which positive effects and consequences of remittances inflow, and the negative impacts of the inflow of the remittances will be separately analyzed and discussed. This will help to gain more in-depth conversations about the positive and negative impact of remittances on Bhutan. The interviews were conducted without following a predetermined list of questions and were kept open to the informant's responses. The questions then had to be modified due to the different circumstances of the interviewees such as the informants' different backgrounds and expertise.

### **3.3. Sampling Methods**

To find a sufficient number of participants for the study, purposeful sampling was used. This type of sampling seeks to carefully identify informants who meet certain requirements important to resolving the research issues (Bryman, 2016: 408). During the sampling procedure, two key criteria were taken into consideration. Firstly, the informant was someone who has knowledge of remittances and works at the central banks and financial sector. Secondly, the informant works with the policy and planning division of the respective government and private sector. Moreover, due to some personal ties, snowball sampling was also used as a sampling technique.

A total of 12 interviews were done. All the interviews were performed online, either through WhatsApp or Zoom. To get the most out of the interviews, they were done in a setting where the dialogue could go on without interruptions or outside distractions, and where the informants could feel at ease. Each interview lasted about 30 to 40 minutes and 4 female and 8 male informants out of the 12 participants agreed to take part in this study.

As already stated, the goal of the sampling for this study was to speak with a wide range of individuals involved in remittances, excluding migrants. The research was done to investigate the









12,500 people identified as Bhutanese. India comes in second with 9,519 individuals, and Kuwait comes in third with 3,184. The USA has 1,327 Bhutanese whereas Canada has 810 Bhutanese living in their territory. Middle East region especially UAE and Qatar have 828 and 822 Bhutanese respectively.

Table 2: Top Countries (Bhutanese Abroad)

| Countries | Numbers |
|-----------|---------|
| Australia | 10,911  |
| India     | 9,519   |
| Kuwait    | 3,184   |
| Thailand  | 1,356   |
| USA       | 1,327   |
| UAE       | 828     |
| Qatar     | 822     |
| Canada    | 810     |
| Japan     | 523     |

*Source: State of the Nation, 2022*

The informants for this study had comparable origins and varied expertise because the sampling goal of this study was to cover a wide range of people. A series of questions about the current state of emigration were posed to provide a contextual understanding of the remittance dynamics. As a result, the informants were questioned about their personal experiences with the country's growing emigration and asked if, given its small population, this growing tendency had started to worry the nation.

In response to a question regarding the emigration situation in Bhutan, the respondents all stated that they had directly heard about and witnessed the majority of Bhutanese departing their country in search of better opportunities abroad. One interviewee explained:

*All my friends are now abroad; I am the only one left and they keep on telling me to come abroad whenever we chat. (R8)<sup>1</sup>.*

Another interviewee said,

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<sup>1</sup> Respondent Eight





*Losing citizens to industrialized nations at a time when the fertility rate has decreased was of "great worry" to the nation, R11<sup>7</sup> responded.*

According to the Population Housing Census of Bhutan (PHCB, 2017), the Total Fertility Rate (TFR) decline to 1.7 in 2017 from 2.5 in 2005. Losing the group of economically active people would affect economic growth and further lower the fertility rate.

However, one interviewee feels that.

*It is crucial to regard migration as a complicated problem that necessitates rigorous analysis of its numerous repercussions and implications. Although migration is not intrinsically a good or bad phenomenon, nations nonetheless need to deal with it in a way that preserves human rights and fosters social cohesion. (R8).*

He even stated that.

*it is a natural phenomenon; we cannot stop people from migrating. People will go and come, and those people who left will be automatically substituted by people coming in. (R8)*

#### **4.2. The Inflow of Remittances to Bhutan**

The number of Bhutanese nationals residing abroad has caused a dramatic rise in the amount of money sent home by foreigners, strengthening the country's foreign currency reserve, and lowering the current account deficit. According to World Bank (2023), the remittance inflow in 2012 was \$18.14 million which contributed 1 percent to the total GDP. The remittance inflow went up to its peak of \$58.14 million in 2018 contributing 2.4 percent to the total GDP. However, the remittance inflow in 2020 which totaled \$ 58.14 million, was the greatest to date and contributed 2.4 percent to GDP. The amount was greater than what had been sent in the preceding three years combined as shown in Table 3 below.

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<sup>7</sup> Respondent Eleven

Table 3: Inflow of Remittances to Bhutan

| <b>Year</b> | <b>Remittances, million USD</b> | <b>Remittances as % of GDP</b> |
|-------------|---------------------------------|--------------------------------|
| 2012        | 18.14                           | 1                              |
| 2013        | 11.8                            | 0.7                            |
| 2014        | 14.29                           | 0.7                            |
| 2015        | 19.65                           | 1                              |
| 2016        | 34.34                           | 1.6                            |
| 2017        | 43.15                           | 1.8                            |
| 2018        | 58.14                           | 2.4                            |
| 2019        | 56.65                           | 2.2                            |
| 2020        | 83.43                           | 3.6                            |
| 2021        | 73.36                           | 2.9                            |

*Source: World Bank, 2023*

Table 4: Top Remittance Inflow in 2020 Country-Wise (in NU)

|           |        |          |         |           |         |
|-----------|--------|----------|---------|-----------|---------|
| Australia | USA    | Japan    | UK      | Singapore | Canada  |
| 5.34 b    | 2.48 b | 136.76 m | 70.05 m | 54.36 m   | 13.30 m |

*Source: Royal Monetary Authority of Bhutan, 2021*

The Bhutanese living in Australia, on the other hand, are a significant economic force for the nation because they transfer the most money back home. According to the Royal Monetary Authority of Bhutan (2021), more than half of all remittances were made in Australian dollars (AUD), which accounted for roughly Nu 5.34 billion (AUD 102.80 million) in 2019 and Nu 2.48 billion (USD 33.49 million) in 2020. In comparison to 2019, there were 3.5 times as many AUD remittances in 2020.

Upon asking the interviewees about the status of the inflow of remittances which comes with emigration, the interviewees responded that remittances to Bhutan have increased over the years with an increasing number of Bhutanese traveling abroad. The year 2020 recorded the highest inflow of remittance to Bhutan. However, they feel that it can also create a "false economy". They clarified that the country's growth will not always be a driving force behind GDP development. One of the interviewees working under the banking department of the Royal Monetary Authority of Bhutan responded by saying,

*According to the RMA figures, the month of June 2020 saw the greatest inward remittance amount of Nu 1.13B, followed by the months of November and July with Nu 1.02B and Nu 987.83M. The increase in remittances, which was 185 percent, helped the nation when it lost its ability to generate foreign currency in 2020 as a result of the pandemic. (R7)<sup>8</sup>*

R5<sup>9</sup>, another employee from the same organization working under the foreign exchange and Reserve Management department, stated that,

*More than half of all remittances were made in Australian dollars (AUD), which accounted for roughly Nu 5.34 billion (AUD 102.80 million) in 2019 and Nu 2.48 billion (USD 33.49 million) in 2020. In comparison to 2019, there were 3.5 times as many AUD remittances in 2020.” He even stated that “Remittance may have been higher in previous years, but some people might have brought in cash, so it wasn't officially recorded.*

*Furthermore,*

*I understand that remittance to Bhutan has increased until 2020 which is important for developing countries like ours, but I even can't deny the fact the rate is declining since 2021, (...) it is also concerning with dropping the rate seeing lots of people leaving Bhutan, it might again increase in near future” (R5) added.*

#### **4.3. The Impact of the Inflow of Remittance to Bhutan**

The informants were questioned about the impact of the inflow of remittance to Bhutan that they experienced. The interviewees see how beneficial remittances are to the people and economy of Bhutan. At the same time, they are very much concerned with the negative impacts that are alarming with more people leaving Bhutan. Remittances have helped the nation's economy thrive, lowered poverty rates, raise standards of living, and fund investments in healthcare and education.

R1, an interviewee working with the Bank of Bhutan, asserted by saying that

*We benefit greatly from remittances. We can support trade deficit financing, debt reduction, and payment balance improvement. Remittances can also act as a reliable source of foreign currency and support stable exchange rates. (R1)*

R11, another interviewee from the social statistics department at the National Statistics Bureau (NSB) responded by saying,

*Remittances can significantly contribute to the reduction of poverty and the advancement of economic growth in underdeveloped nations but there is no evidence to prove that remittance particularly has helped reduced Poverty in Bhutan. (R11)*

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<sup>8</sup> Respondent Seven

<sup>9</sup> Respondent Five

Moreover, he added that,

*Bhutan's government has made several actions to combat poverty. (R11)*

A nationwide poverty reduction strategy was introduced by the government in 2019 with an emphasis on encouraging economic growth, expanding access to essential services, and bolstering social safety nets. According to R5,

*I understand that remittance is important for developing countries like Bhutan, I even can't deny the fact it can also bring several difficulties for Bhutan, including an impact on the exchange rate; dependence on remittances; and use of illegal remittance channels. (R5)*

Similarly, R7 stated that,

*Bhutan has not been considered a remittance-receiving country, unlike our neighbouring countries like India and China, although it does contribute little to our Gross Domestic Product (GDP) our economy is based on hydroelectricity which is the driving force. (R7)*

Looking at the remittances in million USD, 2021 - Country rankings, Bhutan is ranked 111 among 132 top countries receiving remittances according to World Bank (2021). The inflow of remittances can help in the expansion of startups and new industries, which will boost the economy and create jobs. One of the owners of the real estate firm responded,

*I have benefited the most from it since most of my clients are Bhutanese living abroad which has boosted my business. (R2)*

She further added that remittances can encourage business growth and economic development in the nations they are sent to. Migrants frequently invest in startups or other initiatives in their home countries, resulting in the creation of jobs and economic progress. Another interviewee responded by saying that,

*Remittances can have a big social influence, especially when it comes to raising people's standards of living and quality of life for themselves and their families. (R9)<sup>10</sup>*

He even mentioned the problem of social capital and family isolation as the consequences which is alarming.

*the absence of migrant family members can disrupt family dynamics and relationships, leading to feelings of loneliness and isolation for those left behind. (R9)*

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<sup>10</sup> Respondent Nine

Remittances can aid in entrepreneurship, particularly in real estate companies and educational consultancy firms. R12<sup>11</sup>, the owner of one of the educational consultancy firms, responded by saying.

*My business has been doing well since our clients trust us with getting admission into renowned institutions and visa processing. Most of my clients prefer going to Australia, the United Kingdom, and Canada. (R12)*

Even though it was a different story when it came to securing the visas, they might charge students Nu 20,000 to Nu 30,000 in advisory fees or commission once an educational institute in Australia accepted their application. She has opened different branches in two other cities in Bhutan. Further institutes such as the Royal Institute of Management (RIM) and the Institute for Management Studies (IMS) in Thimphu conduct the IELTS exam in Bhutan. One informant stated saying that.

*There are only 800 spots available for the test, which will be administered on April 21, 23, and 30 of 2022. Approximately 2,000 people have enrolled in the International English Language Testing System (IELTS) paying the test for Nu 17,500. (R4)<sup>12</sup>*

Many Bhutanese, including government workers, employees of private companies, and young people without jobs, aim to leave the country to further their education and improve their standard of living. However, R8 one informant from the Urban Planning Division at Thimphu Thromde Office (City Office) believed that Bhutanese people who have gone there to Australia have successfully been able to buy land or even a building in Bhutan after working there for a few years. According to him,

*Another element is the belief in current Bhutanese society that if you have a nice plot of land or a home that you can hand down to your offspring, you would have achieved half of your life's goals. The land has since become extremely expensive, especially in cities like Thimphu and Paro, making it practically impossible for people with average incomes to purchase. (R8)*

Currently, the cost of land in these cities ranges from Nu<sup>13</sup> 8 million to Nu 10 million per decimal which could raise housing costs and expand the wealth/poverty disparity domestically, as it did in nations like the Philippines, Sri Lanka, and Nepal. One of the interviewees working at the Human Resources Department of the Royal Civil Service Commission responded,

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<sup>11</sup> Respondent Twelve

<sup>12</sup> Respondent Four

<sup>13</sup> Ngultrum (Bhutan's currency)

*Due to the Covid-19 outbreak, the nation is currently experiencing one of the worst financial crises in its history as well as a workforce shortage. One pertinent example is the lack of health or medical personnel in the nation, which may be because many young people have left the nation in quest of better possibilities overseas. Many believe that the brain drain may be a reality right now more than ever. (R6)*

R11 another interviewee from National Statistics Bureau added by saying

*the inbound remittances were thought to be a good thing, but the fact that most people are reluctant to return to Bhutan also creates difficulties. The first is that the majority of travelers are between the ages of 20 and 29, indicating that the nation is losing a lot of young, economically active people. (R11)*

A similar concern was shared by R10<sup>14</sup> of the Bhutan Chamber of Commerce and Industry (BCCI).

According to R10,

*Due to the trend of workers leaving their positions for Australia or other nations, the nation currently has a high attrition rate. In search of greater economic possibilities, many workers in the private sector have relocated to Australia, Canada, the United States, the United Kingdom, and the Middle East. (R10)*

He even remarked that the private sector has a very high attrition rate, with many large and small businesses losing around 25% of their workforce, including experienced and skilled workers, to other nations.

Table 5: Civil Servants Attrition

| Year | Total |
|------|-------|
| 2018 | 925   |
| 2019 | 866   |
| 2020 | 1084  |
| 2021 | 1504  |
| 2022 | 2646  |

*Source: Civil Service Statistics 2022, RCSE*

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<sup>14</sup> Respondent Ten

## **5. DISCUSSION**

The discussion part of this thesis will present the impact of remittances, which are categorized into positive and negative impacts highlighted by the interviewees, presented in the result and findings part of this paper. The impacts mentioned by the informants are listed below.

### **5.1. The Positive Impact of Remittances on Bhutan**

#### **5.1.1. Economic growth and development**

According to Vargas-Silva et al. (2009), remittances can significantly contribute to economic growth and poverty reduction in Asia by giving people a reliable source of income and encouraging consumption and investment. The Bhutanese economy has benefited greatly from remittances. With the increasing number of Bhutanese citizens traveling abroad, especially to Australia, the USA, the UK, and the Gulf States. They make remittances to their loved ones and communities, fostering economic development by assisting neighborhood businesses. Remittances account for a sizable amount of Bhutan's GDP, serving as an important source of foreign currency and enhancing the nation's overall economic stability. The World Bank (2023) estimated that in 2012, remittance inflows totaled \$18.14 million and contributed 1% to global GDP. The number of remittances received peaked in 2018 at \$58.14 million, contributing 2.4 percent to the overall GDP. However, the remittance inflow in 2020, which came to \$58.14 million and contributed 2.4 percent to GDP, was the highest yet.

On the other hand, Bhutanese residents in Australia represent a large economic force for the country because they send the most money home. More than half of all remittances to Bhutan were made in Australian dollars (AUD), which accounted for approximately Nu 5.34 billion (AUD 102.80 million) in 2020 followed by US dollars with Nu 2.48 billion (USD 33.49 million) in 2020 (RMA, 2021). In 2020 Australian dollar remittances to Bhutan grew by 3.5 times more than did 2019. For Bhutan, remittances have been a significant source of foreign currency for a quite small economy of about 0.7 million plus population (National Statistical Bureau, 2023), and its exports are confined to a few niche industries like tourism and hydroelectric power. Remittances are now a significant source of foreign currency, offering a steady flow of revenue that supports the nation's balance of payments.

Additionally, remittances have boosted private investment and consumption in Bhutan. Remittances are used by many families to meet their daily expenses for things like housing, food,

and medical care. Due to this, consumer spending has increased, and local companies have benefited. According to National Statistical Bureau (2023), the cost of goods and services for consumers grew by 4.27 percent in February 2023. While the rate of increase for non-food decreased to 6.32 percent, it rose to 1.91 percent for food. Transport was the largest driver among the twelve key categories, registering a 10.50 percent gain, followed by apparel and footwear with a 7.39 percent increase, and food and non-alcoholic drinks with a 1.28 percent increase. Additionally, remittances have made it possible for many families to invest in and act as another source of income, resulting in the creation of new jobs and a boost to the economy.

With the increasing number of people leaving Bhutan, Education Consultancy and Placement Firms (ECPFs) grew rapidly. According to the Ministry of Education (2023), There are 61 firms registered under the Quality Assurance and Accreditation Division (QAAD) under the Department of Adult & Higher Education (DAHE), Ministry of Education (MoE) as of 27<sup>th</sup> March 2023. The purpose of the Education Consultancy and Placement Firms (ECPFs) in Bhutan is to assist prospective students in selecting the right courses and institutions as well as to place them in reputable schools based on aptitude, preference, and financial considerations. They offer to counsel and help with the admissions process for a variety of higher education programs offered by recognized universities and help with visa applications. As per the data from Australia's Home Affairs Department (2023), 2,000 Bhutanese received education visas in January 2023. Before that, 6,497 Bhutanese received education visas for the six months from 1 July to 31 December 2022. This indicates that 8,497 Bhutanese received educational visas throughout the course of the previous seven months. 2,583 Bhutanese were granted education visas during the fiscal year that ran from July 2021 to June 2022. The Education Consultancy and Placement Firms charge an average of Nu 20,000 to 30,000 per individual in advisory fees or commissions once an educational institute abroad accepted their application as stated by one of the interviewees (R12)

Moreover, one of the main requirements for a visa application is a certificate from the International English Language Testing System (IELTS). In Bhutan, the Institute of Management Studies (IMS) and the Royal Institute of Management (RIM) conduct the IELTS exams. According to R4, one of the informants, currently, this institute charges Nu 17,500 for the test. With limited slots, there is a greater number of Bhutanese registering for the exam. Sometimes, Bhutanese travel to India to sit for the IELTS as mentioned by one of the interviewees from RIM (R4). The real estate business in Bhutan is growing considerably since all of their business clients are Bhutanese living abroad



and want to purchase and invest in land, buildings, and apartments as stated by another participant (R2), which has boosted these businesses contributing to economic growth. The threat to Bhutan's ecology has often been questioned as well. The nation has a longstanding reputation for being dedicated to protecting its biodiversity and natural beauty. However, environmental deterioration has frequently been a result of economic development. An alternate source of income that is not reliant on the exploitation of natural resources has been made possible thanks to remittances. Due to this, Bhutan has been able to uphold its commitment to environmental sustainability while fostering economic development.

#### 5.1.2. Poverty reduction

International remittances can significantly contribute to the reduction of poverty in developing nations by giving households a reliable source of income (Taghizadeh-Hesary et al., 2021). The authors also mentioned that international remittances are positively associated with poverty reduction in Asian developing countries and that this effect is particularly pronounced for households in rural areas. It acts as a source of income for those families who might have few economic opportunities in their home country, remittances might help reduce poverty. Remittances are a substantial source of cash in many impoverished nations and can increase access to food, healthcare, and education. Bhutan is known as one of the world's happiest nations, but poverty and inequality still exist in many areas of the country. The World Bank (2017) estimates that 12% of the Bhutanese population was poor in 2012 and the rate decreased to 8.2% in 2017. However, the recent data from the 2022 Poverty Analysis Report (PAR) of Bhutan published by the National Statistical Bureau (NSB) revealed that about 12.4% of Bhutanese people considered to be living in poverty, which increased compared to 2017. The poverty level for 2022 is assumed to be Nu 6,204 per person per month in the Poverty Analysis Report (PAR, 2022). The poverty line, which represents the amount of spending necessary to ensure essentials, is calculated by adding the estimated amounts of Nu. 2,852 and Nu. 3,352 for food and non-food needs, respectively. By applying this poverty line, it is determined that 12.4% of the population is poor.

Rural poverty is 17.5%, which is substantially higher than urban poverty, which is 4.2%. Only 0.4% of the population, or people living in families with per-capita food consumption below the national average of Nu. 2,852, are subsistence poor (NSB, 2022). There are considerable regional

and racial disparities in poverty rates. Rural areas, where the majority of the population relies on agriculture and subsistence farming for a living, tend to have higher rates of poverty. Bhutan's poverty is a result of several issues. The scarcity of arable land makes it difficult for farmers to produce enough food to feed themselves and their families, which is one of the major problems. Additionally, a lot of rural areas lack essential facilities like roads, schools, and health clinics, which makes it difficult for people to live there. Limited access to education and training is another issue causing poverty in Bhutan. There are sometimes inadequate schools in rural areas, and many families cannot afford to send their children to school. Young people have fewer options because of this to acquire new skills and secure higher-paying employment.

However, there is no evidence to prove that remittances have particularly helped the reduction of poverty in Bhutan, but one cannot deny the fact that remittances are frequently able to boost household income, which can assist reduce poverty and promote general economic growth. Remittances, for instance, can assist families in meeting their basic needs for things like food, shelter, and healthcare. They may also contribute to the cost of investing in things like education and other long-term economic improvements. It is crucial to remember that the effect of remittances on household income can also vary depending on a variety of variables, including the sum sent, how frequently it is sent, and how it is used. For instance, if the funds are not being utilized well, they might not have a major influence on household income or the fight against poverty.

Bhutan's government has made several actions to combat poverty there. A nationwide poverty reduction strategy was introduced by the government in 2019 with an emphasis on encouraging economic growth, expanding access to essential services, and bolstering social safety nets. The government has also invested in constructing roads and bridges to link rural areas with urban areas. Numerous non-governmental organizations (NGOs) and civil society organizations are also contributing to government initiatives to reduce poverty in Bhutan. These organizations concentrate on a variety of issues, including advancing education, enhancing healthcare, and giving poor people access to opportunities. Even while Bhutan has made strides in decreasing poverty, much remains to be done. The underlying structural problems that contribute to poverty, such as poor access to education and employment opportunities, must be addressed to assure ongoing poverty reduction. To support the most vulnerable people, there is also a need for ongoing investment in infrastructure and social protection services.

Bhutan can develop into a more inclusive and egalitarian society with continued effort and investment. Bhutan has advanced considerably in recent years. For instance, the Human Development Index (HDI) for Bhutan grew from 0.616 in 2010 to 0.654 in 2019, as reported by the United Nations Development Programme (UNDP, 2019), suggesting an improvement in general living standards. Bhutan has also made success in reducing poverty, according to the UNDP, with the country's poverty rate falling from 12% in 2012 to 8.2% in 2017. With high rates of literacy and vaccine coverage, Bhutan has made notable advancements in access to healthcare and education.

### 5.1.3. Social dynamics and family relations

Remittances can have intricate effects on social dynamics and family ties. According to Della Puppa and Ambrosini (2021), remittance can offer much-needed financial assistance to families and communities. It is crucial to take the bigger picture into account and make sure they are being used in ways that can support long-term economic growth and constructive social results. In many patriarchal societies, men are considered to be the ‘breadwinners’ and they are the head of the family. Similarly, in Bhutan, whoever supports the family financially has the power of decision-making in the family. For many of the Bhutanese social dynamics are rooted in their culture at the same time within families and communities, remittances may affect social dynamics as highlighted by the informants. For instance, when a family member works overseas and sends money home, it may alter the balance of power in the home. The person who sends the remittances might start to have a bigger role in decision-making and gain more sway inside the family. Remittances may also affect family relationships. Remittances can, on the one hand, strengthen bonds between family members who might be going through financial hardship. Adugna (2017) emphasizes the value of trust and social networks in promoting remittance movements. Due to the high cost and insufficient availability of formal remittance services, the author observes that transnational families frequently rely on informal routes, such as acquaintances and family members, to send money. The author also mentioned how changes in gender roles and power structures within families can be impacted by remittance flows on family dynamics. According to R9, one of the respondents stated that “The recipient may believe that the remitter is ignoring their emotional or social obligations, while the remitter may feel an entitlement to regulate how the money is used. Conflicts might arise because of the demands and expectations that come with remittances.” If

there are conflicts about how the money should be used or if one family member thinks they are contributing more than others, it may also cause friction (Adugna, 2017). Hence, further research and interview with the migrants and their families could validate this hypothesis.

## **5.2. The Potential Negative Impact of Remittances on Bhutan**

Like many developing nations, Bhutan has a sizable population of residents who live and work overseas and remit money to their loved ones and the nation's economy. However, this influx of remittances also presents Bhutan with several difficulties mentioned by the interviewees such as the following.

### **5.2.1. Brain drain**

According to (Niimi et al., 2010), the brain drain, or the departure of highly skilled employees from developing countries to industrialized countries, can have a detrimental effect on the prospects for the sending country's development. The authors contend that one way the brain drain can hinder growth is by lowering the volume of remittances made to the nation of origin. For many emerging nations, like Bhutan, the exodus of highly educated or skilled people from their home countries is a significant concern. Bhutan faces a serious problem with brain drain, which has effects on human capital, social development, and economic progress. Many young professionals still struggle to find fulfilling and well-paying positions in their area, despite Bhutan's attempts to encourage economic development and job creation. This frequently prompts individuals to look for greater possibilities abroad where they may use their abilities and knowledge in a more favorable atmosphere.

The quality and applicability of education and training programs remain an issue, even though Bhutan has made tremendous strides in recent years to increase access to education. Many young professionals believe that to obtain the skills and credentials required to thrive in their employment, they must pursue higher education or specialized training abroad. The effects of brain drain in Bhutan are extensive and varied. It can first and foremost result in a lack of qualified people in vital economic sectors including healthcare, education, and technology. According to the data from the RCSE, 2023, From January 1 to February 17, 2023, within a period of one month, a record of 677 civil servants resigned from their positions. To put things in context, in 2022, 1,488 civil officials left their positions, compared to 892 in 2021.

Between January 1 and February 17, 2023, some 243 teachers left their positions. The Ministry of Education and Skilled Development (MoESD) reports that more than 1,125 teachers have left the profession just in 2022 for a variety of reasons. Between January and December 2022, The Druk Holdings and Investments (DHI) Bhutan's only and biggest government-owned holding corporation lost a total of 812 people, for an attrition rate of 9.85%—higher than the 6.75% attrition average for the civil service. In total, 8,246 people work for DHI's 15 enterprises. Due to the brain drain, the private sector in Bhutan has lost almost 4,000 workers to Australia and other nations (BCCI, 2023). The lack of talent and competent personnel in important areas of the economy is a serious problem for the private sector because of this trend. This could make it more difficult to expand the economy and provide the public with basic services. Loss of social capital can also be attributed to brain drain, as smart and driven people depart who could help their communities and society as a whole grow.

As this trend continues, the nation is also dealing with one of the worst financial crisis in its history as well as a labor shortage. The first is that the majority of those who travel overseas are between the ages of 20 and 35, showing that the nation is losing a sizable portion of its economically active population. Most people are there to study, and once their studies are over, they want to stay and work there, according to sources from educational consulting firms. In an interview with a newspaper, opposition leader Dorji Wangdi expressed his "big concern" about the country losing residents to wealthy nations at a time when the fertility rate has decreased. According to him, 99 percent of most people who travel abroad are economically active individuals. He said it will affect economic growth and further lower the fertility rate (Subba, 2022). It has a significant influence in the long run due to the fertility rate of about 1.7 births per woman and a highly reproductive population departing the country and might soon face a problem of population aging and its impact on the economy.

The attrition rate of even 5 or 6% is a severe worry given the size of Bhutan's population and the dearth of candidates on the market with comparable experience and skills to replace those who left the system, in contrast to other nations. Therefore, Bhutanese can't just sit back and rest by comparing with other countries' attrition rates, which are typically higher. Additionally, those in mid-level categories with five to ten years of work experience who play crucial roles in either service delivery to residents or the advancement of society are seen to leave the system frequently. It already affects service provision and developmental initiatives. It is difficult to estimate the

extent of the impact because of the poor maintenance of data. There is no doubt that the departure of economically productive age groups will have a significant impact on economic growth shortly. Given that most of the retiring employees fall into the mid-level category, there will eventually be a crisis in competent leadership as older employees leave the system. A sizable portion of the departing workforce also consists of highly competent technical professionals who can't be replaced fast, such as medical specialists, subject-matter experts in teaching, engineers, and human resources specialists. As a result, there will be a severe scarcity of skilled labor.

### 5.2.2. Currency appreciation or Dutch disease

The ngultrum, the official currency of Bhutan, is locked at a fixed exchange rate of 1:1 to the Indian rupee. Bhutan's currency strategy is to keep the ngultrum stable and lessen the effects of external shocks on the country's economy. Due to elements including remittance inflows and greater investment in the nation, Bhutan has seen some currency appreciation in recent years. The Royal Monetary Authority of Bhutan reports that from 2017 to 2021, the exchange rate between the ngultrum and the US dollar varied between 65 and 71 ngultrums per dollar (RMA, 2021). An increase in remittance inflows may cause the Bhutanese currency to appreciate, which might make exports less competitive and eventually harm the nation's economy. Remittance inflows might cause the Bhutanese currency to appreciate because they enhance demand for it on the foreign exchange market.

Bhutan's exports may become more expensive and less competitive because of the international market. Foreign currency is frequently converted into Bhutanese ngultrum when migrant workers send money home, raising the demand for ngultrum and consequently its value. A trade deficit and more imports may result from this currency appreciation because imports will now be less expensive. The Dutch disease, on the other hand, is a condition in which a country has a rise in income from a natural resource or another source of income, which results in a downturn in other economic sectors. The phrase "Dutch disease" was first used in the 1970s when natural gas was discovered in the Netherlands, which led to an increase in the value of the national currency and decreased competitiveness in other economic sectors (Ma & Wang, 2023).

The influx of remittances in the instance of Bhutan could perhaps cause the Dutch sickness phenomena. When a sizable sum of money is sent home, the value of the local currency may

increase, increasing the cost and decreasing the competitiveness of Bhutan's exports on the international market. This can then result in a fall in the nation's other economic sectors, such as agriculture and tourism.

“If remittances are relatively large, and a large share is spent on non-tradeable – housing and land are particularly favored – the country is likely to suffer Dutch disease effects” (Kapur, 2003, p. 20). For instance, businesses such as real estate firms and educational consultancy started to grow to make huge profits and, because there are more Bhutanese people residing overseas and wanted to invest in buying flats, houses, land, and other assets. Purchasing the desired piece of land or plot and either building on it or waiting for its value to increase is the most common investment strategy in Bhutan. Therefore, it has had a detrimental impact on land prices, and everyone has been waiting for the big crash. The Bhutanese real estate market, however, followed a global trend and the opposite occurred as people living in lockdowns suddenly grasped the importance of land and space, causing a psychological rush for land. In Thimphu, land has always been expensive, and prices currently appear to be breaking records. As most buyers are members of the business community, rising land prices in Thimphu are one of the best signs that the Bhutanese economy is doing well (Lhaden, 2021). Following the economic crisis of 2012–2013, land values in Thimphu plummeted as residents sold off their most valuable assets to obtain financing. The low return that the same land provides when one attempt to produce rental income from it is a concerning element of high land prices.

In a sense, this demonstrates that while owning and selling land is profitable, it is not a wise investment for someone looking to develop the land. In this regard, the Bhutanese economy and financial market must expand and provide better investment opportunities and products for investors; otherwise, a substantial portion of private capital will remain buried in Thimphu's lands, driving up prices. To stabilize prices, Thromde must also expedite the development of its local area plans in the suburbs (Bhutanese, 2018). As mentioned in the news article Debsi under Chang Gewog<sup>15</sup> has been a center for speculating on land prices and a building boom. Many people were drawn to invest in land and housing there because of its proximity to the capital city, which suited the requirements and expectations of an urbanized populace. Debsi<sup>16</sup> is referred to as "Aussie Land" since the majority of Bhutanese working in Australia have used their money to purchase

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<sup>15</sup> Group of villages

<sup>16</sup> Name of a village in Thimphu

homes and property there. For many people who live outside, Debsi has grown significantly over the past several years (Choedey, 2021).

August 2nd, 2021, news article titled “*Land price in Thimphu touch Nu 1 million a decimal (40.47 sqm)*” A decimal is now worth Nu 1.5 million. In the middle of a pandemic that has been credited with upsetting the economy, land prices in the nation's capital and on its outskirts are rising. Most of the city is filling up and there is no land for sale in the central city (Lhaden, 2021). The growing urban population has led to a shortage of housing in urban areas, which has resulted in high rent and property prices. According to NSB (2021), household consumption expenditures will rise to Nu 95.69 billion in 2021, up Nu 8.49 billion from 2020. Inflation rose from 2021 to 2022 by 5.64 percent. Food prices made up around 34% of the overall inflation increase, while non-food items made up 66 %.

Education Consultancy and Placement Firms are one of the main hopes for the Bhutanese wanted to travel abroad. These firms are at their peak with more Bhutanese clients, including government personnel, workers in the commercial and public sector, and young people without jobs, who want to emigrate abroad to pursue higher education and better living conditions. However, the businesses that cater primarily to this youthful clientele, such as clothing stores, restaurants, pubs, and discos, have been severely damaged. Additionally, the economy of the nation is still recovering from the pandemic, and the state of the economy is not good, which affects these businesses. According to Choki (2023), businesses such as clothing, restaurant, and the entertainment club saw a decline in the number of consumers by around 90%, and the profit has decreased by about 90% as well in the capital city Thimphu with more people leaving Bhutan.

### 5.2.3. Dependence on external funding

According to Kapur (2003), communities that rely largely on remittances frequently develop a culture of dependence, household members simply quit working in several situations and wait from month to month for foreign remittances. He even stated that the reservation wage rises as a result of such disincentive effects, which are a type of moral hazard. Excessive reliance on this source of income can result from the government's growing reliance on remittance inflows, which can breed complacency and lessen its motivation to expand other areas of the economy (Wimaladharm et al., 2004). Bhutan has historically relied largely on foreign aid to finance its development endeavors. In addition to remittances from Bhutanese working abroad, external support has taken



the form of grants, loans, and technical assistance from bilateral and multilateral donors. Although outside assistance has been essential to Bhutan's development efforts, there are worries about how this dependence will affect the nation's long-term economic viability. External money has the potential to foster a culture of dependency, making a nation dependent on help and perhaps neglecting efforts to build its capacities and resources (Kapur, 2003). He even stated that external money may have terms and conditions that conflict with the interests or values of the nation. For instance, funders could stipulate that money be used for initiatives or goals, which might not be consistent with the nation's top development priorities in the long run.

According to Ratha et al. (2016), a heavy reliance on remittances can lead to the receiving country becoming overly dependent on them. This can lead to a lack of diversification in the economy and make the country vulnerable to economic shocks. Bhutan's economy is heavily reliant on outside funding, making it susceptible to financial shocks like fluctuations in the world financial markets or a reduction in help from donor nations. Bhutan's reliance on outside money restricts its ability to manage its finances since it inhibits its capacity to raise local cash and devote funding to important development initiatives. Dependence on outside money may also restrict Bhutan's ability to pursue its policies because donors may attach requirements or restrictions to their assistance. This may limit the government's freedom to choose its policies.

According to Development Assistant Committee (DAC, 2019), Bhutan received a total of \$135 million in official development assistance (ODA) in 2019, up from \$121 million in 2018. Japan, the World Bank, and the Asian Development Bank were Bhutan's top donors in 2019. The ODA given to Bhutan is primarily focused on the development of social infrastructure, such as education and health, and economic infrastructure, like transportation and electricity. Supporting Bhutan's attempts to achieve environmental sustainability and climate resilience has received more attention in recent years. Bhutan needs to concentrate on diversifying its economy and cutting back on aid to lessen the negative effects of dependence on outside money. To generate jobs and boost domestic revenue, the government must invest in industries like manufacturing, tourism, and agriculture. To support its development objectives, Bhutan can also look into alternate sources of funding like public-private partnerships and foreign direct investment.

#### 5.2.4. Rural-urban migration

Remittances and rural-urban migration have a complicated and diverse relationship. Remittances can, on the one hand, serve as a stabilizing influence that lessens the need for rural individuals to

move to urban regions in pursuit of employment and better economic possibilities. This is because remittances give families a means of support and income, enabling them to meet their necessities and raise their level of living without having to relocate. Remittances, however, can also encourage migration to metropolitan regions. This is owing to the possibility that families that receive remittances find urban regions more alluring due to the presence of better career possibilities, educational opportunities, access to healthcare, and other amenities. According to Acharya and Leon-Gonzalez (2018), migration to metropolitan regions in quest of better educational opportunities can be encouraged and facilitated by overseas remittances. Families that receive foreign remittances are more likely to enroll their kids in urban schools than in rural ones because they believe metropolitan schools provide higher quality education. The authors also point out that household financial resources are needed to meet expenditures associated with migration, such as travel and lodging costs so that foreign remittances can help households migrate.

As stated by one of the interviewees, *“Migrants buying land and apartments in the capital city Thimphu have led to internal migration within the country as well”* (M7). Migration is an emerging issue in Bhutan receiving the highest policy attention. The movement from rural to urban centers is the dominant migration pattern. Hence, the urban center particularly Thimphu and Phuntsholing are growing at the rate of 5.7 percent (National Statistics Bureau, 2018). According to the United Nations Development Programme (2009), Bhutan has the highest rate of internal migration among South Asian countries. In terms of region, the movement is confined between economically backward eastern to economically developed western regions and towns of the country. According to the Population and Housing Census of Bhutan (PHCB, 2017), most dzongkhags in western Bhutan have gained population from migration while the dzongkhags in the east are losing population due to migration. Another participant responded by saying *“70 to 80 percent of residents at Debsi which is referred to as “Aussie Land” since the majority of Bhutanese working in Australia have used their money to purchase homes and property there are from the eastern part of Bhutan”* (R9). The evidence from PHCB (2017), showed that Trashigang alone lost 5,607 people which is approximately an 11 percent decline in population compared to PHCB (2005).

The rapid influx of migrants from rural to urban areas is mainly because of poor socioeconomic infrastructure, remoteness, and hard and derogatory rural life. R11 interviewee even stated that *“remittance has boosted household income and improved their standard of living in rural areas*

*but with poor infrastructure and facilities people's desire to live in urban also increases.*” The literature on migration often considers migration as a symptom of socioeconomic development. People in the agriculture sector are forced to move to industrial and tertiary sectors due to favorable working conditions, poor or lack of access to social and economic amenities, poor crop yield, and irrigational facilities, and human-wildlife conflict. Besides, climatic factors also influence people's decision to migrate (Ura, 2013). Rural-urban migration is projected to increase over the years with 60 percent of the population living in urban by 2030, if the trend continues, it will have major implications for implementing rural development plans and programs. Remittances can aid in the growth of metropolitan areas since migrant families may use them to buy land or construct homes there. Changes in land usage and the loss of agricultural land and natural ecosystems may result from this (Li & Zhou, 2017).

Bhutanese people are extremely mobile, with 40% having migrated between districts since birth. Bhutan is undergoing an urban transformation, with approximately 40% of its inhabitants now living in cities, up from 15% in 1994 (PHCB, 2017). Average population redistribution is supported by intermediate levels of migration efficacy combined with moderate intensities. Migration flows have a definite east-west axis, reflecting a distinct regional differential in socioeconomic growth. At the last two censuses, urban regions in the west of the country saw net population gains, prompting policy worries about overcrowding and service shortages, which have led to better infrastructure supply in rural areas in the east of the country to address these issues. According to the National Statistics Bureau (NSB) 2018 Report on rural-urban migration and urbanization in Bhutan, the biggest flow of internal migration is from rural to urban areas. 21.7 percent of the population has migrated to urban centers during their lives, leaving agricultural land fallow and residences in villages vacant, resulting in 4,800 gungtongs (empty households) as per the Population and Housing Census of Bhutan 2017 report. The inflow of remittances impact on rural-urban migration in Bhutan is too subjective and the idea is based on the statements by the interviewees, due to the unavailability of data and research articles on this particular topic, further research must be carried out on this particular topic.

## 6. CONCLUSION

Bhutan is a tiny, landlocked nation sandwiched between China to its north and India to its south, east, and west, respectively. Bhutan is renowned for its deep cultural heritage, beautiful environment, and distinctive form of government based on the Gross National Happiness (GNH) maxim. Bhutan is a distinctive nation with a strong dedication to environmental preservation, sustainable development, and the welfare of its people. Remittances play an important role in the economy of Bhutan. According to World Bank data (2019), remittance inflows to Bhutan increased from \$31 million in 2010 to \$79 million in 2019, making up around 3% of the country's gross domestic product (GDP). Remittances have been the subject of heated discussion, with some believing that they are a blessing that gives families and communities in poor nations vital support, while others regard them as a curse that breeds reliance and skews local economies. The inflow of remittance to Bhutan has both beneficial and negative effects.

Remittances have given many families in developing nations a lifeline, enabling them to escape poverty and get access to healthcare, education, and other crucial services. Remittances have aided in economic development and progress by acting as a reliable supply of foreign currency and increasing local spending and investment in Bhutan. The economy of Bhutan has benefited greatly from remittances. Remittance inflows have been a reliable and consistent source of foreign cash, which has assisted in regulating exchange rates and enhancing the balance of payments. Inflows of remittances have also boosted local investment and consumption, spurring economic expansion in Bhutan.

However, the inflow of remittance has also inhibited local businesses, appreciation of Bhutanese currency, fostering a culture of dependency, and brain drain. Not every sector and group in the economy has equally benefited from remittance's good economic effects. Remittance inflows to Bhutan have favored specific industries, such as housing and construction, at the expense of other retail businesses including clothing, restaurants, and entertainment club with a decline in customers because of migration. This has given rise to worries about how remittances can worsen inequality and change the way the economy is structured.

Remittance debates are generally nuanced and complex, requiring the extensive study of the social, economic, and political circumstances in which they function. Remittances have undoubtedly benefited many people and communities, but it is important to recognize and address the difficulties and trade-offs that come with them and to make sure that institutions and policies are

in place to maximize their positive effects and reduce their negative ones. In a nutshell, remittances can be both a blessing and a curse for Bhutan, depending on how they are managed and utilized. Therefore, policymakers must manage remittances holistically, ensuring that they are properly directed toward productive uses and complemented by other policies and initiatives aimed at fostering economic growth and development.

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