

Overseas Remittances in Bangladesh: The Lifeline for the Economy

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INTRODUCTION

Bangladesh is a resource scarce labor surplus economy and is facing the daunting challenges of feeding its 150 million of people, about half of whom are lying below the food based poverty line. Of the very few sources of foreign exchange, overseas remittances is one of the major sources of tangible resources to the economy of Bangladesh followed by commodity exports, foreign direct investment (FDI) and the official development assistance (ODA). In the backdrop of the narrow based exportable and their high concentration in a less wider market, inauspicious official and physical infrastructural facilities for FDI and shrinking trends of the bilateral and multilateral assistances (ODAs), remittance becomes the main issue of concerns to the policymakers, politicians and economists. Therefore, manpower export becomes a top policy agenda in the economy of Bangladesh for maintaining the overall macroeconomic stability. It is now considered as a crucial development strategy which augments country's potency of import payments, improve balance of payment situations. Thus, it helps the country to trim down from the dependency on foreign aid / loans and in some sense ensure better food security at least to the migrants households'. It is widely acknowledged fact that remittance inflow bumps up capital formation through additive savings, and by increasing the disposable income of the migrant households, which augments dynamism in the rural economy and ensure long run economic growth of the country.

Globalization i.e. the economic integration among the nations of the world has given a new pace in labor movements from the economically backward region to the developed one. Though there is an old debate of 'brain drain' from periphery to centre, the issue has been offset by the needs and the amount of remittance sent by the migrant labors. Even the recent literature also suggests that manpower exporting countries can make a large pool of money from the remittance that can be used to increase social overhead capital by investing to enhance infrastructural facilities, which may built the avenues for economic development. Besides, the so called unskilled labor comes back to the domestic country as semiskilled worker and may emerge as a development forces and drive away the economy from a low level equilibrium to the high equilibrium by giving a big push to the economy.

The development impact of remittance can be seen both from micro and macroeconomic perspectives. From macro frontier remittance is used to make import payments thus maintaining balance of payments and

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are used for the productive investment by the government (Salim, 1992) and also work as a macroeconomic stabilizer for the economy. In the micro arena remittance constitutes an important element of disposable income for the migrant households. Remittance has significant impacts on their livelihoods that make up their socio-economic fabric. Remittance enhances children's educational possibilities, basic health care services and overall social status. That is remittance positively affect households' as well as aggregate macroeconomic activities.

Literature on remittance is large and researchers have analyzed the issues of trends, patterns, and impact on the domestic economy. For Bangladesh Ali, et al. (1981) has identified remittance as a means of achieving a favorable balance of payment as well as creating a new resource base for the country; while Mahmood, (1985); Salim, (1992); Murshid et al. (2001) have focused on the utilization of remittance. These studies found that a significant portion of overseas earnings is spent for consumption purpose, acquisition of assets (particularly land), investment in petty trades and business and reinvestment to go to the other countries. Some of the other studies, such as, Salim, (1991, 1992), Mahmood (1991), Matin, (1994), Jesmin, (2005), focused on the macroeconomic impact of remittance in Bangladesh and concluded that remittance is equivalent to a significant amount of export earnings, covering the payment for the major imports of the country as well as having a dramatic effect on the balance of payment position. Other studies like Siddiqui (1991), Mahmood (1991), Rahman (2002) have concluded that remittance is beneficial in uplifting the socio-economic conditions of the migrant families. These studies also concluded that remittance enhances non-farm activities to the rural economy and thus works as an absorber of the slack season's surplus labor. The main objective of this paper is to examine the development impacts of remittance in the Bangladesh economy. The study is based on secondary data collected from Bangladesh Bureau of Statistics (BBS), Bangladesh Bank (BB), Bureau of Manpower Employment and Training (BMET), Ministry of Finance, Government of Bangladesh, internet and other published papers.

FLOW OF REMITTANCE TO BANGLADESH

Remittances become a buzzword over the last few decades due to its importance in shaping up the underdeveloped and developed economy. Migrants send either money or goods to their families and friends at home. These goods or money sent to the country by migrants are generally treated as remittance. However, this broad definition excludes many unofficial transactions, which in some cases are even equivalent or more than that of the official transactions. Therefore, remittance information collected from official sources is an underestimation of the actual level. In this analysis we are considering information available only from the official sources. Transfers through informal channel such as 'hundi'(cash transfers through intermediaries), in kind transfers, such as consumers goods are not captured in the considered data, though they constitute substantial amount. Besides, the Bangladeshi soldiers and army officers working in

various UN peace keeping mission are also sending a significant amount to home, which is also not included in the official statistics (Hossain, 2007).

Though there are some fluctuations, the flow of remittance has been increasing over the years. Remittance to Bangladesh have increased from 23.2 million US dollar in 1976 to 9689.00 million US dollars in 2009. This is, of course a remarkable achievement for a resource scarce underdeveloped country like Bangladesh, which is striving towards increasing its foreign exchange by diversifying its export items and by creating physical infrastructural facilities to attract foreign direct investment. The country also becomes successful in finding new markets for the growing surplus of unskilled and semiskilled labor. The flow of remittance to Bangladesh is shown in table-1.

Table 1: Flow of remittance to Bangladesh

Year	US \$ in million	Annual Change (%)
1976	23.2	-
1977	82.79	256.85
1978	106.90	29.12
1979	172.06	60.95
1980	301.33	75.13
1981	304.88	1.18
1982	490.77	60.97
1983	627.51	27.86
1984	500.00	-20.32
1985	500.00	0.00
1986	576.20	15.24
1987	747.60	29.75
1988	763.90	2.18
1989	757.84	-0.79
1990	781.54	3.13
1991	769.30	-1.57
1992	901.97	17.25
1993	1009.10	11.88
1994	1153.50	14.31
1995	1201.50	4.16
1996	1355.30	12.80
1997	1525.00	12.52
1998	1599.00	4.85
1999	1806.60	12.98
2000	1955.00	8.21
2001	2071.00	5.93
2002	2847.80	37.51
2003	3177.60	11.58
2004	3610.15	13.61
2005	3848.09	19.80
2006	4802.00	24.79
2007	5979.00	24.51
2008	7915.09	32.37
2009	9689.09	22.41
2010	10987.40	13.40
2011	11650.32	6.03
2012	12843.43	10.24

Source: Bangladesh Bank, 2010 and authors' calculation. .

The table reveals that in 1976 the amount of remittance was only 23.2 million US dollar, which jumped to 82.79 million US dollar in the next year. Until 1983 flow remittance has been increasing steadily. However,

it shown a sudden downward trend in the next couple of years, which is attributable mainly the so called oil crisis in the Middle East countries that causes a low flow of oil revenue to these countries and thus causes low employment of labor from developing countries. Afterwards though it recovered, has shown some fluctuations. In the 1980's the flow of remittance remains almost stable, however, shown a gradual increasing trend in the 1990s and a jump afterwards.

Geographically the market for Bangladeshi migrant laborers are concentrated to the Middle East countries and the Western Europe. However, in the late 1990s East Asian countries, especially Malaysia emerged as a big market for the Bangladeshi labors. The relative share of remittance in these regions has changed significantly over the years. In the initial years of independence and in the early 1980s the Western Europe and some socialist countries of Eastern Europe had absorbed a substantial amount of Bangladeshi migrants. And in particular, Western Europe would account for more than three fourths of the remittances flowing into Bangladesh. The relative share fell less than one tenth in recent years because countries of Western Europe now have no demand for the unskilled worker. These countries and also the Eastern Europe who have opened their economies and North American countries have high demand for technically skilled workers and high level professionals that Bangladesh failed to supply. The opposite is true for the Middle Eastern countries (Mahmood, 1991). Currently, the Middle Eastern countries like Saudi Arabia, UAE, Qatar, Oman, Bahrain and Kuwait contribute almost 85 percent of remittance to Bangladesh. Obviously, this corresponds to the total outflow of migrants to these countries. Especially, the contribution of Saudi Arabia is twice than the combined contribution to the other Middle Eastern Countries.

For the last few year the USA and the UK is also contributing a significant share to the remittance to Bangladesh. In the FY 2004/05 contribution of the USA and the UK were 467.81 and 297.54 million US dollar, respectively. The US figure is next to the Saudi Arabia, while that of the UK is just behind Kuwait and the UAE. Though Malaysia and Singapore are playing the vital role in absorbing Bangladeshi workers over the last ten years or so, their shares to the remittance is not that significant. In the late 1980s and early 1990s a significant portion of Bangladeshi workers has found work in the North African countries particularly in Libya.

REMITTANCE AND THE ECONOMY OF BANGLADESH

The domestic push factors mainly caused by economic insecurity of the people in Bangladesh led to migration to Middle East and other Asian and African countries, while the social as well as economic insecurity forced them to migrate to Western Europe and North American countries. Generally, migrants to the Middle Eastern countries are for the short period and they are unskilled or semiskilled in nature, while the highly educated and professionally enriched people have migrated to Western Europe or North American countries for relatively longer periods. However, whatever the reasons for their migration are the

remittance that they send to the country is in doubt the lifeline for our society. The major constraint of Bangladesh to achieve faster economic growth is obviously the lack of tangible resources. Overseas remittances are thought to enhance country's resource base though additive savings that can make avenues for long term economic growth. Bangladesh can also earn foreign exchange by increasing commodity exports, by attracting foreign direct investment or by asking for foreign grants or loans from the foreign countries. A substantial amount of costs are involved to all these options. Earnings from commodity exports depends on diversity, broad base, better quality and high valued commodities. Attraction of foreign direct investment depends on the suitable physical and infrastructural facilities. And official development assistance that is the amount of foreign grants or loans depends not on our needs but the availability loanable or aidable resources of the donor countries. However, manpower export is the only source, which has the least opportunity cost as Bangladesh has an untapped human resource with no or minimum working opportunities domestically. The following table compares the level of remittances to the other external sources of income for the last few decades.

Table 2: Remittance to Bangladesh compare with other incoming resource flows

(million US dollar)

Year	Remittance	FDI	Export Earnings	ODA
1981	305	12	711	1146
1982	491	3	626	1240
1983	628	21	686	1177
1984	500	7	811	1268
1985	500	3	934	1269
1986	576	3	819	1306
1987	748	16	1074	1595
1988	764	14	1231	1640
1989	758	21	1286	1668
1990	782	15	1524	1810
1991	769	23	1718	1732
1992	902	25	1993	1611
1993	1009	74	2383	1675
1994	1154	829	2534	1559
1995	1202	750	3500	1739
1996	1355	1543	3884	1443
1997	1525	1105	4427	1481
1998	1599	3493	5172	1251
1999	1807	1974	5324	1536
2000	1955	2147	5752	1588
2001	2071	1311	6467	1369
2002	2848	350	5986	1442
2003	3178	463	6548	1585
2004	3610	556	7603	1033
2005	3848	845	8654	1507
2006	4802	792	10526	1567
2007	5979	666	12177	1630
2008	7915	1086	14110	2061
2009	9689	1132	15565	1847
2010	10987	913	16204	2222
2011	11650	775	22924	1777
2012	12843	995	24287	2126

Source: Bangladesh Bank, 2010.

It is evident from the table that remittances constitute the second largest incoming resource flow for Bangladesh next to commodity exports. Furthermore, remittances tend to be less volatile than other incoming resource flows and are more stable than foreign direct investment.

Remittance plays crucial role in the economy of Bangladesh. In one sense, it overcomes the foreign exchange deficit and on the other hand it constitutes as a major source of disposable income for thousands of migrant households in the country. Studies (Rahman 1985, Mahmood 1989) found that remittance is the major source of income for the migrant households Rahman (1985), found that remittance has increased the average monthly income by Tk. 4501. Some studies also found that remittance has increased the consumption level of the migrant households. Khuda (1982) found that 29 percent of the migrant's remittances have spent on consumption while the Mahood (1989) found the corresponding figure of 46 percent between pre and post migration. The results of these earlier studies correspond to that of the recent studies by Hossain, (2011).

DEVELOPMENT POTENTIALS OF REMITTANCE IN BANGLADESH³

The utilization of remittance in Bangladesh is not homogeneous. A heterogeneous picture on the uses of remittance is evident from different studies. Remittance is the main component of migrants' income and consumption and also a significant source of foreign exchange to the country. In the broader framework the uses of remittance can be considered from both micro and macro point of view. Existing studies (Islam 1981, Mahmood 1986, Deb 1986) show that most of the households spend their increased income in consumption, construction and development of houses, buying arable or homestead land, spends on education of their children and on basic health care situation, released out mortgaged land, weeding, establishment of charitable institutions such as mosque, school etc. Deb (1986), found that the average consumption expenditure of the receiver of the remittance is 10 percent higher than the non receiver. One of the interesting findings of his study is that remittance increased the demand for all commodities but the demand for food items is less than that of the non-food / conspicuous items. This may be due to the fact that migrants' families are more solvent than that of the non-migrant families, which in some sense might be true because migration requires a substantial amount of money that can only be bearable by a solvent household. Islam (1981), found that the receiver of remittance has a tendency to purchase arable or homestead land. A recent phenomenon is that remittance earner from one country is reused to meet the expenses of going to other countries. Remittance is also used in rural non-farm activities. Particularly, the group of relatively low educated (graduate or below) are less interested to engage themselves in agricultural activities directly. They try to use remittance in sub-sectors of agriculture i.e. in livestock, fisheries or forestry. Another important trend is that if remittance receivers become financially solvent and have some

³ This section draws heavily on Hossain, 2007.

regular income flow they keep remittance as fixed deposit in the bank and thus make the money idle. Some receivers also use remittance as a capital to initiate petty trade.

From the macro point of view remittance is used to make import payments and for the productive investment of the government. However, exact direction of macro level use is not well known due to lack of literature. However, through Wage Earners Schemes government imports certain capital goods and raw materials, which promote country's industrialization. Bangladesh also suffers from balance of payments deficit. The remittances are used to ease that deficit.

The need and scope of the uses of remittance to various productivities determines the development potentials of remittance. The issue is whether the remittances are creating additional income or it is generating employment.

From the individual point of view his endeavor can be considered successful if he can arrange a smooth flow of life cycle income and can leave some assets for the next generation. From the macro point of view the development potential of remittance can be understood from its contribution to the resource base of the country and the development of different sectors. Government policies should be designed to use remittance in such a way it can work as a sustaining income generating catalyst. Remittance should be used to reap its maximum potentials. Since most of the migrant labor forces are from the rural economy, the following sectors should come under greater attention:

- i) Improvement in agriculture and promoting agricultural extension services and noncrop subsectors such forestry, fishery and livestock. Focus will also be given to increase the production of non foodgrain cash crops ;
- ii) Small-scale rural industries such as rice and flourmills, grinding spices, bread and biscuit factories, ice plants i.e. agro-based small scale industries to be established or be initiated by the remittance recipients families so that the trickle down effect positively affect the rural communities;
- iii) Rural service industries;
- iv) Transport and communication business;
- v) Petty trading;
- vi) Export oriented industries small scale micro industries establishment etc.

CONCLUSION

In the backdrop of less diversification and narrow base of exportable, scrawny and inadequate facilities to attract foreign direct investment and declining trend of official development assistance, the remittances

earned from manpower export is playing a vital role in the social and economic development of Bangladesh. The increasing trend of remittance creates new dynamism in the economy. It is giving new shape in the socio economic structure of the economy by easing the pressure of disguised, structural unemployment in the country. The resources generated from the remittances have given a new way of life for the county especially the rural community of Bangladesh. It has created new employment and generating income by gearing up the rural non-farm activities shaping up the sub-sectors of agriculture, which is still considered as the main way of living for the people of Bangladesh. Therefore, new attempts are emerging to export more manpower to the international market so that Bangladesh can face the daunting challenges of feeding its 150 million of people, about half of whom are experiencing either transient or permanent food insecurity. The remittance will thus keep the famine or food insecurity at bay and will work as a powerful catalyst for economic development that will help Bangladesh to reap the benefit of globalization.

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