Beyond Altruism and Self-interest: The Growing Importance of External Factors in the Determination of Remittances Flowing to Latin America

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Abstract: Remittances have become an important and reliable source of funds for many developing countries, affecting the wellbeing of its population and the performance of their economies. However, challenging conditions in economies hosting migrant workers has unveiled the increasing importance of external factors in determining international remittances. This study relies on migration patterns to create migration and distance weighted measures of external condition, and uses the Arellano and Bond dynamic panel methodology to gauge the relevance of these external conditions during the 1995-2015 period. The results indicate that external conditions, irrespective of the way in which we measure them, have a positive and statistically significant effect on the amount of remittances flowing into the region, and that such effect goes beyond differences in levels, as relative differences prove to affect these flows as well. While the results also show that remittances are inversely related to the income level of receiving countries and that these flows respond positively to better economic performance and higher interest rates in the receiving country, such effects are less consistent than the one found for foreign economic activity.

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