

ABSTRACT

The trend of remittances that have been increasing for the last few year has become a financial resource that can drive economic growth, especially for developing countries. Recent researches on the effect of remittances and financial development on economic growth and their interactions have resulted in a variety of finding. Empirical findings about the substitution and complementary relationship between remittance and financial development in driving economic growth are still a continuous debate. However, there is still no empirical explanation about how remittances and financial development can prompt economic growth.. These two factors and other factors are widely reviewed in the literature.

The purpose of this study is to analyze the effect of remittances and financial development directly on economic growth and the interaction between remittances and financial development in driving economic growth. The sample used was 20 countries in Asia, with a variety of recipients analyzed through dynamic panel approach (System-GMM). The sample timeframe used was in 2000-2016, including the post-crisis period of 1998, where remittances began to become a widely discussed topic.

The results showed that remittance positive and significant effect on economic growth, financial development positive effect but not significant. In addition, the interaction of remittance or financial development does not function as a substitute or complementary to each other in driving economic growth.

Keywords: Remittance, Financial Development, Economic Growth, Interaction Variables, and System-GMM Estimator.